05

Annual Report _ 2005

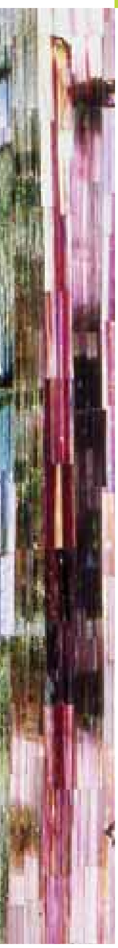
BANCO ESPIRITO SANTO

BANCO ESPIRITO SANTO

_ A dynamic approach reinforces the value of a brand.

João Paulo Feliciano
“Infinity - Fractality”, 2004 | C-print

Annual Report _ 2005



BANCO ESPIRITO SANTO

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_ Our strategy is in line with the objectives defined.

Didier Massard
"La Grotte", 2003 | 96 x 120 cm | C Print | Edition 5/10

01. MANAGEMENT REPORT

01.

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

Dear Shareholders,

The year 2005 was full of many challenges for the Banco Espírito Santo Group. The domestic economic environment remained difficult, shaped by the sharp rise in oil and natural gas prices in the international markets and by the historically low levels reached by the main confidence indicators. Nevertheless, in the second half of the year there were signs of improvement in the external demand, anticipating a recovery in economic activity in 2006.

The year was also marked by substantial changes in the accounting regulations applicable to listed companies – the introduction of International Financial Reporting Standards (IFRS) as from January 1st 2005 implied significant adjustments in the bank's shareholders' equity and results.

Nevertheless, the BES Group pursued a path of value creation for its shareholders, implementing ambitious projects and initiatives while maintaining a constant focus on customer-driven growth – based on the best quality/price relation for its products and services in a competitive market and supported by an efficient organisation.

The merger by incorporation of Banco Internacional de Crédito (BIC) into BES was part of this process. As a result, customers can now access BES through a single brand network of 600 branches and have a wider scope of products and services available to suit their needs. At the same time, the merger will deliver considerable savings due to the operating synergies achieved.

The coexistence of two brands – BES and BIC – since the privatization of BES in 1992 corresponded to one phase of the Group's strategy of organic growth, pursued with unrivalled success in the Portuguese market, which resulted in an increase in market share from 8.5% in 1992 to 18% in 2005.

Faced with the increasingly sophisticated and diverse needs of its customers, the BES Group has consolidated its multi-specialist business model with a customer-oriented focus. Today, the Group has differentiated approaches and value propositions for each of its main customer segments, ensuring a specific response to their different needs.

Group activity in 2005 was buoyant, as reflected by the main indicators: total assets grew by 16.4%, with customer loans rising by 13% and customer funds by 12%. This performance was strongly influenced by the acquisition of 120,000 new individual and 730 corporate customers, underpinned by the development of Assurfinance initiatives under the joint programme implemented by Banco Espírito Santo and Companhia de Seguros Tranquilidade. The network of Assurfinance Agents was in fact responsible for attracting 23,000 new BES customers which accounted for 18% of the year's mortgage production.

In loans to individuals, a selective growth policy favoured higher value, lower risk customer segments, leading to a sustained improvement in the risk profile of the credit portfolio. Mortgage lending grew 9.1%, particularly strongly in the BES 360 segment (17%), which currently accounts for roughly 47% of the BES Group's mortgage production.

Corporate lending grew 16%, with the Group's market share rising to 20%. In the middle-market segment growth reached 17%, driven by customer acquisition efforts and the fact that 63% of the Portuguese top 1,000 small and medium-sized companies (SMEs) are BES Group customers.

The weight of off-balance sheet funds in customer funds increased, particularly in the BES 360º and small business segments. The pension plans and life insurance products offered by Tranquilidade Vida posted a 25% increase in these business areas.

Underpinned by this strong activity, consolidated net income increased to euro 280.5 million in 2005, despite an extraordinary provision charge for costs related to the integration of BIC. Stripping out this effect, consolidated net income would have reached euro 322.3 million, corresponding to a return on equity (ROE) of 15.8%.

Profitability (ROE) was negatively impacted by the Group's decision to opt for recalculating pension liabilities in the transition to IFRS. If the reset option had been chosen, equity would have been reduced by euro 524 million, which, excluding the effect of the extraordinary provision, would have increased ROE to 22.1% in 2005.

The international banking activity carried out by the Group's units, in particular the investment banking unit, made a decisive contribution to results. Net income from international operations totalled euro 86.1 million, 31% of consolidated net income. These results reflect the BES Group's strategy of complementing its strong position in Portugal with an international presence in countries which have significant affinities with Portugal such as Brazil and Angola.

The Group's equity holdings also significantly increased the value of the BES Group - showing as of December 31st a potential capital gain of euro 472.1 million and particularly relevant in the case of Banco Bradesco in Brazil, with euro 397.7 million.

The sustained decline in the overdue loans ratio and higher coverage were underpinned by a strict credit granting policy, supported by the development of internal risk assessment systems and tools, successful credit recovery efforts and the sale of overdue loans, in combination with a prudent stance on provision charges. In 2005 the ratio of overdue loans over 90 days decreased to 1.33% while the corresponding coverage ratio rose to 197%.

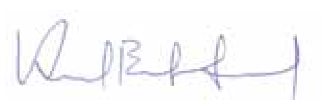
Over the past few years the BES Group has been strongly committed to improving its risk management methodologies, processes and support systems. These measures were further developed in 2005 within the scope of the project to prepare the Group for the New Capital Accord (Basel II). The BES Group plans to adopt the IRB Foundation approach for credit risk and the standard approach for operational risk as from the Accord's effective date, i.e., January 2007.

The solvency ratio, according to the Bank of Portugal specifications, reached 12.1%. The Tier I ratio was 6.1%, reflecting the change in actuarial assumptions, business growth and the effect of adjustments made in the transition to IFRS.

At the beginning of the year the Group adopted a new corporate identity to strengthen its brand name (improving its proximity, youth, vitality and modernity), and attest to Banco Espírito Santo's innate capacity for reinventing and renovating itself. This new identity was launched after improvements had been made in the areas of service quality, customer segmentation and increased convenience and accessibility in customer services.

The growth path pursued by the BES Group can only be followed further if we have the confidence of our Shareholders and customers as well as the dedicated and loyal professionalism of all our Employees. We therefore conclude this message with a word of gratitude to all the Group's Shareholders, Customers and Employees, without whom our mission would make no sense.

We also wish to express our esteem and gratefulness to the monetary and financial authorities and the Supervisory Board.



Ricardo Espírito Santo Silva Salgado
(Chairman of the Executive Committee)

António Luís Roquette Ricciardi
(Chairman of the Board of Directors)

08. MANAGEMENT REPORT

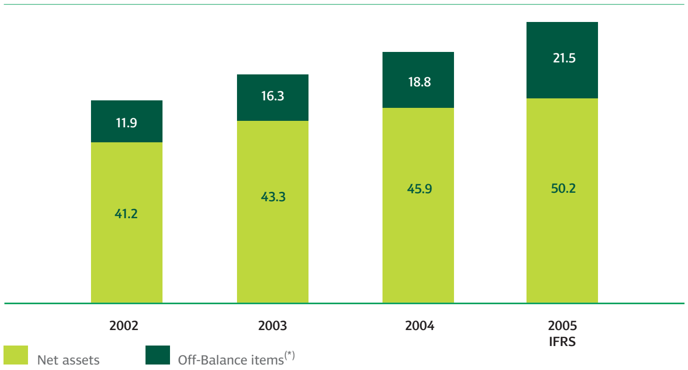
02.
Key Indicators

	PABS			IFRS	
	2002	2003	2004	2004	2005
BALANCE (euro million)					
Total Assets[1]	53,120	59,554	64,734	61,603	71,687
Net Assets	41,234	43,283	45,901	43,052	50,222
Loans to Customers (gross)	25,795	26,042	28,088	28,487	31,662
Total Customer Funds	34,059	38,401	41,159	38,754	43,558
Regulatory Capital	4,246	4,492	5,064	4,622	5,398
PROFITABILITY (%)					
Return on Assets (ROA)	0,57	0,61	0,63	0,37	0,61
Return on Equity (ROE)	13,10	13,44	13,90	6,36	13,54
SOLVENCY (%)					
BIS Ratio					
- Total	12,64	13,13	13,88	13,88	12,66
- TIER I	7,01	7,76	7,71	7,71	6,41
Banco de Portugal Ratio					
- Total	10,74	11,05	12,06	12,06	12,13
- TIER I	6,06	6,55	6,74	6,74	6,14
ASSET QUALITY (%)					
Overdue Loans > 90 days / Gross Loans	1,87	1,83	1,65	1,64	1,33
Coverage of Overdue Loans > 90 days	148,7	152,7	167,1	165,3	196,6
PRODUTIVITY / EFFICIENCY					
Operating Costs / Total Assets (%)	1,36	1,20	1,16	1,44	1,20
Assets[1] per Employee (euro thousand)	7,017	8,262	8,870	8,441	9,444
Cost to Income (%)	53,4	50,0	52,6	62,0	56,0
RATINGS					
Long Term					
- STANDARD AND POOR'S	A -	A -	A -	A -	A -
- MOODY'S	A 1	A 1	A 1	A 1	A 1
- FITCHRatings	A +	A +	A +	A +	A +
Short Term					
- STANDARD AND POOR'S	A 2	A 2	A 2	A 2	A 2
- MOODY'S	P1	P1	P1	P1	P1
- FITCHRatings	F1	F1	F1	F1	F1

(1) Net Assets + Asset Management + Other off-balance sheet liabilities + Securitised credit

Total Assets

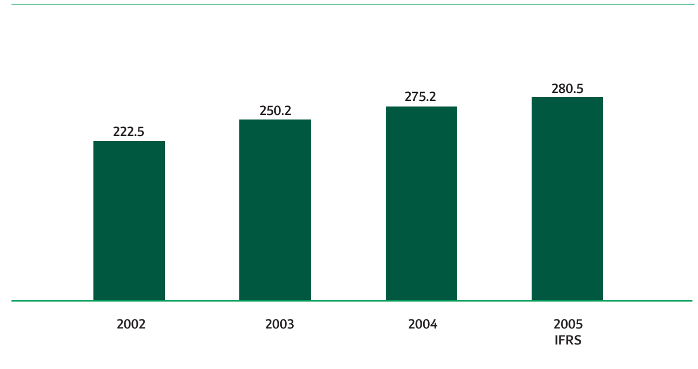
euro billion



(*) Asset and Liability off-balance Items.

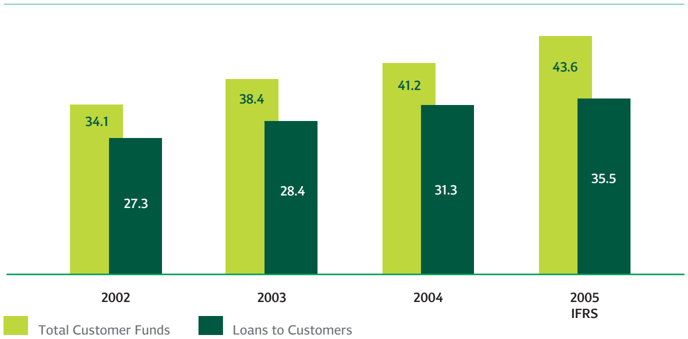
Net Profit

euro million



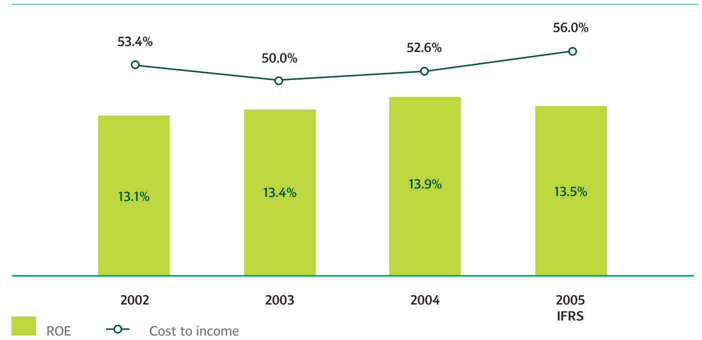
Business with Customers(*)

euro billion



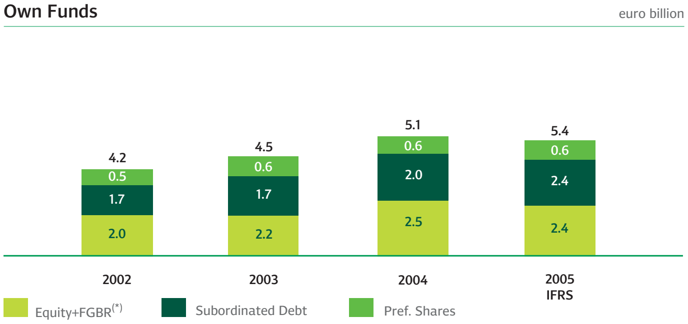
(*) Includes Asset and Liability off-balance sheet items.

Profitability and Efficiency



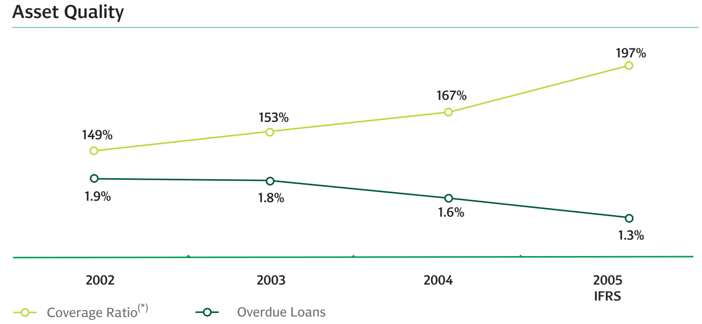
Own Funds

euro billion



(*) Shareholders equity + Fund for General Banking Risks.

Asset Quality



(*) Overdue Loans > 90 days / Over Gross Loans.

Results and Profitability

	Symbol.	PABS			IFRS	
		2002	2003	2004	2004	2005
AVERAGE BALANCE (euro million)						
Financial Assets	$\overline{FA}$	35,559	37,072	39,238	39,240	41,139
Capital and Reserves	$\overline{KP}$	1,698	1,861	1,979	1,890	1,844
Net Assets	$\overline{NA}$	39,065	41,009	43,842	41,425	45,924
INCOME STATEMENT (euro milion)						
Net Interest Income	NII	808.2	749.3	701.2	697.0	740.6
+ Fees and Commissions	FC	407.3	469.5	545.8	549.6	555.1
= Commercial Banking Income	CBI	1,215.5	1,218.8	1,247.0	1,246.6	1,295.7
+ Capital Markets and Other Results	CMR	138.5	213.4	180.4	184.4	242.0
= Banking Income	BI	1,354.0	1,432.2	1,427.4	1,431.0	1,537.7
- Operating Costs	OC	722.7	716.6	750.2	887.5	861.2
- Net Provisions	PROV	280.8	381.5	357.7	322.3	320.6
+ Extraordinary Results and Other	XR	-57.2	8.3	38.0	0.0	0.0
= Profit Before Tax and Minority Interests	PBT	293.4	342.4	357.5	221.2	355.9
- Income Tax	IT	38.5	55.0	42.3	46.7	65.8
- Minority Interests	MI	32.3	37.2	40.0	22.9	9.6
= Net Income	NI	222.5	250.2	275.2	151.6	280.5
Profitability (%)						
Net Interest Margin	NII / $\overline{FA}$	2.27	2.02	1.79	1.78	1.80
+ Return on Fees and Commissions	FC / $\overline{FA}$	1.15	1.27	1.39	1.40	1.35
= Capital Market Results and Other	CMR / $\overline{FA}$	0.39	0.58	0.46	0.47	0.59
- Business Margin	BI / $\overline{FA}$	3.81	3.86	3.64	3.65	3.74
- Weighting of Operating Costs	OC / $\overline{FA}$	2.03	1.93	1.91	2.26	2.09
- Weighting Provisions	PROV / $\overline{FA}$	0.79	1.03	0.91	0.82	0.78
- Minority Interests and Other Costs	(MI+IT+XR) / $\overline{FA}$	0.36	0.23	0.11	0.18	0.18
= Return on Financial Assets	NP / $\overline{FA}$	0.63	0.68	0.70	0.39	0.68
x Weighting on Financial Assets	$\overline{FA}$/ $\overline{NA}$	0.91	0.90	0.89	0.95	0.90
= Return on Assets (ROA)	NP / $\overline{NA}$	0.57	0.61	0.63	0.37	0.61
x Placements Multiplier	$\overline{NA}$ / $\overline{KP}$	23.01	22.04	22.14	17.38	22.16
= Return on Equity (ROE)	NP / $\overline{KP}$	13.10	13.44	13.90	6.36	13.54

Bank of Portugal Reference Indicators

The table below lists the reference indicators established by Bank of Portugal Instruction 16/2004, for both December 2005 and 2004.

Indicators	PABS 2004	IFRS 2004	IFRS 2005
SOLVENCY			
Regulatory Capital / Risk Weighted Assets	12.06%	12.06%	12.13%
Tier I / Risk Weighted Assets	6.74%	6.74%	6.14%
ASSET QUALITY			
Overdue and Doubtful Loans[a]/Total Loans to Customers	2.02%	1.99%	1.78%
Overdue and Doubtful Loans Net of Provisions[b]/Loans to Customers Net of Provisions[b]	0.47%	-0.74%	-0.86%
PROFITABILITY			
Income Before Taxes and Minorities / Average Equity [c]	13.35%	8.51%	13.16%
Banking Income[d]/Average Net Assets	3.23%	3.45%	3.35%
Income Before Taxes and Minorities / Average Net Assets [c]	0.82%	0.53%	0.78%
EFFICIENCY			
General Costs[d]+Depreciation/Banking Income[d]	52.9%	62.0%	56.0%
Staff Costs/Banking Income[d]	23.3%	34.0%	29.5%

(a) According to BoP Circular Letter no. 99/03/2003.
(b) Credit Provisions Net of Revearsals.
(c) Includes Average Minority Interests.
(d) According to BoP regulation no. 16/2004.

03.
BES Group

3.1
Corporate Bodies

Given BES' status as a public traded company, its corporate bodies are elected at the General Shareholders' Meeting and are located in the bank's registered office. Their composition for the 2004-2007 four-year mandate is as follows:

Board of Directors

António Luís Roquette Ricciardi (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Jean Gaston Pierre Marie Victor Laurent (Vice-Chairman)
Mário Mosqueira do Amaral
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
José Manuel Ferreira Neto
Manuel de Magalhães Villas-Boas
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Herman Agneessens
Patrick Gérard Daniel Coudène
Michel Victor François Vilatte
Mário Martins Adegas
Luís António Burnay Pinto de Carvalho Daun e Lorena
Lázaro de Mello Brandão
Ricardo Abecassis Espírito Santo Silva
Bernard Henri Georges De Witt
José Manuel Ruivo da Pena
Jean Frédéric de Leusse
Amílcar Carlos Ferreira de Morais Pires
Bernard Delas
Miguel António Igrejas Horta e Costa

In the course of 2005 Manuel António Gomes de Almeida Pinho and Ilídio da Costa Leite de Pinho renounced to their mandates as members of the Board of Directors, Nuno Maria Monteiro Godinho de Matos and Alberto de Oliveira Pinto having been co-opted to replace them on February 20th, 2006. These appointments will be subject to ratification by the General Meeting to be held on April 17th, 2006.

The Board of Directors delegates the day-to-day management of the Bank to an Executive Committee composed of the following members of the Board of Directors:

Ricardo Espírito Santo Silva Salgado (Chairman)
Mário Mosqueira do Amaral
José Manuel Pinheiro Espírito Santo Silva
José Manuel Ferreira Neto
António José Baptista Souto
Jorge Alberto Carvalho Martins
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Patrick Gérard Daniel Coudène
Amílcar Carlos Ferreira de Morais Pires

General Meeting

Carlos Fernando Olavo Corrêa de Azevedo (Chairman)
Eugénio Fernando de Jesus Quintais Lopes (Vice-Chairman)
José Jácome da Costa Marques Henriques (Secretary)

Fiscal Board

Joaquim de Jesus Taveira dos Santos (Chairman)
José Queirós Lopes Raimundo (Member)
KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., represented by Inês Maria Bastos Viegas Clare Neves Girão de Almeida (Statutory Auditors)
Jean-Éric Gaign (Deputy Statutory Auditor)
José Manuel Macedo Pereira (Substitute)

Company Secretary

Eugénio Fernando Quintais Lopes (Secretary)
Pedro Moreira de Almeida Queiroz de Barros (Deputy Secretary)

Executive Committee

Ricardo Espírito Santo Salgado

Chairman

Mário Mosqueira do Amaral

José Manuel Pinheiro Espírito Santo Silva

José Manuel Ferreira Neto

António José Baptista do Souto

Jorge Alberto Carvalho Martins

José Maria Espírito Santo Silva Ricciardi

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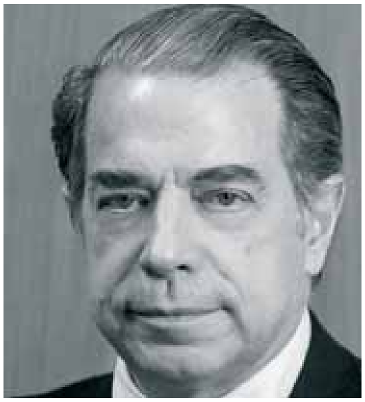
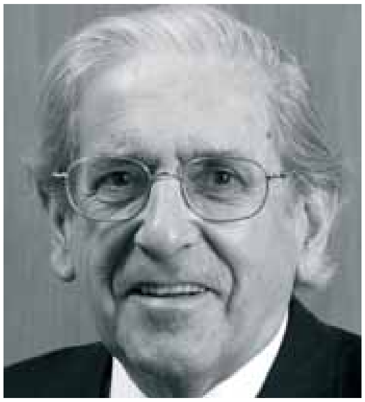
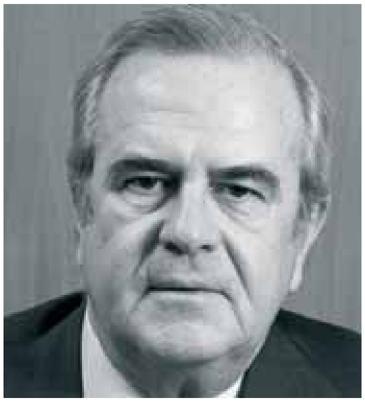


Ricardo Espírito Santo Salgado

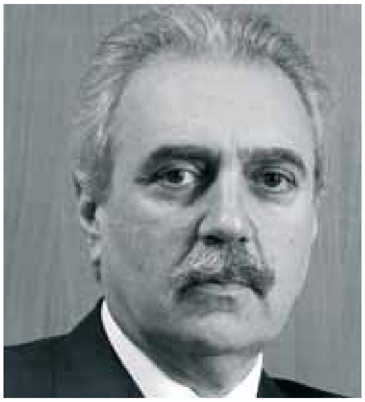


Mário Mosqueira do Amaral



José Manuel Pinheiro Espírito Santo Silva

José Manuel Ferreira Neto



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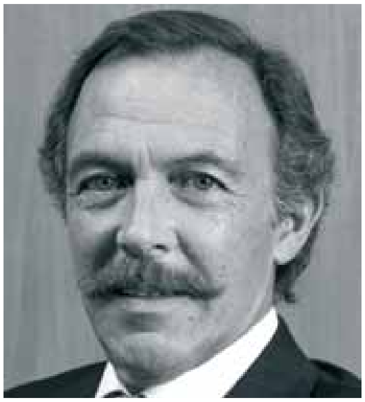
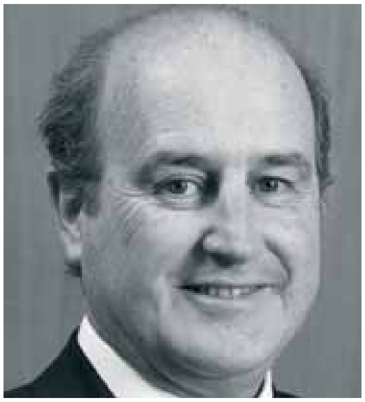


Rui Manuel Duarte Sousa da Silveira

Joaquim Anibal Brito Freixial de Goes



Pedro José de Sousa Fernandes Homem

Patrick Gérard Daniel Coudène

Amílcar Carlos Ferreira de Morais Pires

3.2
Milestones

1869

Banco Espírito Santo's origins date back to 1869 and the trading business of José Maria do Espírito Santo e Silva run from the exchange ("Caza de Cambio") at Calçada dos Paulistas. His business success led him to open a second establishment in 1880.

1884

José Maria do Espírito Santo e Silva founded several banking houses in his own name or in association with others (but always the majority partner): Beirão, Silva Pinto & Cª. (1884-1887), Silva, Beirão, Pinto & Cª. (1897-1911), J. M. Espírito Santo Silva (1911-1915), J.M. Espírito Santo Silva & Cª. (1915).

1915

Following the death of its founder on December 24th, 1915, the firm was dissolved. Using its assets and liabilities, his heirs and former partners set up the Casa Bancária Espírito Santo Silva & Cª., under the management of his eldest son, José Ribeiro do Espírito Santo e Silva.

1920

On April 9th, 1920, the Banking House was made into a public company under the name of Banco Espírito Santo (BES). Throughout the difficult 1920s BES consolidated its position in the Portuguese banking sector despite the political, economic and social upheavals that led several houses into bankruptcy.

During the next decade, the implementation of a renewed management model and the prolonged expansionist phase of the Portuguese economy allowed BES to become the leading Portuguese private bank before the end of the 1930s.

1937

BES reinforces its market position through the merger with Banco Comercial de Lisboa, creating Banco Espírito Santo e Comercial de Lisboa (BESCL).

In the years that followed, BESCL consolidated its position as undisputed leader in the Portuguese banking sector. After playing a major role in World War II, the bank focused on supporting the development of the economy and modernisation of the industry.

1966

BESCL acquires the Blandy Brothers banking house, operating in Funchal, Madeira, twenty years after a similar operation with Caixa de Crédito Micaelense (Ponta Delgada, Azores).

Up until the mid-70s the bank strengthened its position in Portugal, launching a number of pioneering products, namely personal loans (1965) and traveller's cheques (1966).

1973

The bank strengthens its position abroad, setting up Banco Inter-Unido, in Angola, in a joint venture with the First National City Bank of New York.

1975

Under Decree-Law no. 132-A of March 14th, 1975, all Portuguese credit institutions and insurance companies were nationalised. Prevented from carrying out business activities in Portugal, the Espírito Santo Group, under the leadership of Manuel Ricardo Pinheiro Espírito Santo Silva, rebuilt its financial interests abroad, mainly in Brazil, Switzerland, France and the United States.

1986

After banking activities were again opened to private initiative, the Espírito Santo Group, in a joint venture with Caisse Nationale du Crédit Agricole and backed by a hard core of Portuguese shareholders, set up Banco Internacional de Crédito, thus marking the Group's return to Portugal.

In the same year, Espírito Santo Sociedade de Investimento (the precursor of BES Investimento) was acquired, with the participation of Union des Banques Suisses (UBS) and Kredietbank, from Luxembourg, among other financial institutions.

1989

The factoring company, Euroges, was created.

1990

The leasing firm, Bescleasing, was created.

1991

The reprivatisation of BESCL begins, and the Espírito Santo Group, in partnership with Caisse Nationale du Crédit Agricole, regains control of the Bank. In the same year, Crediflash (credit cards) was incorporated and the broker ESER was acquired.

1992

Creation of ESAF, the Group's holding company for the asset management business. BES enters the Spanish market following the acquisition of Banco Industrial del Mediterráneo, later transformed into Banco Espírito Santo (Spain).

1995

BES opens Banco Espírito Santo do Oriente, in Macao.

1999

On July 6th, Banco Espírito Santo e Comercial de Lisboa changes its name to Banco Espírito Santo by public deed.

2000

The Group consolidates its international investments in Spain through the acquisition of Benito y Monjardín and GES Capital.

In Brazil, a joint venture is established with the Bradesco Group, initiated with BES' acquisition of 3.25% of Bradesco and Bradesco's acquisition of 3% of BES. This partnership leads to joint holdings in BES Investimento do Brasil and in BES Securities do Brasil.

In the US, the Group purchases Espírito Santo Bank, specialising in private banking activities for customers in Latin America, particularly in Brazil.

In Portugal, a joint venture is established with the Portugal Telecom Group to develop a project in the area of e-finance – leading to the creation of BEST – Banco Electrónico de Serviço Total, in 2001.

2001

Incorporation of Banco Espírito Santo de Angola, a bank set up under Angolan law to provide the whole range of banking products and services.

2002

Banco Espírito Santo dos Açores, owned by Banco Espírito Santo as majority shareholder and by Caixa Económica da Misericórdia de Ponta Delgada and Bensaúde Participações, SGPS, starts operating in July.

2003

Within the scope of the Group's international expansion policy, in January 2003 BES acquires Bank Espírito Santo International, Limited. In the same year the subsidiaries Besleasing Mobiliária, Besleasing Imobiliária and Euroges are merged into a single company and Espírito Santo Dealer is integrated into Banco Espírito Santo de Investimento. In December, BES acquires a 45% stake in Locarent (rent-a-car), a joint venture created by BES (45%), CGD (45%) and Serfingest, SGPS (10%).

2004

The merger by incorporation of Euroges, Besleasing Mobiliária and Besleasing Imobiliária into a new company called Besleasing e Factoring, IFIC, S.A. is concluded in February. In September, BES' subsidiary in Spain, Banco Espírito Santo, S.A., reaches an agreement with Hypovereinsbank (HVB Group) to acquire the entire share capital of Banco Inversión (Spain).

3.3
Main events in 2005

January _20th

BES informs the market that the Bank of Spain has authorised its subsidiary Banco Espírito Santo, S.A. (Spain) to acquire the entire share capital of Banco Inversión, a bank operating on the Spanish market.

February_ 2nd

“The Banker” magazine votes Lusitano Mortgages No. 3 “Deal of the Year”. Executed on the international market in 2004,

February_ 3rd

BES Group reports 2004 consolidated results. Net income reached euro 275.1 million, an increase of 11.5% year-on-year, and implying a ROE of 13.9%.

The 5th Edition of “Valor BES”, a quarterly newsletter dedicated to the shareholders, is published. The theme of this issue is “Specialising for a better service”.

February _11th

BES informs the market that it has increased its direct stake in the voting capital of Banco Bradesco S.A. from 3.56% to 6.74%, raising the number of ordinary shares held to 1, 061,429, which, added to its 43,845 preference shares, totals 3.39% of the entire share capital.

March _9th

Launch of a new phase in the Assurfinance Programme, based on the star product T-card, a Tranquilidade credit and debit card co-branded by BES. T-card was designed to attract Tranquilidade customers that are not yet BES customers by offering them a broad range of advantages deriving from cross-selling between banking products and insurance products.

Public launch of “BES Revelação”, a joint initiative created by BES and the Serralves Foundation that seeks to promote art by supporting, promoting and launching young Portuguese photographers. This initiative is in line with the objectives of BES’ cultural patronage policy, which is centred on photography in Portugal.

March_ 18th

BES holds its fifth “Strategy Day”, an event dedicated to institutional investors and analysts where issues relating to Group strategy and activity are widely discussed.

March _21st

BES informs the market of the estimated impact on equity and results deriving from the adoption of International Financial Reporting Standards (IFRS).

March _30th

The Annual General Meeting is held to ratify the Annual Report and the proposed distribution of earnings. Bernard Delas and Miguel António Igrejas Horta e Costa are also elected to replace two members of the Board of Directors who had resigned.

Under the title “Financial knowledge at the service of sustainable development”, the second edition of BES’ social responsibility report was distributed at the AGM. BES has played a pioneering role in this area being the first financial institution in Portugal to publish a corporate social responsibility report under the methodology proposed by the Global Reporting Initiative (GRI), the entity which lays down the best international practices in this field.

April _14th

Payment of dividends against 2004 results. The gross dividend of euro 0.368 per share corresponds to a net dividend of euro 0.3128 for resident shareholders and euro 0.2760 for non-resident shareholders. The payout ratio was 40.1% on a consolidated basis and 54.0% on an individual basis.

April _20th

Espírito Santo Capital, a venture capital subsidiary wholly owned by BES purchases the entire share capital of LOGIC – Logística Integrada, S.A. via a management buy-out (MBO) operation. This acquisition forms part of Espírito Santo Capital's strategy of promoting and supporting MBO transactions, teaming up with the management of healthy companies with high growth potential to revitalise their shareholding structures and stimulate future growth.

April _23rd

In Toledo, Caja Castilla la Mancha (CCM) and Banco Espírito Santo de Investimento (BESI) subscribe a cooperation protocol to develop their business activities in areas of common interest.

May _3rd

BES reports first quarter consolidated results. BES Group posts net income of euro 80.3 million (under IFRS), corresponding to ROE of 14.9%.

BES launches the "BES Lounge" concept, a new approach to the university segment designed to inform and attract students with its commercial offer and enhance the Bank's visibility within this segment.

The 6th Edition of "Valor BES", a quarterly newsletter dedicated to the shareholders, is published. The theme of this issue is "BES and Tranquilidade – united for market share growth".

May _12th

Banco Espírito Santo Group announces the creation of the BES Rodovias investment fund with initial assets of euro 150 million. The fund is exclusively designed to participate in Federal and State road concessions awarded in Brazil during the year and is targeted at European investors. The Banco Espírito Santo Group also holds a stake.

May _30th

Global Finance magazine selects BES as the Best Portuguese Sub-Custodian bank for the second time. This accolade confirms the bank's positioning as one of the largest providers of institutional custody services in Portugal, offering adequate custody solutions to suit the needs of the financial institutions operating in the domestic market.

June _8th

Interbrand survey values the Banco Espírito Santo brand at euro 813 million. (Interbrand is a renowned international consultant for brand management and valuation).

June _16th

With the aim of taking an increasingly active role as a supporter and promoter of innovation in Portugal, BES launches a National Innovation Contest. The contest challenges universities and corporations to build a bridge between them while also adding value to the relations between BES and its Corporate customers.

June _21st

BES is awarded eight prizes in the 2005 edition of the Investor Relations Awards, an initiative promoted by Deloitte Consulting with the support of Diário Económico and Semanário Económico: Grand Prize for the Best Global Investor Relations Programme among the PSI20 companies; best CEO in Investor Relations; Best Investor Relations Officer; Best Annual Report among financial institutions; Best information about Corporate Governance; Best use of technology for Investor Relations; Best Financial Analyst; and Best Research House. The BES Group was the winner in all categories for which it had been nominated.

July _28th

Release of first half results. The BES Group posts net income of euro 149.0 million, with a ROE of 13.6%.

The 7th edition of "Valor BES" is published entitled "Espírito Santo Private: leading through excellence".

August_ 16th

The Banco Espírito Santo Group is the first Portuguese financial institution to adopt the Equator Principles - a set of guidelines voluntarily followed by financial institutions to manage social and environmental issues arising from project finance operations with a capital cost of above $50 million.

September _12th

BES announces the merger by integration of Banco Internacional de Crédito (BIC), to be completed by the end of 2005.

September _20th

BES participates in the Mid-Cap European Bank Conference for European banks hosted by Keefe, Bruyette & Woods in London.

September _23rd

BES informs the market that the Banco Espírito Santo Group has sold all the preference shares it held in Bradespar (holding company of the Bradesco Group for non-financial areas), generating a capital gain of euro 28 million. The Group has maintained its voting rights, representing 7.26% of Bradespar's share capital.

September _29th

BES informs the market of its seventh securitisation transaction carried out in the international market. The securitisation, named Lusitano Mortgages No.4, totalled euro 1.2 billion. The operation was a success, as the triple "A" rated class had a coupon with an 11bp spread versus Euribor (the lowest among Portuguese securitisation transactions to date).

October_ 24th

BES joins the "Zero Poverty" campaign, subscribing to the Millennium Development Goals established by the United Nations (MDGs) in an agreement signed by 189 world leaders. This project aims to fight poverty, illiteracy, hunger, poor education, gender inequality, infant and maternal mortality, poverty diseases (malaria, TB, HIV/Aids) and environmental degradation.

October _25th

Banco Espírito Santo de Investimento (BES Investimento) and the Polish Concordia Group announce that they have established a joint venture to set up Concordia Espírito Santo Investment (CESI). The new company will be based in Warsaw and specialise in providing financial advisory services in the Polish market, namely in project finance, M&A and other areas of corporate finance. The Concordia Group will hold 51% of the new company, and BESI the remaining 49%.

October _27th

BES Group releases third quarter results. Consolidated net income for the first nine months of 2005 stood at euro 208.0 million, with a ROE of 13.2%.

The 8th edition of "Valor BES", the quarterly newsletter dedicated to the shareholders, is published under the heading "BIC's integration into BES. Creating a single commercial network".

November_ 14th

BES announces the launch of Espírito Santo Electronic Trading, a service platform that allows corporate customers to follow the markets in real time and access the trading room for online electronic trading.

November _23rd

BES participates in the Espírito Santo Iberian Event, a meeting with international institutional investors hosted in Madrid by Espírito Santo Investment (BES Investment).

December _30th

The merger of BIC into BES was concluded by public deed on December 30th , 2005.

December _31st

BES Group reports net income of euro 280.5 million in 2005, corresponding to a year-on-year increase of 85% and a ROE of 13.5%.

At the beginning of 2006 BES announces an outsourcing contract with IBM for the management of its main IT infrastructure, effective from January 1st. 2006.

3.4
Strategy and Business Model

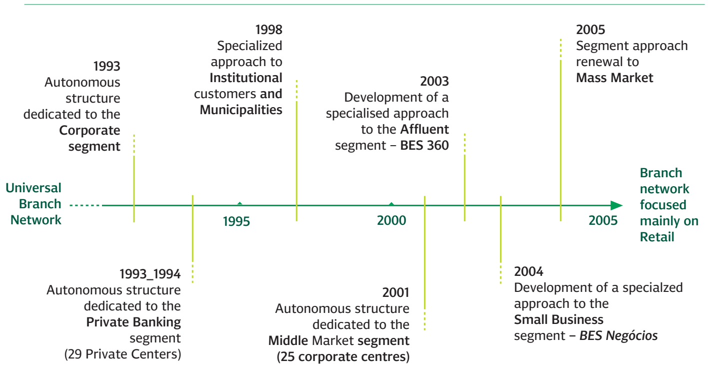
The Banco Espírito Santo Group provides a universal range of financial services with the fundamental goal of creating value for its shareholders while simultaneously meeting the needs of its customers and employees, within the framework of its overall duty of social responsibility.

To this end, the Group's main pillar for development and strategic differentiation lies in providing a service characterized by excellence and permanent focus on the needs of each customer, acting as a universal financial group serving all individual, corporate and institutional customer segments and offering a full range of financial products and services.

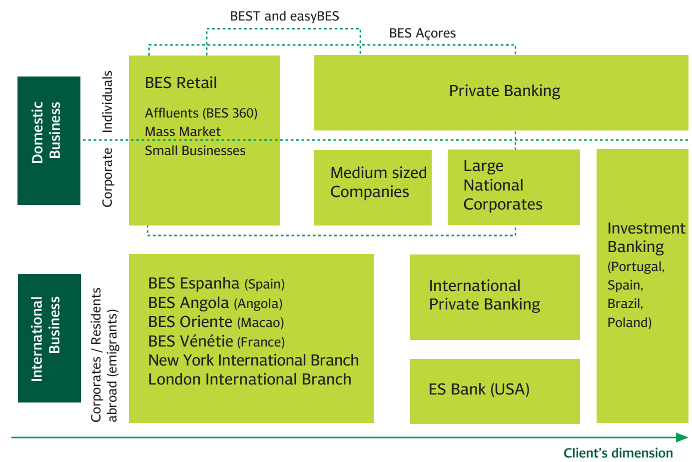
Faced with increasingly sophisticated and diverse customer needs, the BES Group has consolidated its multi-specialist business model with a customer-oriented focus. The BES Group therefore adopts distinct and innovative commercial approaches for each of its customer segments, developing specific skills as key factors of differentiation with a view to ensuring an effective response to the needs of each segment.

BES Group has today differentiated value propositions for its main customer segments which ensure a tailor-made response to their specific financial needs.

Evolution of BES multi-specialist model



BES Group's market approach



In the Retail segment, a more specialised commercial approach led to the creation of the BES 360 service (targeted at the affluent segment) and to a renewed approach to small businesses and independent professionals, emphasising growth in strategic sectors of activity, namely financial volume (funds) and risk levels. More recently, and after consolidating its approach to the higher value segments, a value proposition was also developed for the other individual customer segments, based on the standardisation of products and services and from the perspective of the customer's life cycle.

A highly diversified customer base has over time proved essential to revenue generation, translating into a pattern of sustained earnings growth.

Integration of BIC into BES:
Creation of a single commercial network

On December 30th, 2005 Banco Internacional de Crédito (BIC) was merged into Banco Espírito Santo. This merger is aligned with BES Group's strategy of improving the quality of service while simultaneously increasing its competitiveness as a global financial group operating in Portugal.

The activity of BIC played an important role on BES Group's organic growth strategy. Since the privatisation, BES Group pursued an unique growth path, growing its market share from 8.5% in 1992 to 18.0% in 2005 and reaching a balanced geographical coverage of the country (the BES + BIC network totalled 586 branches in December 2005). Until 2005, BIC specialised in the higher value segments – private and affluent customer segment, financing real estate and building up a particularly strong position in mortgage loans (including subsidised credit). This explains the co-existence of the two brands.

The structural changes that occurred in the market, particularly in the real estate business, and BES' transformation from a universal retail bank into a multi-specialist bank with differentiated skills to approach, among others, the higher value segments, substantiated the rationale behind this merger.

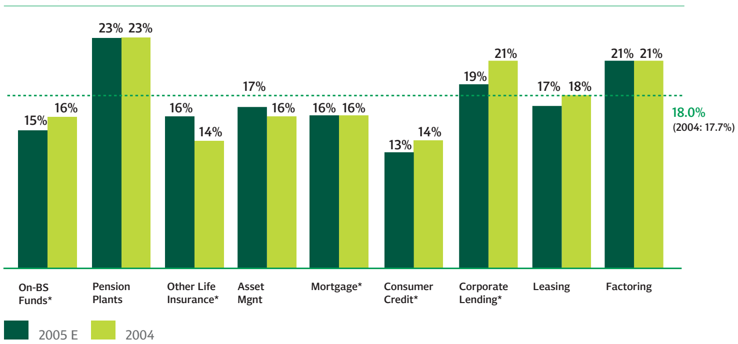
The merger by incorporation of BIC into BES aims to obtain synergies from operating redundancies notwithstanding the effective rationalisation of the back-office platforms carried out in recent years and, more importantly, to maximise the quality of the services offered to customers and leverage the strength of the BES brand through the third largest branch network in the country.

The synergies arising from this operation – estimated at circa euro 35 million per year – will be achieved via costs and revenues, and translate into stronger commercial growth, on the one hand, and increased profitability, on the other.

As a result of this one-brand strategy, customers of both banks will enjoy the increased convenience of a single brand network of 600 branches and an integrated product offer: BIC customers will have access to a wider range of products while BES customers will benefit from BIC's high quality standards and specialisation. Moreover, initiatives taken to grow commercial activity and enlarge the customer base (such as the Assurfinance Programme and cross segment initiatives) will be extended to BIC.

The multi-specialist model adopted and BES Group's organic growth strategy resulted in a two-fold increase in market share, from 8.5% in 2002 to 18% in 2005.

Average market share



(*) Estimate.

The Banco Espírito Santo Group also aims to attain top efficiency levels, rationalising its structure and creating shared service units serving group-wide purposes, while embracing technological innovation at the service of higher efficiency, improved service quality and the capacity to respond to its customers increasingly demanding needs and convenience requirements.

Transformation Programme for the BES Group's IT Area

A broad-based three-year programme was launched in 2005 with the objective of increasing the overall efficiency of BES Group's information systems. The programme entails multiple optimisation measures such as (i) the standardisation, consolidation and outsourcing of the technical infrastructure, (ii) the rationalisation of applications architecture and (iii) optimisation of the IT governance model and management processes.

Standardisation, Consolidation and Outsourcing of the Technical Infrastructure

In December 2005 the Group signed a 10-year outsourcing agreement with IBM for the management of its main IT infrastructure. The purpose of the agreement is to guarantee a more efficient integrated management of BES Group's large IT infrastructure, leading to a reduction in the cost of this infrastructure of around 25% over the next 10 years.

In December 2005 the Group concluded the negotiations concerning the restructuring of its communications network. Using voice-over-IP (VoIP) technology, BES Group's data and voice communications will be integrated into a single more efficient network, permitting a significant reduction in communication costs (around 27%).

In addition, a set of measures was implemented to raise the efficiency level of the remaining technical infrastructure. These included centralising and consolidating medium-sized servers, rationalising the configuration and use of PCs and peripherals, restructuring data storage architecture, and promoting offloading from the mainframe.

Rationalising Applications Architecture

The rationalisation of the applications architecture was initiated in 2005. The purpose was to adopt a holistic approach encompassing the complexity of the IS architecture, by mapping the business' present and future needs in the company's systems and redesigning the manner in which the various parts fit together in order to achieve an optimum connection between systems and business needs, benefiting both. The resulting IT platform will be simpler and more agile, permitting the addition of new functionalities and integration of new systems more rapidly and at lower cost.

Optimisation of the IT Governance Model and Management Processes

Finally, in 2005, the organisation of BES Group's IT area was realigned to centralise (under a single management unit) BES/ESI's entire IT system.

The interconnection and coordination systems linking the Business, Organisation and Information Systems were also changed in order to improve control of critical issues such as the methodological specification of new functionalities and applications, priority ranking and management of new investments, and rigorous control of the Information System's budget.

Throughout its history, Banco Espírito Santo Group and its solid and stable core of shareholders have successfully withstood a variety of economic contexts, always steered by the standards of consistence and prudence that should guide banking activities.

Faced with the increasing globalisation of the financial markets, the need to obtain economies of scale and operating efficiency gains the Group expanded on the international front into countries with affinities with Portugal (Spain, Brazil and Angola). The strategy is to serve local customers in target segments but also customers doing business on a trans-national scale.

This growing expansion beyond the Group's domestic frontiers – fuelling high growth levels that complement the full exploitation of the potential of its domestic customer base -, a strong focus on excellence and constant fine-tuning of the services provided and operating efficiency in the activities developed are critical for reinforcing BES Group's strategic autonomy in the medium and long term.

3.5
Geographical Presence and Distribution Network

AFRICA _ South Africa, Angola and Morrocco.
AMERICA _ Brazil, Canada, USA, Cayman Islands and Venezuela.
ASIA _ China and Macao.
EUROPE _ Germany, Spain, France, England, Italy, Ireland, Portugal, Switzerland.

BES Group

International Branches _ New York, Nassau, Cayman Islands, Madeira and London.
Representative Offices _ Toronto, Newark, Caracas, Rio de Janeiro, São Paulo, Lausanne, Cologne, Milan, Joannesburg and Shangai.
Subsidiaries and Associated Companies _ Florida, São Paulo, Dublin, Madrid, Paris, Luanda and Macao.
Other Investments _ São Paulo and Casablanca.

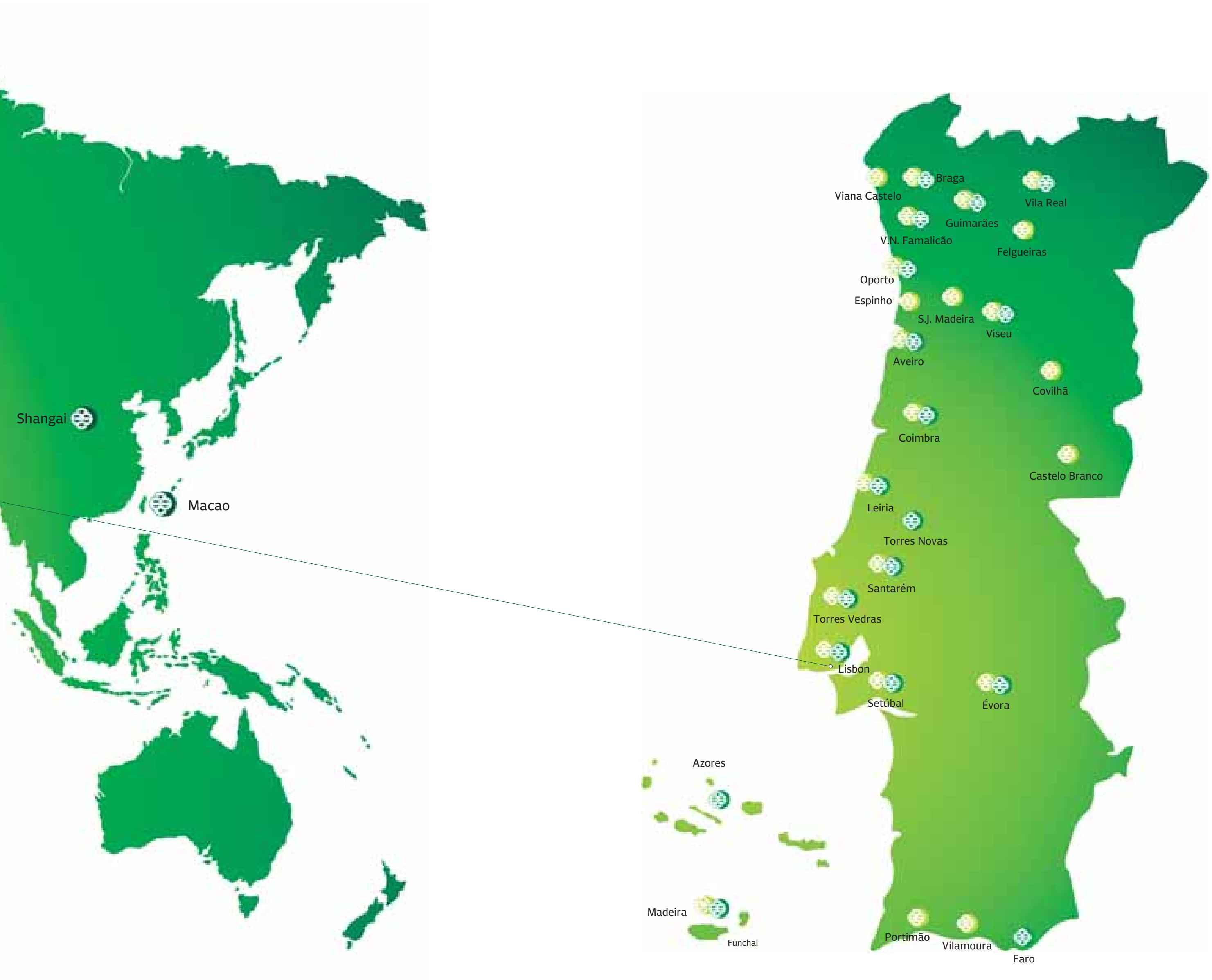
BES Branches _ 639*

BES Branches in Portugal _ 600

ES Private _ 28

Corporate Centers _ 25

BES 360°_ There are 410 dedicated account managers who cover 68% of the branch network.



* Includes international branches in London, New York, Nassau and the Cayman Islands, a branch in the Madeira Free Zone, as well as twelve overseas representative offices.

3.6
Human Resources

Human Resources are a key strategic factor for development, either as a driver of change and progress or as an active agent of organisational restructuring. The BES Group's human resources strategy relies on the promotion of intellectual capital as a brand differentiation factor.

Over the last few years, several measures were taken to ensure on-going training for employees and their mobility within the Group, as well as the rejuvenation and strengthening of the workforce. In order to adequately reward employees – whose performance contributes to further the Group's objectives - and to facilitate/promote career progress, BES has established a merit promotion policy (complementing the mandatory promotions established by the Collective Agreement for the banking sector), as well as a set of benefits such as an employee profit-sharing plan and a stock-based incentive system.

The BES Group's management model for Human Resources is based on decentralised management - on the definition of strategic principles which are adopted and implemented in each of its subsidiaries according to the respective specificities and geographical location.

Employee training was significantly enhanced in 2005, particularly in the area of retail, while positive discrimination was reinforced via incentive and reward schemes. These HR policies emphasise the strength of a segmented commercial approach, while furthering service quality as a driver of the bank's commercial performance. Equal care and attention were paid to central areas which indirectly influence the quality of customer service.

BES Group pioneered the implementation in Portugal of a stock-based incentive system that aims to strengthen employee commitment to the company. The Stock-Based Incentive System (SIBA), approved at a General Meeting of Shareholders in 2000, allows employees to purchase one or more blocks of BES shares, based on performance appraisal, responsibilities inherent to the post and established objectives.

	2004	2005
No. of shares attributed under SIBA programme (thousands)	1,602	1,812
% of BES Share Capital	0.5%	0.6%
No. of shares owned by the employees under SIBA programme (thousands)	7,991	7,617
% of BES Share Capital	2.66%	2.54%

Description of BES Group's Human Resources

On December 31st 2005, BES Group had 8,524 employees, distributed as follows:

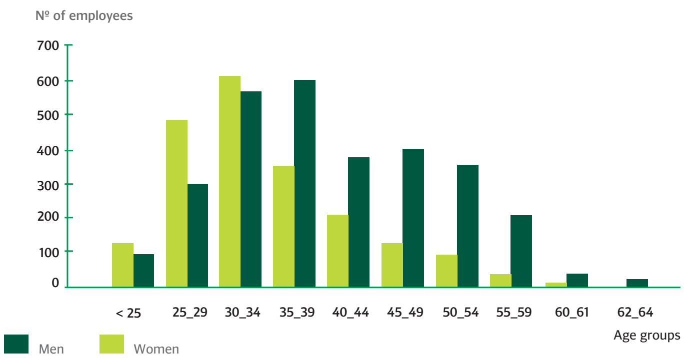
	2004	2005
BES employees	4,115	5,084(*)
Group financial subsidiaries employees	3,183	2,507
Employed by other companies essentially providing services to customers outside the Group	943	933
Total Group Employees	**8,241**	**8,524**

* Includes BIC employees (BIC was merged into BES at 30 December 2005).

The growth in the Group's workforce in 2005 can be explained by the expansion of its international activities, namely in BES Angola, and a change in the criteria used to count BES employees, which now include those formerly considered as temporary workers. BES total workforce as of December 31st, 2005 reflects the integration of BIC employees.

In 2005 BES Group's personnel was 41% female and 59% male. Through a consistent effort to rejuvenate the workforce and obtain the right balance between a rigorous admissions policy emphasising the recruitment of younger and better qualified professionals and reducing staff through retirements, the Group has increased the portion of staff in the 30-34 age range to 24% of its total headcount. The average age of the workforce is 38, with 63% of employees aged under 40.

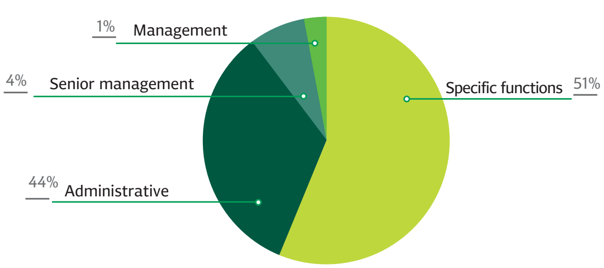
Workforce Age Structure



Additionally, the percentage of employees aged over 50 dropped from 23% in 2000 to 14.7% at the end of 2005.

Higher education remained a key factor for new admissions. Accordingly, as of December 31st, 2005, 38.7% of the Group's employees had university degrees.

Admissions per funcional group in 2005



An effort to reduce staff rotation in the commercial area was also implemented in 2005.

Training as a driver of change

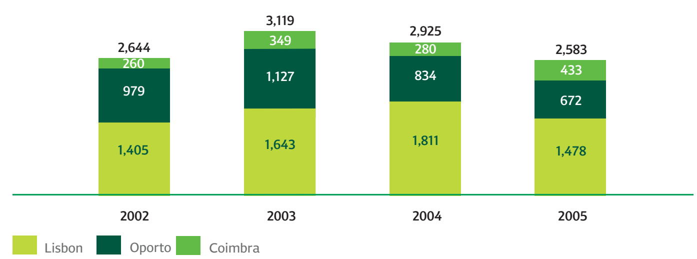
In 2005, the Group maintained its commitment to permanent qualification and the development of staff skills, in technical/operational terms through the General Training Plan, or via specialised training through Specific and Organic-Functional Training Plans. Investment in training (both in-class and through e-learning) was high and innovative features were introduced to the existing methodologies, i.e: through the creation of "School Branches" in all BES Regional Divisions (see box).

62 different training programmes were implemented during the year, involving 958 specific training actions, which were extended to the vast majority of the employees. In addition, there were 147 general training courses in areas such as IT systems or banking technique.

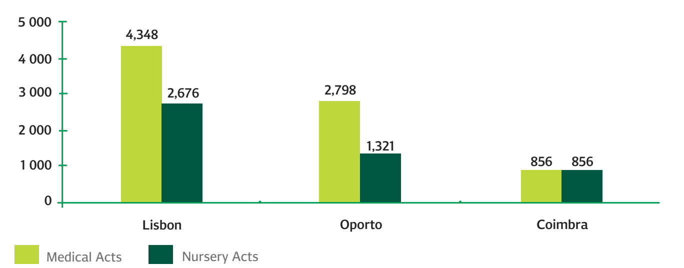
Social Work, Occupational Medicine and Curative Medicine

All the Group's employees have social benefits which in many cases largely exceed legal requirements, in general, and those of the Collective Agreement for the banking sector, in particular. Hence, in addition to a well organised and efficient healthcare service, the Group offers its employees a set of regular medical and nursing services, which are available at any of its Medical Centres located in Lisbon, Porto and Coimbra. Such services include breast and prostate cancer screening and medical assistance for stress related conditions.

Medical Examinations carried out within the scope of occupational healthcare



Medical and Nursery treatments within the scope of Curative Medicine in 2005



In 2005, new means of diagnosis were added to the periodical check-up exams, while a specific diagnosis and prevention package was set up.

School Branch

The School Branch project was launched by Banco Espírito Santo under the legend "Example as a way of learning". This is a pioneer initiative in the Portuguese financial sector, and its purpose is to train new sales assistants, BES 360 account managers and business account managers.

The introduction of School Branches also helped to decentralise training (there is one School Branch in each Regional Division), with the commercial teams becoming increasingly involved and responsible for transmitting knowledge and establishing new competencies.

The new training model serves two major objectives: to raise the quality of the new employees' performance and to boost the development of the skills required for the commercial activity of Sales Assistants.

In 2005, training provided in School Branches represented 20% of all the specific training actions implemented.

In Angola, the BES Group guarantees access to health services, namely medical, paediatric and nursing services, to its employees and their respective families. Moreover, a programme was developed and implemented in 2005 to subsidise a number of nursery schools attended by the children of Group employees in this country and to provide guarantees for their future education.

BES has had a Social Work Service since the end of the 1950s, which undertakes initiatives within the scope of the human resources policy, namely to enhance the importance of the humane side of the organisation, to promote health in the workplace and to improve the social wellbeing of its employees.

The human resources policies implemented over the years are part of a Group-wide policy that entails the definition of clear guidelines for the provision of services whose quality is tangible and perceived by the customer.

3.7
The BES Brand

In January 2006 Banco Espírito Santo launched a new corporate identity, by changing the image in all its communication supports, from its branch networks to its direct means of communication with the customers, advertising, and the entire range of credit/debit cards and cheques.

Through this image change process, the brand is now perceived as younger and "closer" to the public.

One of the most striking changes is the Group's colour. BES' institutional colour is still green but it is now "Future Green" (Verde Futuro), which can be polarised into a dynamic range of greens signifying closer proximity to customers and the public in general.

Since the end of January "Future Green" is used throughout the branch network as a sign of the Group's youthfulness and eagerness to conquer the future without losing track of its traditional values. Besides colour, BES new identity also entailed changes in the logo and letter style.

The colour:
The new green is younger and more alive but it remains green – which stands for discipline, truth, strength, transparency and worth.

The lettering style:
The lettering was changed from a classic style to one that is more modern, informal and assertive.

The Symbol:
The symbol was shifted off the centre to suggest movement and dynamism.

This new identity was launched after improvements had made in the areas of service quality, customer segmentation and increased convenience and accessibility in customer services. The decision to merge Banco Internacional de Crédito – the Group's second largest retail brand - into BES took place at the right time for this image renewal process. The launch of the new visual identity initiated a process of repositioning for BES, approved in the last quarter of 2005, aimed at strengthening the brand, fomenting its proximity, youth, vitality and modernity.

According to Interbrand, the BES brand was worth euro 813 million at the beginning of 2005, one of the highest values in the Portuguese market.

Through this visual change, BES is able to demonstrate its inner capacity for reinventing and renovating itself. The strategy was to rejuvenate the visual identity of the bank's brand without breaking away from its past and established values. BES is now closer to the public, more accessible, more attractive, more informal, more universal, more innovative and more competitive.

Previously:

BANCO ESPIRITO SANTO

Now:

BANCO ESPIRITO SANTO

The logo

The basic symbol was maintained to reflect the Group's long-standing values. BES takes pride in its heritage. However, the symbol has been modernised by setting it against a colour background – a circle where the various shades of green stand for the universality, diversity and inclusiveness of the new BES. Then the symbol has been shifted off centre to suggest movement and dynamism, two of BES' characteristic traits.

The lettering style used for Banco Espírito Santo's name was redesigned. The new style expresses modernity and is also less likely to become dated. Using capital letters makes it more assertive and visually balanced. It is a style that promotes differentiation.

The colour

BES' new colour is called "Future Green". In fact, it is not a single green but a combination of various shades of green to relay the concept that customers are not monochromatic, BES is not monochromatic and the future is not monochromatic. The new colour has been polarised into a wide spectre of different hues to suggest freshness, transparency, vitality, equilibrium, intensity and inclusiveness. The brand has been made more vibrant and brighter.

The new green is lighter and fresher, and full of vitality, but it is still green - the colour of rigour, truth, strength, transparency and worth.

Visual identity changes in the branch network

In order to enhance the outdoor visibility and impact of the new BES, it was decided to use light boxes in which the white lettering contrasts with a background of bright "future green" shades.

The aluminium frames around the light-boxes stress the image of modernity, quality and differentiation which BES intends to convey.

Executed in record time (35 business days), changing the visual identity of 600 branches also involved refurbishing 35 regional divisions, 25 corporate centres, 28 private banking centres and 8 central buildings. The task was particularly complex due to the original design of the various parts making up the light signs outside the branches.

A Special Regard for Cultural and Architectural Heritage

In line with its policy of social responsibility and sustainable development, which holds Portuguese heritage and culture in great respect, BES was particularly careful when applying the new image in historical centres and classified buildings. In such places the outdoor signs are sober and do not clash with the architectural features of the buildings and surrounding environment.

However, a spirit of modernity is maintained and the materials used are contemporary: polished brushed steel contrasts with a background of glass, sending out an image of distinctiveness and prestige that further emphasises the setting's nobility and historical associations.

3.8
Social Responsibility and Sustainable Development [1]

For Banco Espírito Santo, an institution that dates back to 1869, sustainable development means the long-term maximisation of financial results and shareholder value. Thus, for BES sustainable development becomes a factor of competitiveness.

BES has followed a solid path in the area of Social Responsibility. In 2004 it created the "Accomplish More" programme, which seeks to provide clear information to all stakeholders about the initiatives taken in the area of Social Responsibility. The first Social Responsibility Report was published in that year, reporting on practices that were already a long-standing tradition within the bank. A second report was issued in 2005, while internal practices and management models were introduced allowing BES to evolve from a perspective of corporate citizenship to a rationale of sustainability.

Sustainability is today a factor of competitiveness that cuts across all the areas of an organisation. A free market economy has increasingly enhanced the importance of factors which are still intangible, such as reputation, integrity, transparency of decisions, and recognised ethical behaviour reflected in the consideration given to social and environmental issues in investment decisions and in the communication with internal and external stakeholders. An organisation's perceived image – which reflects all these issues - can influence its financial performance.

An organisation's management must be aware of and aligned to existing risks: social and environmental risks and the risk to an organisation's reputation – all of which are economic risks – may be turned into business opportunities and competitive advantages. It is necessary to determine the added value which this new market dimension can bring to the BES Group's specific business areas.

Aware of these emerging market requirements and the development of society, BES is set on taking a number of initiatives that will align its strategy for sustainability to the best international practices. The Group assumes that the development of a policy of sustainability is a serious commitment, and one that needs to be deployed by stages, and to be realistic vis-à-vis its business and national background. The definition in 2004 of the sustainable development principles that steer BES' activity is a reflection of this commitment.

(1) Detailed information on BES Group's sustainability practices may be found in its 2005 Sustainability Report.

Sustainability is already in-built in some areas of the core business, as specific responsibilities for the financial sector:
- Sale of ethical funds
- Credit to micro companies
- The industry / sector surveys prepared by ES Research
- Subscription to the Equator principles
- Stimulus and promotion of innovation – creation of the BES National Innovation Contest

Besides those aspects which are inherent to its activity, BES also pursued its traditional role as a driving force of the country's social and cultural development. Hence in 2005 the bank reinforced its active citizenship involvement, promoting social solidarity initiatives and supporting and divulging art made by the Portuguese for the Portuguese.

In the sphere of social aid, the BES Group continued to support social solidarity institutions dedicated to providing a shelter to children and young people at risk. The BES Group also made donations and opened subsidised credit lines intended to re-launch economic activities in the regions of Portugal that were devastated by the summer fires.

In support of the arts and within the scope of its Cultural Patronage policy BES has established itself as the Patron of Photography in Portugal - BES and the Fundação de Serralves jointly sponsored the first edition of "BES Revelação", an event aimed at encouraging and divulging the work of young Portuguese photographers. BES' sponsorship of photography also included launching a second edition of BES Photo, a project jointly undertaken with Centro Cultural de Belém that seeks to promote the excellence of photographic art created by Portuguese artists.

3.9
BES' Share Price Performance

On December 31st, 2005 the share capital of Banco Espírito Santo was represented by 300 million shares with the nominal value of euro 5 each.

BES shares are listed on the Euronext Lisbon Stock Exchange and are part of several indices (see table for the most significant).

Index	Weight
Euronext Lisbon PSI Financials	26.21%
PSI 20	8.33%
PSI Geral	7.15%
Dow Jones Euro STOXX Mid (Price)	0.49%
Dow Jones EURO STOXX Banks Supersector (Price)	0.31%
Bloomberg Europe 500 Banks & Financial Services	0.27%
Dow Jones STOXX Mid 200 (Price) – EUR	0.26%
S&P Euro Financials GICS Sector	0.25%
Euronext 100	0.23%
S&P Europe 350 Banks Industry Group	0.22%
Bloomberg European Financial	0.20%
Dow Jones EUROPE STOXX Banks (Price)	0.16%
S&P Europe 350 Financials - GICS Sector Level	0.13%
S&P Europe Index Economic Sectors GICS Sector Level	0.08%
Dow Jones EURO STOXX (Price)	0.07%
Bloomberg European (500 Industry Sectors)	0.06%
Bloomberg Europe (500 Economic Sectors)	0.06%
Bloomberg Europe	0.05%
Dow Jones STOXX 600 (Price)	0.03%

Sources: Bloomberg; Euronext. December 31st 2005.

BES Group also has 600,000 non voting preference shares with a nominal value of euro 1,000 each issued by its subsidiary BES Finance, Ltd and listed on the Luxembourg Stock Exchange.

Main Stock Market Indicators

Stock Exchange Data		PABS Dec 04	IFRS Dec 05	Change
STOCK EXCHANGE DATA				
01. No. Shares Outstanding	(thousand)	300,000	300,000	-
02. Last price	(euro)	13,30	13,60	2.3%
03. Market Cap	(euro million)	3,990	4,080	2.3%
CONSOLIDATED FINANCIAL DATA				
04. Capital and Reserves[(a)]	(euro million)	1,979	2,374	20.0%
05. Net Income	(euro million)	275,2	280,5	1.9%
06. Gross Dividend	(euro million)	110,4	120,0[(b)]	8.7%
07. Pay Out Ratio	(%) (06./05.)	40,12	42,78	2.7 p.p.
PER SHARE DATA				
08. Book Value	(€) (04./01.)	6,60	7,91	20.0%
09. Net Income	(€) (05./01.)	0,92	0,93	1.9%
10. Gross Dividend	(€) (06./01.)	0,368	0,400	8.7%
PRICE AS MULTIPLE OF				
11. Book Value	PBV (02./08.)	2,02	1,72	-
12. Net Income	PER (02./09.)	14,50	14,55	-
PRICE RETURN ON				
13. Net Income	(%) (09./02.)	6,90	6,87	-
14. Dividend (Dividend Yield)	(%) (10./02.)	2,77	2,94	-

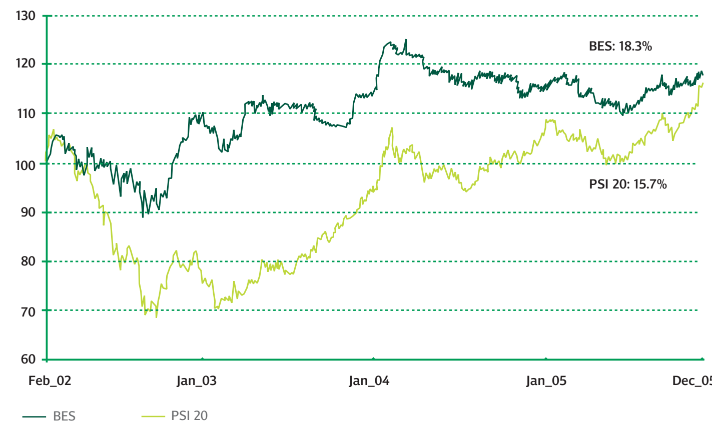
(a) Not adjusted for fair value reserves.
(b) Proposal of a dividend of euro 0,40 per share submitted to the AGM on April 17th, 2006.

In 2005 the Portuguese equity mirrored the upward trend marked by the main European markets. The PSI 20 gained 13.4%, surpassing the previous year's performance (12.6%), with low volatility levels (8.3%).

BES shares rose 2.3% (from euro 13.30 to euro 13.60), in line with their performance last year. Volatility was 8.7%, from a low of euro 12.56 to a high of euro 13.65, matching the decline in the volatility seen in the equity markets overall.

BES shares have risen by 18.3% since the last capital increase in 2002, which compares with the rise of 15.7% in the PSI 20 index over the same period.

BES share performance since the last capital increase (February 2002)

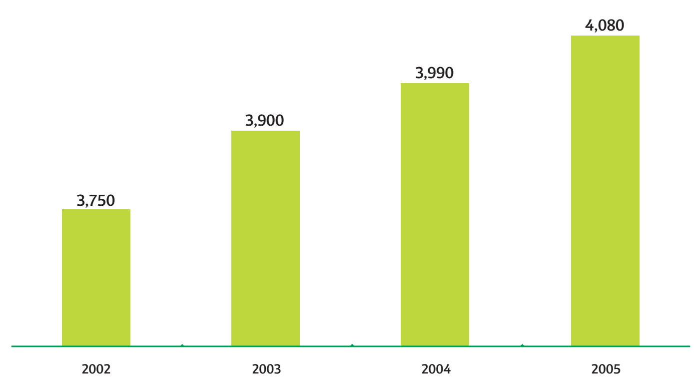


Source: Bloomberg

BES' market capitalisation (euro 4,080 million) is the second largest among the Portuguese financial institutions listed on the Euronext Lisbon, and the fourth largest on the PSI 20. The bank's weight in the Euronext Lisbon's overall stock market capitalisation was 2.3% and 3.1% in the regulated equity market.

Evolution of BES Market Capitalisation

euro million



The bank's price earnings ratio (PER) was 14.55 at the end of 2005, which compares with 14.50 in 2004, while the price book value (PB/V) was 1.72 in 2005 versus 2.02 in 2004.

Annual trading volume of BES shares was euro 731 million (euro 872 million in2004), while capital turnover (the ratio of annual trading volume to stock market capitalisation at the end of the year) was 21.4% (21.9% in 2004). The average trading price in 2005 was euro 13.13/per share (euro 13.71 in 2004).

Dividends

The Bank's objective is to pay dividends to its shareholders to the amount of at least 50% of its individual net earnings. However, this objective depends on financial conditions and results, as well as other factors deemed relevant by the Board of Directors.

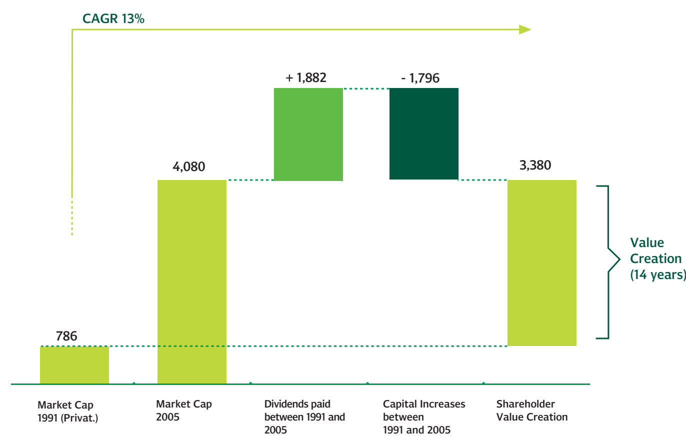
In this context, and as described in the proposal for the distribution of the 2005 earnings, BES' Board of Directors will submit at the General Shareholders' Meeting a proposal to pay a gross dividend per share of euro 0.4 (euro 0.368 in 2004). This proposal reflects a 8.7% year-on-year increase in the dividend per share and a 2.94% rise in the dividend yield (2.77% in 2004). The consolidated pay out ratio is 42.8%, which compares with 40.1% in 2004.

Shareholder Value Creation

Creating value for the shareholder, in a sustained manner, is BES' main prority. Since the bank's re-privatisation at the beginning of the 1990s, the organic growth strategy pursued (leveraged on BES brand) has resulted in a two-fold increase in the market share, from 8.5% in 2002 to 18% in 2005.

Since the privatisation of BES fourteen years ago, the organic growth strategy has resulted in value creation in the amount of euro 3.4 billion, which corresponds to a CAGR of 13%. This is based on adjusting the 2005 market cap to reflect the present value of the dividends and the capital increases carried out since 1991.

Shareholder value creation since the Privatisation euro million



Shareholders

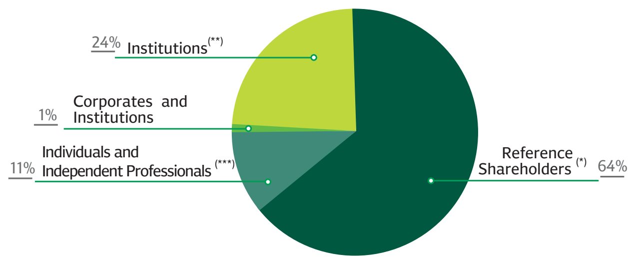
The Group's main shareholders as of December 31st , 2005 were as follows:

Shareholder	% Share Capital
BESPAR – Sociedade Gestora de Participações Sociais, S.A.	41.98%
Crédit Agricole, S.A.	8.81%
Companhia de Seguros Tranquilidade-Vida, S.A.	6.46%
Bradport – SGPS, S.A. (*)	3.05%
Previsão – Sociedade Gestora de Fundos de Pensões, S.A.	2.62%
Portugal Telecom, S.A.	1.40%

(*) Portuguese company owned by Banco Bradesco, S.A..

BES has a 36% free float. At year-end 2005 the bank's share capital was registered in the name of 19,457 shareholders, as follows:

Shareholder structure (% of share capital)



(*) Includes the stakes held by the main shareholders shown in the above table.
(**) Includes stakes held by asset management companies (eg mutual funds, pension funds, discretionary management), custodian banks, brokers, etc.
(***) Independent Professionals

Own shares

In accordance with Article 66 of the Companies Code, BES states that transactions involving the bank's own shares in 2005 related exclusively to shares purchased by BES and sold entirely to its employees within the scope of its share allocation plan (Stock Based Incentive System: SIBA) for 2005, under which a total of 1,811,774 shares have been traded.

Transactions of Own Shares

BES Shares	Number	Unit Value (euro)	Total (euro)
Balance as at Dec 31st, 2004	0	-	-
Transactions during the year			
- Purchases	426,289	13,54	5,771,588
- Sales	426,289	13,54	5,771,588
Balance as at Dec 31st, 2005	0	-	-

On December 31st, 2004 the Group's subsidiary Banco Espírito Santo dos Açores had 354 BES shares in its securities portfolio which were sold in the second half of 2005. Hence, as of December 31st, 2005, Banco Espírito Santo dos Açores held no BES shares.

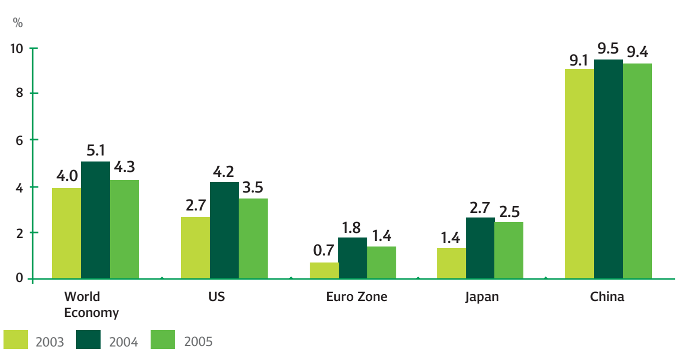
On December 31st, 2005, BES held euro 96,247,000 under the "Own Shares" heading, corresponding to 7,617,500 shares traded within the scope of its Stock Based Incentive System (SIBA), whose recognition in the accounts is duly explained in the Notes to the Financial Statements.

04.
Economic Environment

4.1.
International Economic Situation

The world economy registered strong growth in 2005, estimated at 4.3%. Although a slight slowdown was seen compared to the previous year – in 2004 the world Gross Domestic Product (GDP) had grown by 5.1% - GDP growth was better distributed in 2005, registering high values in the main economic areas, and an excellent performance in the emerging economies: Asia, Latin America and Eastern Europe. Signs of recovery were also visible in the euro zone, particularly as from the second half of the year. The average oil price rose from USD 38, to close to USD 56/bbl, mainly due to high demand and the persistence of restrictive conditions on the side of supply. However, the negative impact of this hike was smaller than initially expected as it was softened by lower dependence on oil on the part of the main economies, as well as by persistently low interest rates, which more than offset the loss of purchasing power associated with the rise in energy prices.

GDP Growth (in real terms)



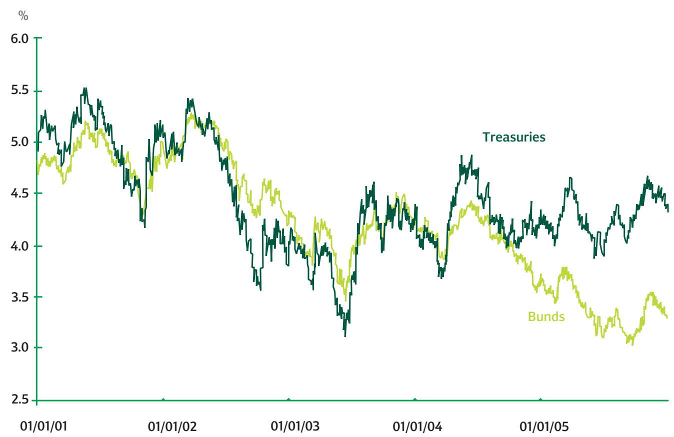
Sources: IMF and European Commission

Oil Price since March 2004 (US$/Barrel)

Source: Bloomberg

After rising by 4.2% in 2004, the US economy grew by 3.5% in 2005. Economic activity benefited from strong growth in the real estate market, with house prices rising on average by 12%. The ensuing positive wealth effect, mainly arising from mortgage equity withdrawals, further boosted private consumption, which grew by 3.6% and in turn caused a knock-on effect on production investment, which was up by 10.8%. With GDP growth aligned to the economy's growth potential, the labour market recovered and the manufacturing industry's use of productive resources was high. This, combined with the rising trend of energy goods, pushed up inflation throughout the year, with the average hike in prices going from 2.6% to 3.4% in 2005. In this scenario, the Federal Reserve maintained the upward cycle of interest rates initiated in the previous summer, raising the Fed funds' target rate by 200 basis points, to 4.25%. However, the rise in key rates was not entirely passed through to long-term interest rates. The yield on US Treasuries increased from 4.22% to 4.39%, leading to a flattening of the US dollar yield curve in the second half of the year. However, the rising trend of official interest rates to close to neutral range contributed to the lacklustre performance of the stock markets: the Nasdaq and S&P500 were up by 1.4% and 3%, respectively, while the Dow Jones dropped 0.6%.

Public Debt Securities Yield
(10-Y Bunds and 10-Y Treasuries)



Source: Bloomberg.

The strong performance of domestic demand sustained the deteriorating trend (already observed in 2004) of the US external deficit, which rose from 6% to 6.4% of GDP. However, foreign investors remained willing to finance the US current-account deficit, and the dollar appreciated against the main world currencies, especially the euro, sterling, the yen and the Swiss franc. The euro lost 12.7% against the dollar, closing the year at EUR/US$ 1.183.

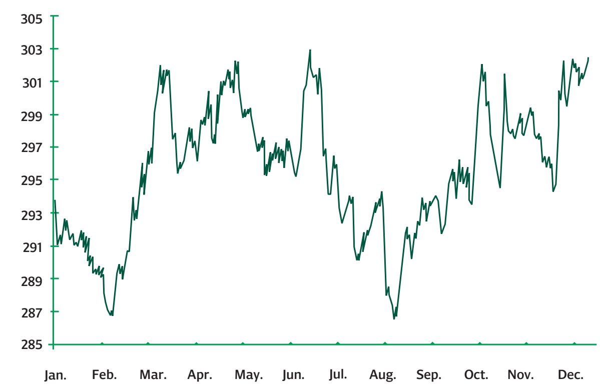
EUR/US$ Exchange Rates, 2005

Source: Bloomberg.

Latin America continued to profit from good conditions in the commodities markets and strong external demand, particularly from dynamic growth in China and other Asian economies. The price of copper, aluminium and zinc increased by 40%, 16% and 50% respectively. Food commodities did not register such increases, although the price of soy rose by close to 8% in the year.

Latin America's emerging economies also benefited from ample global liquidity and demand for high returns, which, in a context of persistently low interest rates in the developed economies, resulted in large foreign direct investment and portfolio investment flows.

Commodities Price Index



Source: Commodity Research Bureau.

This overall positive background did not prevent a deceleration of economic activity in Brazil, where GDP growth dropped from 4.9% to 2.3%. Concerns over inflation expectations led the country's Central Bank to initiate a restrictive monetary policy cycle, still in 2004, leading the SELIC rate to rise by 375 basis points to a high of 19.75% by mid-2005. The tightening of monetary conditions translated into a slight deceleration in private consumption and investment, also causing the inflation rate (as measured by the Broad Consumer Price Index) to fall from 7.6% to 5.7%. With inflation expectations under control, in September 2005 the Central Bank initiated a new cycle of interest rates cuts, the SELIC rate closing the year at 18%.

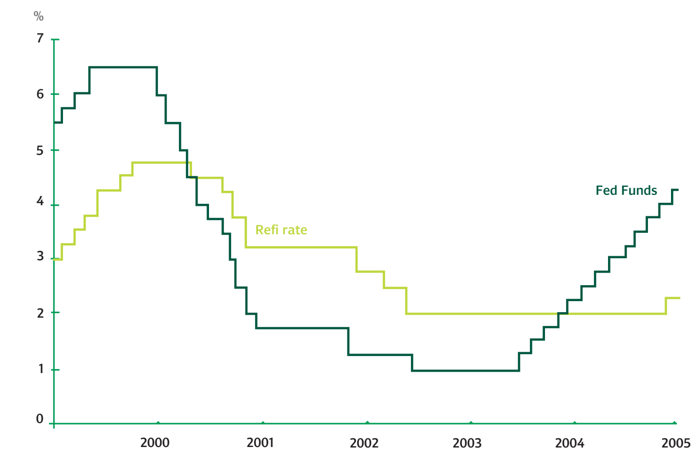
The Brazilian economy's external fundamentals remained buoyant throughout the year, with the rise of c.23% in exports contributing to a current account surplus of 1.8% of GDP. Along the same lines, the increase in net foreign reserves to nearly USD 54 billion, and a primary budget surplus of around 4.8% of GDP prompted an improvement in sovereign risk, which dropped from 382 to 311 basis points.

In **Asia**, economic activity remained underpinned by strong growth in China, where GDP registered a real increase of 9.4%, coming close to its 9.5% rise in the previous year. Exports, up 28% on a 13.5% increase in industrial production, were the main growth driver. In Japan the year was marked by a rising trend in prices and an economic rebound supported as much by external demand as by private consumption and investment - suggesting that a period of nearly ten years of deflation and weak economic growth may be close to an end. In these circumstances and with Japanese companies demonstrating increased pricing power, the Nikkei rose by 40%.

In the **Euro Zone**, the first half of 2005 saw a deterioration in economic sentiment following the rejection of the European Constitution project and the failure to reach an agreement on the 2007-2013 EU budget. In the second half of the year, a recovery was already visible in the main business confidence indices and there was a slight acceleration of economic activity. This improvement largely stemmed from the positive impact of the euro's depreciation and of strong growth in the US and Asian economies on exports, but also from the sharp rise in the revenues of oil-exporting countries which were in part directed to purchase goods produced in the Euro Zone. At the same time, an increasingly competitive environment at the global level kept most companies focused on the goal of cutting costs and achieving productivity gains. Notwithstanding the recovery observed in the second half of 2005, Euro Zone GDP rose by a mere 1.4% in the full year, which contrasts with 1.8% in 2004.

The unemployment rate, though dropping from 8.8% to 8.3% of the labour force, remained high, sustaining a climate of wage moderation. Hence, inflation was kept relatively under control, despite the upward pressures exerted by the price of energy goods. The average annual inflation rate rose from 2.1% to 2.2%.

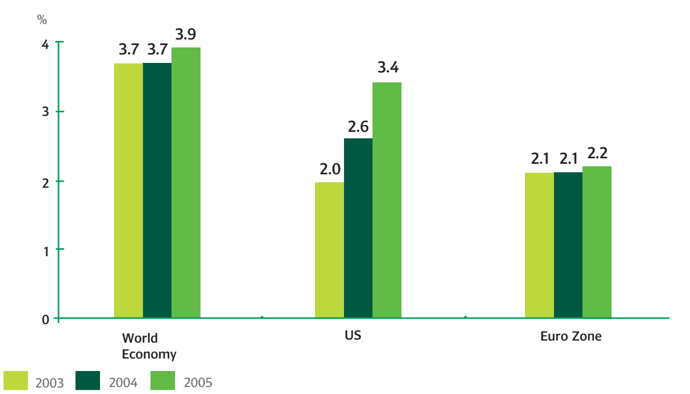
Evolution of the Fed Funds' Target Rate (US) and Refi Rate (Euro Area) - 2000-2005



Source: Bloomberg.

In a scenario of recovering economic activity and inflation above the 2 percent target consistent with its price stability policy, the European Central Bank initiated a new cycle of interest rate hikes in December, raising the key refi rate by 25 basis points, to 2.25%. As in the US, the Euro Zone's yield curve also tended to flatten, with the yield on 10-year public debt securities dropping from 3.683% to 3.309%.

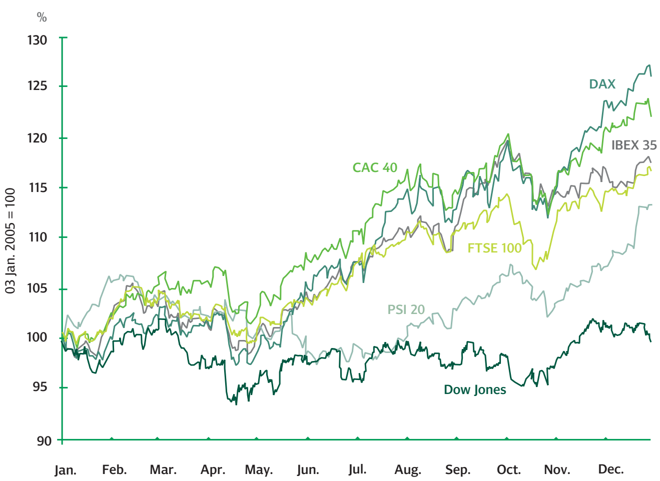
Inflation Rate



Sources: IMF and European Commission

The situation of ample liquidity arising from low interest rates in turn translated into a marked increase in the price of financial and real estate assets. In Europe, the Paris CAC40, the Frankfurt DAX and the Madrid IBEX35 stock market indices rose by 23.4%, 27.1% and 18.2% respectively. In countries such as Spain, France and Italy, the surge in real estate prices trended at or above 10%, benefiting private consumption through a positive wealth effect.

Selected Stock Market Indices in 2005



Source: Bloomberg.

The performance of the **Spanish** economy continued to shine within the euro area, with GDP growing by 3.4%, after rising 3.1% in 2004. Although to a lesser extent than in the previous year, in 2005 economic growth was still supported by domestic demand. Private and public sector consumption were up by 4% and 5%, respectively, while investment surged by 7.2%. Notwithstanding the hike in short term interest rates in the Euro Zone, a year-on-year inflation rate of 3.7% in December, and average inflation of 3.4% in the full year – 0.3 p.p. higher than in 2004 – meant that Spanish real interest rates remained negative or close to zero. Hence the persistence of expansionist monetary conditions once again contributed to the positive performance of the building and housing sectors. Although tending to slow down when compared to 2004 (when they had increased by 17%), house prices still rose by nearly 13% in 2005, outstripping the European average. With these conditions, mortgage lending growth accelerated somewhat, with a year-on-year rate of increase of 25% at year-end.

The strong growth of domestic demand in Spain, combined with the relatively sluggish performance of its main trade partners in the Euro Zone, plus the loss of competitiveness of Spanish exports (resulting from the accumulated inflation and productivity differentials), led to further deterioration in the external accounts, with the current account deficit rising from 5.3% to 7.6% of GDP.

4.2
Economic Situation in Portugal

In 2005 the Portuguese economy lost pace when compared to the previous year, with GDP growth dropping from 1.2% to 0.3%. This slowdown stemmed from lower growth in all the components of domestic demand, insofar as net external demand registered a small improvement.

Portugal - Main Economic Indicators

	2000	2001	2002	2003	2004	2005
Gross Domestic Product (GDP)	3.8	2.0	0.5	-1.2	1.2	0.3
Private Consumption	3.6	1.1	1.2	-0.4	2.4	2.0
Public Consumption	3.5	3.4	2.3	0.3	2.4	1.0
Investment	2.1	1.9	-4.8	-9.9	1.5	-2.7
Exports	8.3	2.1	1.5	4.5	4.6	1.2
Imports	5.3	1.3	-0.5	-0.7	6.7	2.1
Inflation (CPI) (average annual rate)	2.9	4.4	3.6	3.3	2.4	2.3
Budget Deficit (% of GDP)	-2.9	-4.4	-2.7	-2.8	-2.9	-6.0
Public Debt (% of GDP)	53.3	53.6	56.1	57.7	59.4	65.1
Unemployment (% of labour force)	4.0	4.1	5.1	6.3	6.7	7.6
Current Account Deficit (% of GDP)	-8.9	-8.5	-6.0	-3.3	-5.9	-8.0

Sources: INE, Bank of Portugal, European Commission, OECD, ES Research

Private consumption increased at a real rate of 2%, slowing down when compared to its rise of 2.4% in 2004 but still clearly surpassing the overall growth of economic activity. Consumption rose in tandem with the increase in disposable income while the household savings ratio tended to stabilise at around 10% of disposable income, following its sharp fall in 2004.

The VAT rate was increased in July, from 19% to 21%, also contributing to bringing forward household spending into the first half of the year, particularly durable goods. Although household expenditure lost pace in the second half of the year, this anticipation may have sustained the larger than expected growth of private consumption in full-year 2005. On the other hand, family spending growth was also eased by the persistence of interest rates at historically low levels and the extension of bank loan terms (particularly for mortgage lending). Despite the increase in the average annual unemployment rate (from 6.7% to 7.6% of the working population) and the rise in aggregate indebtedness levels, private consumption still grew by 2%.

Residential mortgage loans are thought to have registered annual growth in the region of 11%, while consumer and other loans kept rising at an annual rate close to 4%.

Gross fixed capital formation was the worst performing of all domestic demand components, suffering a real fall of roughly 2.7%. This negative behaviour extended to all sectors of the economy - particularly bad in the public and business sectors - and to all types of goods, whether consumer, intermediate or capital goods. Although financing conditions were still very favourable, the dull prospects facing the performance of domestic demand, and the rising trend marked by energy goods contributed to the degradation of economic sentiment within the business community and consequently to the postponement of investment decisions. Loans to the non financial sector rose by some 5%.

Likewise, public-sector consumption also contributed to the stagnation of economic activity, with growth dropping from 2.4% to 1%. As in 2004, there was a visible effort to contain public spending, both in terms of goods and services and staff costs – in this case through a policy of moderate wage increases and by keeping the number of civil servants relatively stable. With tax revenues rising 7.5% above the 2006 Budget's execution estimate, the public deficit stood slightly under the Stability and Growth Programme's target of 6% of GDP.

In 2005 the contribution of net external demand to GDP growth was not so negative as it had been in 2004, mainly because imports declined strongly – rising by 2.1% versus 6.7% in 2004 – while exports increased by less than 2%. Slow growth among Portugal's main trade partners, on the one hand, and the fact that unit labour costs remained relatively high, on the other, may explain this situation. The latter is especially relevant now that countries with low labour costs are participating more actively in world trade, producing goods that feature prominently in Portugal's export structure. Growth in exports of services in 2005 fell short of the 2004 figure due to the extraordinary rise in tourism services sales associated with the European Football Championship held in Portugal in 2004.

The combined current and capital account balance registered a significant deterioration in 2005, raising net external financing needs from 5.9% to 8% of GDP. In addition to the structural lack of competitiveness of the Portuguese economy, this also reflects a deterioration of the country's terms of trade following the rise in oil prices.

Notwithstanding the negative impact from the higher VAT rate and despite pressures associated with the rise in energy goods, the consumer price index diminished slightly. Hence, a climate of wage moderation and productive resources utilisation below the economy's potential capacity resulted in a drop in the average inflation rate from 2.4% to 2.3%.

05.
Main Business Areas

5.1
Retail Banking

In 2005 BES consolidated its segmented approach to the Retail banking business aimed at providing an increasingly specialised service to the various customer segments, in accordance with their financial needs, requirements and potential. This triggered the following developments:

• Strengthening the BES 360º concept, which seeks to provide high quality service to the affluent customers;

• Consolidating the approach to the Small Businesses and Independent Professionals segment to reinforce its competitive position in strategic industry sectors;

• Fully redesigning the commercial approach to Mass Market customers to enhance their involvement and loyalty levels.

At the same time, the BES Group's growth strategy emphasised three main lines of action:

• Reinforcing the Assurfinance programme, by fully exploiting the synergies arising from the selling potential of Companhia de Seguros Tranquilidade's insurance brokers;

• Keeping abreast of the market's changing social and economic conditions, devising specific and challenging approaches to University Students, Immigrants and Residential Tourists;

• Restructuring the branch network – following the integration of BIC, the BES brand is the country's third largest network, with 600 branches.

Finally, the Objectives and Incentives System for the bank's commercial areas was revised, aiming at reinforcing its alignment with the Group's strategic goals in terms of profitability, efficiency and market share.

BES 360º - a reference in financial advisory services

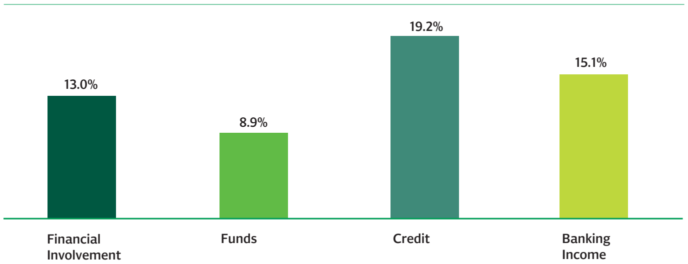
BES 360 service, the commercial approach to Affluent customers (individual customers with sizeable financial involvement) was launched two years ago. The BES 360 service is based on a customer-centric approach. Each customer benefits from the permanent support of a specialised dedicated Account Manager, and an exclusive offer of products and solutions based on high quality standards and guaranteed service levels.

Setting up the BES 360 service implied a large infrastructure investment at various levels. The team of Account Managers was reorganised and given an intense and thorough training programme. In addition, these Account Managers are supported in their daily work by a group of highly skilled consultants in the areas of financial planning and investments. The offer was fine-tuned and extended, and became extremely attractive. Finally, special spaces were set aside in each branch for the exclusive use of BES 360 customers.

In 2005 BES launched the 360º Map, a unique and innovative financial planning tool that allows customers to trace their entire financial life and subsequently map out the best way to achieve their defined financial objectives, resulting in a recommendation concerning the investments that best suit the customer's profile. This is a pioneering service in the Portuguese market, which, while offering huge advantages to the customer, further reinforces BES already strong competencies in the area of financial advisory services. The 360º Map has sparked a great deal of interest and a very good response from the bank's customers: usage of the map has driven up the volume corresponding to BES 360 customers' funds by more than 20%, thus crucially reinforcing BES' position as their main banking relationship.

Since the launch of the BES 360º service, the results obtained in this customer segment have been extremely positive. In 2005, besides an increase in financial involvement, particularly in terms of mutual funds (+24.6%) and pension plans (+25.9%), there was an increasing diversification in these customers' assets. Furthermore, mortgage lending accelerated by 13.8% (in this segment this activity is characterised by very low risk) while the base of loyal customers increased 8.2%, reaching 72,300.

Annual Growth Rate of the BES 360º Business



Small Businesses - winning strategy confirmation

Following the full repositioning of the strategy for the Small Businesses segment (Small Businesses and Independent Professionals) in the second half of 2004, 2005 was a year dedicated to the consolidation of this approach. The results obtained have reinforced BES' contribution to the activity of small Portuguese companies.

There are three key aspects of the commercial approach used:

• Commercial proactivity to attract customers, prompting a 44% increase in customer acquisition levels compared to 2004;

• High attraction capacity – through an offer specifically designed for each of the business sectors defined as strategic (according to the respective volume of funds and level of risk). These solutions (namely the "Accounting Solutions", which were created in collaboration with the Chamber of Official Auditors) were responsible for very significant increases in customer numbers and their financial involvement, while guaranteeing high risk selectivity;

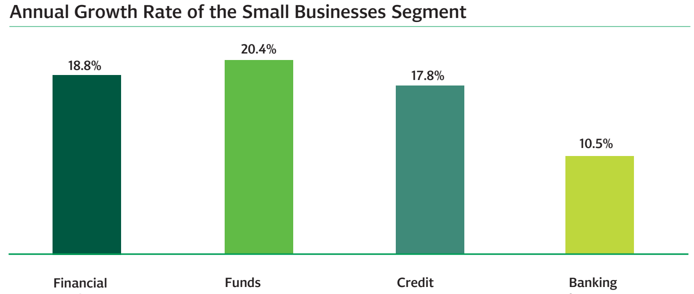
• Innovative offers extended to the entire segment, such as "BES Small Businesses Treasury Accounts" and "BES Small Businesses Plans", which proved an important structuring tool for the segment, driving up the number of products sold to each customer as well as the respective financial involvement and loyalty. As an example, in 2005 the production of life bancassurance products posted a two-fold increase. This strong performance resulted in a 15% rise in the loyal customer base, which totalled 24,800 at the end of 2005.

In addition to its effort to innovate the value proposition, the bank also invested strongly in the development of competencies and tools:

• Intensified training for Account Managers and customer Prospectors, involving four training modules during the year and a total of 600 trainees;

• Enhancement of risk assessment tools so as to guarantee growth based on quality and focused on return; these include pricing tools adjusted to each customer's risk profile, as well as price benchmarks.

Annual Growth Rate of the Small Businesses Segment

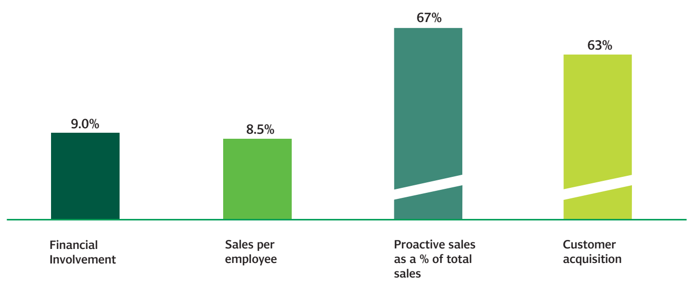


Mass Market Segment - Redesigning the Commercial Approach

After developing projects to streamline the approach the affluent (BES 360) and small business segments, in 2005 BES launched a project to fully redesign its commercial approach to the Mass Market segment. With the purpose of better structuring the value proposition, the marketing role in boosting commercial activity was reinforced, while the network's responsibility for transforming that activity into sales was further stressed. These were some of the main initiatives taken:

- Offers were redesigned for each sub-segment, taking into account the customer's life cycle and launching innovative products – namely a redesigned offer for young people starting their working life (the "18:31" service) and a new BES Junior Plan;
- Reorganisation of proactive contacts with customers (the customer leads) into four programmes, which take into account the cycle of the customer's relationship with BES, using statistic propensity models with predictive capabilities, and integrating the various contact channels;
- Launch of initiatives to attract new customers, including reinforcing the Assurfinance programme as well as the cross-segment programme (which targets the employees of companies that are BES customers);
- Full revision of branches' working tools with the purpose of making them simpler, more flexible and integrated to ensure true customer focus, seamless commercial production, and enhanced proactivity at the frontline;
- Clarification of the functions and priorities of the Commercial Network, namely by placing in each Regional Division a person whose task is to revitalise the segment;
- Implementation of a holistic training programme, which, among others, was attended by all the Regional Managers and Branch Managers and included in-class activities, role plays and direct monitoring in branches. Although most of these initiatives were only implemented after the end of the first half of 2005, the results achieved are already quite significant:
- Customer acquisition levels have increased by more than 60% over 2004, through the effort at branch level, which was leveraged by the Assurfinance channel and the joint actions with the corporate banking area (cross-segment initiatives);
- Customer acquisition levels have increased by more than 60% over 2004, through the effort at branch level, which was leveraged by the Assurfinance channel and the joint actions with the corporate banking area (cross - segment initiatives);
- Financial involvement (credit and funds) increased 9.0%;
- Individual production (sales per employee) grew 8.5%;
- Proactive sales as a percentage of total sales rose 67%.

Annual Growth Rate of the Mass Market Segment



Assurfinance - Birth of the T-World

In 2005 a new phase of the Assurfinance programme – a joint initiative promoted by Banco Espírito Santo and Companhia de Seguros Tranquilidade – was launched, with new initiatives aimed at boosting activity and attracting new customers. The results achieved have surpassed the initial expectations, and a new business model was born within the BES Group. Under this new model, new customers are captured through the network of Assurfinance agents, as a result of closer ties between Banco Espírito Santo and Companhia de Seguros Tranquilidade.

This business model involved a total of 36,400 customers, corresponding to financial involvement in excess of euro 1 billion. In 2005 the network of Assurfinance agents was responsible for attracting 23,000 new customers and for 18.4% of the year's mortgage production (12% in 2004).

The Assurfinance programme's was based on a star product (T-card), a bank card co-branded by BES and Tranquilidade, which offered Tranquilidade customers access to a vast range of advantages combining banking and insurance products. The T-world was backed by a strong advertising campaign, prize draws totalling more than euro 500,000, and the reinforcement of the network of "producing" Assurfinance agents, which nearly doubled, reaching more than 1,000 agents.

University Students, Immigrants and Residential Tourists – New avenues for growth

Consistent with BES' traditional stance of innovating its market approach and growth path, in 2005 specialised commercial approaches were developed to cater for the main social and economic trends emerging in the market, specifically the University Student, Immigrant and Residential Tourist segments.

• University Students: the new value proposition for this segment included the launch of the BES Lounge concept, as well as innovative and distinctive features, namely internships, proposals for university courses, and other specifically designed products. The approach to this segment is supported by protocols with more than 20 universities and backed by a dedicated structure.

• Immigrants: in 2005 BES established a partnership with Banco Bradesco to create a new remittance services (implemented in January 2006) and developed a global specialised approach targeting new residents in Portugal (scheduled for implementation in the first quarter of 2006);

• Residential Tourists: a specific value proposition was designed to address segment offering high value and strong growth potential and to respond to these customers' main needs and financial objectives. This value proposition is backed by a newly-created unit operating in Portugal and in the United Kingdom with the purpose of revitalising the segment.

5.2
Private Banking

The implementation of the strategic guidelines defined for private banking was reinforced, specifically the provision of personalised and high quality financial advisory and asset and planning services, ensuring at the same time high levels of customer loyalty.

Espírito Santo Private follows the best market practices in terms of both offer and management and organisation of the commercial network. The following aspects deserved particular attention in 2005:

- A specific offer designed by the Asset Management Unit guaranteeing the best range of products is available (BES or third parties products) at all times;
- A specific Marketing Unit was created as a fundamental support and to stimulate the commercial network, as well as to define an identity and service standards specifically adapted to this segment;
- In the operational area, service level requirements and circuits were improved and enhanced in order to speed up the response to the customer and make sure that the information provided is transparent and accurate;
- The training of the private banking Account Managers was reinforced and diversified, stressing technical and relational competencies.

The consistent implementation of this strategy resulted in a 19% increase in the financial involvement (credit and funds) of the bank's customer base.

Once a position of leadership had been ensured in the Portuguese private banking segment, a new project in the area of International Private Banking was launched in 2005 to address Portuguese communities abroad as well as the markets with affinities with Portugal. The following main initiatives took place during the year:

- Consolidation of operational organisation and support IT instruments;
- A business model was prepared with the collaboration of some of the representative offices;
- Sales and customer relationship management processes were redesigned, as well as compliance procedures and the Code of Ethics;
- Offer was realigned to reflect consistence within the Group's units involved in the project: Madeira offshore branch, Banco Espírito Santo (Spain) and Espírito Santo Bank (Florida, USA).

5.3
Corporate Banking and Institutional Clients

Corporate Banking and Institutional customers are divided into four sub-segments to better address their specific needs: Middle-market (medium-sized companies with turnover of between euro 2.5 million and euro 50 million), Large Corporations (national companies with turnover of over euro 50 million), International Corporate (multinational companies present in Portugal) and Municipalities and Institutional customers.

Middle Market

The medium-sized companies segment posted a strong performance in 2005 in terms of profitability, quality and risk.

The consistency of this performance is the outcome of the strategy implemented since the creation of an autonomous structure dedicated to the middle market segment in 2001. Strategic guidelines for 2004-2006 focused on six essential elements:

1. Human Resources management: a key driver of differentiation in this segment. This ambitious plan of on-going training and skill development in all technical and behavioural areas was pursued, involving the entire front line: Corporate Centre Managers, Corporate Account Managers, Risk Managers and Commercial Assistants (middle office). This year, an executive coaching programme for Corporate Centre Managers significantly enhanced their competencies in the area of sales force management, boosting motivation and mobilisation

2. Focus on Quality: overall quality is strongly tied to the quality of the Group's human resources, the redesign of processes and customer communication, as well as to the continuous development of the internet banking platform - BESnet Negócios – which is massively used by the active customer base. Regular monitoring of customer satisfaction levels through quality surveys has revealed a steady improvement (85% in 2005; +2 p.p. over 2004 in line with the level of excellence required). BES has revamped 10 Corporate Centres, introducing a new image, a more functional layout and enlarging the areas reserved for meeting with customers.

3. Credit risk management: speed in decision-taking and consistency in the credit policy are values recognised by the customers. The bank has continued to fine-tune its risk assessment tools (rating) and to optimise risk/return tools. These tools have led to an improvement in credit-decision process, leading to a faster and more efficient response, and to improved risk levels and risk adjusted return.

4. Development of products and services: the offer of products and services continued to deserve particular attention with regard to customer satisfaction and loyalty:

- A la card - the first and only meal voucher in the shape of a credit card to be launched in Portugal, used to process employees' meal allowances and the Card Account, which, among other purposes, is used in programmes to foster loyalty among corporate customers and in expense management. Two years after their launch, these products together account for 22,000 cards, twice the number of traditional credit cards in the corporate segment. Pursuing its strategy of innovation, BES also launched the Personal Business credit card, which can be used both as a company card and for personal expenses (charged to the employee's personal account). This card shows strong growth prospects.

•**Specialised credit:**
with leasing and factoring production increasing 17.6% and 11.2% respectively, the Group increased its market share in these business area to 18.1% and 21.2% respectively, remaining second in the ranking for both segments.
•**Renting -** Locarent, a company specialising in vehicle hire and fleet management, placed over 1,200 vehicles in the corporate segment.
•**The Financial Advisory Service and Derivative products,** have brought to medium-sized companies investment banking services and hedging products that were, traditionally, only accessible to large companies. The segment continued to post positive results (revenues in excess of euro 2.4 million in the first full year) demonstrating its strong growth potential. In 2004, a dedicated Banco Espírito Santo de Investimento team was set up to develop Financial Advisory services and another team of traders was created to develop derivative products. Together with the Corporate Managers, these teams identify customer needs and propose the most adequate solutions.
•**Human Resources Solutions:**
life and capitalisation insurance product sales performed well, with production rising by 322% and 84% respectively. Capitalisation products already represent 20% of this segment's total time deposits.
•Increased focus on trade finance and support for the international arm of medium-sized companies. In December, an Electronic Trading Platform was launched allowing customers to perform foreign exchange trading and treasury operations on line and in real time through the BESnet Negócios service.

5. Client Acquisition and Loyalty: establishing and maintaining a database of roughly 3,000 identified potential customers with a good risk profile has proved to be a priceless customer-acquisition tool, leading to the acquisition of 730 new active customers in 2005 (7.5% of the active customer base). In 2005, innovating start-ups deserved special attention and a commercial network was specifically developed for incubators, universities and innovation centres. The existing tools for improving knowledge about customers and their needs continued to help reinforce loyalty levels, namely through cross-selling.

6. Knowing our customers: defining the optimum portfolio size, releasing Corporate Managers for commercial activities and the development of sales support instruments boosted the sales force's capacity for fast and efficient diagnosis. These instruments include the Return/Risk Optimiser (OR2) and the Corporate Account Planning System (CAPS), which provides propensity indicators and allows individual action plans to be defined.

Large National Corporates

The year was characterised by the relative stagnation of economic activity across most of the industry sectors, with a negative impact on productive investment.

Nevertheless, it was possible to increase the financial involvement (credit and funds) of selected economic groups responsible for major projects of national interest, namely in the sectors of renewable energy, road infrastructure, water and sanitation while maintaining adequate profitability and risk control criteria.

The international expansion of Portuguese companies was an area that warranted particular attention and commitment, either directly, or by promoting BES Group's international network with customers developing projects abroad.

The products and services offered are permanently coordinated with other business areas, specifically investment banking, leasing, factoring and insurance, while increasing cross-segment initiatives with the retail banking area.

Subsidiaries and Branches of Multinational Companies

The specialised and dedicated service provided for subsidiaries and branches of multinational companies established in Portugal is designed to respond to their specific needs. The number of multinational companies operating in Portugal in the field of renewable energy (particularly wind energy) and motorway construction and exploitation increased in 2005.

BES Group has gained a significant edge by establishing a bridge between multinational companies (through their subsidiaries in Portugal) and the CPLP markets (community of Portuguese-speaking countries) as well as other emerging African markets.

The trend to increasingly centralise the cash management of multinational companies has continued, improving their financial efficiency while reducing financial involvement and increasing the provision of services at the national market level (renting/leasing/factoring). At the same time, BES has made its offer for this segment more sophisticated through innovative electronic payment means that reinforce customer loyalty.

Municipalities and Institutional customers

This segment is monitored by a specialised department and has boosted the business volume, particularly in the area of funding. Measures taken in this segment include the design of specific banking services solutions to match the administrative modernisation of public institutes and other public bodies such as social solidarity institutions.

At the same time, and bearing in mind the existing restrictions on loans to local government entities, BES Group has also promoted innovative financial solutions for investment projects developed by civil society associations, municipalities or companies in which these municipalities participate.

In the Corporate Banking segment the Group reinforced its commitment to a dynamic cross-segment approach to Private Banking and Retail customers, namely BES 360 customers, resulting in an increasingly coordinated and broader offer of products offered to the staff and partners/shareholders of corporate customers.

Supporting investment and entrepreneurship was another area that merited special attention. The BES Group also focused on the promotion of Investment Support Programmes, organising, together with the various Portuguese Tourism Regions, 20 presentation sessions to divulge its banking protocols to the Portuguese Tourism Institute. As a result its market share grew to account for 55% of the total investment made under these programmes. In a further demonstration of its commitment to economic development, the BES Group also occupies a leading position in terms of the investment made within the scope of the SIME (PRIME) programme (incentives system for corporate and economic modernisation), with a share of 36%.

BES' objective is to play a leading role in the promotion of entrepreneurship and innovation in Portugal. To this end, the BES National Innovation Contest was launched in 2005, which involved a broad group of partners featuring prominently in Portuguese scientific circles.

BES National Innovation Contest

The first edition of the BES National Innovation Contest, an initiative promoted by Banco Espírito Santo in partnership with the Ilídio Pinho Foundation, Siemens and nine of the main Portuguese universities was launched in 2005. The purpose of this contest is to reward and divulge research, development and innovation projects in application areas linked to the country's endogenous resources in order to improve its products, processes or services.

The decision to launch this contest is the result of the positioning and determination of Banco Espírito Santo in the promotion and encouragement of innovation in Portugal, particularly in areas considered of crucial importance to the development of the Portuguese economy. Hence the initiative aims to strongly promote innovation and knowledge, especially when applied to business activities.

The BES National Innovation Contest was opened to projects in five areas, namely renewable energies, health, ocean economy, industrial processes and forestry. The significant number of applications submitted to the contest's first edition – 207 scientific, academic and research projects – justify holding it on an annual basis, while also attesting to the vigour of Portuguese R&D and innovation. Overall, seven projects won prizes, implying an investment by the bank of euro 420 million.

The BES Group has thus consolidated its reference position in Portuguese corporate banking, remaining firmly rooted in the country's corporate fabric, which it continued to support, a position that it intends to maintain and reinforce.

5.4
Investment Banking

On the international front, 2005 brought good investment banking opportunities, notwithstanding the relatively modest growth of the Euro Zone economies.

In Portugal, despite the slow takeoff of economic recovery and the absence of any operations promoted by the State until quite late in the year, the overall performance of investment banking was positive, even if it did rely on private sector initiatives.

In line with its previously defined strategy of diversifying economic risk, BES Investimento continued to focus on internationalisation. Thus, on the international front, the bank pursued the development of its business in Spain, Brazil and the United Kingdom, and expanded its activity to Angola and Poland – two countries with a high growth potential and where customers have shown strong interest.

The technical and commercial skills of BES Investimento were once again internationally recognised by a number of external entities: the Euromoney magazine once again appointed BES Investimento as "the Best equities house in Portugal"; in M&A, the bank led the Mergermarket and Bloomberg league tables for the Iberian Peninsula in number of transactions; and in the real estate sector, BES Investimento was considered by Euromoney "the Best Advisor" and "the Best Investment Bank" in Portugal, ranking in 5th place in the Advisor – Transaction Execution category for Eastern Europe.

In brokerage and research BES Investimento also achieved remarkable successes, consolidating its leadership in Portugal and ranking among the Top 10 brokerage and equity derivatives houses operating in Spain, where it was also considered by the renowned AQ Research as the bank with the best research recommendations on Spanish listed companies.

At the beginning of the year BES Investimento concluded its merger with subsidiary Espírito Santo Dealer, purchasing the entire share capital of the venture capital firm Espírito Santo Capital at the end of the year. In Spain, the bank is taking the final steps to transform BES Investimento, S.A.U., S.V. into a branch.

In October 2005, BES Investimento established a joint-venture with Concordia Sp z.o.o, a company based in Warsaw that specialises in financial advisory services, with the objective of providing investment banking services to its customers, mainly in M&A and Project Finance, in the most important market in Eastern Europe.

During the year the Group took part in sizeable operations in various investment banking business segments.

In **project finance**, the Group played an important role as advisor to various entities in the areas of renewable energies, the environment and real estate, i.e. financing Levante – Energia Eólica, Lda, EOLFLOR – Produção de Energia Eléctrica, Lda., Tratolixo – Tratamento de Resíduos Sólidos E.I.M., and Centro Comercial Estação Viana (Sonae Sierra Group) located in Viana do Castelo.

In the area of **mergers and acquisitions** the Group remained focused on the Iberian and Brazilian markets. The bank was involved in some significant operations, i.e. financial advisor to PT Multimédia (sale of 100% of Lusomundo Serviços, SGPS), Babcock & Brown (acquisition of 89.9% of Enersis) and CTT – Correios de Portugal (acquisition of 100% of Tourline Express, a Catalonian express mail company).

In the Portuguese **equity capital market**, BES Investimento was joint leader in the private placement of Mota-Engil shares, also coordinating the private placement of a block of 45 million shares of the Mota-Engil Group. The bank also acted as joint coordinator and bookrunner in the institutional placements of shares of the Espírito Santo Financial Group and Novabase, and co-led the issue of convertible bonds for Semapa, amounting to euro 158 million.

In Brazil, BES Investimento participated in the primary and secondary offering of preference shares of Ultrapar Participações, was the contracted coordinator of the local tranche of Energias do Brasil's IPO, and also acted as coordinator and joint book-runner in the secondary offering of Bradespar shares.

In the fixed income area, BES Investimento was particularly active in offering interest rate and exchange rate risk hedging solutions to customers in the Portuguese and Brazilian markets, also enjoying a prominent position in several debt issues (bonds, commercial paper and syndicated loans) in these markets. In the Portuguese market, the bank co-led several operations, namely the process involving two issues under Portugal Telecom's medium term notes programme, in the amount of euro 1.5 billion, the public offering for the subscription of bonds totalling euro 18 million launched by Sporting – Sociedade Desportiva de Futebol, SAD, and the private offering for the subscription of bonds launched by Portucel - Empresa Produtora de Pasta e Papel.

In Brazil, Espírito Santo Investment co-led the R$179 million placement of debentures made by Companhia Energética do Rio Grande do Norte, with Banco Bradesco and Banco do Brasil.

The leverage and acquisition finance side of the **structured finance** segment consolidated its position of supremacy in Portugal, while significantly expanding its business in Spain, where the bank acted as lead-arranger in the acquisition finance of Ahold Supermercados S.L., also participating in the staple finance for the sale of the Iberian subsidiaries of Holmes Place UK, and, as lead arranger, in the acquisition of Ausssapol Spa (Italy) by the Portuguese company Selenis. In Portugal, the bank was Mandated Lead Arranger in the acquisition finance of Enersis by Babcock & Brown.

For the **venture capital** business, the internationalisation of the private equity business developed by Espírito Santo Capital started in 2005, though the creation of the SES Iberian I fund (under a partnership with the French venture capital firm SIPAREX). Espírito Santo Capital made four new investments, the most important of which were made through the SES Iberian I fund, specifically in Logi C and Panorama.

5.5
Asset Management

In 2005 Espírito Santo Activos Financeiros pursued its growth strategy in 2005 based on the launch of innovative products and expanding its offer, aligned with market conditions.

Business in Portugal

Following the creation of the new legal framework for Mutual Funds, the investment policies for the funds managed by ESAF were accordingly adjusted. Total assets under management grew strongly in 2005, surpassing euro 3.5 billion on December 31st 2005, a year-on-year increase of 14.3%. The funds managed by ES Estratégia Activa and ES Capitalização Dinâmica were particularly successful, reaching, on aggregate, over euro 372 million.

In March 2005, ESAF was granted the following awards by Standard & Poor's/Diário Económico: Best Global Fund Manager – Domestic Funds, as well as Best Fund Manager – Fixed Income - Domestic Funds, ranking second in the awards for Best Fund Manager – Equities - Domestic Funds.

In Real Estate Funds, the Gespatrimónio Rendimento Fund maintained its absolute leadership in terms of market share, with volume under management exceeding euro 1,410 million at the end of 2005.

In 2005, ESAF broadened its product offering, launching two new closed-end real estate funds: the Espírito Santo Reconversão Urbana and the Espírito Santo Prestige Property. These funds target customers who wish to invest in real estate for a pre-established period of time. The Espírito Santo Reconversão Urbana fund's main objective is to obtain a satisfactory value increase, investing in construction and property rehabilitation projects for resale. As of December 31st 2005 total assets under management for these two funds stood at euro 49 million.

In Pension Funds, assets under management reached euro 2,319 million, a year-on-year increase of 17%. In line with the strategy initiated last year, the focus was maintained on attracting new collective subscriptions to open-end pension funds. In the second half of the year, a new open-end fund was launched – the ES Multireforma Plus – targeting individual customers and small companies.

In line with last year, assets under management by the Discretionary Management business for individual customers grew strongly. Overall, business activity grew 8%, with individual customers' assets under management rising by 41%.

International Business

In Luxembourg, ESAF has four funds under management targeting customers with very different risk profiles. At the end of 2005 total assets under management exceeded euro 1 billion, representing a year-on-year increase of 29%. The ES Fund is made up of nine compartments, allowing the investors to change from one compartment to another and thus adjust their risk profile to new market conditions. Assets managed by the ES Fund reached over euro 500 million in December 2005, an increase of 49.5% versus December 2004.

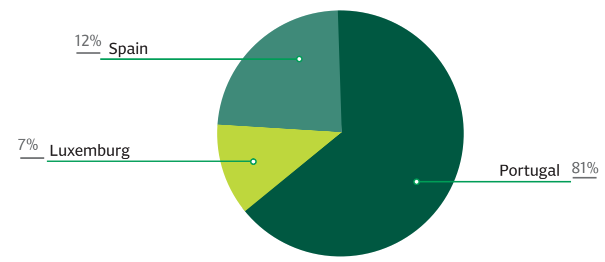
The ES Active Allocation Fund, launched at the end of 2004, targeting individual and institutional customers, was also successful, with assets under management exceeding euro 50 million in December 2005.

The Caravela Fund SICAV, made up of four compartments, has stabilized, with assets under management surpassing euro 450 million at year-end 2005.

The SICAV European Responsible Consumer Fund, whose investments take into account ethical, environmental and social concerns, had surpassed euro 56 million at year-end, corresponding to a year-on-year increase of more than 10%. This fund is sold in Portugal, Spain and Italy.

In Spain, ESAF's global assets under management registered an important increase vs. 2004, to more than euro 1,908 million. The main contributors to this increase were real estate investment funds (+30%) and the discretionary management business (+84%).

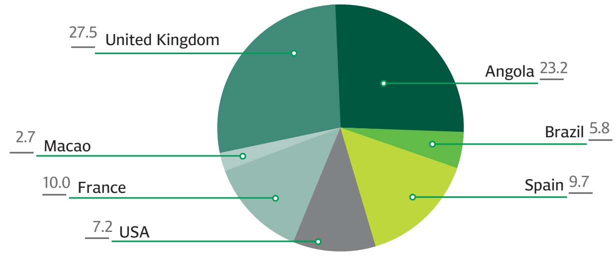
The chart below shows the geographic distribution of assets under management as of 31 December 2005.



5.6
International Presence

The International business has progressed at a good pace, with remarkable performances from the Group's "natural markets", whether destinations for Portuguese emigration or markets with links to Portugal through cultural affinities. BES' expansion in Angola, its business in Spain and its already traditional positions in the United Kingdom, France, US, Brazil and Macao resulted in total net income of euro 86.1 million, contributing 31% of consolidated income (20% in 2004), of which BES Investimento provided euro 14.6 million.

Contribution of the international area to consolidated results (euro million)



Banco Espírito Santo (Spain)

With a presence in Spain since 1989, the Banco Espírito Santo Group focuses its operation in this country on the private banking/affluent segments and corporate banking at Iberian level. Its local presence is composed of 26 branches, strategically located in the main trade and investment centres which have business links with Portugal, and broadly coincide with Spain's major wealth centres.

Assets under management grew robustly in 2005. The development of investment societies for private banking customers (SICAVs) placed the Group 12th in the Spanish ranking, with 92 funds.

BES Angola

BES Angola's strategy is based on the supply of efficient and high value services to large customers and opening new branches in response to its need for greater geographical coverage, and in line with its own growth and profitability prospects. Accordingly, the bank has opened four branches with areas dedicated to corporate and institutional customers as well as affluent customers. Having reinforced its commercial area, and working in coordination with all the units of the BES Group, BES Angola in a position to offer a range of high value services to its customers and support to foreign companies wishing to invest in the country.

BES Vénétie

Banque Espírito Santo et de la Vénétie has its origins in the Société Bancaire de Paris, a bank incorporated under French law in 1945. The present Banque Espírito Santo et de la Vénétie (BES Vénétie) resulted from the merger with Via Banque concluded in April 2002.

The new scope achieved by BES Vénétie has fuelled business growth, and the bank's indicators have considerably improved.

BES Vénétie's strategy focuses on the following main business lines:

• Corporate banking for French companies, specifically those with a presence or wishing to develop their business in Portugal or Spain, and corporate banking for Portuguese companies that wish to invest in France;

• Financial engineering, with a focus on the arrangement or participation in LBO structured finance operations and acquisition finance;

• Financing real estate operations, mainly short-term;

• Acting as the banking partner for the community of Portuguese residents in France who are BES customers in Portugal.

Espírito Santo Bank

Espírito Santo Bank, headquartered in Miami, was purchased by the BES Group in 2000. It specialises in international private banking activities in Latin America, where its main customers are the communities of residents of Portuguese origin. To support its activity in this business segment, the Espírito Santo Bank has a broker-dealer house (Espírito Santo Financial Services) which offers a broad range of investment products in the North-American financial markets. In the domestic market, the bank focuses its lending activity on two main areas: real estate credit, both residential and commercial, and more recently, financing trade finance operations within the scope of Export Credit Agency programmes, namely the U.S. Eximbank.

Banco Espírito Santo do Oriente

The Group is present in Southeast Asia through BES Oriente (Macao). According to its strategic guidelines, the bank provides active support to BES Group customers with interests in the Asian markets, while seizing business opportunities deriving from the region's strong growth, which is supported by direct foreign investment, the growth of internal consumption and exports, as well as by on-going investment in infrastructure. In terms of wholesale banking, BES Oriente's main focus in on the People's Republic of China, more specifically the Special Administrative Region in Macao, where it is based, although never losing sight of other opportunities that may emerge in the region.

London and New York branches

Through its London and New York branches, BES has been present in the world's main international financial centres since the 1980s. These units have made a crucial contribution to the Group's global activity, promoting the BES brand in these major financial centres, ensuring direct contact with markets that are at the forefront of financial innovation and which attract a flow of large international operations, participating in international debt issue programmes, and supporting Portuguese companies doing business in those countries.

In this context, the **London branch's** wholesale banking activity focuses on the European markets, although not exclusively, working in close connection with the other Group units. In the area of international finance, years of doing business in the City of London have given it a high level of specialisation and accumulated know-how which today imply focused intervention at various levels, i.e. as an arranger and underwriter, and in various areas, such as leverage finance and commodities structured trade finance. In addition, and in collaboration with BES Investimento's local team, the London branch also participates in international project finance operations. On the side of fund-raising, we highlight its Certificate of Deposits programme which it sells to institutional investors. Finally, it ensures local support for Portuguese companies, offers remittance transfer services to the community of Portuguese residents in the United Kingdom, and has recently started to offer mortgage loans for foreign residents in Portugal to the affluent segment of British and Irish individual customers.

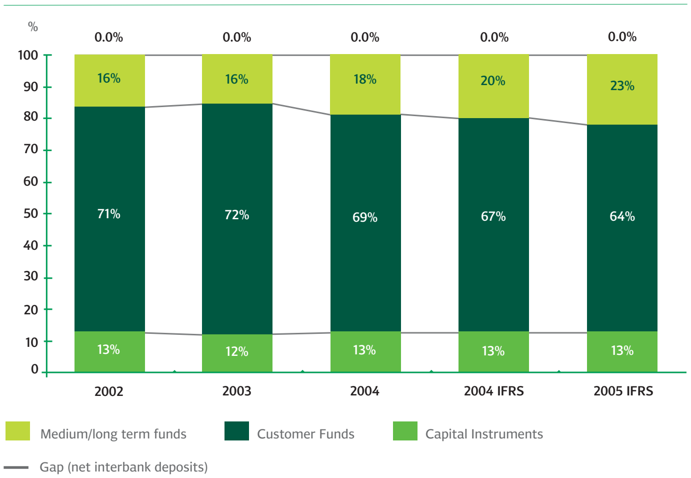
The **New York branch** operates in the North-American and Latin American markets, with a special focus on the US and Brazil. It main business activities are corporate banking for large companies and trade finance, while it also actively participates in the North-American capital markets, and plays an important role in raising liquidity for the bank through its Certificates of Deposits programme.

(1) IGCP: Instituto de Gestão do Crédito Público (public sector credit management institute)

06.
Financial Management and Capital Markets

Within the scope of BES Group's activity and its different business areas, particular importance is attached to attracting customer funds and granting loans. In an era of economic globalisation and sophistication in the banking sector, the capacity to access the financial markets, both domestic and international, has become increasingly important for the Group's financial management. Hence, over the years, the bank has built up a sophisticated structure to support its business activities in the various markets (capital, interbank, derivatives and foreign exchange) in order to benefit from global expectations in economic and interest rate trends, in particular, while at the same time pursuing a prudent liquidity risk management policy. This ability to act in the financial markets has not only served the Group's financial management purposes, but has also been used to improve the services offered to its Customers.

Funding Structure



(*) Treasury gap: cash and deposits with central banks, loans and advances to credit institutions repayable on demand, loans and advances to banks repayable up to one year less amounts owed to central banks and deposits from banks due up to one year.

The Group is actively involved in the international markets issuing hybrid capital, debt (mainly under the Euro Medium Term Notes programme (EMTN)), and executing asset securitisation transactions. In September 2005 BES Group brought to the market its fourth residential mortgage backed securitisation - Lusitano Mortgages No. 4. The transaction was extremely successful, as reflected in the 11bp spread over Euribor of the AAA rated tranche, the lowest ever achieved in Portuguese securitisation transactions.

The internationalisation of the Portuguese public debt market is part of the involvement in the international markets and one of the objectives pursued by the bank. BES Group has been promoting the Portuguese public debt market among international institutional investors. With consistently high daily transaction volumes, BES Group is still one of the reference entities in this market, both as primary dealer and market maker. Its active role as specialised Treasury bond operator (OEVT) was once again recognised by the IGCP , which elected BES the leading financial institution in the treasury bonds market in 2005.

Through proprietary trading, involving both debt securities and derivatives (interest rates, credit and equity), the Group has taken advantage of the prevailing market conditions. The good performance of the equity markets, and in particular, the Brazilian equity market, and increased focus on foreign exchange and interest rate trading in emerging markets, has offset the lower return on interest rate and credit products in traditional markets, namely Europe and the US.

The funding policy is an important part of overall liquidity management, and is defined for all types of liabilities, from customer funding to ordinary and preferred shareholder's equity, including the use of various instruments available on the financial markets.

To implement this policy, the Group uses several funding mechanisms, such as Money Market Facilities and commercial paper programmes (ECP and USCP) for short term funding, and the Euro Medium Term Notes programme (for issuing senior and subordinated debt), credit lines and asset securitisation, for medium and long term funding.

On-balance sheet customer funds represented by deposits and capital guaranteed securities represented 64% of the funding sources, a decrease of 3 pp since last year. The weight of medium and long term funds increased from 20% to 23% of total funding sources, while the contribution from the Group's own funds remained flat at 13%. Through the liquidity management policy implemented over the last few years, the treasury gap has been consistently negative since 2002, representing a liquidity surplus. The short term liquidity surplus is managed at consolidated level, allowing the Group to closely monitor the risk of a possible increase in commercial activity, whereby credit grows at a higher pace than on-balance sheet customer funds.

Several transactions conducted in the international markets contributed to this performance, namely:

• Medium and long term funding obtained, both through new issues of senior debt under the EMTN programme (euro 2,668 million), and through medium and long term loans granted by international financial institutions. Approximately 50% of the overall amount issued under the EMTN programme was placed through public issues in the international markets at traditional 3 and 5-year maturities. The remainder was executed through private placements, at various maturities (10 and 30 years) and with different structures. These funds exceeded by euro 2,477 million the amounts reimbursed during the year, raising the relative weight of medium and long term market funds compared with the previous year;

• The securitisation transaction of residential mortgage loans (RMBS) amounting to euro 1,200 million executed in September 2005 (Lusitano Mortgages No. 4) contributed significantly to maintaining a short-term liquidity surplus at the end of the year;

• The issuance of a privately placed subordinated loan in 2005, totaling euro 247 million (equivalent) at year-end.

As in most of the major international financial groups, BES Group owns a company specialised in raising funds in the international markets, located in a financial centre where investors benefit from a tax-neutral system. BES Finance, Ltd. is based on the Cayman Islands, and was established in 1997 with ordinary share capital fully subscribed by BES.

In February 1997 BES Finance set up a Euro Medium Term Notes Programme (EMTN), which is updated every year through the respective Offering Circular. The EMTN allows the issuance of senior or subordinated notes up to a nominal aggregate amount of euro 10 billion.

Currently, and in addition to BES Finance, BES and its branches in the Cayman Islands and Madeira can also issue debt under this programme. These bonds, which can be issued in any currency and at any maturity, are guaranteed by BES, acting through its London branch, and listed on the Luxembourg Stock Exchange. Senior bonds issued under the EMTN programme and outstanding as of December 31st 2005 totalled euro 6,622 million. Subordinated bond issues totalled euro 1,742 million at the end of 2005.

In July 2003, BES Finance issued preference shares for the first time. These totalled euro 450 million and were guaranteed by BES acting through its London branch - they were placed with European institutional investors and are listed on the Luxembourg Stock Exchange. At the end of the first quarter of 2004 the issue was increased by euro 150 million, totalling euro 600 million at the end of 2005.

Funding Sources

euro million

	2002	2003	2004	IFRS 2004	IFRS 2005
Gap (net interbank deposits)(*)	**(927)**	**(3,125)**	**(2,731)**	**(2,736)**	**(2,932)**
Cash and Equivalent with credit institutions	7,405	8,377	6,970	7,000	7,139
Short term deposits from credit institutions	6,478	5,252	4,239	4,264	4,207
Medium/long term funds	**5,464**	**5,783**	**7,532**	**7,518**	**9,994**
Euro Medium Term Notes	4,234	4,493	5,513	5,499	7,252
Medium and long term deposits with credit institutions	1,230	1,290	2,019	2,019	2,742
Customer Funds	**23,676**	**26,477**	**27,515**	**25,110**	**27,873**
Capital Instruments	**4,246**	**4,492**	**5,064**	**4,622**	**5,398**
Total	**32,459**	**33,627**	**37,380**	**34,514**	**40,333**

(*) Treasury gap: cash and deposits with central banks, loans and advances to credit institutions repayable on demand, loans and advances to banks repayable up to one year less amounts owed to central banks and deposits from banks due up to one year.

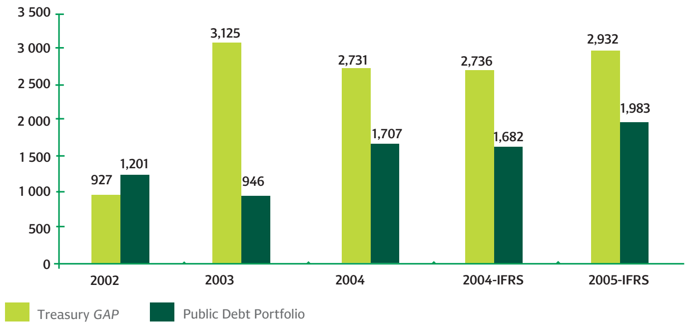
This prudent liquidity management policy, based on the diversification of the funding sources and the extension of the maturity profile, has allowed the Group to maintain short term liquidity surpluses since 2002. At the end of 2005 the short term liquidity surplus accounted for 5.84% of total net assets.

Liquidity Gap (as % of Net Assets)

The portfolio of public debt securities provides an additional source of liquidity, either through rediscounting with the Central Bank or through access to the repos market.

Public Debt Portfolio vs Liquidity Gap

euro million



Ratings assigned to Banco Espírito Santo

The ratings assigned to Banco Espírito Santo by the international rating agencies reflect the bank's financial strength, driven by its successful organic growth strategy.

Agency	Long Term	Short Term	Outlook
Standard & Poor´s	A-	A2	Stable
Moody's	A1	P1	Stable
Fitch	A+	F1	Stable

Standard & Poor's: A- for medium and long term debt and A-2 for short term debt. The rating is based on BES Group's strong competitive position in retail, its adequate profitability based on operating efficiency as well as a more balanced funding structure and asset quality.

Moody's: A1 for long term debt and P1 for short term. The rating reflects the Group's strong and diversified positioning in the domestic market and its financial strength.

Fitch Ratings: A+ for long term debt and F1 for short term debt. The rating is based on BES Group's strong positioning in the domestic market, its asset quality, low risk profile and adequate solvency and profitability levels.

07.
Risk Management

7.1
The Risk Function within BES Group

Efficient risk management and control has played a fundamental role in the balanced and sustained growth of the BES Group. Marrying the regulatory vision with the economic perspective implicit in the new regulatory framework proposed by the Basel Committee - whose principles corroborate the Group's rationale and practices – creates new opportunities and provides a stimulus for the effort being made in the risk area.

The definition of the objective risk profile is part of the responsibility of BES' Executive Committee, for which it establishes global and specific limits. Its responsibility also includes establishing general principles of risk management and control, and ensuring that the BES Group has the necessary competencies and resources for the purpose.

At a more specialised level, the Risk Committee is responsible for monitoring the evolution of the Group's integrated risk profile, and for proposing methodologies, policies, procedures and instruments to deal with all types of risk incurred by the BES Group. The Risk Committee holds monthly meetings, which are attended by the Chairman of the Executive Committee.

The Risk Function of the Banco Espírito Santo Group, at both domestic and international level, is centralised in the Global Risk Department and covers various types of risk (credit, market, liquidity, balance sheet, interest rate and operational).
Its functions are:
• To identify, assess and control the different types of risk, thus ensuring the management of the Group's overall exposure;
• To implement the risk policies outlined by the Executive Committee, harmonizing principles, concepts and methodologies across the Group;
• To contribute to the achievement of BES Group's value creation objectives, by fine-tuning tools to support the structuring and pricing of operations, as well as the respective decision-taking process, and by developing internal techniques of performance assessment and core capital optimisation;

7.2
Credit Risk

Credit risk is the potential financial loss arising from the failure of an obligor or counterparty to honour its contractual obligation.

7.2.1
Management Practices

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the management of risk during the various stages of the credit process. This approach is complemented by the continuous improvement of methodologies and risk assessment and control tools, as well as in procedures and decision circuits.

Internal risk rating systems

In line with the BES Group's objectives in the field of credit risk management and with the guidelines of the New Capital Accord, internal rating systems have been consistently developed and fine-tuned. Throughout 2005, all the rating and scoring models developed in previous years were already is full use, while specific rating models were created for the Brazilian market, with a view to obtaining coverage of all the Group's portfolios. These models now play a key role, not only in the technical analysis of risk, but also in the credit risk approval and monitoring processes.

Internal rating systems fall into two broad categories according to their specific characteristics of development and use:

• **Internal Rating Models for Corporate Credit Portfolios**
Corporate Credit portfolios are approached differently, according to customers and/or transaction size and industry sector, using different models specifically adapted to project finance, leveraged finance and real estate.

For the middle-market segment (medium-sized companies) the Group uses statistical rating models, which combine financial information with qualitative data. The disclosure of risk ratings requires a previous validation by a team of risk analysts, who also take into account behavioural factors and express their opinion on the proposed operations.

In the small business segment, ratings are determined not only on the basis of financial and qualitative analysis, but also according to the track record of the company and its partners.

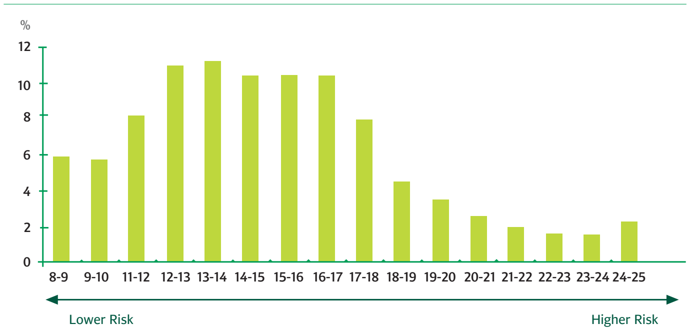
For Large Companies, Institutional Customers, Financial Institutions, Municipalities and Specialised Finance (i.e. project and leveraged finance) credit ratings are assigned by a rating board. This unit is structured by industry sectors and run by highly specialised credit analysts. To assign internal risk ratings, this team uses models that include quantitative and qualitative variables that are strongly linked to the industry sector in question, with benchmarks aligned to those used by one of the main international rating agencies.

Rating models were also specifically designed and implemented to quantify the risk inherent to the financing of start-ups (companies in business for less than 2 years) and real estate projects and companies. In this last case, the models are applied by a specialised team, using quantitative and technical, as well as and qualitative variables.

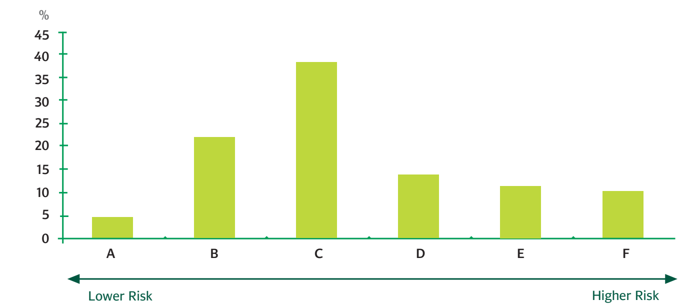
As in 2003 and 2004, our technical risk analyst teams were even further reinforced in 2005 achieving an exposure coverage level of approximately 80%.

Credit Portfolio breakdown by risk rating

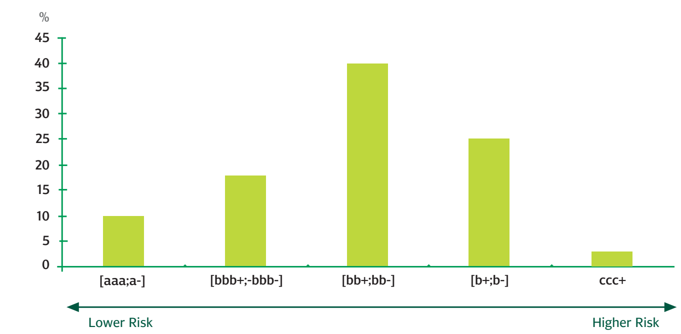
Rating model for middle market: domestic business



Scoring model for small businesses: domestic business



Rating model for large corporates: domestic business



• Internal Scoring Models for Individual Customers' Credit Portfolios

The BES Group uses origination and behavioural scoring models for the main products offered to its individual customers - mortgage loans, consumer loans, credit cards, overdrafts and loan accounts – whose ratings are calibrated to a probability of default within one year. The models' predictive capacity is subject to regular monitoring.

Besides estimating the probability of default, the Group also regularly monitors other parameters required for risk quantification and management, namely Loss Given Default (LGD) and Exposure at Default (EAD). Adequate knowledge of these parameters will support the Group's application to use the Internal Ratings-Based approach (the IRB approach) envisaged in the new regulatory capital requirements framework (Basel II).

Loan granting

In accordance with the objectives established for 2005, and continuing the initiatives taken in previous years, the global project of revising and adapting the credit granting process in the various commercial segments was implemented, with a view to the increasing integration of internal ratings and risk-adjusted return metrics in the credit decision process.
In 2005, and after a trial period, scoring classifications were incorporated into the definition of credit powers at the various decision-taking levels (in terms of both amount and pricing) of the Small Businesses segment and for mortgage lending. This was a significant step forward, only made possible by the full redesign of the credit process in 2004, which established the respective methodologies for credit analysis, evaluation and approval.

Credit risk monitoring

The monitoring and control activities aim to quantify and control credit risk, in order to allow early definition and implementation of specific measures to deal with specific situations indicative of a deterioration of risk, as well as to outline global strategies for credit portfolio management.

Subject to this principle, and with the aim of preserving BES Group risk quality and standards, the credit risk monitoring function and its development are still one of the Group's top priorities.
This function comprises the following processes:

• Detecting warning signals and monitoring customers

In addition to the rating/scoring models, and in conjunction with the Credit Impairment Project, BES Group has been implementing a risk monitoring system supported by mechanisms to detect the multiple warning signals suggesting impairment indications.

On the basis of this warning signal system and on the frequency, severity and correlation of these signals the exposure of customers whose risk profile shows symptoms of deterioration is periodically identified, analysed and quantified, and strategic options considered with regard to the bank's commercial relationship with these customers (i.e. "demobilise", "reinforce guarantees", "reduce exposure"). The system also permits the bank to determine the level of active vigilance justified by and best suited to the customer's profile and the real situation of the entity under to analysis.

The powers mentioned above are held by the Committee for Credit Risk Analysis. This committee holds several meetings during the year which are attended by representatives from all the commercial structures. The meetings' conclusions are periodically reported to the Risk Committee and the Executive Committee.

• Control of credit limits

The limits approved by the Executive Committee for the bank's portfolios are monitored at central level by the Global Risk Department. Within the scope of the overall risk policy, additional limits were defined in 2005 for higher risk products and industry sectors.

• Global analysis of the risk profile of credit portfolios

The risk profile of BES Group's credit portfolios is analysed on a monthly basis by the Risk Committee. In these monthly meetings the Committee monitors and analyses the risk profile of the BES Group and its respective business units from four main angles: evolution of credit exposure, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

The Recovery Process

The recovery process follows a different path depending on whether it applies to loans to individuals or to corporate customers.

• Loans to individuals

The default is detected directly when an amount is charged to a customer's account: failure to pay that amount immediately triggers the necessary steps for recovery, including legal action.

• Loans to corporate customers

In the corporate credit business, defaults are detected through on-line information systems. During the first ninety days of default, branches monitor the contract and take action for recovery; after that period, the responsibility for recovery is transferred to the Company Monitoring and Credit Recovery Department. Legal procedures are the responsibility of the Legal Department.

7.2.2
Credit risk analysis

As of December 31st 2005 BES Group's loan portfolio showed a year-on-year increase of 12.9%.

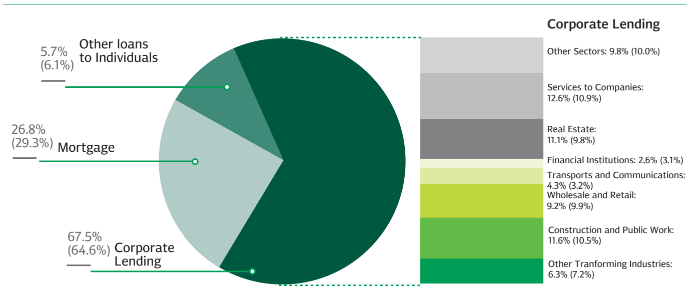
Credit Portfolio euro million

	2004 IFRS		2005 IFRS		Change. %	
	Excluding Securitisation	Including Securitisation	Excluding Securitisation	Including Securitisation	Excluding Securitisation	Including Securitisation
Loans to Customers (gross)	**28,487**	**31,398**	**31,662**	**35,451**	**11,1**	**12,9**
Mortgage	8,338	11,249	8,481	12,270	1,7	9,1
Individuals (others)	1,726	1,726	1,802	1,802	4,4	4,4
Corporates	18,423	18,423	21,379	21,379	16,0	16,0

The performance of the loan portfolio reflects, on the one hand, an approach to the individual customer segment focused on growth in low risk products, mainly residential mortgages (annual increase of 9%), and also a selective approach to the Corporate segment, supported by the Group's strong track record in the sector, particularly in the middle-market area.

In accordance with its policy of diversifying its corporate loan portfolio, in 2005 the BES Group once again, ensured that concentration levels remained within prudent limits, in terms of both highest individual exposure (by economic group) and industry sector.

Corporate loans breakdown by Industry sector (balance sheet values)



( ) December 2004 (IFRS)

Quality of the Loan Portfolio

The risk profile of the bank's loan portfolio improved significantly in 2005: the ratio of overdue loans over 90 days to total loans was reduced to 1.33% (1.64% at the end of 2004), while the respective provision coverage rose 31.3 p.p. to 196.6%.

Loan Portfolio – Quality Indicators

	PABS	IFRS		
	Dec 04	Dec 04	Dec 05	Change. abs.
(euro million)				
Loans to Customers (gross)	28,088	28,487	31,662	3,175
Overdue Loans	547.8	552.9	488.1	-64.8
Overdue Loans > 90 days	462.1	467.3	422.1	-45.2
Overdue and Doubtful (B.Portugal)[(a)]	567.1	572.3	564.3	-8.0
Credit Provisions	772.4	772.4	829.9	57.5
(%)				
Overdue Credit / Loans to Customers (gross)	1.95	1.94	1.54	-0.40 p.p
Overdue Loans > 90 days/ Loans to Customers (gross)	1.65	1.64	1.33	-0.31 p.p
Overdue and Doubtful Loans(a) / Loans to Customers (gross)	2.02	2.01	1.78	-0.23 p.p
Coverage of Overdue Credit	141.0	139.7	170.0	30.3 p.p
Coverage of Overdue Credit > 90 days	167.1	165.3	196.6	31.3 p.p
Coverage of Credit and Doubtful Loans	136.2	135.0	147.1	12.1 p.p

(a) According to Circular-Letter nº 99/03/2003 of the Bank of Portugal.

This positive performance results from a strict credit granting policy, supported by the Group's internal rating and scoring systems and by selective and systematic risk mitigation instruments. Credit recoveries in 2005 should also be highlighted.

Together, these factors resulted into a reduction of euro 64.8 million in overdue loans, and an increase of euro 57.5 in credit provisions, which were allocated based on impairment value and an evaluation of the economic value of these loans.

Credit Impairment in 2005 euro million

	Gross Amount	Weight (%)	Impairment	Provisions (%)
Loans with no impairment	28,307	89.4%	234,3	0.83%
Loans under observation	2,791	8.8%	146,9	5.26%
Overdue and Doubtful Loans[(a)]	564	1.8%	448,6	79.54%
Total Gross Loans	**31,662**	**100.0%**	**829,9**	**2.62%**

(a) According to Circular-Letter nº 99/03/2003 of the Bank of Portugal.

b. Bond Portfolio (counterparty risk)

At year-end 2005 circa 36% of the Group's bond portfolio corresponded to public debt securities. The portfolio's risk profile improved considerably during the year, as shown in the table of external ratings below.

Bond portfolio: rating distribution

External Ratings		S&P 2004	S&P 2005	Moody's 2004	Moody's 2005
AAA	Aaa	16.8%	16.1%	17.0%	17.0%
[AA+;AA-]	[Aa1;Aa3]	13.5%	22.1%	14.2%	34.9%
[A+;A-]	[A1;A3]	6.8%	30.8%	8.5%	20.8%
[BBB+;BBB-]	[Baa1;Baa3]	10.0%	7.1%	7.7%	5.9%
[BB+;BB-]	[Ba1;Ba3]	0.2%	0.8%	0.1%	0.6%
[B+;B-]	[B1;B3]	0.0%	0.1%	0.1%	0.0%
[CCC+;CC]	[Caa1;Ca]	0.0%	0.0%	0.0%	0.0%
SD/D	C	0.0%	0.0%	0.0%	0.0%
N.R.	N.R.	52.7%	23.0%	52.4%	20.8%
Total		**100.0%**	**100.0%**	**100.0%**	**100.0%**

Its derivatives credit risk, calculated in accordance with the replacement cost (sum of the transactions' positive replacement values), arises mainly from exposure to entities rated by international rating agencies. The soundness of this portfolio is evidenced by the fact that 71% of current exposure has a rating between AAA/Aaa and A-/A3.

c. Exposure to emerging markets

Emerging market exposure is low: net exposure accounts for 3.6% of consolidated assets. Moreover, of the Group's net exposure of euro 1,788 million, euro 405 million correspond to foreign currency exposure.

We highlight the following exposure to emerging markets:

- Net exposure to Brazil increased by euro 613 million, of which euro 442 million derived from the valuation of the Group's shareholdings in Banco Bradesco and Bradespar and the remainder related to BESI's business growth in this country;
- Exposure to Angola increased by euro 242 million relating to BES Angola's business growth in this market.

Both overall and individual exposure is considerably below the maximum limit permitted by the Bank of Portugal.

Exposure to emerging markets

euro million

Countries	Bank of Portugal Risk Weight	Dec 04 Net Exposure PABS	Dec 04 Net Exposure IFRS(*) Total	Dec 04 Net Exposure IFRS(*) in foreign currency	Dec 05 Gross Exposure	Dec 05 Garanties and Deductions (**)	Dec 05 Net Exposure Total	Dec 05 Net Exposure in foreign currency	Dec 05 Structure
LATIN AMERICA		**322**	**652**	**99**	**1 501**	**182**	**1 319**	**169**	**74%**
Argentina	50%	2	2	2	0	0	0	0	0%
Bahamas	10%	3	3	3	46	30	16	17	1%
Brazil	10%	243	573	20	1,247	61	1,186	36	66%
Mexico	10%	9	9	9	66	52	14	13	1%
Panama	10%	64	64	64	101	7	94	94	5%
Venezuela	50%	0	0	0	20	17	3	3	0%
Other		1	1	1	21	15	6	6	0%
Eastern Europe		**4**	**4**	**4**	**9**	**0**	**9**	**9**	**1%**
Romenia	10%	2	2	2	2	0	2	2	0%
Russia	10%	2	2	2	4	0	4	4	0%
Ucrania	25%	0	0	0	3	0	3	3	0%
Other		0	0	0	0	0	0	0	0%
ASIA - PACIFIC		**27**	**27**	**21**	**47**	**3**	**44**	**30**	**2%**
South Korea	10%	4	4	4	0	0	0	0	0%
India	10%	4	4	4	5	0	5	5	0%
Macao	10%	17	17	11	38	0	38	23	2%
Turkey	25%	1	1	1	0	0	0	0	0%
Other		1	1	1	4	3	1	2	0%
AFRICA		**144**	**162**	**31**	**576**	**160**	**416**	**197**	**23%**
South Africa	25%	1	1	0	23	22	1	0	0%
Angola	50%	134	134	22	445	69	376	188	21%
Cape Verde	25%	1	1	1	36	36	0	0	0%
Morrocco	10%	8	26	8	68	31	37	8	2%
Other		0	0	0	4	2	2	1	0%
TOTAL		**497**	**845**	**155**	**2,133**	**345**	**1,788**	**405**	**100%**
% NET ASSETS		**1.1%**	**2.0%**	**0.4%**			**3.6%**	**0.8%**	

(*) Includes available for sale assets that were previously excluded since were considered, under PABS - previous accounting methodology -, as investments.
(**) Includes Trade Finance under 1 year and amounting euro 50 million, IFC B Loans amounting euro 20 million and other tax exempt transactions amounting euro 16 million.

7.3 Market Risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share prices or the price of goods.

7.3.1
Management Practices

Market risk management is linked to balance sheet management through the Assets and Liabilities Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for controlling exposure to interest rates, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which Value at Risk (VaR) valuation criteria is used. BES Group'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 the VaR assessment, other initiatives have been developed, namely back testing, which consists of comparing the losses foreseen by VaR with actual losses. These exercises allow the model to be fine-tuned and its prediction capacity improved.

As a complement to the VaR model, stress testing is also carried out - allowing the Group to assess the impact of higher potential losses than those considered using the VaR valuation.

7.3.2
Analysis of Market Risk

Consolidated value at risk (VaR) in December 2005 (relating to trading positions in equities and interest rate instruments, as well as FX positions) totalled euro 34.4 million, which compares with euro 14.2 million at year-end 2004.

This value (euro 34.4 million) corresponds to 1.5% of the Group's consolidated Tier I capital.

Value at Risk 99% 10 days

	Dec 04	Dec 05
Equity	10.8	3.9
Fixed Income	7.6	31.9
FX	2.1	7.4
Diversification Effect	-6.3	-8.8
TOTAL	**14.2**	**34.4**

As a complement to risk measurement, simulated extreme scenarios are also analysed. The analysis of worst case scenarios, based on 20% change in risk factors, and assuming the remote possibility of a perfect correlation between the worst possible scenario for the various categories of risk, determines that the maximum loss in a VaR of euro 34.4 million could, under in the most extreme conditions, reach euro 171.3 million or 7.3% of consolidated Tier I Capital.

VaR versus worst case scenarios

	2004		2005			
	Extreme Scenario	% Tier I	Value at Risk	% Tier I	Extreme Scenario	% Tier I
Equity	62.2	2.7%	3.9	0.2%	15.2	0.6%
Interest Rate	25.5	1.1%	31.9	1.4%	123.8	5.3%
Exchange Rate	10.3	0.4%	7.4	0.3%	32.3	1.4%
TOTAL	**97.9**	**4.2%**	**34.4**	**1.5%**	**171.3**	**7.3%**

7.4
Interest Rate Risk

Interest rate risk may be defined as the impact on shareholders' equity or net interest income of an unfavourable change in market interest rates.

7.4.1
Management Practices

Given its importance to the BES Group, interest rate risk is monitored by the Assets and Liabilities Committee (ALCO) through the monitoring of net interest income and using repricing tables.

7.4.2
Analysis of Interest Rate risk

In accordance with Basel II (Pillar 2) recommendation and Bank of Portugal Instruction 19/2005, the Group's exposure to interest rate risk is calculated on the basis of Bank of International Settlements (BIS) methodology, classifying all Assets, Liabilities and off-balance sheet items, excluding those from trading, using repricing schedules. The model used is similar to the duration model, using a stress testing scenario corresponding to a parallel movement of 200bp in the yield curve for all interest rate levels.

Interest rate risk measurement basically consists of determining the effect that of change in interest rates on an institution's shareholders' equity and annualised net interest income. In December 2005 interest rate risk, measured as its impact on BES Group's shareholders' equity, was euro 399 million, which compares with euro 460 million at year-end 2004.

7.5
Liquidity Risk

Liquidity risk derives from the potential incapacity to fund assets while satisfying commitments on due dates and potential difficulties in liquidating positions in the portfolio without incurring in exaggerated losses.

7.5.1
Management Practices

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 on-going basis.

7.5.2
Analysis of Liquidity Risk

Liquidity risk is analysed from a two-fold perspective, i.e., it considers both the internal perspective and the regulatory perspective.
Internally, the existing procedures are considered adequate to monitor, on the one hand, the evolution of liquidity on a daily basis (responsibility of the Treasury area of the Financial Department), and the evolution of liquidity in the medium/long term (analysed at meetings of the ALCO).
From a regulatory standpoint, the liquidity ratio calculated in accordance with Bank of Portugal rules was 107% at the end of 2005, which compares with 109% at the end of 2004.

7.6
Operational Risk

Operational risk represents the risk of losses or of a negative impact on the relationship with the customers or other shareholders, resulting from inadequate or negligent application of internal procedures, staff behaviour, information systems or external events. Operational risk also includes business/strategic risk, i.e., the risk of losses thorough fluctuations in volume/business, earnings/prices or costs.

Legal risk is also included in the above definition. Legal risk represents the risk of losses arising from non compliance with regulations in force (due to inadequate document retention, failure to change processes as required by new legislation and/or differences in the interpretation of the law) or resulting from legal action.

To manage operational risk, BES Group implemented a system that standardises, systematises and regulates the frequency of actions viewing the identification, monitoring, control and mitigation of this risk, thus ensuring compliance with the recommendations of Bank of Portugal Instruction 72/96 (last updated in June 2005), which is backed by the Basel Committee on Banking Supervision documentation.

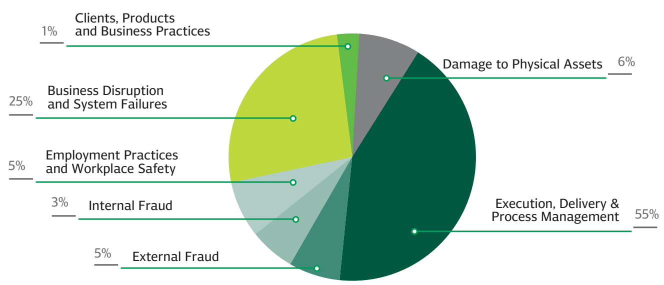
Risk sources are **identified** through self-assessment exercises, the discussion of processes in work sessions and through the qualitative and quantitative analysis of actual or potential events. Other available data, such as detected failures in audits or customer complaints, are also used as sources of information. Knowledge about the main weaknesses of an area of responsibility or process is used to define mitigation actions, essentially of a preventive nature.

Monitoring processes using indicators on activities that are potential generators of operational risk events allows the Group to take action (preventive and corrective mitigation action) to prevent the occurrence of such events or their recurrence.

In order to take immediate action with a view to launching an attempt to recover a given amount, it is essential to categorise each event according to a specific type, investigate its respective causes and know which areas of responsibility are involved. These actions also permit the definition of corrective mitigation measures intended to prevent the recurrence of such events. Situations that never materialise as events (usually called "near misses") are also an important source of information. The categorisation of events according to a scale of frequency and severity, combined with the information collected through self-assessment exercises, allows the Group to grade mitigation actions and to adequately plan their implementation.

Through the seamless application of this cycle of identification, monitoring, control and implementation of corrective and preventive action, combined with good practices in the area of business continuity management, and the management of outsourced processes and insurance – all of which contribute to risk mitigation – the organisation is in a better position to deal with operational risk.

Breakdown of operational risk events by type of loss (2005)



The conclusions reached through the application of these methodologies are reported to direct supervisors as well as to other areas involved in the process, namely:

- Management of the Internal Control System, because of its important role in guaranteeing that the processes are well documented, as well as detecting specific risks and verifying the controls implemented, ascertaining the rigour of control design and identifying required steps for improvement;
- Internal Audit, for its role in testing the efficacy of controls, as well as identifying required steps for improvement and assessing their implementation.

This management system is supported by an organisational structure that includes an area of the Global Risk Department - the Operational Risk Central Division - which is exclusively dedicated to the system's design, monitoring and maintenance, and appointed representatives from each of the Group's departments and subsidiaries, responsible for guaranteeing that the established procedures are applied and for the daily management of operational risk in its areas of responsibility.

A detailed description of this support organisational model and methodologies is included in the Manual for Operational Risk Integrated Management.

7.7
The New Capital Accord

BES Group fully recognises the challenges and opportunities that arise from application of the New Capital Accord, not only for the bank itself but for the financial system as a whole. Marrying regulatory vision with the economic perspective implicit in the new regulatory framework proposed by the Basel Committee - whose principles corroborate the Group's rationale and practices – creates new opportunities and constitutes a stimulus to the effort made over the last few years in the area of Risk Management.

After an analysis was made in 2003, the BES Group set a target to adopt the IRB Foundation approach for Credit Risk and the Standardised Approach for Operational Risk. To this end, the Group launched the Basel II Project for 2004-2006, which entailed a large investment in the development of technical platforms and reinforcing human resources competencies. This project has a strong business/risk and systems consultancy component.

One of the main priorities of the Basel II Project was to consolidate the development and the fine-tuning of internal risk analysis models, in particular risk rating systems. At the same time, there major developments in information systems were required, which included centralising information and improving the quality and consistency of information management. Finally, the introduction of risk metrics and criteria in the day-to-day decision-taking processes was reinforced. To this end, management practices, policies and procedures had to be adapted in order to ensure that risk assessment has a greater impact in the decision taking process, either at the origination stage or for performance analysis.

All the methodologies, practices, policies and procedures developed were implemented in a consistent manner across BES Group's branches and subsidiaries to standardise risk management and global and sustained growth.

In the last quarter of 2005 the BES Group participated in the Fifth Quantitative Impact Study (QIS5). This initiative, which aims to determine the approximate quantitative impact of the New Capital Accord on the financial system, has allowed BES Group to assess the potential impact on its own regulatory capital requirements, as well as assess how prepared it is for application of the Accord. The activities developed within the scope of the Basel II Project will prepare the Group for the New Capital Accord coming into force in January 2007.

08.
Financial Analysis

Prior Note to the Analysis of BES Group Activity and Results

European Council and Parliament Regulation 1606/2002 of July 19 2002 determines that companies with securities admitted to trading on a regulated market of any Member State should prepare their consolidated accounts for each financial year starting on or after January 1 2005 in accordance with the International Financial Reporting Standards (IFRS), also known as International Accounting Standards (IAS). After this regulation was transposed into Portuguese national legislation, the Bank of Portugal, through Notice 1/2005, established the standards and reporting model for the entities subject to its supervision.

Bearing in mind that BES is subject to these rules and regulations the consolidated financial information relative to the 2005 financial year was prepared based on IFRS.

On the other hand, and also deriving from the change in accounting regulations, the financial statements of the BES Group for the 2005 financial year (prepared in accordance with the IFRS/IAS) are not directly comparable with the financial statements disclosed in the course of 2004, which had been prepared based on the Portuguese Plan of Accounts for the Banking System (PABS), as set out in the Bank of Portugal's instructions 4/96 and 71/96.

Hence, for purposes of comparability, and in line with the recommendations of the Committee of European Securities Regulators (CESR) and the Portuguese Securities Market Commission (CMVM), the BES Group has restated its financial statements for financial year 2004 based on application of the IAS/IFRS with the exceptions, as permitted by IFRS 1, of comparable information that would arise from application of IAS 32 and IAS 39.

(1) IFRS: International Financial Reporting Standards
(2) IAS: International Accounting Standards
(3) CESR: Committee of European Securities Regulators

8.1
Financial Analysis of BES Group

For the Banco Espírito Santo Group, 2005 was marked by strong business growth, with a 16% increase in total assets to euro 72 billion. Net income for the year reached euro 280.5 million, a rise of 85% versus 2004 under IFRS (euro 151.6 million).

- The economic environment in Portugal, characterised by sluggish or even stagnant growth, combined with rising unemployment;
- Strong competition in the banking sector throughout the year;
- Several far-reached restructurings within the BES Group, e.g. the merger by incorporation of BIC, which was completed in four months;
- Changes to the regulatory framework adopted in 2005 (IFRS).

8.1.1
Activity

The BES Group reported strong commercial activity in its main business areas in 2005:

- Total consolidated assets, including off-balance sheet assets and liabilities, reached euro 72 million, an overall year-on-year increase of 16%;
- Lending (including securitised loans) grew by 13%;
- Total customer funds rose 12%.

This performance was strongly marked by the acquisition of 120,000 new individual customers (67,000 in 2004) and 730 corporate customers, significantly higher numbers than in 2004.

Activity Growth euro million

	PABS	IFRS		
	2004	2004	2005	Chg %
Total Assets[1]	**64,734**	**61,603**	**71,687**	**16.4**
Assets	**45,901**	**43,052**	**50,222**	**16.7**
Loans to Customers (includes securitized)				
Loans to Individuals	12,975	12,975	14,072	8.5
- Mortgage	11,249	11,249	12,270	9.1
- Other Loans to Customers	1,726	1,726	1,802	4.4
Corporate Loans	18,306	18,423	21,379	16.0
Total Loans to Customers	**31,281**	**31,398**	**35,451**	**12.9**
Customer Funds				
+ Deposits[2]	22,355	22,414	24,283	8.3
+ Debt securities placed with Clients	5,160	2,696	3,590	33.2
= On Balance-Sheet customer funds	**27,515**	**25,110**	**27,873**	**11.0**
+ Off-Balance Sheet Funds	13,644	13,644	15,685	15.0
= Total Customer Funds	**41,159**	**38,754**	**43,558**	**12.4**

(1) Net asset + Asset Management + Other Off-Balance Sheet Liabilities + Securitized Credit.
(2) Includes: "Customer Deposits and Other Loans" and Certificates of Deposits

a. Retail and Small Businesses

BES Group's strong commercial performance in 2005 is the outcome of its Retail banking strategy, which is based on the following key factors:

- Reinforcing value propositions and adapting them to customers' financial needs,
- Differentiating through quality,
- Focusing on higher value customers and products,
- Increasing customer acquisition levels;
- Launching specific value proposition for customers of Tranquilidade.

Of all the initiatives launched during the year, the Assurfinance programme was particularly important: it allowed the Group to capture roughly 23,000 new customers, with more than 24,000 T-cards placed. In addition, the programme was responsible for 18% of the year's mortgage production (12% in 2004).

Also in 2005, the commercial approach to higher value segments (BES 360 and Small Businesses) was consolidated. In the BES 360 segment mortgage lending was particularly strong (+17%), currently accounting for roughly 47% of BES Group production. Together with the improvements in risk assessment tools, this has led to a sustained reduction in the portfolio's risk profile.

The weight of BES 360 and Small Businesses segments increased in overall customer funds originating in retail banking, especially in off-balance sheet funds: mutual funds grew 23% and pension plans increased 25%. These results are due to improved relationships with new customers, the increasing importance of advisory services and the positioning of BES as a pension planning partner. The Mass Market business unit also contributed to the increase in off-balance sheet funds, placing more than 33,000 programmed savings plans (includes BES 95 and BES Junior Plans) which allow monthly savings deposits to be defined according to the customer's financial situation.

Overall, off-balance sheet funds increased 15%, to euro 15.7 billion.

Increase in off-balance sheet funds euro million

	2004	2005	Chg %
Off-Balance Sheet Funds	**13,644**	**15,685**	**15.0**
Mutual Funds	4,442	5,392	21.4
Mutual Funds	1,406	1,463	4.1
Pension Funds	1,972	2,338	18.6
Bancassurance	4,461	4,930	10.5
Other	1,363	1,562	14.6

The average number of products sold to the higher value customer segments increased significantly, and the aggregate sale of simple savings products to the mass market segments was very successful. These efforts resulted in a considerable improvement in cross-selling indicators: the ownership rate of pension plans was 31% in the BES 360 segment and 16% in the Small Business Segment.

b. Corporate banking

Overall, corporate loans increased 16.0% to euro 21.4 billion, with particular emphasis on the middle-market segment (17%). This is highlighted by the fact that 63% of the Portuguese top 1,000 small and medium-sized companies (SMEs) are BES Group customers. Lending to large corporations grew by 8%. BES Group thus continued to reinforce its market share in the corporate business, presently in excess of 20%.

BES Group thus continued to reinforce its market share in the corporate business, presently in excess of 20%.

During the year, 730 new SME customers were acquired, while the Group focused on trade finance, international business and innovating start-ups.

The leasing and factoring businesses showed a strong performance in 2005: leasing production rose 17.6% and factoring production increased 11.2%, triggering an increase in market share 18.1% and 21.2% respectively, maintaining its second position in the Portuguese market in both products.

c. International activity

The international banking business grew at a strong: BES' expansion in Angola, its business in Spain and its traditional presence in the United Kingdom, France, the United States, Brazil and Macao, resulted in a 19% increase in the loan portfolio to euro 4,060 million (currently accounting for 13% of the consolidated loan portfolio). On-balance sheet customer funds rose by 34%, to euro 4,181 million.

Performance of the International Banking Business

euro million

	IFRS		
	2004	2005	Change.%
Net Asset	8,255	11,194	35.6
Loans to Customers (net)	3,409	4,060	19.1
On Balance-Sheet Customer Funds	3,117	4,181	34.2

Note: Does not include elimination of double accounting.

8.1.2
Liquidity Management and Transformation Ratio

In a context of strong lending growth, good liquidity management, supported by centralised action by the main business units, assumed particular importance.

In 2005, the transformation ratio of customer funds (deposits and debt securities) into credit increased to 111%, which is slightly higher than in 2004 (110%), and explained by the fact that lending grew at a faster pace than funding.

Transformation ratio

euro million

		PABS	IFRS	
		2004	2004	2005
LOANS TO CUSTOMERS				
Loans to Customers (gross)		28,088	28,487	31,662
Impairment / Specific and General Provisions		772,4	772,4	829,9
Net Loans	A	**27,316**	**27,715**	**30,832**
CUSTOMER FUNDS + SECURITIES				
Deposits	B	**20,371**	**20,419**	**20,753**
Debt Securities placed with Clients		7,144	4,691	7,120
Customer Funds	C	**27,515**	**25,110**	**27,873**
Euro Medium Term Notes + Commercial Paper		5,559	5,545	7,282
Total on Balance-Sheet Funds	D	**33,074**	**30,655**	**35,155**
TRANSFORMATION RATIO				
Deposits into Credit	A/B	134%	136%	149%
Customer Funds into Credit	A/C	99%	110%	111%
Total Funds into Credit	A/D	83%	90%	88%

8.1.3
Post-Retirement Benefits and Pension Fund

In 2005, the BES Group changed the following actuarial assumptions used to calculate pension liabilities:

Actuarial assumptions

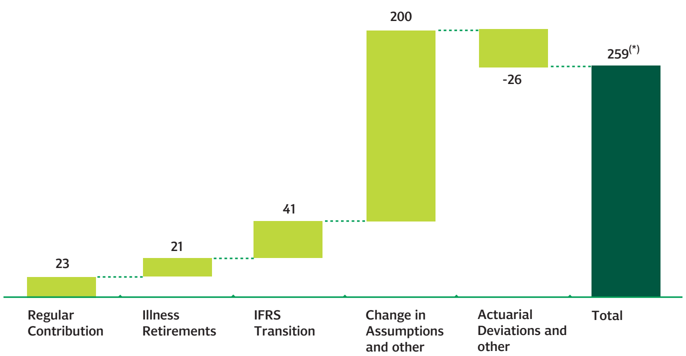
euro million

	2004	2005
Mortality table - Men	TV 73/77	TV 73/77 (adapted)
Mortality table - Women	TV 73/77	TV 88/90
Discount rate	5.25%	4.75%

The change in actuarial assumptions, in combination with the current contribution for the year and the effect of adjustments arising from the transition to IFRS, resulted in a contribution of euro 249 million to the BES Group's Pension Fund.

This amount is net of actuarial gains on the funds' assets (rate of return close to 10%).

Contributions to the Pension Funds euro million



(*) includes euro 10 million in the Balance Sheet for a deferred payment.

Total post retirement liabilities are fully covered, either through the value of pension fund assets, or through the balance sheet.

Coverage of Post-retirement Liabilities euro million

	IFRS	
	2004	2005
Liabilities for post-retirement benefits	**1,649**	**1,944**
Coverage	**1,649**	**1,943**
Value of plan assets at the end of the period	1,512	1,816
Value on balance sheet	137	127
Coverage	**100%**	**100%**
Impact of the change in actuarial assumptions on the liabilities.	52	213

8.1.4

Capitalisation Levels and Capital Adequacy Ratios

Own funds totalled euro 5,398 million at year-end, an increase of euro 776 million on the previous year.

This increase reflects the performance of subordinated liabilities and revaluation reserves. The increase in subordinated liabilities was due to the new issues made by BES' subsidiary in the Cayman Islands, Banco Espírito Santo de Investimento and Besleasing e Factoring.

a. Capital instruments

euro million

	PABS	IFRS		
	Dec 04	Dec 04	Dec 05	Change. abs.
Capital	**1,500**	**1,500**	**2,100**	**600**
Ordinary Shares	1,500	1,500	1,500	0
Preference Shares(1)	0	0	600	600
Share Premium	**300**	**300**	**300**	**0**
Own Shares	**-**	**(100)**	**(96)**	**4**
Revaluation Reserves	**0**	**0**	**366**	**366**
Other Reserves and retained earnings	**179**	**59**	**(26)**	**(85)**
Minority Interests	**645**	**645**	**106**	**(539)**
Subordinated Debt	**2,013**	**2,066**	**2,368**	**302**
Net Income	**275**	**152**	**280**	**128**
Fund for General Banking Risks(2)	**152**	**0**	**0**	**0**
TOTAL	**5,064**	**4,622**	**5,398**	**776**

(1) In 2004, the amount of preference shares was included in minority interests.
(2) The balance of the FGBR was included in other reserves in the transition to IFRS.

Revaluation reserves of euro 366 million correspond to potential gains in the portfolio of "Assets available for sale", which are recognised through fair value reserves, including foreign exchange fluctuations recognised under reserves.

Main equity exposures euro million

	Potencial gains and losses (Gross)	
Available for sale Portfolio	2004	2005
Portugal Telecom	-21,1	29,1
PT Multimédia	-60,1	0,0
Banco Bradesco	-2,9	397,7
Bradespar	20,1	35,0
B. Marocaine Com. Ext.	-6,9	10,3
TOTAL	**-70,9**	**472,1**

Equity exposure in the available for sale portfolio reflected an overall potential gain of euro 472.1 million at the end of the period (2004: potential loss of euro 70.9 million).

Following the introduction of the International Financial Reporting Standards, Bank of Portugal Notice 4/2002 ceased to apply. Accordingly, equity holdings formerly covered by this notice are now treated in accordance with the new regulations.

b. Solvency

Under Bank of Portugal rules the solvency ratio remains in line with 2004 levels – 12.1% – and remains above minimum levels (either that required by the Bank of Portugal or recommended by the Bank of International Settlements (BIS)).

Risk weighted assets and regulatory capital (Bank of Portugal) euro million

				Change	
		2004	2005	Abs.	Rel.
Net consolidated assets	(1)	45,901	50,222	4,321	9.4%
Risk weighted assets	(2)	34,754	37,925	3,171	9.1%
Risk weight	(2)/(1)	76%	76%		
Regulatory capital requirements	(3)	2,780	3,034	254	9.1%
Risk weighted assets		2,603	2,829.	226	8.7%
Trading Portfolio		177	205	28	15.8%
Existing regulatory capital	(4)	4,190	4,602	412	9.8%
Tier I		2,343	2,329	-14	-0.6%
Complementary		1,912	2,328	416	21.8%
Deductions		65	55	-10	-15.4%
Surplus	(4)-(3)	1,410	1,568	158	11.2%
Solvency Ratio Total	**[4/(12,5x3)]**	**12.1%**	**12.1%**	**0,0p.p**	
TIER I		**6.7%**	**6.1%**	**-0,6p.p**	
Core TIER I		**5.0%**	**4.6%**	**-0,4p.p**	

The Bank's Tier I ratios declined in 2005, reflecting the change in actuarial assumptions as well as business growth, particularly in corporate loans, and the effect of the adjustments required for transition to IFRS. However, and in line with its funding and capital management policies, in 2005 BES Group concluded another securitisation transaction amounting to euro 1.2 billion.

Additionally, potential gains on assets available for sale are not included under Tier I capital, which would lead to a Core Tier I ratio of 5.5% if they were to be sold.

Under BIS regulations, the solvency ratio stands at 12.7% (13.9% 2004) whereas the Tier I ratio is 6.4% (minimum recommended level 4%).

Solvency ratios - BIS criteria

	2004	2005	Change
Total BIS ratio	**13.9%**	**12.7%**	**-1.2 p.p**
TIER I	7.7%	6.4%	-1.3 p.p
Core TIER I	6.0%	4.8%	-1.2 p.p

8.1.5
Results

The BES Group reported consolidated net income of euro 280.5 million in 2005, a year-on-year increase of 85% under IFRS [(1)].

Income statement euro million

	PABS	IFRS			
				Change	
	2004	2004	2005	Abs.	Rel. (%)
Net Interest Income	**701.2**	**697.0**	**740.6**	**43.6**	**6.3**
+ Fees and Commissions	545.8	549.6	555.1	5.5	1.0
+ Capital Market Results	218.4	184.4	242.0	57.6	31.2
= Banking Income	**1,465.4**	**1,431.0**	**1 ,537.7**	**106.7**	**7.5**
- Operating Costs	750.2	887.5	861.2	-26.3	-3.0
= Gross Results	**715.2**	**543.5**	**676.5**	**133.0**	**24.5**
- Net Provisions	357.7	322.3	320.6	-1.7	-0.5
Credit	227.0	226.3	219.9	-6.4	-2.8
Securities	7.5	7.5	30.2	22.5	-
Other	123.2	88.5	70.5	-17.8	-20.1
= Profit before Tax and Minorities	**357.5**	**221.2**	**355.9**	**134.7**	**60.9**
- Income Tax	42.3	46.7	65.8	19.1	40.9
= Profit after Tax	**315.2**	**174.5**	**290.1**	**115.6**	**66.2**
- Minority Interests	40.0	22.9	9.6	-13.3	-58.1
Net Income	**275.2**	**151.6**	**280.5**	**128.9**	**85.0**

The international business made a decisive contribution to consolidated income: euro 86.3 million, or 31% of consolidated net income in 2005.

(1) Under IFRS 1, IAS 32 and 39 do not obligatorily apply retroactively.

Income from international banking euro million

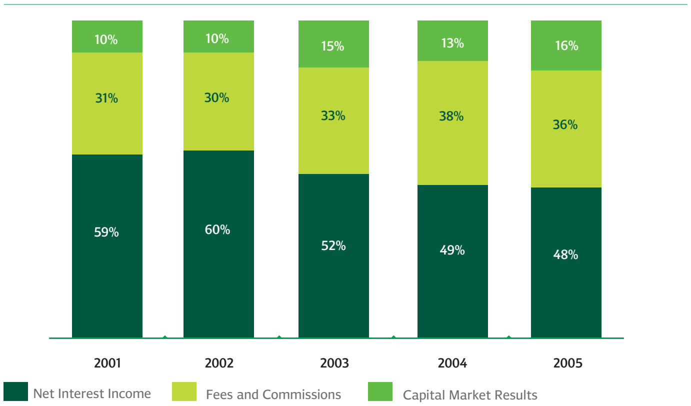
	2005	% Consolidated
Europe	**47.2**	**17%**
United Kingdom	27.5	10%
France	10.0	4%
Spain	9.7	3%
Other countries	**38.9**	**14%**
Angola	23.2	8%
US	7.2	3%
Brazil	5.8	2%
Macao	2.7	1%
Total International Contribution	**86.1**	**31%**

a. Banking Income

The 7.5% increase in banking income resulted from the good performance of Banco Espírito Santo and the other business units making up BES Group, notably BES Investimento, BES Angola, Besleasing e Factoring, ESAF (asset management) and Crediflash (credit cards).

Banking income evidenced a balanced structure, with capital markets and other increasing weight within revenue-generating sources, versus a decline in the relative weight of fees and commissions and net interest income.

Evolution of banking income breakdown



b. Net Interest Income and Net Interest Margin

Net interest income was euro 740.6 million, a year-on-year increase of 6.3%. The net interest margin was 1.80%, which compares with 1.78% in 2004 under IFRS.

In the last quarter of the year the trend of recovery initiated at the beginning of the second half of 2005 was confirmed. This recovery was underpinned by business growth, particularly in credit (up 12.9%) and an adequate pricing policy for customer funds, which, together with the rise in reference interest rates (average 3M Euribor of 2.11% in 2004 and 2.18% in 2005) had an overall positive influence on funding

Net interest income euro million

	PABS	IFRS		
	2004	2004	2005	Chg abs.
Revenues	**1,628**	**1,621**	**1,852**	**231**
Customer loans	1,206	1,197	1,312	106
Other placements	422	424	540	125
Costs	**927**	**924**	**1,111**	**187**
Customer Funds	677	674	765	91
Other Funds	250	250	346	96
Net Interest Income	**701**	**697**	**741**	**44**

Interest revenues exceeded the previous year's total by euro 231 million, with other placements being the most significant item overall. Interest expenses increased euro 187 million, evenly balanced between customer funds and other funds. Contrary to last year, revenues from customer loans grew at a higher pace than costs associated with customer funds.

The following table shows the revenues and costs of interest-earning assets and interest-bearing liabilities and compares them to respective average interest rates.

Net interest income and net interest margin

euro million

	2004			2005		
	Average Volume	Rate (%)	Revenue/ /Cost	Average Volume	Rate (%)	Revenue/ /Cost
Placements	**39,241**	**4.13**	**1,621**	**41,139**	**4.50**	**1,852**
Customer loans	27,852	4.30	1,197	30,122	4.36	1,312
Other placements	11,389	3.72	424	11,017	4.90	540
Borrowed Funds	**37,494**	**2.47**	**924**	**41,811**	**2.66**	**1,111**
Customer Funds	29,499	2.28	674	32,634	2.35	765
Other Funds	7,995	3.13	250	9,177	3.77	346
Result/Business Margin	**-**	**1.67**	**697**	**-**	**1.84**	**741**
Own Funds and Spread	1,747	0.11	-	-	-0.04	-
Result/Global Margin	**-**	**1.78**	**697**	**672**	**1.80**	**741**

The net interest margin improved by 2 basis points, rising from 1.78% in 2004 to 1.80% in 2005. This performance is particularly significant as last year the margin fell by 18 basis points. This performance was due to a higher increase in the average interest from financial assets (37 basis points) than in the average rate of borrowed funds (19 basis points).

The increase in net interest income can also be explained by the effect of prices and volume and the joint price/volume effect, as shown in the following table.

Price versus volume effect

euro million

	Volume Effect	Price Effect	Volume/ Price Effect	Change
Financial Assets	79	145	7	231
Financial Liabilities	45	136	6	187
Net Interest Income	**34**	**9**	**1**	**44**

The price effect explained an increase of euro 9 million, while the increase in volume (euro 34 million) shaped the performance of net interest income.

Net interest margin monitoring and balance sheet management are the responsibility of the Assets and Liabilities Committee (ALCO). Some of the most important measures defined by the ALCO concern (i) the monitoring of on-balance sheet customer funds - particularly important in 2005, as a diversified range of products (insurance, mutual funds and deposits) allowed the Group to protect the pricing of on-balance sheet funds; and (ii) the adjustment of the balance sheet to reflect interest rate, liquidity and exchange rate risk and the forecast trend in the yield curve.

c. Fees and Commissions

Fees and commissions totalled euro 555.1 million in 2005, a year-on-year increase of 4.3%.

Fees and commissions comparison

euro million

	IFRS		
	2004	2005	Chg %
Fees and Commissions according to applicable rules	549,6	555,1	1.0
Deferral of commissions(*)	(17,6)	-	-
Fees and commissions on a comparable basis	**532,0**	**555,1**	**4.3**

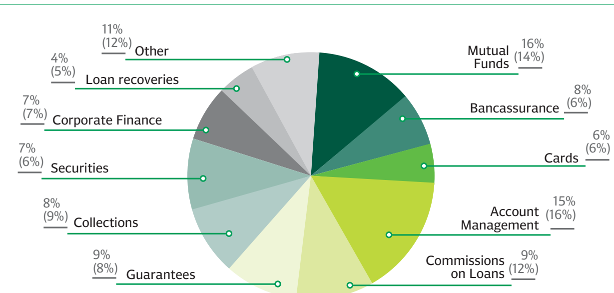
(*) Not reflected in the restatement of 2004 financial statement 2004 (IFRS), based on the fact that BES did not aply IAS32 and IAS39, as permitted by IFRS 1.

If 2004 fees and commissions were accrued on credit origination the increase would have been be 4.3%, which contrasts with the small rise (+1%) reported if fees and commissions were recognised at the time the respective operation was carried out.

The good performance of cross-selling fees, which accounted for 32% of total fees and commissions, more than offset the reduction in fees for traditional services, representing 66% of the total.

Cross-selling fees grew 18.9%, boosted by bancassurance fees (+24%) and mutual funds (+21%), which were fuelled by the commercial dynamics of the various sales networks and benefited from strong synergies developed within the Group.

Breakdown of fees and commissions



( ) Previous year

The performance achieved in this area over the last few years has been based on the systematic adoption of a customer-centric vision, supported by a structured quality-of-service monitoring system applied across the board, from service delivery, to the offer of products, service levels and pricing. Differentiated and pertinent service quality is a prerequisite for fostering customer loyalty as well as ensuring customer acquisition and retention levels.

The BES Group has therefore increasingly reinforced its focus on a multi-channel relationship with its customer base, whether individuals or companies. The number of internet banking users among individual customers – BESnet – reached 754,000 at the end of 2005, a year-on-year increase of 6%. The sharp increase in BESnet's weight in the performance of off-branch day-to-day operations was significant in 2005, rising from 35.7% in December 2004 to 43.4% in December 2005. During the year, two new facilities were made available through BEsnet – the first was the possibility to view cheques online, and the other was the electronic statement, which may substitute the traditional paper format statement. The number of companies using the internet banking service for corporate customers - BESnet Negócios – reached 43,000 in December 2005, a year-on-year increase of 15.6%. The monthly average number of visitors to BES' website rose to 2.5 million, which is 24.9% more than in 2004.

d. Capital Markets Results and Other

The contribution of Capital Market results and Other to banking income, up euro 58 million on a comparable basis (under IFRS), increased from 13.0% in 2004 to 15.7% in 2005.

Capital markets results and other — euro million

	PABS	IFRS		
	2004	2004	2005	Chg abs.
Interest Rate & Fx	**116.7**	**27.3**	**121.8**	**94.5**
Equity	**63.7**	**63.7**	**108.8**	**45.1**
Trading	46.4	46.4	69.9	23.5
Income from securities	17.3	17.3	38.9	21.6
Other Results	**38.0**	**93.4**	**11.4**	**-82.0**
Total	**218.4**	**184.4**	**242.0**	**57.6**

These results were based on the diversification of market risk in equities, credit and interest and exchange rates.

The main stock market indices turned in a positive performance in 2005. The Brazilian market, which is of particular importance for BES Group results, performed well throughout the year, while the Portuguese domestic market also performed well in the last quarter of the year.

European and US interest rates and credit markets were characterised by the gradual flattening of yield curves and the historically low levels of credit spreads. Good results were gleaned from the positions taken at the beginning of the year, which focused on interest and exchange rate trading in emerging markets.

e. Efficiency and operating costs

Operating costs decreased by 3.0% year-on-year, underpinned by lower staff costs and a significant reduction in amortisation and depreciation.

Operating Costs — euro million

	PABS	IFRS		
	2004	2004	2005	Chg %
Staff Costs	330.2	486.4	453.7	-6.7
Salaries	304.5	355.0	382.4	7.7
Pension Costs	25.7	131.4	71.3	-45.7
+ Other Admin. Costs	289.4	300.0	327.2	9.1
= Admin. Costs	**619.6**	**786.4**	**780.9**	**-0.7**
+ Depreciation	130.6	101.1	80.3	-20.6
Operating Costs	**750.2**	**887.5**	**861.2**	**-3.0**

Staff costs increased 7.7%, driven by the Group's international expansion, and to a lesser extent, by annual mandatory salary increases and promotions. Under IFRS, staff costs include bonuses paid to employees and corporate bodies, as well as seniority bonuses. The reduction in pension costs translates into lower disability retirement costs.

General administrative costs were up by 9.1% in the year, mainly explained by the expansion of the international area.

The decrease in depreciation and amortisation was the result of the rationalisation initiatives implemented gradually by the Group, i.e. centralising its entire operations and systems logistics support. The recent merger of BIC into BES is expected to have a further positive impact in the future.

As evidenced by the Group's productivity and efficiency ratios, operating costs as a percent of average net assets declined from 2.14% to 1.88% while total assets per employee grew by 12%. The cost to income ratio also improved, after falling considerably during the period, to 56.0%, or 66.5% excluding capital market results.

Efficiency and Productivity Indicators euro million

	IFRS		
	2004	2005	Chg
Cost to Income (including markets)	62.0%	56.0%	-6.0 p.p
Cost to Income (excluding markets)	71.2%	66.5%	-4.7 p.p
Operating Costs/Average Net Assets	2.14%	1.88%	-0.26 p.p
Total Assets* per Emloyee (thousand euros)	8,441	9,444	11.9%

(*) Net Asset+Asset Management+Other Off-balance Sheet Liabilities+Secutitised Loans

f. Provisioning

As in previous years and in line with current national and international macroeconomic conditions, the Group continued to adopt a prudent policy of risk coverage via provisions.

Credit provisions were thus reinforced by euro 219.9 million, while provisions for securities were increased by euro 30.2 million. An extraordinary provision of euro 57.6 million was also set up for costs arising from the merger of Banco Internacional de Crédito (BIC) into Banco Espírito Santo (BES).

Provision charges euro million

	PABS	IFRS	
	2004	2004	2005
For loans to Customers	227.0	226.3	219.9
For Securities	7.5	7.5	30.2
For FGBR	9.0	-	-
For other risks and charges(*)	114.2	88.5	70.5
Total	**357.7**	**322.3**	**320.6**

(*) Includes provisions for credit institutions, assets held to maturity, assets with repurchase agreement, tangible and intangible assets, tax contingencies, costs with employees benefits and garantees.

The credit provisioning policy, combined with fine-tuned risk assessment tools, made extensive use of scoring models and ratings and credit recovery processes, leading to a significant improvement in credit quality indicators.

8.1.6
Profitability

2005 net income (euro 280.5 million) resulted in a Return on Equity (ROE) of 13.5% and Return on Assets (ROA) of 0.61%.

Results and Profitability %

	PABS	IFRS		
	2004	2004	2005	Change p.p.
Rate of financial assets	4.15	4.13	4.50	0.37
- Rate of financial liabilities	2.36	2.47	2.66	0.19
= Spread margin	1.79	1.67	1.84	0.17
+ Balance sheet management	0.00	0.11	-0.04	-0.15
= Global Margin	**1.79**	**1.78**	**1.80**	**0.03**
+ Fees and Commissions	1.39	1.40	1.35	-0.05
+ Capital Market Results	0.46	0.47	0.59	0.12
= Gross Return on Financial Assets	**3.64**	**3.65**	**3.74**	**0.09**
- Operating Costs	1.91	2.26	2.09	-0.17
= Net return on financial assets	**1.73**	**1.38**	**1.64**	**0.26**
- Net provisions	0.91	0.82	0.78	-0.04
- Minority interests and Tax	0.11	0.18	0.18	0.00
= Return on financial assets	**0.70**	**0.39**	**0.68**	**0.29**
x Weighting of financial assets	0.89	0.95	0.90	-0.05
= Return on assets (ROA)	**0.63**	**0.37**	**0.61**	**0.24**
x Placements multiplier	22.14	17.38	22.16	4.79
= Return on equity (ROE)	**13.90**	**6.36**	**13.54**	**7.18**

When analysing BES Group profitability levels we should bear in mind that ROE is negatively impacted by the following effects:

- The charge of a restructuring provision, with an impact on net consolidated income of euro 41.8 million (1);
- On transition to the IFRS (2), BES Group opted to recalculate pension liabilities. If the bank had chosen to reset these liabilities, euro 524 million would have been deducted from equity.

(1) Provision net of taxes.
(2) In transition adjustments, BES Group could have opted for the reset of pension liabilities in the balance sheet or, alternatively, to recalculate the liabilities.
(3) Does not include the impact arising from the change in the annual amortisation of actuarial deviations outside the corridor.

Stripping out these two effects, ROE would have risen to 22.1%[3] in 2005.

Profitability %

	PABS 2004	IFRS 2004	IFRS 2005
Return on Equity (ROE)			
Stated	13.9	6.4	13.5
Adjusted for the reestructuring provision	-	-	15.8
Adjusted for the reestructuring provision andreset of pension liabilities	-	-	22.1
Return on Assets (ROA)			
Stated	0.63	0.37	0.61
Adjusted for the reestructuring provision	-	-	0.70
Adjusted for the reestructuring provision and reset of pension liabilities	-	-	0.71

8.2
Financial Analysis of Banco Espírito Santo

Prior Note on the Merger by Incorporation of BIC into BES

Following the decision taken by BES' Board of Directors on September 19, 2005, the legal and accounting merger of Banco Internacional de Crédito into Banco Espírito Santo took place on December 30, 2005.
This operation, which is part of the BES Group's strategy for creating shareholder value, was designed with two major objectives in mind: to improve the quality of service and to increase the competitiveness of the Banco Espírito Santo Group. As a result, customers can now access BES through a service network of 600 branches and have available a wider scope of products and services to suit their needs.

As determined by Bank of Portugal Notice 1/2205, the individual accounts of Banco Espírito Santo are now prepared and presented in accordance with the Adjusted Accounting Standards (AAS). As mentioned in said notice, AAS provide a reference framework that is relatively close to that of the IAS/IFRS, with the following exceptions:
• The method of credit valuation and provisioning is maintained;
• The accounting adjustment arising from recognition of certain liabilities associated with retirement pensions and post-retirement health benefits is deferred;
• The valuation of tangible assets at fair value is not permitted.

8.2.1
Main activity highlights and business indicators

Variable	Symbol.	PABS 2002	PABS 2003	PABS 2004	AAS 2004	AAS 2005(*)
BALANCE (euro million)						
Total Assets(1)	TA	36,035	38,316	44,094	43,370	59,643
Net Assets	NA	29,416	31,384	33,903	33,179	44,643
Financial Assets (average)	$\overline{FA}$	23,322	24,627	26,487	26,487	29,079
Capital and Reserves (average)	$\overline{KP}$	1,762	1,885	1,969	1,821	1,821
INCOME STATEMENT (euro million)						
Net Interest Income	NII	417.1	412.2	404.1	398.7	412.9
+ Fees and Commissions	FC	235.3	277.4	342.8	342.8	327.9
= Commercial Banking Income	CBI	652.4	689.6	746.9	741.5	740.8
+ Capital Market Results	CMR	153.7	247.2	179.6	271.2	260.4
= Operating Banking Income	OBI	806.1	936.8	926.5	1,012.7	1,001.2
+ Extraordinary Results and Other	XR-OC	-32.0	24.7	30.4	0.0	0.0
- Operating Costs	OC	444.0	454.4	492.9	554.4	547.4
- Provisions and Taxes	Prov+T	200.7	315.3	259.7	254.4	263.7
= Net Income	NI	129.4	191.8	204.3	203.9	190.2
PROFITABILITY (%)						
Net Interest Margin	NI / $\overline{FA}$	1.79	1.67	1.53	1.51	1.42
+ Return on Fees and Commissions	FC / $\overline{FA}$	1.01	1.13	1.29	1.29	1.13
+ Return on Capital Market Results	CMR / $\overline{FA}$	0.66	1.00	0.68	1.02	0.90
= Business Margin	BI / $\overline{FA}$	3.46	3.80	3.50	3.82	3.44
- Weighting of Operating Costs	OC / $\overline{FA}$	1.90	1.85	1.86	2.09	1.88
- Provisions and Taxes	(Prov+T) / $\overline{FA}$	0.86	1.28	0.98	0.96	0.91
- Extraordinary Results and Other Costs	(OC-XR) / $\overline{FA}$	-0.14	0.10	0.11	0.00	0.00
= Return on Financial Assets	NI / $\overline{FA}$	0.55	0.78	0.77	0.77	0.65
x Weight on Financial Assets	$\overline{FA}$ / $\overline{NA}$	0.85	0.85	0.84	0.86	0.85
= Return on Assets (ROA)	NI / $\overline{NA}$	0.47	0.66	0.65	0.66	0.56
x Placements Multiplier	$\overline{NA}$ / $\overline{KP}$	15.61	15.44	16.00	16.96	18.73
= Return on Equity (ROE)	NI / $\overline{KP}$	7.34	10.18	10.38	11.20	10.44

(1) Net Asset + Asset Management + Securitised Credit
(*) 2005 Balance-Sheet Items already reflect BIC merger into BES that took place on 30/12/2005.

8.2.2

Activity

In line with its strategic framework in place over the last few years, the Group reported a strong commercial performance with major structural changes in 2005.

Activity Highlights euro million

	PABS 2004	AAS 2004	AAS 2005	Chg %
Total Assets[1]	**44,094**	**43,370**	**59,643**	**37.5**
Assets	**33,903**	**33,179**	**44,643**	**34.6**
Loans to Customers (including securitized)				
Other loans to individuals	6,667	6,667	13,106	96.6
- Mortgage	5,643	5,643	11,694	107.2
- Other loans to individuals	1,024	1,024	1,412	37.9
Corporate lending	12,359	12,442	16,464	32.3
Total Loans to Customers	**19,026**	**19,109**	**29,570**	**54.7**
Customer Funds				
+ Deposits [3]	15,282	15,251	20,469	34.2
+ Debt securities placed with clients	2,739	1,781	3,799	113.3
= On-Balance Sheet Customer Funds	**18,021**	**17,032**	**24,268**	**42.5**
+ Off balance-sheet funds	8,908	8,908	11,167	25.4
= Total Customer Funds	**26,929**	**25,940**	**35,435**	**36.6**

(1) Adjusted Accounting Standards, as established by the Bank of Portugal.
(2) Net Asset + Asset Management + Securitized Credit
(3) Includes: "Customer funds and other loans " and Deposit Certificates.

Credit increased 54.7% including securitisation, while on-balance sheet customer funds rose by 42.5%. This performance also reflects the impact of the merger of BIC into BES.

Customer loans continued to increase, mortgage lending again proving the most active component of credit, rising more than 100%. At the end of September BES concluded a new mortgage backed securitisation transaction, to the amount of euro 1.2 billion, raising total securitised mortgage loans to euro 4.4 billion (four transactions).

The relative weight of mortgage loans increased in the overall credit portfolio to nearly 40% (30% in December 2004), while corporate loans, accounting for 56% of the total, continued to reflect BES' strong foothold in the Portuguese corporate fabric.

The quality of BES' credit portfolio is underpinned by the systematic fine-tuning of integrated risk management tools and the capabilities to assess credit risk from a commercial standpoint consistently demonstrated by all participants in the process.

Asset Quality euro million

	PABS 2004	AAS 2004	AAS 2005	Change Abs.	Change Rel. (%)
Loans to Customers (gross)	17,743	17,826	25,737	7 911	44.4%
Overdue Loans to Customers	336.6	336.6	412.2	76	22.5%
Overdue Loans to Customers > 90 days	294.6	294.6	378.4	84	28.4%
Overdue and Doubtful (B.Portugal)[a]	365.3	365.3	520.2	155	42.4%
Provisions for Credit	530.8	530.8	736.2	205	38.7%
Overdue Credit / Loans to Customers	1.90	1.89	1.60	-0.29 p.p	
Overdue Credit>90 days/Loans to Customers	1.66	1.65	1.47	-0.18 p.p	
Overdue and Doubtful(a)[a]/Loans to Customers (gross)	2.06	2.05	2.02	-0.03 p.p	
Provisions for Credit/Overdue Loans	157.7	157.7	178.6	20.9 p.p	
Provisions for Credit/Overdue Loans > 90 days	180.2	180.2	194.6	14.4 p.p	
Coverage of Credit and Doubtful Loans	145.3	145.3	141.5	-3.8 p.p	

(a) According to Circular-Letter nº 99/03/2003 of the Bank of Portugal.

The ratio of overdue loans over 90 days (1.5% versus 1.6% in December 2004) and the corresponding provision coverage (195% versus 180% in December 2004) reflect the quality of the credit portfolio. Total overdue loans were up by euro 76 million, which compares with the provision charge of euro 205 million for the year.

8.2.3

Results and Productivity

Regarding income generation, the bank's performance in 2005 was characterised by growth in net interest income (up 3.6%) and the reduction in operating costs (down 1.3%). On the other hand, income from fees and commissions and from trading activity did not perform so well, and provisions were reinforced. These factors led to year-on–year decrease of 6.7% in annual net income to euro 190.2 million.

Income statement euro million

	PABS	AAS			
				Change	
	2004	2004	2005	Abs.	Rel. (%)
Net Interest Income	**404.1**	**398.7**	**412.9**	**14.2**	**3.6**
+ Fees and Commissions	342.8	342.8	327.9	-14.9	-4.3
+ Capital Market Results and Other	210.0	271.2	260.4	-10.8	-4.0
= Banking Income	**956.9**	**1,012.7**	**1,001.2**	**-11.5**	**-1.1**
- Operating Costs	492.9	554.4	547.4	-7.0	-1.3
= Gross Results	**464.0**	**458.3**	**453.8**	**-4.5**	**-1.0**
- Net Provisions	253.2	224.7	236.2	11.5	5.1
Credit	154.6	154.6	133.1	21.5	13.9
Securities	9.6	9.6	33.8	24.2	-
Other	89.0	60.5	69.3	8.8	14.5
= Profit before Tax	**210.8**	**233.6**	**217.6**	**-16.0**	**-6.8**
- Tax	6.5	29.7	27.4	-2.3	-7.7
Net Income	**204.3**	**203.9**	**190.2**	**-13.7**	**-6.7**

An extraordinary provision of euro 57.6 million was created in 2005 to cover the costs arising from the merger of BIC into BES.

Although operating costs declined more than banking income, productivity indicators registered a clear improvement:

• Total assets per employee rose by 11.3% and

• the Cost to Income ratio (excluding markets) declined.

Productivity indicators euro million

	AAS		
	2004	2005	Change.%
Cost to Income (including markets)	54.7%	54.7%	0.0 p.p
Cost to Income (excluding markets)	74.8%	73.9%	-0.9 p.p
Total assets(*) per Employee (thousand euros)	10,539	11,732	11.3%

(*) Net Asset + Asset Management + Securitized Credit

8.2.4.
Proposed Distribution of Net Income

Under the terms of Article 376 (section b) of the Companies Code, and in compliance with Article 30 of the bank's articles of association, the Group has proposed that the following distribution of the year's earnings be submitted at the General Shareholders' Meeting:

euros

Proposed distribution of net income	
For legal reserve	19,100,000.00
For distribution to shareholders	120,000,000.00
For other reserves	51,068,989.00
Net income	**190,169,989.00**

The proposed dividend on 2005 net income corresponds to a gross value per share of euro 0.40, payable on all existing shares at the end of the year.

8.3
Financial Analysis of the Main Business Units

8.3.1
Banking

Banco Espírito Santo de Investimento, S.A. (BESI)

Banco Espírito Santo de Investimento posted net income of euro 50.0 million in 2005, a year-on-year increase of 11%. Banking income reached euro 125.8 million, 6.0% above 2004 figures (euro 118.7 million). Operating costs rose 12.0% due to the increase in costs at the Brazilian subsidiary (affected by the significant rise of the real) and also to the expansion of the bank's international presence into new markets. Net assets were up by 44.5%, mainly driven by customer loans, but also as a result of changes in the consolidation scope (inclusion of the venture capital company Espírito Santo Capital in 2005).

In October, BES Investimento established a joint venture with Concordia Sp, a company based in Warsaw that specialises in financial advisory services. BES Investimento will be able to provide investment banking services to its customers (mainly in M&A and Project Finance) in the most important market in Eastern Europe.

Consolidated figures — euro thousand

Variables and indicators	PABS 2004	AAS 2004	AAS 2005	Change
Net Asset	2,516,346	2,533,960	3,634,889	43.4%
Capital and Reserves	162,324	153,417	175,622	14.5%
Banking Income	127,322	118,700	125,798	6.0%
Net Income	53,451	45,050	50,019	11.0%

ESPIRITO SANTO Investment

Head Office:
Rua Alexandre Herculano, 38
1269-161 Lisbon
Portugal

Share Capital:
euro 70 million

BES Holding:
100%

BANCO ESPIRITO SANTO dos Açores

Head Office:

Rua Hintze Ribeiro, 2 – 8

9500-049 Ponta Delgada

Portugal

Share Capital:

euro 17.5 million

BES Holding:

58,17%

Banco Espírito Santo dos Açores, S.A.

2005 was a year of intense commercial activity for Banco Espírito Santo dos Açores. The bank signed protocols with several companies and institutions in the region and these have played an important role in BES' sustained development and growth. At the same time, a strict cost cutting policy was pursued aimed at improving its efficiency ratios.

Fulfilling a long-felt need, the bank opened a new branch at Horta in the island of Faial, Azores.

In the first half of the year, BES Açores, in a joint venture with BES, the Bensaúde Group and the Fundação Oriente, successfully bid for the first phase of the reprivatisation of EDA – Electricidade dos Açores, SA.

Customer funds were up by 10.0%. customer loans showed an overall increase of 13.9%, with residential mortgages rising by a significant 21%. The bank reported net assets of euro 309 million and net income of euro 3.8 million in 2005.

euro thousand

	PABS	AAS		
Variables and indicators	2004	2004	2005	Change
Net Asset	277,465	276,890	309,223	11.7%
Capital and Reserves	26,148	24,938	26,034	4.4%
Customer Loans (gross)	216,913	217,833	248,056	13.9%
Client Deposits	184,544	184,994	203,517	10.0%
Banking Income	10,924	11,302	11,909	5.4%
Net Income	4,056	3,662	3,754	2.5%

Banco Espírito Santo, S.A. (Espanha)

In 2005, Banco Espírito Santo Spain pursued its strategy for business growth with a focus on the Private Banking, Affluent customers and Corporate Banking segments, posting consolidated net income of euro 1.4 million.

customer loans increased 25% year-on-year to euro 1,455 million. Mortgage loans performed particularly well, increasing by 32.4%. Assets under management reached euro 2,061 million, an increase of 41.3% versus 2004. The development of investment societies for private banking customers (SICAVs) was particularly significant, putting the Group in 12th position in the Spanish ranking, with 92 funds.

Consolidated figures — euro milion

Variables and indicators	2004	2005	Change.
Net Asset	1,887	2,491	32.0%
Capital and Reserves	78.8	86.0	9.1%
Customer Loans (gross)	1,162	1,455	25.2%
Client Deposits	1,284	1,345	4.8%
Banking Income	48	51	5.6%
Net Income	-4.5	1.4	-

Head Office:

Serrano, 88

28006 Madrid - Spain

Share Capital:

euro 86.6 million

BES Holding:

100%

ESPIRITO SANTO
Bank

Head Office:

1395 Brickell Avenue

Miami, Florida 133131 USA

Share Capital:

$US 17.0 million (euro 11. 9 million)

BES Holding:

98.45%

Espírito Santo Bank

In 2005, the loan portfolio grew by $US31 million. The bank's credit profile changed significantly during the year, though maintaining its traditional high quality standards. Therefore, while cash collateral loans and residential mortgage credit declined, the bank's new export credit lines (business line from ECA - Export Credit Agency) guaranteed by the US government showed consistent growth and proved highly profitable. The cost of funding increased sharply, with the average interest on customer funds rising by 149 basis points, which compares with an increase of 103 basis points in the average rate on customer placements. Fees and commissions also decreased as a result of a drop in the broker/dealer revenues.

Espírito Santo Bank posted a pre-tax loss of $US 480 thousand in 2005, strongly influenced by non-recurrent costs of approximately $US 654 thousand arising from the closure of the Uruguay branch. In addition, the reinforcement of the bank's compliance area required significant expenditure.

euro thousand

Variables and indicators	2004	2005	Change
Net Asset	315,137	363,861	15.5%
Capital and Reserves	26,630	30,302	13.8%
Customer Loans (gross)	177,090	229,986	29.9%
Client Deposits	246,757	238,696	-3.3%
Banking Income	12,843	13,015	1.3%
Net Income	37	-0,3	-

BANCO ESPIRITO SANTO do Oriente

Office:

Av. Dr. Mário Soares, n.º 323

Edifício Banco da China, 28tº A e E-F - Macao

China

Share Capital:

200 millions de MOP (21,227 euro thousand)

BES Holding:

99.75%

Banco Espírito Santo do Oriente, S.A.

Underpinned by the region's good economic conditions, BES Oriente strengthened its position in the local and regional markets. The bank's prime strategic objective is to support BES Group's customers in their businesses in South-East Asia and to promote business synergies between financial and non-financial areas. BES Oriente also seeks to leverage opportunities arising from the central government of the People's Republic of China's expressed wish for Macao to function as a platform for economic cooperation between China and Portuguese speaking countries.

The Macao Special Administrative Region (MSAR) is expected to post GDP growth in 2005 of close to 6%, driven by the strong development of the tourism and he gambling/entertainment industries, the major infrastructure works consistently promoted by the government on the budget's surplus, the considerable progress made on several cross-border projects and also the exceptional terms of agreements negotiated with China's central government (namely the Closer Economic Partnership Agreements (CEPA) and individual visas) and several Chinese provinces. MSAR's development has also been underpinned by strong demand for commercial and residential property, triggering outstanding growth rates in the construction industry in 2005.

BES Oriente grew steadily in 2005, with total assets rising by 27.2% year-on-year. Net profit stood at euro 2.731 million under IFRS, underpinned by the increase in banking income. customer loans and customer funds rose significantly.

euro thousand

Variables and indicators	2004	2005	Change
Net Asset	61,620	78,386	27.2%
Capital and Reserves	21,578	26,831	24.3%
Customer Loans (gross)	18,333	36,441	98.8%
Banking Income	2,032	4,488	120.9%
Net Income	1,370	2,731	99.3%

BANCO ESPIRITO SANTO ANGOLA

Head Office:

Rua Guilherme Pereira Inglês n.º 43 – 1º

CP 6459 Luanda - Angola

Share Capital:

the equivalent of euro 5.1 million

BES Holding:

79.96%

Banco Espírito Santo Angola, S.A.R.L.

The activity of BES Angola in 2005 was pursued against a background of strong growth in the Angolan economy and strong competition. The sharp fall in inflation, from 31.7% in 2004 to 17.9% in 2005, the appreciation, even if small, of the national currency vis-à-vis the dollar, and the steep drop in interest rates were the main factors behind the increase in private sector investment.

BES Angola's strategic guidelines, announced at the time of its incorporation in 2002, were pursued further in 2005: to supply efficient and high value services to major customers and open new branches according to its needs for wider geographical coverage, and in line with its own growth and profitability path. Accordingly, the bank has opened four branches which are fully equipped to attend to all its target segments, i.e., Corporate and Institutional customers as well as Affluent customers. After reinforcing its commercial area and working in coordination with all BES Group units, BES Angola is in a position to offer a broad range of high value services to its customers and to support the foreign companies that wish to invest in the country. BES Angola has considerably reinforced its market share – currently estimated at 10% and placing the bank in 3rd position in the ranking of private banks operating in Angola. This position has allowed it to co-lead the country's first banking syndicate, formed by Angola's three largest private banks, to finance the national airline's purchase of aircraft.

Net assets increased by 100% and net income more than doubled compared to 2004.

euro thousand

Variables and indicators	2004	2005	Change
Net Asset	192,778	390,806	102.7%
Capital and Reserves	9,500	2,931	-69.1%
Customer Loans (gross)	28,660	96,680	237.3%
Client Deposits	148,810	322,484	116.7%
Banking Income	24,784	56,307	127.2%
Net Income	10,073	34,561	243.1%

Banque Espírito Santo et de la Vénétie, S.A.

The mortgage lending activity posted strong growth in 2005, mainly focused on the residential real estate market in the Paris region, which offers low risk conditions. Structured finance activities also gained a new dimension during the year, due to the mandates obtained to arrange LBO operations for medium-sized companies based in France. The traditional corporate banking business, as well as treasury operations and services to the community of Portuguese residents in France were maintained in line with the previous year's level.

Banking income totalled euro 28.1 million, while net income for the year increased 123.8% to euro 10.9 million. The cost-to-income ratio was 50.9% (55.8% in 2004).

euro thousand

Variables and indicators	2004	2005	Change
Net Asset	1,281,760	1,247,066	-2.7%
Capital and Reserves	64,315	66,901	4.0%
Customer Loans (gross)	699,059	857,199	22.6%
Client Deposits	147,746	154,709	4.7%
Banking Income	26,300	28,114	6.9%
Net Income	4,857	10,869	123.8%
Cost to income	55.8%	50.9%	-4.9 p.p.

Banque Espírito Santo et de la Vénétie

Head Office:

45, Avenue Georges Mandel

75116 Paris - France

Share Capital:

euro 52.2 million

BES Holding:

40.00%

Head Office:

Rua Alexandre Herculano, 38

1250-011 Lisbon

Portugal

Share Capital:

euro 61 million

BES Holding:

66.00%

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

Throughout the year Banco BEST continued to increase of its offer of asset management products by selling mutual funds from highly recognised investment management firms, namely Fidelity Investments, JP Morgan Fleming, Pioneer Investments, Pictet Funds, WestAM and Morgan Stanley. The range of funds was also broadened to cover industry sectors and markets showing high growth potential. By the end of 2005 Banco BEST was selling roughly 400 funds belonging to 20 domestic and international fund managers.

The area of equities trading was revised and improved: the introduction of new investor support functionalities and instruments led to an increase in trading volume three times above the increase in the market of Internet transactions, raising the market share to 8.5%.

The customer base grew by 19% year-on-year, reaching nearly 42,000 customer assets under management rose by 43%, surpassing euro 550 million at the end of 2005. The volume of asset management products placed with customers more than doubled to circa euro 160 million at year-end.

euro thousand

	PABS	AAS		
Variables and indicators	2004	2004	2005	Change
Net Assets	254,749	254,668	256,894	0.9%
Capital and Reserves	30,755	30,755	27,246	-11.4%
Client Deposits	181,272	181,819	182,130	0.2%
Banking Income	4,669	4,767	5,677	19.1%
Net Income	-9,417	-9,417	-6,174	....
Asset under Management (Private Individuals)	385,081	385,081	551,025	43.1%

8.3.2
Asset Management

Espírito Santo Activos Financeiros - SGPS, S.A.

Assets under management at ESAF totalled euro 15.8 billion in 2005, a year-on-year rise of 14%, largely driven by the increase in the mutual funds business. This performance is the result of a change in marketing practises for mutual funds. The ES Capitalização Dinâmica and ES Estratégia Activa funds launched in the second half of 2004, were particularly successful, with a total volume in excess of euro 372 million at the end of 2005.

In Luxembourg, the ES Active Allocation fund, launched at the end of 2004, had a similar success, with assets under management of euro 51.9 million at the end of the year.

In Spain, the volume of assets under management in mutual funds increased significantly (+30%), as did the discretionary business (+84%), with total assets under management of euro 1,908 million.

Net income for the year grew 52%, driven by the increase in assets under management and a broader product offer.

Consolidated figures euro thousand

Variables and indicators	PABS 2004	AAS 2004	AAS 2005	AAS Change
Net Assets	59,747	53,712	75,422	40.4%
Capital and Reserves	27,621	21,629	25,787	19.2%
Banking Income	27,212	30,792	38,537	25.2%
Net Income	13,362	13,360	20,326	52.1%
Assets under Management (euro million)	13,972	13,972	15,865	13.5%

ESPIRITO SANTO
Activos Financeiros

Head Office:

Av. Álvares Cabral, 41

1250-015 Lisbon

Portugal

Share Capital:

euro 11.8 million

BES Holding:

85.00%

8.3.3
Specialised credit

Besleasing e Factoring

Head Office:

Av. Álvares Cabral, 27 – 1.º

1269-140 Lisbon

Portugal

Share Capital:

euro 49.1 million

BES Holding:

89.36%

Besleasing e Factoring – Instituição Financeira de Crédito, S.A.

Despite the sluggish economic environment and in a climate of fierce competition, the leasing and factoring businesses marked a strong performance in 2005 - supported by BES Group's commercial network, the company surpassed its most optimistic expectations, gaining market share and maintaining second place in the Portuguese market ranking in both products.

Equipment leasing production increased 10.3% to euro 459.8 million, while real estate leasing production rose 27.3%, reaching euro 403.5 million. In the factoring and confirming businesses, production volume was euro 3,110 million (a 9.5% year-on-year increase) and represented assets under management of euro 1,112 million, up by 16.6% versus 2004. Total production reached euro 3,974 million, a rise of 11.2% over the previous year.

Besleasing e Factoring posted a net income of euro 13.0 million (an increase of 10.9%) with ROE of 18.6%, which translates an improvement vis-à-vis the previous year. The significant efficiency and productivity gains obtained were due to the increase in production combined with the company's cost cutting policy. In a scenario of strong business growth, the company maintained its prudent provisioning policy, while total overdue loans declined compared to 2004.

euro thousand

	PABS	AAS		
Variables and indicators	2004	2004	2005	Change
Net Asset	2,299,243	2,298,171	2,746,957	19.5%
Capital and Reserves	65,184	62,199	69,689	12.0%
Customer Loans (gross)	2,183,873	2,184,975	2,684,381	22.9%
Product Lease / Factor	39,577	37,087	42,213	13.8%
Net Income	10,438	11,683	12,962	10.9%
PROPERTY LEASING				
New contracts (no.)	591		630	6.6%
Amount	317,000		403,473	27.3%
EQUIPMENT LEASING				
New contracts (no.)	7,784		8,384	7.7%
Amount	417,036		459,799	10.3%
FACTORING				
Portfolio of Receivables (gross)	2,839,213		3,110,246	9.5%
Portfolio under Management	953,148		1,111,561	16.6%

Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A.

Crediflash posted sustained growth, as reflected by the main indicators for the credit card business. The number of cards placed rose by more than 35,000, with business activity also increasing. This is the best performance seen in the last six years and is also the first year that a significant increase in the number of cards coincided with a rise in business. Overall, turnover grew by 10%.

This performance was underpinned by the important role played by BES Group's banking networks, as well as the initiatives taken during the year, namely the pre-approval of cards under relational marketing campaigns and other measures to promote card use.

The launch of the T-card in a joint initiative between Tranquilidade and BES aimed at attracting Tranquilidade customers to BES was particularly important in 2005. The T-card obtained high recognition levels and contributed significantly to boosting the Group's overall number of cards.

Another launch was the Visa TMN card. This was the result of a joint venture between BES Group and the mobile operator TMN and fell within the scope of TMN's programmes for fostering customer loyalty.

Banking income increased by 13%, while operating costs rose by nearly 2%. In this context, net income grew by 29% year-on-year, to euro 11.5 million.

euro thousand

	PABS	AAS		
Variables and indicators	2004	2004	2005	Change
Net Assets	139,560	141,279	157,901	11.8%
Capital and Reserves	12,870	14,498	15,566	7.4%
Customer Loans (gross)	129,965	131,242	147,341	12.3%
Net Income	9,459	8,875	11,480	29.4%

ESPIRITO SANTO
Crediflash

Head Office:

Alameda António Sérgio, 22 - 2.º – Miraflores

1495-132 Algés

Portugal

Share Capital:

euro 7.5 million

BES Holding:

98.94%

Head Office:

Lagoas Park Edifício 11 – 3º Piso

2740-244 Porto Salvo

Portugal

Share Capital:

euro 5,3 million

BES Holding:

45.00%

Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A.

2005 was the first year of full operation for Locarent. Based on its adopted market approach, Locarent ended the year with 5,502 vehicles under management, from a total of 6,514 under contract.

Locarent's activity has fuelled growth in the renting/operational leasing of vehicles industry, a market that is becoming more and more competitive as it provides easy and problem-free solutions for financing car purchases.

To increase penetration among customers of the commercial networks of the financial institutions it represents and align its scope of action to that of those institutions, in October 2005 Locarent inaugurated a branch in Porto.

In 2005 the Company increased its share capital from euro 3,250,000 to euro 5,250,000.

euro thousand

Variables and indicators	2004	2005	Change
Net Assets	34,379	134,933	292.5%
Capital and Reserves	3,390	5,354	57.9%
Customer Loans (gross)	27,898	117,840	322.4%
Net Income	-2,005	-2,381	-

8.3.4
Insurance

Espírito Santo Companhia de Seguros, S.A.

In 2005 Espírito Santo Seguros continued to develop its non-life insurance banking business in cooperation with BES Group's banking units, focusing its offer on home, car and health insurance products designed for the individual customers segment.

44,000 new contracts were produced, confirming the decelerating trend initiated in the second half of 2004. At the end of the year the company had a portfolio of 336,000 outstanding contracts.

Gross premium volume grew by 5% to euro 61.8 million. Although lower than in previous years, this increase still permitted the group to outperform the non life insurance market (1.8%), leading to new market share gains. Costs with accidents net of reinsurance rose by 10.6% year-on-year, to euro 41.8 million. Net operating costs fell to euro 11.4 million, accounting for 18.4% of the gross premium volume (20.8% in 2004). The combined ratio net of reinsurance was 94.7%, which, although slightly higher than in 2004 (94.1%), is still excellent.

Despite the deceleration in production growth, control over operating costs and a sound technical result allowed the company to post net income of euro 4.3 million, which represents 7.7% of the gross premium volume and is a 30% year-on-year increase. Solvency margin coverage also increased, rising from 176.5% in 2004 to 211.7% in 2005.

euro thousand

Variables and indicators	2004	2005	Change
Net Assets	65,924	79,103	20.0%
Equity	17,707	22,037	24.5%
Gross premia volume	58,965	61,798	4.8%
Costs of Claims (*)	37,769	41,782	10.6%
Net operating costs	12,321	11,378	-7.7%
Net Income	3,326	4,324	30.0%

(*) Net of reinsurance, including claim management costs.

ESPIRITO SANTO Seguros

Head Office:

Avenida da Liberdade, 242

1250-149 Lisbon

Portugal

Share Capital:

euro 15 million

BES Holding:

40.00%

Head Office:

Avenida Álvares Cabral, 41 – 3. º

1250-015 Lisbon

Portugal

Share Capital:

euro 5 million

BES Holding:

23.00%

Europ Assistance - Companhia Portuguesa de Seguros de Assistência, S.A.

In 2005 Europ Assistance pursued a sustained growth path, consolidating its position in the assistance insurance industry and maintaining its market share at close to 30%.

Despite the country's difficult economic situation and rising competition in the assistance market, total gross premiums issued increased by 10.9%, to euro 22.2 million. Net premium volume grew by 7.9%, reaching euro 20.5 million. The good commercial performance reflected by these figures was underpinned by the group's effort to increase loyalty in the existing customer base, high service quality and the development of new products aligned to perceived market trends. Market prospecting efforts were also pursued aimed at acquiring new customers.

The accident record maintained the upward trend of previous years, increasing in tandem with premium volume growth and also as the assistance concept became more widely known. Approximately 350,000 new cases were filed during the year and roughly 1 million calls were taken. A strict policy was pursued with regard to the control of accident costs and fixed structural costs. Financial results improved, underpinned by the investment policy adopted and the good behaviour of the financial markets. Europ Assistance closed the year with net income of euro 1.1 million.

On the international front, Europ Assistance's Brazilian subsidiary posted a substantial increase in results, while its subsidiary in Argentina recovered from its loss of the previous year. A new subsidiary was also opened in Chile in 2005.

euro thousand

Variables and indicators	2004	2005	Change
Net Assets	21,608	23,892	10.6%
Equity	7,629	8,199	7.5%
Net Income	1,011	1,060	4.8%
Production	20,028	22,220	10.9%

8.3.6
e-Business

ES Tech Ventures – SGPS, S.A.

For Espírito Santo Tech Ventures, the year's highlights were the signing of an investment contract to purchase 15% of YDreams - a Portuguese company that develops innovative multimedia solutions – and the creation of ES Tech Ventures, Sociedade de Capital de Risco, SA, which will concentrate on the venture capital business focusing on start-ups and early-stage companies with a technology base or innovative business concepts, a business which was up until now carried out by ES Tech Ventures, SGPS.

The pmelink.pt, the first online business centre in Portugal for small and medium sized companies promoted under a joint venture with the CGD and Portugal Telecom Groups, registered purchases in excess of euro 16 million, a year-on-year increase of over 50%. Total turnover exceeded euro 11 million, 30% higher than in 2004.

The group's subsidiary Vortal, which owns a portal specialising in civil construction and public works - econstroi.com – also performed well this year. The company ended the year with 3,100 customers operating on its platform and total sales of euro 4.4 million, corresponding to year-on–year increases of 36% and 14% respectively.

Consolidated Figures — euro thousand

Variables and indicators	2004	2005
Net Assets	52,430	210,410
Capital and Reserves	23,716	50,572
Equity Holding Portfolio	41,880	177,344
Net income	17,029	-515

ESPIRITO SANTO
Tech Ventures

Head Office:
Av. António Sérgio, n.º 22 - 2.º, Miraflores
1495-132 Algés
Portugal
Share Capital:
euro 65 million
BES Holding:
100%

09.
Final Note

The form and content of this report follow applicable regulatory requirements, their preparation being the exclusive responsibility of the Board of Directors of Banco Espírito Santo S.A.

We end by expressing the high esteem in which we hold the monetary and financial authorities and the Fiscal Board. To our Shareholders, customers, and Employees, we also wish to express our recognition for their ever-valuable contribution to the progress of the Banco Espírito Santo Group.

Lisbon, 20 February 2006

The Board of Directors

António Luís Roquette Ricciardi
Ricardo Espírito Santo Silva Salgado
Jean Gaston Pierre Marie Victor Laurent
Mário Mosqueira do Amaral
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
José Manuel Ferreira Neto
Manuel de Magalhães Villas-Boas
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Herman Agneessens
Patrick Gérard Daniel Coudène
Michel Victor François Vilatte
Mário Martins Adegas
Luís António Burnay Pinto de Carvalho Daun e Lorena
Lázaro de Mello Brandão
Ricardo Abecassis Espírito Santo Silva
Bernard Henri Georges De Witt
José Manuel Ruivo da Pena
Jean Frédéric de Leusse
Amílcar Carlos Ferreira de Morais Pires
Bernard Delas
Miguel António Igrejas Horta e Costa

_ We transform knowledge and hard work into results.

Cândida Hofer
" Rijksmuseum Amsterdam II ", 2003 | 185 x 152 cm | Edition 5/6 | *Courtesy of* Galerie Rudiger Schottle

02. FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

01.
Consolidated Financial Statements and Notes to the Financial Statements

1.1
Consolidated Statement of Income as of 31 December 2005

in thousand of euros

	Dec 04 PABS	Dec 04 IFRS	Dec 05 IFRS
Interest income	2,217,984	2,210,318	2,027,285
Interest expense	1,516,811	1,513,361	1,286,658
Net interest income	**701,173**	**696,957**	**740,627**
Dividends from securities	17,262	17,262	38,868
Commissions and other similar income	450,194	454,024	486,048
Commissions and other similar expenses	52,100	52,100	62,491
Gains and losses in financial assets at fair value	43,137	43,137	10,551
Gains and losses in financial assets available for sale	110,041	60,167	92,321
Gains and losses from foreign exchange revaluation	9,927	9,927	92,007
Gains and losses from sale of other assets	47,716	8,257	34,843
Other income from banking activity	51,887	107,193	97,255
Banking Income	**1,379,237**	**1,344,824**	**1,530,029**
Staff expenses	330,143	486,357	453,727
Other administrative expenses	289,388	300,006	327,168
Depreciation	130,632	101,128	80,279
Provisions net of reversals	107,818	73,034	75,005
Loan impairment net of reversals and recoveries	226,968	226,301	219,916
Other financial assets' impairment net of reversals and recoveries	18,245	18,245	25,252
Other assets' impairment net of reversals and recoveries	4,688	4,688	429
Sale of financial investments	81,567	81,567	-
Negative difference from consolidation	-	-	-
Equity in earnings of associated companies	4,560	4,560	7,695
Income before tax	**357,482**	**221,192**	**355,948**
Tax			
Current tax	42,301	42,834	76,791,
Deferred tax	-	3,866	(10,920)
Income after tax and before minority interests	**315,181**	**174,492**	**290,077**
Minority interests	40,002	22,849	9,596
Net income	**275,179**	**151,643**	**280,481**

Chief Accountant

The Board of Directors

1.2

Consolidated Balance Sheet as of 31 December 2005

in thousand of euros

	Dec 04 PABS	Dec 04 IFRS	Dec 05 IFRS
ASSETS			
Cash and deposits at Central Banks	999,036	999,499	1,005,008
Loans and advances to credit institutions repayable on demand	602,182	602,182	655,180
Financial Assets held for trading	1,773,996	2,355,899	2,995,743
Financial assets at fair value through profit or loss	-	-	1,746,898
Financial Assets held for trading	5,628,349	3,231,055	3,808,554
Loans and advances to banks	5,434,552	5,463,525	6,164,044
Loans and advances to customers	27,652,033	27,715,271	30,832,124
(Provisions)	(435,900)	(772,437)	(829,874)
Held to maturity investments	-	476,202	596,840
Financial Assets with repurchase agreements	-	-	-
Hedging derivatives	-	249,200	124,505
Non current assets held for sale	-	-	157,536
Investment property	-	-	-
Other Intagible assets	352,372	342,058	363,092
Intagible assets	132,989	72,378	71,940
Investments in associated companies	50,601	58,940	62,374
Current tax assets	15,943	4,228	13,089
Deferred tax assets	-	92,799	42,210
Other assets	3,258,912	1,388,563	1,582,704
TOTAL ASSETS	**45,900,965**	**43,051,799**	**50,221,841**
LIABILITIES			
Amounts owed to central banks	498,953	498,953	654,316
Financial liabilities held for trading	515,241	634,863	1,271,732
Financial assets at fair value through profit or loss	-	-	-
Deposits from banks	5,713,249	5,737,417	6,264,892
Due to customers	20,371,090	20,418,790	20,753,083
Debt securities	12,702,526	10,236,302	14,402,291
Financial liabilities associated to transferred assets	-	-	-
Hedging derivatives	240,061	240,100	111,098
Non current liabilities held for sale	-	-	112,428
Provisions	560,679	84,156	155,356
Current income tax liabilities	23,086	23,086	48,945
Deferred income tax liabilities	-	944	46,411
Instruments representing capital	-	-	-
Other subordinated loans	2,013,143	2,065,924	2,367,597
Other liabilities	363,710	554,997	1,004,080
TOTAL LIABILITIES	**43,001,738**	**40,495,532**	**47,192,229**
SHAREHOLDERS' EQUITY			
Share capital	1,500,000	1,500,000	1,500,000
Share premium	300,000	300,000	300,000
Other capital interests	-	-	-
Treasury stock	-	(100,174)	(96,247)
Preference shares	-	-	600,000
Fair value reserve	-	-	365,691
Other reserves and retained earnings	178,643	58,963	(26,065)
Profit for the period / year	275,179	151,643	280,481
Anticipated dividends	-	-	-
Minority interests	645,405	645,835	105,752
TOTAL SHAREHOLDER' EQUITY	**2,899,227**	**2,556,267**	**3,029,612**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUTY	**45,900,965**	**43,051,799**	**50,221,841**

Chief Accountant

The Board of Directors

1.3

Notes to the Consolidated Financial Statements

Consolidated income statement for the years ended 31 December 2005 and 2004

in thousand of euros

	Notes	31.12.2005	31.12.2004
Interest and similar income	5	2,027,285	2,210,318
Interest expense and similar charges	5	1,286,658	1,513,361
Net interest income		**740,627**	**696,957**
Dividend income		38,868	17,262
Fee and commission income	6	486,048	454,024
Fee and commission expense	6	62,491	52,100
Net gains from financial assets at fair value through profit or loss	7	10,551	43,137
Net gains from available-for-sale financial assets	8	92,321	60,167
Net gains from foreign exchange differences	9	92,007	9,927
Net gains from the sale of other financial assets		34,843	8,257
Other operating income		97,255	107,193
Operating income		**1,530,029**	**1,344,824**
Staff costs	10	453,727	486,357
General and administrative expenses	12	327,168	300,006
Depreciation and amortisation	24 and 25	80,279	101,128
Provisions net of reversals	31	75,005	73,034
Loans impairment net of reversals	20	219,916	226,301
Impairment on other financial assets net of reversals	18, 19 and 21	25,252	18,245
Impairment on other assets net of reversals	27	429	4,688
Operating expenses		**1,181,776**	**1,209,759**
Gains on disposal of investments in subsidiaries and associates	1	-	81,567
Share of profit of associates	26	7,695	4,560
Profit before income tax		**355,948**	**221,192**
Income tax			
Current tax	32	76,791	42,834
Deferred tax	32	(10,920)	3,866
		65,871	**46,700**
Profit for the year		**290,077**	**174,492**
Attributable to equity holders of the Bank		**280,481**	**151,643**
Attributable to minority interest	36	**9,596**	**22,849**
		290,077	**174,492**
Earnings per share of profit attributable to the equity holders of the Bank			
Basic (in Euros)	13	0.96	0.52
Diluted (in Euros)	13	0.96	0.52

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

Consolidated balance sheet as at 31 December 2005 and 2004

in thousand of euros

	Notes	31.12.2005	31.12.2004
Assets			
Cash and deposits at central banks	14	1,005,008	999,499
Deposits with banks	15	655,180	602,182
Financial assets held for trading	16	2,995,743	2,355,899
Financial assets at fair value through profit or loss	17	1,746,898	-
Available-for-sale financial assets	18	3,808,554	3,231,055
Loans and advances to banks	19	6,164,044	5,463,525
Loans and advances to customers	20	30,832,124	27,715,271
Held to maturity investments	21	596,840	476,202
Hedging derivatives	22	124,505	249,200
Non-current assets held for sale	23	157,536	-
Property and equipment	24	363,092	342,058
Intangible assets	25	71,940	72,378
Investments in associates	26	62,374	58,940
Current income tax assets		13,089	4,228
Deferred income tax assets	32	42,210	92,799
Other assets	27	1,582,704	1,388,563
Total assets		**50,221,841**	**43,051,799**
Liabilities			
Deposits from central banks		654,316	498,953
Financial liabilities held for trading	16	1,271,732	634,863
Deposits from banks	28	6,264,892	5,737,417
Due to customers	29	20,753,083	20,418,790
Debt securities issued	30	14,402,291	10,236,302
Hedging derivatives	22	111,098	240,100
Non-current liabilities held for sale	23	112,428	-
Provisions	31	155,356	84,156
Current income tax liabilities		48,945	23,086
Deferred income tax liabilities	32	46,411	944
Subordinated debt	33	2,367,597	2,065,924
Other liabilities	34	1,004,080	554,997
Total liabilities		**47,192,229**	**40,495,532**
Equity			
Share capital	35	1,500,000	1,500,000
Share premium	35	300,000	300,000
Treasury stock	35	(96,247)	(100,174)
Preference shares	35	600,000	-
Fair value reserve	36	365,691	-
Other reserves and retained earnings	36	(26,065)	58,963
Profit for the year		280,481	151,643
Total equity attributable to equity holders of the Bank		**2,923,860**	**1,910,432**
Minority interests	36	105,752	645,835
Total equity		**3,029,612**	**2,556,267**
Total equity and liabilities		**50,221,841**	**43,051,799**

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

Statement of changes in consolidated equity for the years ended 31 December 2005 and 2004

In thousand of euros

	Share capital	Share premium	Treasury stock	Preference shares	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)	**1,500,000**	**300,000**	**(102,304)**	**-**	**-**	**(109,725)**	**250,245**	**1,838,216**	**637,804**	**2,476,020**
Changes in treasury stock	-	-	2,130	-	-	2,955	-	5,085	-	5,085
Transfer to reserves	-	-	-	-	-	151,245	(151,245)	-	-	-
Dividends on ordinary shares [(a)]	-	-	-	-	-	-	(99,000)	(99,000)	-	(99,000)
Regulation nr. 4/2002 (see Note 2.6)	-	-	-	-	-	26,974	-	26,974	(59)	26,915
Exchange differences	-	-	-	-	-	(12,786)	-	(12,786)	24	(12,762)
Other consolidation reserves	-	-	-	-	-	300	-	300	(5,442)	(5,142)
Changes in minority interests (see Note 36)	-	-	-	-	-	-	-	-	(9,341)	(9,341)
Profit for the year	-	-	-	-	-	-	151,643	151,643	22,849	174,492
Balance as at 31 December 2004 IFRS (excluding IAS 32 and IAS 39)	**1,500,000**	**300,000**	**(100,174)**	**-**	**-**	**58,963**	**151,643**	**1,910,432**	**645,835**	**2,556,267**
Effect of adoption of IAS 32 and IAS 39 (see Note 42)	-	-	-	600,000	32,171	(123,293)	-	508,878	(564,206)	(55,328)
Balance as at 1 January 2005 IFRS	**1,500,000**	**300,000**	**(100,174)**	**600,000**	**32,171**	**(64,330)**	**151,643**	**2,419,310**	**81,629**	**2,500,939**
Changes in fair value, net of taxes	-	-	-	-	333,520	-	-	333,520	(14,601)	318,919
Exchange differences	-	-	-	-	-	26,086	-	26,086	1,939	28,025
Transfer to reserves	-	-	-	-	-	43,599	(43,599)	-	-	-
Dividends on ordinary shares [(a)]	-	-	-	-	-	-	(108,044)	(108,044)	-	(108,044)
Dividends on preference shares	-	-	-	-	-	(33,480)	-	(33,480)	-	(33,480)
Changes in treasury stock	-	-	3,927	-	-	2,060	-	5,987	-	5,987
Changes in minority interests (see Nota 36)	-	-	-	-	-	-	-	-	27,189	27,189
Profit for the year	-	-	-	-	-	-	280,481	280,481	9,596	290,077
Balance as at 31 December 2005	**1,500,000**	**300,000**	**(96,247)**	**600,000**	**365,691**	**(26,065)**	**280,481**	**2,923,860**	**105,752**	**3,029,612**

(a) Corresponds to a dividend per share of 0,37 euros and 0,33 euros as at 31 December 2005 and 2004, respectively, distributed to the shares outstanding.
The following notes form an integral part of these financial statements.

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

in thousand of euros

	Notes	31.12.2005	31.12.2004
Cash flows arising from operating activities			
Interest and similar income received		2,040,141	2,213,547
Interest expense and similar charges paid		(1,239,725)	(1,494,672)
Fee and commission expense received		597,436	572,343
Fee and commission income paid		(62,491)	(52,100)
Recoveries on loans previously written off		20,187	25,561
Cash payments to employees and suppliers		(954,893)	(857,754)
		400,655	**406,925**
Changes in operational assets and liabilities:			
Cash and deposits at central banks		(36,499)	(25,137)
Financial assets at fair value through profit or loss		(1,725,907)	(664,076)
Deposits with banks		(696,171)	1,402,000
Deposits from banks		671,582	(256,438)
Loans and advances to customers		(3,312,363)	(2,408,451)
Due to customers		305,409	234,476
Hedging derivatives		(35,627)	30,877
Other operational assets and liabilities		687,369	(435,333)
Net cash flow from operating activities before income taxes		**(3,741,552)**	**(1,715,157)**
Income taxes paid		(59,793)	(50,406)
Net cash flow from operating activities		**(3,801,345)**	**(1,765,563)**
Cash flows arising from investing activities			
Acquisition of subsidiaries and associates		(3,859)	(4,013)
Disposal of subsidiaries and associates		5,645	92,362
Dividends received		38,868	17,262
Acquisition of available-for-sale financial assets		(8,531,907)	(15,675,557)
Sale of available-for-sale financial assets		8,001,646	14,681,010
Held to maturity investments		(87,143)	(427)
Acquisition of tangible and intangible assets		(95,686)	(90,721)
Sale of tangible and intangible assets		6,376	2,645
Net cash flow from investing activities		**(666,060)**	**(977,439)**
Cash flows arising from financing activities			
Proceeds from issue of bonds		5,756,842	3,261,301
Reimbursement of bonds		(1,460,326)	(1,590,225)
Proceeds from issue of subordinated debt		290,983	1,100,000
Reimbursement of subordinated debt		(44,892)	(161,640)
Treasury stock		3,927	2,130
Dividends paid from ordinary shares		(108,044)	(99,000)
Dividends paid from preference shares		(33,480)	-
Net cash flow from financing activities		**4,405,010**	**2,512,566**
Effect of exchange rate changes on cash and cash equivalents		84,418	177,754
Net changes in cash and cash equivalents		**22,023**	**(52,682)**
Cash and cash equivalents at the beginning of the year		**864,645**	**917,327**
Cash and cash equivalents at the end of the year		**886,668**	**864,645**
Cash and cash equivalents include:		**22,023**	**(52,682)**
Cash	14	231,488	262,463
Deposits with banks	15	655,180	602,182
Total		**886,668**	**864,645**

The following notes form na integral part of these financial statements

Banco Espírito Santo Group
Notes to the consolidated financial statements as at 31 December 2005
(Amounts expressed in thousands of euros, except when indicated)

Note _01
Activity and Group structure

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

BES's foundation dates back to the last quarter of the 19th century. The Bank began operations as a commercial bank in 1937, following the merger of Banco Espírito Santo and Banco Comercial de Lisboa, from which resulted Banco Espírito Santo e Comercial de Lisboa. By public deed of 6 July 1999, the Bank changed its name to Banco Espírito Santo, S.A.

BES is listed on the Euronext Lisbon. As at 31 December 2005, the Bank's subsidiary BES Finance, Ltd had 600 thousand preference shares listed on the Luxembourg Stock Exchange.

Since 1992, BES is part of the Espírito Santo Group, therefore its financial statements are consolidated by BESPAR SGPS, S.A., headquartered in Rua de São Bernardo, no. 62 in Lisbon, and by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxembourg.

BES Group has a network of 639 branches throughout Portugal (31 December 2004: 646), international branches in London, New York, Nassau and the Cayman Islands, a branch in the Madeira Free Zone, and twelve overseas representative offices.

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	Acquired	Headquartered	Activity	% Economic Interest	Consolidation Method
BANCO ESPÍRITO SANTO, SA (BES)	1937	-	Portugal	Commercial Banking		
Banco Espírito Santo de Investimento, SA (BESI)	1993	1997	Portugal	Investment banking	100%	Full consolidation
Espírito Santo Capital - Sociedade de Capital de Risco, SA (ESCAPITAL)	1988	1996	Portugal	Venture capital	100%	Full consolidation
Sotancro, S.A.	1999	1999	Portugal	Glass packaging	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	25.25%	Equity method
HLC - Centrais de Cogeração, S.A.	1999	1999	Portugal	Services provider	24.50%	Equity method
Coporgest	2002	2005	Portugal	Holding company	20%	Equity method
ESSI Comunicações SGPS, SA	1998	1998	Portugal	Holding company	100%	Full consolidation
ESSI SGPS, SA	1997	1997	Portugal	Holding company	100%	Full consolidation
Espírito Santo Investment, S.A.U., S.V.	2000	2000	Spain	Brokerage	100%	Full consolidation
Concordia - Espírito Santo Investment	2005	2005	Poland	Services provider	49%	Equity method
Espírito Santo Investments PLC	1996	1996	Ireland	Brokerage	100%	Full consolidation
Morumbi Capital Fund	2005	2005	Cayman Islands	Fund	100%	Full consolidation
ESSI Investimentos SGPS, SA	1998	1998	Portugal	Holding company	100%	Full consolidation
Espirito Santo Investimentos, Ltda	1996	1996	Brasil	Holding company	100%	Full consolidation
BES Investimento do Brasil, SA	2000	2000	Brasil	Investment banking	80%	Full consolidation
BES Securities do Brasil, SA	2000	2000	Brasil	Brokerage	80%	Full consolidation
BES Activos Financeiros, Ltda	2004	2004	Brasil	Asset management	80%	Full consolidation
BRB Internacional, S.A.	2001	2001	Spain	Entertainment	24.93%	Equity method
Prosport - Com. Desportivas, S.A.	2001	2001	Spain	Sporting goods trading	25%	Equity method
Apolo Films, SL	2001	2001	Spain	Entertainment	25.15%	Equity method
Cominvest- SGII, S.A.	1993	1993	Portugal	Real-estate	25%	Equity method
Kutaya	1999	1999	Portugal	Support services	100%	Full consolidation
ROPSOH - Unidades de Saúde, SA	2005	2005	Portugal	Services provider	80%	Full consolidation
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	38.67%	Full consolidation [a)]
LOG ESCIC, SGPS, SA	2005	2005	Portugal	Holding company	18.80%	Equity method [b)]
Banco Espírito Santo, SA (Espanha) (BESSA)	1992	1992	Spain	Commercial banking	100%	Full consolidation
Espírito Santo Servicios, SA	1997	1997	Spain	Insurance	99.98%	Full consolidation
Espírito Santo Activos Financieros, SA	2000	2000	Spain	Asset management	100%	Full consolidation
Gómez-Alcaraz	2005	2005	Spain	Asset management	100%	Full consolidation
Banco Espírito Santo dos Açores, SA (BAC)	2002	2002	Portugal	Commercial banking	58.17%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Internet Banking	66.00%	Full consolidation
Banco Espírito Santo Angola, SARL (BESA)	2001	2001	Angola	Commercial banking	79.96%	Full consolidation
Banco Espírito Santo do Oriente, SA (BESOR)	1996	1996	Macau	Commercial banking	99.75%	Full consolidation
Espírito Santo Bank (ESBANK)	1963	2000	USA	Commercial banking	98.45%	Full consolidation
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman Islands	Commercial banking	100%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman Islands	Commercial banking	100%	Full consolidation
Parsuni - Sociedade Unipessoal, SGPS	2004	2005	Portugal	Holding company	100%	Full consolidation
Espírito Santo, plc. (ESPLC)	1999	1999	Ireland	Non-bank finance company	99.98%	Full consolidation
BESleasing e Factoring - Instituição Financeira de Crédito, SA (BESLEASING)	1990	1990	Portugal	Leasing and factoring	89.36%	Full consolidation
Crediflash - Sociedade Financeira para Aquisições a Crédito, SA (CREDIFLASH)	1991	1991	Portugal	Consumer credit	98.94%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Holding company	85%	Full consolidation

	Established	Acquired	Headquartered	Activity	% Economic Interest	Consolidation Method
Espírito Santo Fundos de Investimento Mobiliário, SA	1987	1987	Portugal	Asset management – Securities funds	85%	Full consolidation
Espírito Santo International Management, SA	1995	1995	Luxembourg	Asset management – Securities funds	84.83%	Full consolidation
Espírito Santo Fundos de Investimento Imobiliário, SA	1992	1992	Portugal	Asset management – Real estate funds	85%	Full consolidation
Espírito Santo Fundo de Pensões, SA	1989	1989	Portugal	Asset management – Pension funds	85%	Full consolidation
Capital Mais - Assessoria Financeira, SA	1998	1998	Portugal	Advisory services	85%	Full consolidation
Espirito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Advisory services	41.65%	Equity method
Espírito Santo Gestão de Patrimónios, SA	1987	1987	Portugal	Portfolio management	85%	Full consolidation
ESAF - Espírito Santo Participações Internacionais, SGPS, SA	1996	1996	Portugal	Holding company	85%	Full consolidation
ESAF - International Distributors Associates, Ltd	2001	2001	British Virgin Islands	Distribution company	85%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding company	100%	Full consolidation
ES Tech Ventures - Desenv. Empresarial e Serv. de Gestão, SA	2000	2000	Portugal	Services provider	100%	Full consolidation
SGPICE Soc. de Serviços de Gestão	2001	2001	Portugal	Management of internet portals	33.33%	Equity method
Jampur - Trading Internacional, Lda. (JAMPUR)	1999	2001	Portugal	Holding company	100%	Full consolidation
Gespar S/C, Ltda.	2001	2001	Brazil	Holding company	100%	Full consolidation
Banque Espirito Santo et de la Vénétie, SA (BES Vénétie)	1927	1993	France	Commercial banking	40%	Equity method
Banco Espírito Santo North America Capital Corporation (BESNAC)	1990	1990	USA	Financing vehicle	100%	Full consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman Islands	Financing vehicle	100%	Full consolidation
BES Overseas, Ltd. (BESOL)	1996	1996	Cayman Islands	Financing vehicle	100%	Full consolidation
Espírito Santo Overseas, Ltd. (ESOL)	1993	1993	Cayman Islands	Financing vehicle	100%	Full consolidation
ES, Recuperação de Crédito, ACE (ESREC)	1998	1998	Portugal	Debt collection	100%	Full consolidation
Espírito Santo Financial Consultants, SA (ESFC)	1999	2000	Portugal	Portfolio management	100%	Full consolidation
Espírito Santo Concessões, SGPS, SA (ES CONCESSÕES)	2002	2003	Portugal	Holding company	20%	Full consolidation [a]
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	2000	2000	Portugal	Call center services	76.64%	Full consolidation
Espírito Santo Data, S.G.P.S., SA (ESDATA)	1989	1995	Portugal	Computer services	49.00%	Full consolidation [a]
Espírito Santo Inovation, SA	2002	2002	Portugal	Computer services	49.00%	Full consolidation [a]
ES Interaction - Sistemas de Informação Interactiva, SA (ESIACTION)	2000	2000	Portugal	Computer services	49.00%	Full consolidation [a]
OBLOG Consulting, SA	1993	1993	Portugal	Software development	32.67%	Equity method
ES Research - Estudos Financeiros e de Mercados, SA (ESRESEARCH)	2004	2004	Portugal	Advisory services	100%	Full consolidation
Espírito Santo Prestação de Serviços, ACE (ES ACE)	1998	1998	Portugal	Shared services company	100%	Full consolidation
ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., SA (ESGEST)	1995	1995	Portugal	Technical services	100%	Full consolidation
Cêntimo - Sociedade de Serviços, Lda. (CÊNTIMO)	1988	1995	Portugal	Custodian company	100%	Full consolidation
Espírito Santo e Comercial de Lisboa, Inc. (ESCLINC)	1982	1997	USA	Representation office	100%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation office	99.99%	Full consolidation
Quinta dos Cónegos - Sociedade Imobiliária, SA (CÓNEGOS)	1991	2000	Portugal	Real estate	79.27%	Full consolidation
Spainvest, S.A. (SPAINVEST)	1993	1994	Luxembourg	Holding company	100%	Full consolidation
Fundo FCR PME / BES	1997	1997	Portugal	Venture capital fund	57.09%	Full consolidation
Carlua, SGPS, SA	2004	2004	Portugal	Holding company	18.34%	Equity method [b]
Água Mais	2004	2005	Portugal	Food and beverage	17.10%	Equity method [b]
Europ Assistance - Comp. Portuguesa Seguros Assistência, SA (EURASS)	1993	1993	Portugal	Private assistance	23%	Equity method
Espírito Santo - Companhia de Seguros, SA (ESSEGUROS)	1996	1996	Portugal	Insurance	40%	Equity method
Fiduprivate - Soc. de Serviços, Consult., Adm. de Empresas, SA (FIDUPRIVATE)	1994	1994	Portugal	Consulting	24.76%	Equity method
Esumédica - Prestação de Cuidados Médicos, SA (ESUMÉDICA)	1994	1994	Portugal	Health care	24.90%	Equity method
Société Civile Immobilière du 45 Avenue Georges Mandel (SCI GM)	1995	1995	France	Real estate	22.50%	Equity method
ESEGUR - Espírito Santo Segurança, SA (ESEGUR)	1994	2004	Portugal	Private security services	34%	Equity method
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	1991	2003	Portugal	Renting	45%	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.

Additionally and with accordance with SIC 12, the Group consolidation scope includes the following special purpose entities:

	Established	Acquired	Headquartered	Activity	% Economic Interest	Consolidation Method
Lusitano Finance N.º 2	2002	2002	Ireland	Securitisation vehicle	100%	Full consolidation
ROCK LTD 2011	2001	2001	Gibraltar	Special purpose entity	100%	Full consolidation
SEALS FINANCE S.A. 2018	2003	2003	Luxembourg	Special purpose entity	100%	Full consolidation
ELAN LIMITED 2015	2003	2003	Jersey	Special purpose entity	95%	Full consolidation
SB FINANCE LIMITED 2015	2003	2003	Cayman Islands	Special purpose entity	95%	Full consolidation
RAMPER INVESTMENTS LTD 2010	2003	2003	Jersey	Special purpose entity	95%	Full consolidation
ARLO II LIMITED 2013	2003	2003	Cayman Islands	Special purpose entity	95%	Full consolidation
SEALS FINANCE S.A. 2017	2004	2004	Luxembourg	Special purpose entity	95%	Full consolidation
EARLS 4 Limited Series 2011	2001	2001	Cayman Islands	Special purpose entity	95%	Full consolidation
EIRLES THREE AAA 2014	2004	2004	Ireland	Special purpose entity	95%	Full consolidation
SOLAR FUNDING Serie 23,2014	2005	2005	Cayman Islands	Special purpose entity	95%	Full consolidation
VERDANT LIMITED 2013	2003	2003	Cayman Islands	Special purpose entity	95%	Full consolidation
SOLAR FUNDING I 2019	2004	2004	Cayman Islands	Special purpose entity	94%	Full consolidation
SEALS FINANCE S.A 2013	2003	2003	Luxembourg	Special purpose entity	93%	Full consolidation
BTAR INVEST LTD 2016	2002	2002	Jersey	Special purpose entity	90%	Full consolidation
ALPHA-SIRES LTD 2011	2001	2001	Cayman Islands	Special purpose entity	52%	Full consolidation
SOLAR FUNDING Serie 24 2017	2005	2005	Cayman Islands	Special purpose entity	51%	Full consolidation

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

- During the first semester of 2005, Banco Espírito Santo (Spain) – BESSA acquired Banco Inversión, which was subsequently merged into BESSA;
- During the first quarter of 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;
- In accordance with the decision taken by the Board of Directors of BES on 19 September 2005, Banco Internacional de Crédito, S.A. was merged into Banco Espírito Santo, S.A. on 30 December 2005;
- ES Tech Ventures SGPS, S.A. increased its share capital from euro 50 million to euro 65 million, and acquired (i) from BES its stake in BES Vénétie (40%), (ii) from Spainvest its 10,39% stake in BESSA and (iii) from BES and BESI their stake in Jampur, which is, since then, fully owned by ES Tech Ventures SGPS, S.A.;
- The investments of BES, ES Contact Center and ES Tech Ventures in ES Interaction were sold to ES Innovation which became the only shareholder of the company. From then on, ES Interaction is fully consolidated by Espírito Santo Data, SGPS, S.A.;
- Also in 2005, BES sold its stake in ES Capital to BESI. Furthermore, BESI acquired the stake of Gestres – Gestão Estratégica Espírito Santo, S.A. in ES Capital, becoming the sole shareholder of the company. Therefore, from then on ES Capital is fully consolidated by BESI;
- At the end of the year, ES Cobranças, S.A. changed its legal form to a shared services provider, and changed its denomination to ES Recuperação de Crédito, ACE.

For the year ended 31 December 2004, the amount of euro 81,567 thousand under gains on disposal of investments in subsidiaries and associates is analysed as follows:

in thousand of euros

	31.12.2004	
	% of Share Capital sold	Amount
CREDIBOM, Sociedade Financeira para Aquisições a Crédito, S.A.	14.98%	24,753
PORTLINE, Transportes Marítimos Internacionais, S.A.	33.32%	4,381
CLARITY, Incentive Systems, Inc.	44.60%	20,102
ES CONCESSÕES, SGPS, S.A.	80.00%	32,331
		81,567

Note_02.
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, 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, S.A. ("BES" 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 BES are prepared in accordance with IFRS as adopted for use in the 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 and financial liabilities 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 20 February 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) Property and equipment

As allowed by IFRS 1, the Group has elected to consider as deemed cost of individual items of property and equipment at the date of transition to IFRS (1 January 2004), their revalued amount as determined in accordance with the previous accounting policies of the Group, which is broadly similar to depreciated cost measured under IFRS adjusted to reflect changes in a specific price index.

(iii) Cumulative translation differences

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

(iv) Derecognition of financial assets

In accordance with the exemption granted by IFRS 1, the Group decided to apply the IAS 39 derecognition requirements to the transactions made from 1 January 2004, prospectively. Therefore, assets derecognised until that date, in accordance with the previous accounting policies of the Group, were not restated in the balance sheet.

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 42.

2.2
Basis of consolidation

These consolidated financial statements comprise the financial statements of Banco Espírito Santo, S.A and its subsidiaries ("the Group" or "BES 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 BES's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euro as follows:

- Assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions;
- 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 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 statement of income.

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 amortised cost. The difference between cost and par, representing the premium or discount at time of purchase, was amortised over the remaining life and recorded in the statement of income. Accrued interest was recognised 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 realisable 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 realisable value, were fully provided for in the statement of income.

• ***Bonds overdue***

Unrealised losses with bonds overdue were provided in accordance with the criterion 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.

Preference shares issued are considered as financial liabilities when they contain an obligation of the Group to repay the principal and/or to pay dividends.

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.

Preference shares issued are considered as equity instruments if the Group has no contractual obligation to redeem and if dividends are paid only if and when declared by the Group.

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 deemed cost less accumulated depreciation and impairment losses. As referred to in Note 2.1, at the transition date to IFRS, the Group elected to consider as deemed cost, the revalued amount of property and equipment as determined in accordance with previous accounting policies of the Group, which was broadly similar to depreciated cost measured under IFRS adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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	35 to 50
Improvements in leasehold property	10
Computer Equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 12
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

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

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

2.13
Intangible assets

Acquired computer software 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.

• As lessor

Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets.

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

2.15
Employee benefits

Pensions

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 Group's subsidiary.

The pension plans of the Group are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In the light of IFRS 1, the Group decided to adopt, at transition date (1 January 2004), IAS 19 retrospectively and has recalculated the pension and other post-retirement benefits obligations and the corresponding actuarial gains and losses to be deferred in accordance with the corridor method allowed by this accounting standard.

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 correspond 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.

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.

Share based payments (SIBA)

BES and its subsidiaries established a share based payment scheme (SIBA) that allows its employees to acquire BES shares with deferred settlement financed by it. The employees have to hold the shares for a minimum of two to four years after which they can sell the shares in the market and repay the debt. However, the employees have, after the referred period, the option to sell the shares back to BES at acquisition cost.

The shares held by the employees under this scheme are accounted for as treasury stock of BES.

Each option under the scheme, corresponding to an equity-settled share based payment, is fair valued on grant date and is recognised as an expense, with a corresponding increase in equity, over the vesting period. Annually the amount recognised as an expense is adjusted to reflect the actual number of options that vest.

The equity instruments granted are not remeasured for subsequent changes in their fair value.

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 except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future 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.

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

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_03
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
Securitisations and special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for asset securitisation transactions and for liquidity purposes.

The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question (see Note 2.2).

The determination of the SPEs that needs to be consolidated by the Group requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual gains and losses. Different estimates and assumptions could lead the Group to a different scope of consolidation with a direct impact in net income.

3.5
Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement.

In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

The use of different assumptions and estimates would result in the determination of the fair value of this portfolio with a corresponding entry in the fair value reserve in shareholders' equity.

3.6
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, are confident that there will be no material tax assessments within the context of the financial statements.

3.7
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_04
Segment reporting

BES Group is structured in accordance with the following business areas:

(i) Corporate and retail banking - relates to operations made with corporates (loans, project finance, guarantees, among others) and includes transactions with individuals, namely loans and advances and deposits;

(ii) Investment banking – includes the investment banking activity, namely mergers and acquisitions advice, debt issues arrangements, studies and analysis;

(iii) Asset management – includes the investment fund management and asset management activities;

(iv) Leasing & Factoring – includes leasing and factoring operations, as well the activity of issuing and management of debit and credit cards;

(v) Other – includes the remaining segments that individually represent less than 10% of total assets or profit for the year and that combined do not represent more that 25% of those items.

The primary segments' reporting is presented as follows:

in thousand of euros

31.12.2005	Domestic activity						Foreign activity					
	Corporate and Retail Banking	Investment Banking	Asset Management	Leasing & Factoring	Other	Total	Corporate and Retail Banking	Investment Banking	Asset Management	Total	Intra-Group	Total
Interest and similar income	2,220,081	58,159	829	112,143	6,174	2,397,386	446,018	89,384	48	535,450	(905,551)	2,027,285
Interest expense and similar charges	1,655,724	36,804	4	67,775	4,062	1,764,369	338,692	89,184	-	427,876	(905,587)	1,286,658
Net interest income	564,357	21,355	825	44,368	2,112	633,017	107,326	200	48	107,574	36	740,627
Dividend income	34,339	1,688	-	1,170	1,532	38,729	26	113	-	139	-	38,868
Fee and commission income	331,715	17,459	54,774	27,979	-	431,927	56,743	25,116	6,884	88,743	(34,622)	486,048
Fee and commission expense	51,233	4,368	24,290	1,366	286	81,543	13,571	6,496	-	20,067	(39,119)	(62,491)
Net (losses)/ gains from financial assets at fair value through profit or loss	63,292	7,671	-	271	(21,854)	49,380	6,718	(45,547)	-	(38,829)	-	10,551
Net (losses)/gains from available-for-sale financial assets	75,310	(123)	(4)	-	16,527	91,710	612	(1)	-	611	-	92,321
Net (losses)/gains from foreign exchange differences	(3,403)	(7,074)	57	7	30,794	20,381	13,271	58,120	235	71,626	-	92,007
Net (losses)/gains from the sale of other financial assets	20,106	14,882	10	172	(379)	34,791	52	-	-	52	-	34,843
Other operating income	128,674	36,470	8	2,620	7,344	175,116	2,425	11,901	-	14,326	(92,187)	97,255
Operating income	1,163,157	87,960	31,380	75,221	35,790	1,393,508	173,602	43,406	7,167	224,175	(87,654)	1,530,029
(Operating income from external customers)	1,020,270	103,481	51,781	120,871	32,574	1,328,977	150,479	43,406	7,167	201,052	-	1,530,029
(Inter-segments operating income)	(142,887)	15,521	20,401	45,650	(3,216)	(64,531)	(23,123)	-	-	(23,123)	87,654	-
Staff cost	339,282	22,342	6,013	7,753	7,268	382,658	54,198	17,337	-	71,535	(466)	453,727
General and administrative expenses	321,404	14,188	4,622	17,616	5,474	363,304	40,845	10,156	51	51,052	(87,188)	327,168
Depreciation and amortisation	69,098	1,156	298	2,098	823	73,473	5,810	996	-	6,806	-	80,279
Provisions net of reversals	70,090	537	151	-	(481)	70,297	4,699	9	-	4,708	-	75,005
Loans impairment net of reversals	201,829	8,333	-	10,897	-	221,059	(1,143)	-	-	(1,143)	-	219,916
Impairment on other financial assets net of reversals												
Impairment on other financial assets net of reversals	27,085	(3,311)	-	(415)	1,902	25,261	(9)	-	-	(9)	-	25,252
Impairment on other assets net of reversals	(166)	(1,005)	-	1,635	-	464	(35)	-	-	(35)	-	429
Operating expenses	**1,028,622**	**42,240**	**11,084**	**39,584**	**14,986**	**1,136,516**	**104,365**	**28,498**	**51**	**132,914**	**(87,654)**	**1,181,776**
Share of profit of associates	2,266	606	478	-	-	3,350	4,345	-	-	4,345	-	7,695
Profit before income tax	136,801	46,326	20,774	35,637	20,804	260,342	73,582	14,908	7,116	95,606	-	355,948
Income tax												
Current tax	17,958	25,210	5,949	13,260	6,067	68,444	6,395	443	1,509	8,347	-	76,791
Deferred tax	21,942	(17,708)	97	(1,368)	(8,075)	(5,112)	(5,647)	(161)	-	(5,808)	-	(10,920)
Profit after income tax and before minority interests	**96,901**	**38,824**	**14,728**	**23,745**	**22,812**	**197,010**	**72,834**	**14,626**	**5,607**	**93,067**	**-**	**290,077**
Minority interests	2,672	(53)	7	-	-	2,626	6,974	(4)	-	6,970	-	9,596
Profit for the year (attributable to equity holders of the Bank)	**94,229**	**38,877**	**14,721**	**23,745**	**22,812**	**194,384**	**65,860**	**14,630**	**5,607**	**86,097**	**-**	**280,481**
Other informations:												
Total assets	64,140,086	2,025,067	60,305	2,878,992	332,560	69,437,011	9,587,921	1,592,755	8,244	11,188,919	(30,404,089)	50,221,841
Investments in associates	40,167	14,213	3,649	-	-	58,029	4,345	-	-	4,345	-	62,374
Total liabilities	61,931,813	1,831,175	22,423	2,780,495	232,929	66,798,835	9,279,742	1,517,737	4	10,797,483	(30,404,089)	47,192,229
Capital expenditure (Property and equipment)	40,972	1,287	97	676	131	43,163	17,694	-	-	17,694	-	60,857
Capital expenditure (Intangible assets)	30,615	1,858	73	1,336	3	33,885	6,653	-	-	6,653	-	40,538
31.12.2004												
Operating income from external customers	1,039,406	84,112	25,290	68,008	31,610	1,248,426	132,028	43,955	1,982	177,965	-	1,426,391
Inter-segment operating income	(63,362)	(2,196)	(17)	(6,498)	(80)	(72,153)	-	-	-	-	-	(72,153)
Profit for the year	27,590	41,796	7,928	19,897	(86)	97,125	34,570	14,514	5,434	54,518	-	151,643
Total assets	56,584,476	1,283,854	52,935	2,438,803	223,469	60,583,537	6,970,663	1,275,852	6,500	8,253,015	(25,784,753)	43,051,799
Investments in associates	(55,814)	28,876	6,236	1,452	77,241	57,991	245	704	-	949	-	58,940
Total liabilities	54,649,757	1,091,840	17,573	2,340,852	223,724	58,323,746	6,737,329	1,218,338	872	7,956,539	(25,784,753)	40,495,532
Capital expenditure (Property and equipment)	37,794	2,166	356	2,688	265	43,269	8,593	-	-	8,593	-	51,862
Capital expenditure (Intangible assets)	31,397	1,120	27	1,397	-	33,941	4,918	-	-	4918	-	38,859

The secondary segment information is prepared in accordance with the geographical distribution of the Groups' business units, as follows:

in thousand of euros

	31.12.2005								
	Portugal	Spain	France	UK	United States of America	Brazil	Angola	Macao	Total
Profit for the year	194,384	9,736	9,952	27,482	7,182	5,778	23,234	2,733	280,481
Total assets	40,641,787	3,233,315	10,758	3,894,448	1,443,039	567,836	352,266	78,392	50,221,841
Capital expenditure (Property and equipment)	43,163	3,962	-	-	2,032	-	11,448	252	60,857
Capital expenditure (Intangible assets)	33,885	6,372	-	-	262	-	-	19	40,538

in thousand of euros

	31.12.2004								
	Portugal	Spain	France	UK	United States of America	Brazil	Angola	Macao	Total
Profit for the year	97,125	16,999	7,377	29,640	(4,072)	(6,869)	10,073	1,370	151,643
Total assets	34,796,757	2,695,924	8,443	3,622,092	1,207,093	467,092	192,778	61,620	43,051,799
Capital expenditure (Property and equipment)	43,269	2,448	-	-	4,306	-	1,807	32	51,862
Capita (Intangible assets)	33,941	1,444	-	-	-	-	3,440	34	38,859

Note_05
Net interest income

This caption is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Interest and similar income		
Interest from loans and advances	1,313,169	1,179,729
Interest from deposits with banks	155,986	138,543
Interest from financial assets at fair value through profit or loss	307,128	41,927
Interest from available-for-sale financial assets	118,440	202,724
Interest from hedging derivatives	88,062	358,834
Other interest and similar income	44,500	288,561
	2,027,285	**2,210,318**
Interest expense and similar charges		
Interest from debt securities	442,574	365,173
Interest from amounts due to customers	318,108	300,192
Interest from deposits from central banks and other banks	230,944	157,988
Interest from subordinated debt	114,761	92,093
Interest from hedging derivatives	178,247	324,699
Other interest expense and similar charges	2,024	273,216
	1,286,658	**1,513,361**
	740,627	**696,957**

Note_06
Net fee and commission income

This caption is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Fee and commission income		
From banking services rendered to third parties	306,524	276,767
From guarantees granted	55,608	52,215
From transactions with securities	31,162	23,668
From commitments assumed to third parties	7,591	14,625
Other fee and commission income	85,163	86,749
	486,048	**454,024**
Fee and commission expense		
From banking services rendered by third parties	36,373	21,430
From transactions with securities	5,135	3,935
From guarantees received	707	339
Other fee and commission expense	20,276	26,396
	62,491	**52,100**
	423,557	**401,924**

Note_07
Net gains from financial assets at fair value through profit or loss

This caption is analysed as follows:

in thousand 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	90,577	108,267	(17,690)	63,657	66,848	(3,191)
Issued by other entities	231,104	184,992	46,112	23,680	4,039	19,641
Share	148,543	81,150	67,393	41,704	26,489	15,215
Other variable income securities	96,590	81,658	14,932	23,981	4,155	19,826
Derivative financial instruments	4,642,825	4,743,558	(100,733)	1,610,214	1,627,044	(16,830)
Other	537	-	537	23,748	15,272	8,476
	5,210,176	**5,199,625**	**10,551**	**1,786,984**	**1,743,847**	**43,137**

Included in derivative financial instruments is an amount of approximately euro 107 million related to gains on derivative financial instruments arising from the consolidation of special purpose entities, in accordance with SIC 12, that were sold during 2005.

Note_08
Net gains from available-for-sale financial assets

This caption is analysed as follows:

in thousand of euros

	31.12.2005			31.12.2004		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issue by government and public entities	189	400	(211)	8,986	9,323	(337)
Issue by other entitites	49,604	20,574	29,030	149,179	151,339	(2,160)
Share	138,244	76,299	61,945	97,569	43,092	54,477
Other variable income securities	1,557	-	1,557	8,220	33	8,187
	189,594	97,273	92,321	263,954	203,787	60,167

During the third quarter of 2005, the Group sold Portugal Telecom shares, which generated a loss of approximately euro 69.8 million.

Also during the third quarter of 2005, the Group sold approximately 1.3% of Banco Bradesco ordinary shares to the Pension Fund, generating a gain in the amount of approximately euro 72.6 million. After this transaction, BES Group maintains a stake of 2.67% in the share capital of Banco Bradesco.

Additionaly, during the third quarter of 2005, the Group sold its holding of preference shares of Bradespar (Bradesco Group holding for non financial activities) in the international market. The 9.5 million preference shares sold, corresponding to 16.8% of Bradespar's total preference share capital, generated a gain of approximately euro 28 million. At 31 December 2005 BES Group, through GESPAR, maintains 10.8% of voting rights in Bradespar.

The other major transactions ocurred during 2005, include the following: (i) the sale of the residual notes acquired following the mortgage loans securitisation transaction carried out in September 2005 (Lusitano Mortgages No.4), which generated a gain of euro 27.2 million (during 2004, the sale of part of the residual notes acquired following the mortgage loans securitisation transactions realized, originated a gain of euro 63.5 million), and (ii) the disposal of part of Group's stake in PT Multimédia, that generated a gain of euro 29.3 million. In this transaction, approximately 15.2 million of PT Multimédia shares were sold to the Pension Fund, originating a gain of approximately euro 27 million.

Note_09
Net gains from foreign exchange differences

This caption is analysed as follows:

in thousand of euros

	31.12.2005			31.12.2004		
	Gain	Losses	Total	Gain	Losses	Total
Foreign exchange translation	747,802	655,795	92,007	374,954	365,027	9,927
	747,802	**655,795**	**92,007**	**374,954**	**365,027**	**9,927**

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 2.3.

Note_10
Staff costs

This caption is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Wages and salaries	310,843	293,050
Remuneration	307,009	289,902
Long-service benefits (see Note 11)	3,834	3,148
Health-care benefits - SAMS	17,044	13,140
Other mandatory social charges	36,428	33,865
Pension costs (see Note 11)	71,262	131,439
Other costs	18,150	14,863
	453,727	**486,357**

The health-care benefits – SAMS include the amount of euro 8,322 thousand (31 December 2004: euro 11,555 thousand) related to the health care net periodic benefit cost, which was determined based on an actuarial valuation (see Note11). The decrease of these costs in 2005 is mainly due to the recognition in 2004 of curtailment costs related to early retirements occurred during that period.

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 82.6 million (31 December 2005: euro 20.9 million).

Included in other costs is the amount of euro 2,060 thousand (31 December 2004: euro 2,955 thousand) related to the "Stock Based Incentive Scheme" (SIBA), in accordance with the accounting policy described in Note 2.15. The details of this scheme are analysed in Note 11.

The salaries and other benefits costs attributed to the Board of Directors and Fiscal Board of BES are analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Board of Directors		
Salaries and other short-term benefits	4,422	4,438
Pension costs and health-care benefits (SAMS)	297	239
Long-service benefits	64	69
Bonus	5,217	4,710
	10,000	**9,456**
Fiscal Board	22	22
	10,022	**9,478**

As at 31 December 2005 and 2004, the loans granted by the Group to the Board of Directors of BES amounted to 4,953 thousand euros and 1,500 thousand euros, respectively.

As at 31 December 2005 and 2004, the number of employees of the Group is analysed as follows:

	31.12.2005	31.12.2004
BES employees	5,084	4,115
Financial sector subsidiary employees	2,507	3,183
Financial sector employees	**7,591**	**7,298**
Employed by other companies essencially providing services to customers outside the Group	933	943
	8,524	**8,241**

By professional category, the number of employees of the Group is analysed as follows:

	31.12.2005	31.12.2004
Senior management	681	644
Management	1,197	1,247
Specific functions	3,066	2,866
Administrative functions	3,435	3,397
Auxilliary functions	145	87
	8,524	**8,241**

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.

As at 30 December 1987, the Bank established a pension fund to cover the above mentioned liabilities with pension payments in relation to the employees in service at that time. In 1998, the Bank and the Group's subsidiaries decided to set up an autonomous open-up pension fund – the Fundo de Pensões Aberto GES – to fund complementary pension benefits of pensioners and employees in service.

These pension funds in Portugal are 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%	5.32%	6.80%
Pensions increase rate	1.75%	1.75%	1.98%	2.50%
Expected return of plan assets	5.25%	5.50%	10.49%	5.10%
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 2.15, 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, BES 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 131.2 million (2004: euro 52.3 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 82.3 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	5,999	5,979
Pensioners	4,448	4,409
Widows and other direct relatives	842	824
Total	**11,289**	**11,212**

The real estate assets rented to the BES Group and securities issued by Group companies which are part of the Pension Fund assets are analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Shares	53,411	47,072
Bonds	2,237	5,409
Real estate assets	120,417	108,348
Total	**176,065**	**160,829**

The shares held by the pension fund are 3.7 million shares of BES and 60 thousand shares of Sotancro (31 December 2004: 3.0 million shares of BES and 55 thousand shares of Esegur).

The bonds held by the pension fund have been issued by BESI.

During 2005 the Group sold to the pension fund: 16.5 million Treasury Bonds; 11.7 million investment fund units of Fungere; 3.3 million shares of Banco Bradesco; and 15 million shares of PT Multimédia (see Note 8). In 2005, the Group acquired from the Pension Fund 6.2 million shares of PT Multimédia.

During 2004, the Group sold to the pension fund 10% of the equity pieces of the securitisation transactions Lusitano Mortgages No.1 and No.2, and 35% of the residual note of the transaction Lusitano Global CDO No.1 (see Note 8). Also during 2004, the Group sold to the pension fund its stake in Bolsas y Mercados Españoles, Sociedade Holding de Mercados y Sistemas Financeiros, S.A. (BMEX), originating a gain of approximately euro 16.3 million.

Also during the year ended 31 December 2005, BESI sold the pension fund its stake in Sotancro, which generated a gain in the amount of euro 2.2 million.

As at 31 December 2005 and 2004, the amounts recognised in the balance sheet are determined as follows:

in thousand 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	(1,282,940)	(83,242)	(1,366,182)	(1,148,732)	(71,678)	(1,220,410)
Employees	(543,406)	(34,088)	(577,494)	(404,101)	(24,171)	(428,272)
	(1,826,346)	**(117,330)**	**(1,943,676)**	**(1,552,833)**	**(95,849)**	**(1,648,682)**
Fair value of plan assets at 31 December	**1,816,229**	**-**	**1,816,229**	**1,511,672**	**-**	**1,511,672**
Unfunded liabilities	(10,117)	(117,330)	(127,447)	(41,161)	(95,849)	(137,010)
Unrecognised net actuarial losses at 31 December	630,521	41,237	671,758	490,049	22,536	512,585
Asset/(liabilities) recognised in the balance sheet as at 31 December	**620,404**	**(76,093)**	**544,311**	**448,888**	**(73,313)**	**375,575**

The liabilities arising from the pension and healthcare benefits increased in 2005 and 2004, as follows:

in thousand of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Liabilities at 1 January	**1,552,833**	**95,849**	**1,648,682**	**1,416,490**	**87,403**	**1,503,893**
Service cost	20,045	1,445	21,490	18,478	1,248	19,726
Interest cost	79,155	4,883	84,038	75,416	4,670	80,086
Plan participants' contribution	2,837	-	2,837	2,430	-	2,430
Actuarial (gains) / losses						-
by changes in the mortality table	77,298	5,024	82,322	-	-	-
by changes in the discount rate	123,152	8,006	131,158	49,246	3,078	52,324
other actuarial (gains) / losses	39,592	6,548	46,140	6,555	410	6,965
Benefits paid by the Fund	(91,477)	-	(91,477)	(82,035)	-	(82,035)
Benefits paid by the Group	-	(5,761)	(5,761)	-	(5,126)	(5,126)
Curtailment losses related to early retirements	21,124	1,336	22,460	67,024	4,166	71,190
Other	1,787	-	1,787	(771)	-	(771)
Liabilities at 31 December	**1,826,346**	**117,330**	**1,943,676**	**1,552,833**	**95,849**	**1,648,682**

From the total amount of curtailment losses related to early retirements ocurred during 2005, the amounts of euro 3.738 thousand related to pensions and euro 205 thousand related to health-care benefits which were recognised through the utilisation of the restructuring provision (see Note 31).

The change in the fair value of the plan assets in 2005 and 2004 is analysed as follows:

in thousand 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	**1,511,672**	**-**	**1,511,672**	**1,360,674**	**-**	**1,360,674**
Actual return on plan assets	144,617	-	144,617	68,401	-	68,401
Group contribution	248,652	-	248,652	162,202	-	162,202
Plan participants' contribution	2,837	-	2,837	2,430	-	2,430
Benefits paid by the Fund	(91,477)	-	(91,477)	(82,035)	-	(82,035)
Other	(72)	-	(72)	-	-	-
Fair value of plan assets as at 31 December	**1,816,229**	**-**	**1,816,229**	**1,511,672**	**-**	**1,511,672**

The change in the unrecognised net actuarial losses in 2005 and 2004 is analysed as follows:

in thousand 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	**490,049**	**22,536**	**512,585**	**473,170**	**20,519**	**493,689**
Actuarial (gains) / losses						
by changes in the mortality table	77,298	5,024	82,322	-	-	-
by changes in the discount rate	123,152	8,006	131,158	49,246	3,078	52,324
other actuarial (gains) / losses	(30,117)	6,548	(23,569)	7,724	410	8,134
Amortisation of the year	(26,035)	(695)	(26,730)	(24,558)	(795)	(25,353)
Additional amortisation (curtailment)	(3,826)	(182)	(4,008)	(15,533)	(676)	(16,209)
Unrecognised net actuarial losses as at 31 December	**630,521**	**41,237**	**671,758**	**490,049**	**22,536**	**512,585**
Of which:						
Within the corridor	182,289	11,733	194,022	153,754	9,458	163,212
Outside the corridor	448,232	29,504	477,736	336,295	13,078	349,373

From the amount of the additional amortisation (curtailment) resulting from early retirements ocurred during 2005, the amounts of euro 277 thousand related to pensions and euro 13 thousand related to health-care benefits were recognised as a charge off of the restructuring provision (see Note 31).

The change in unfunded liabilities is analysed as follows:

in thousand 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	**41,161**	**95,849**	**137,010**	**55,816**	**87,403**	**143,219**
Actuarial (gains) / losses of liabilities	240,042	19,578	259,620	55,801	3,488	59,289
Actuarial (gains) / losses of plan assets	(69,709)	-	(69,709)	1,169	-	1,169
Charges for the year:						
Service cost	20,045	1,445	21,490	18,478	1,248	19,726
Interest cost	79,155	4,883	84,038	75,416	4,670	80,086
Expected return on plan assets	(74,908)	-	(74,908)	(69,570)	-	(69,570)
Curtailment losses related to early retirements	21,124	1,336	22,460	67,024	4,166	71,190
Other	1,859	-	1,859	(771)	-	(771)
Contributions of the year and pensions paid by the Group	(248,652)	(5,761)	(254,413)	(162,202)	(5,126)	(167,328)
Unfunded liabilities as at 31 December	**10,117**	**117,330**	**127,447**	**41,161**	**95,849**	**137,010**

The net periodic benefit cost can be analysed as follows:

in thousand of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Service cost	20,045	1,445	21,490	18,478	1,248	19,726
Interest cost	79,155	4,883	84,038	75,416	4,670	80,086
Expected return on plan assets	(74,908)	-	(74,908)	(69,570)	-	(69,570)
Amortisation of the unrecognised net gain / (loss)	26,035	695	26,730	24,558	795	25,353
Curtailment losses related to early retirements	20,935	1,299	22,234	82,557	4,842	87,399
Net periodic benefit cost	**71,262**	**8,322**	**79,584**	**131,439**	**11,555**	**142,994**

The curtailment losses related to early retirements include the effect of the additional amortisation.

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

in thousand of euros

	31.12.2005			31.12.2004		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
At 1 January	**448,888**	**(73,313)**	**375,575**	**417,356**	**(66,885)**	**350,471**
Net periodic benefit cost	(71,262)	(8,323)	(79,585)	(131,439)	(11,554)	(142,993)
Charge-off of provisions	(4,015)	(218)	(4,233)	-	-	-
Contributions of the year and pensions paid by the Group	248,652	5,761	254,413	162,202	5,126	167,328
Other	(1,859)	-	(1,859)	769	-	769
At 31 December	**620,404**	**(76,093)**	**544,311**	**448,888**	**(73,313)**	**375,575**

The assets / (liabilities) recognised in the balance sheet are included under other assets and other liabilities (see Note 27 and Note 34).

SIBA

During 2000, BES and its subsidiaries have established a "Stock Based Incentive Scheme" (SIBA). This incentive scheme consists on the sale to BES Group employees of one or more blocks of BES ordinary shares with deferred settlement for a period that can vary between two to four years. During this period the employees are required to hold the shares, after which they are allowed to sell the shares in the market or, alternatively, have the option to sell back to BES at acquisition cost.

The main characteristics of each plan are presented as follows:

	Plan maturity (expected)	Number of shares at the grant date	Average strike price (Euros)	Number of shares as at 31 December	Coverage by shares
Plan 2000					
1st block	Expired (Dec-04)	548,389	17.37	-	-
2nd block	Expired (Dec-05)	1,279,576	17.37	-	-
Plan 2001					
1st block	May-06	1,358,149	11.51	205,811	100%
2nd block	May-07	3,169,016	11.51	2,408,462	100%
Plan 2002					
1st block	Apr-05	755,408	12.02	132,516	100%
2nd block	Apr-08	1,762,619	12.02	1,579,829	100%
Plan 2003					
1st block	May–06	480,576	14.00	442,093	100%
2nd block	May–09	1,121,343	14.00	1,037,015	100%
Plan 2005					
1st block	Dec-07	541,599	13.54	541,599	100%
2nd block	Dec-10	1,270,175	13.54	1,270,175	100%

The changes in the number of underlying shares to the outstanding plans during 2005 and 2004 were as follows:

	31.12.2005		31.12.2004	
	Number of shares	Average price (Euros)	Number of shares	Average price (Euros)
Opening balance	7,991,482	12.54	8,358,605	12.24
Shares attributed	1,811,774	13.54	1,601,919	14.00
Shares sold [1]	(2,185,756)	13.17	(1,969,042)	12.47
Year-end balance	7,617,500	12.63	7,991,482	12.54

(1) Includes shares sold in the market, after the exercise of the option of sell back to BES at acquisition cost and those that were sold to employees at the maturity of the plans.

The assumptions used in the initial valuation of each plan were the following:

	Plan 2005	Plan 2003	Plan 2002	Plan 2001	Plan 2000
Maturity					
1st block	24 months	5 months	4 months	5 months	Expired
2nd block	60 months	41 months	28 months	17 months	Expired
Volatility	10%	11%	12%	12%	12%
Risk free interest rate					
1st block	3.04%	2.63%	2.70%	4.38%	4.71%
2nd block	3.22%	3.52%	3.56%	5.01%	5.05%
Dividend yield	2.90%	2.90%	2.90%	2.90%	2.90%
Fair value at the grant date (thousands of euros)	2,305	2,137	2,830	6,530	3,056

The total costs recognised related to the plan are as follows:

in thousand of euros

	31.12.2005	31.12.2004
Total costs of the plans (see Note 10)	2,060	2,955

Long-service benefits

As referred in Note 2.15, for employees that achieve certain years of service, the Group 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 Group's liability and costs incurred related to long-service benefits can be analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Liabilities as at 1 January	**19,942**	**17,388**
Costs of the year	3,834	3,148
Benefits paid	1,734	594
Liabilities as at 31 December	**22,042**	**19,942**

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, BES Group charged to staff costs the amount of euro 3,834 thousand (31 December 2004: euro 3,148 thousand) related to long-service benefits (see Note 10).

Note_12
General and administrative expenses

This caption is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Rental costs	54,454	47,143
Advertising costs	37,892	35,220
Communication costs	36,077	35,344
Travelling and representation costs	21,808	19,754
Maintenance and related services	14,276	13,061
Insurance	6,128	6,522
Specialised services		
IT services	43,181	40,669
Independent work	9,437	10,971
Temporary work	6,944	7,512
Electronic payment system	14,323	9,861
Advisory services	7,802	12,083
Other specialised services	34,190	28,218
Water, energy and fuel	7,051	6,736
Consumables	5,608	6,436
Transportation	5,556	4,960
Other	22,441	15,516
	327,168	**300,006**

The balance other specialised services includes, among others, costs with security and surveillance, information services, data banks, judicial and legal services. The balance other costs includes 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.

in thousand of euros

	31.12.2005	31.12.2004
Profit attributable to the equity holders of the Bank	**280,481**	**151,643**
Weighted average number of ordinary shares (thousands)	300,000	300,000
Weighted average number of treasury shares (thousands)	7,413	8,439
Weighted average number of ordinary shares outstanding (thousands)	**292,587**	**291,561**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**0.96**	**0.52**

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. In the case of BES Group, the outstanding plans of the stock based incentive scheme (SIBA) as described in Note 11, are dilutive potential ordinary shares.

The diluted earning per share is not different from the basic earning per share as the outstanding plans of SIBA do not have a dilutive effect as at 31 December 2005 and 2004.

Note_14
Cash and deposits at central banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Cash	231,488	262,463
Deposits at Central Banks		
Bank of Portugal	696,395	714,379
Other Central Banks	77,125	22,657
	773,520	**737,036**
	1,005,008	**999,499**

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_15

Deposits with banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Deposits with banks in Portugal		
Uncollected cheques	341,048	359,821
Repayable on demand	36,586	20,467
Other	48,876	59,907
	426,510	**440,195**
Deposits with banks abroad		
Repayable on demand	210,949	158,527
Uncollected cheques	5,490	3,460
Other	12,231	-
	228,670	**161,987**
	655,180	**602,182**

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

Note_16

Financial assets and liabilities held for trading

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	980,929	1,157,714
Issued by other entities	100,130	45,626
Shares	156,198	251,267
Other variable income securities	572,797	319,389
	1,810,054	**1,773,996**
Derivatives		
Derivative financial instruments with positive fair value	**1,185,689**	**581,903**
	2,995,743	**2,355,899**

As at 31 December 2005, the acquisition cost of the securities held for trading amounted to euro 1,772,990 thousand (31 December 2004: euro 1,753,332 thousand).

The analysis of the securities held for trading by the period to maturity, is as follows:

in thousand of euros

	31.12.2005	31.12.2004
Up to 3 months	131,155	192,396
3 to 12 months	506,460	519,171
1 to 5 years	357,251	249,967
More than 5 years	86,193	241,806
Undetermined	728,995	570,656
	1,810,054	**1,773,996**

In accordance with the accounting policy described in Note 2.6, securities held for trading are those which are bought to be traded in the short-term, regardless of their maturity.

As at 31 December 2005 and 2004, the balance financial assets held for trading is analysed as follows:

in thousand 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	964,627	16,302	980,929	1,066,334	91,380	1,157,714
Issued by other entities	31,538	68,592	100,130	20,341	25,285	45,626
Shares	120,366	35,832	156,198	88,040	163,227	251,267
Other variable income securities	-	572,797	572,797	-	319,389	319,389
	1,116,531	**693,523**	**1,810,054**	**1,174,715**	**599,281**	**1,773,996**

As at 31 December 2005 and 2004, derivative financial instruments can be analysed as follows:

in thousand of euros

	31.12.2005			31.12.2004	
	Notional	Fair value		Notional	Fair value
		Assets	Liabilities		
Exchange rate contracts					
Forward					
buy	23,713,318	253,052	230,236	16,418,593	(59,042)
sell	3,670,475			16,479,334	
Currency Swaps					
buy	675,865	1,207	3,224	6,424	(658)
sell	676,852			7,075	
Currency Futures	10,239	-	-	21,175	-
Currency Interest Rate Swaps					
buy	338,373	165,905	74,565	104,753	16,447
sell	340,936			167,430	-
Currency Options	2,092,305	17,367	33,980	826,423	1,383
	51,518,363	**437,531**	**342,005**	**34,031,207**	**(41,870)**
Interest rate contracts					
Forward Rate Agreements	491,750	12	191	86,125	(14)
Interest Rate Swaps	22,939,031	609,129	604,154	13,266,829	24,819
Swaption - Interest Rate Options	3,061,905	14,564	16,257	2,029,582	2,346
Interest Rate Caps & Floors	3,488,802	11,158	10,387	2,389,024	4,026
Interest Rate Futures	591,534	211	107	484,450	-
Bonds Options	132,532	2,960	60	132,532	(60)
Future Options	10,009,875	-	-	14,892,966	-
	40,715,429	**638,034**	**631,156**	**33,281,508**	**31,117**
Equity / index contracts					
Equity / Index Swaps	1,483,016	38,014	35,823	839,693	16,468
Equity / Index Options	4,914,805	61,160	250,706	2,802,606	(59,538)
Equity / Index Futures	964,690	-	-	379,473	-
	7,362,511	**99,174**	**286,529**	**4,021,772**	**(43,070)**
Credit default contracts					
Credit Default Swaps	1,591,833	10,950	12,042	1,939,074	863
	1,591,833	**10,950**	**12,042**	**1,939,074**	**863**
Total	**101,188,136**	**1,185,689**	**1,271,732**	**73,273,561**	**(52,960)**

As at 31 December 2005, the fair value of derivatives under liabilities includes the amount of euro 39,355 thousand related to the fair value of the embedded derivatives as described in Note 2.4.

As at 31 December 2005, the analysis of trading derivatives by the period to maturity is as follows:

in thousand of euros

	31.12.2005	
	Nocional	Justo valor
Up to 3 months	46,082,908	9,794
3 to 12 months	22,233,981	(46,661)
1 to 5 years	18,674,040	(22,621)
More than 5 years	14,197,207	(26,555)
	101,188,136	**(86,043)**

Note_17
Financial assets at fair value through profit or loss

This balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Bonds and other fixed income securities		
Issued by government and public entities	144,122	-
Issued by other entities	1,416,127	-
Shares	186,649	-
Book value	**1,746,898**	**-**
(Acquisition cost)	1,738,071	-

As at 31 December 2005, this balance includes securities designated by the Group at 1 January 2005 as financial assets at fair value through profit or loss, as a consequence of the adoption of IAS 39.

In light of IAS 39, the Group designated these financial assets as at fair value through profit or loss, in accordance with a documented risk management and investment strategy, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

Until that date, these securities were included in the portfolio of available for sale financial assets, valued at acquisition cost net of provisions for unrealised losses, calculated as the difference between the acquisition cost and the market value.

As at 31 December 2005 and 2004, the analysis of the financial assets at fair value through profit or loss by the period to maturity is as follows:

	31.12.2005	31.12.2004
Up to 3 months	6,578	-
3 to 12 months	438,285	-
1 to 5 years	374,661	-
More than 5 years	738,409	-
Undetermined	188,965	-
	1,746,898	**-**

Regarding listed or unlisted securities, the balance financial assets at fair value through profit or loss, is as follows:

in thousand of euros

	31.12.2005			31.12.2004		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed income securities						
Issued by government and public entities	-	144,122	144,122	-	-	-
Issued by other entities	84,041	1,332,086	1,416,127	-	-	-
Shares	186,649	-	186,649	-	-	-
Book value	**270,690**	**1,476,208**	**1,746,898**	**-**	**-**	**-**

Note_18
Available-for-sale financial assets

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousand of euros

	Amortised cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by government and public entities	78,392	-	-	(21)	78,371
Issued by other entities	1,742,710	-	-	(36,548)	1,706,162
Shares	1,188,931	-	-	(74,689)	1,114,242
Other variable income securities	348,251	-	-	(15,971)	332,280
Balance as at 31 December 2004	**3,358,284**	**-**	**-**	**(127,229)**	**3,231,055**
Bonds and other fixed income securities					
Issued by government and public entities	271,659	394	(1,830)	(359)	269,864
Issued by other entities	2,090,080	7,062	(2,801)	(10,367)	2,083,974
Shares	717,730	505,166	(2,502)	(41,542)	1,178,852
Other variable income securities	267,492	16,604	(488)	(7,744)	275,864
Balance as at 31 December 2005	**3,346,961**	**529,226**	**(7,621)**	**(60,012)**	**3,808,554**

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:

in thousand of euros

	31.12.2005	31.12.2004
Balance as at 31 December	127,229	160,181
Impact of adoption IAS 32 and IAS 39	37,197	-
Balance as at 1 January	164,426	160,181
Charge for the year	36,005	83,506
Charge off	(140,743)	(39,895)
Write back for the year	(6,405)	(74,700)
Exchange differences and other	6,729	(1,863)
Balance at the end of the year	**60,012**	**127,229**

The analysis of available-for-sale financial assets by the period to maturity is as follows:

in thousand of euros

	31.12.2005	31.12.2004
Up to 3 month	152,656	181,855
3 to 12 months	183,884	194,320
1 to 5 years	786,474	1,024,280
More than 5 years	1,029,945	384,078
Undetermined	1,655,595	1,446,522
	3,808,554	**3,231,055**

The main contributions to the fair value reserve, as at 31 December 2005, can be analysed as follows:

in thousand of euros

	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Portugal Telecom	217,796	29,083	-	-	246,879
Banco Bradesco	207,518	397,705	-	-	605,223
Banque Marrocaine du Comerce Exterieur	27,909	10,182	-	(3,917)	34,174
Bradespar	36,191	34,984	-	-	71,175
Novabase	16,310	2,007	-	(6,937)	11,380
	505,724	**473,961**	**-**	**(10,854)**	**968,831**

Note_19
Loans and advances to banks

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Loans and advances to banks in Portugal		
Deposits	30,501	240,549
Inter-bank money market	112,979	17,949
Loans	34,948	93,032
Other loans and advances	523	983
	178,951	**352,513**
Loans and advances to banks abroad		
Deposits	2,752,359	3,406,396
Sales with repurchase agreement	1,788,147	1,313,030
Short term deposits	1,343,555	328,052
Loans	102,219	65,507
Other loans and advances	1,371	1,861
	5,987,651	**5,114,846**
Impairment losses	(2,558)	(3,834)
	6,164,044	**5,463,525**

The main loans and advances to banks in Portugal, as at 31 December 2005, bore interest at an average annual interest rate of 2.71% (31 December 2004: 2.02%). Loans and advances to banks abroad bear interest at international market rates where the Group operates.

The analysis of loans and advances to banks by the period to maturity is as follows:

in thousand of euros

	31.12.2005	31.12.2004
Up to 3 months	5,088,590	5,224,410
3 to 12 months	392,888	177,338
1 to 5 years	280,951	26,247
More than 5 years	404,173	39,364
	6,166,602	**5,467,359**

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

in thousand of euros

	31.12.2005	31.12.2004
Balance at the begining of the year	3,834	39,831
Charge for the year	1,191	11,359
Charge off	-	(46,782)
Write back for the year	(5,539)	(1,078)
Exchange differences and other	3,072	504
Balance at the end of the year	**2,558**	**3,834**

Note_20
Loans and advances to customers

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Domestic loans		
Corporate		
Commercial lines of credits	6,844,987	6,516,583
Loans	5,292,895	3,867,019
Finance leases	1,881,648	1,544,715
Discounted bills	1,432,065	1,526,374
Factoring	915,526	845,335
Overdrafts	42,585	73,473
Other loans	314,716	280,905
Retail		
Mortgage loans	7,922,525	7,823,119
Consumer and other loans	1,518,394	1,419,727
	26,165,341	**23,897,250**
Foreign loans		
Corporate		
Loans	2,860,242	2,497,005
Commercial lines of credits	838,537	652,614
Finance leases	129,803	113,461
Discounted bills	175,128	95,258
Overdrafts	32,089	38,175
Other loans	321,725	139,131
Retail		
Mortgage loans	456,173	381,967
Consumer and other loans	194,885	119,856
	5,008,582	**4,037,467**
Overdue loans and interest		
Up to 90 days	66,004	85,662
More than 90 days	422,071	467,329
	488,075	**552,991**
	31,661,998	**28,487,708**
Provision for impaired loans	(829,874)	(772,437)
	30,832,124	**27,715,271**

During September 2005, BES Group carried out a mortgage loans securitisation transaction (Lusitano Mortgages No.4) in the amount of euro 1,200 million (2004: euro 1,200 million – Lusitano Mortgages No.3) (see Note 40).

As at 31 December 2005, the balance loans and advances to customers includes an amount of euro 125,192 thousand (31 December 2004: euro 281,833 thousand) related to securitised loans following the consolidation of the securitisation vehicles, according to the accounting policy described in Note 2.2.

During 2005, BES Group sold overdue mortgage loans in the amount of euro 71 million (31 December 2004: euro 68.2 million).

The analysis of loans and advances to customers by period to maturity, as at 31 December 2005 and 2004, is as follows:

in thousand of euros

	31.12.2005	31.12.2004
Up to 3 months	5,578,723	5,593,133
3 to 12 months	5,262,267	5,130,020
1 to 5 years	5,721,620	5,353,842
More than 5 years	14,611,313	11,857,722
Undetermined	488,075	552,991
	31,661,998	**28,487,708**

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

in thousand of euros

	31.12.2005	31.12.2004
Balance at 31 of December	772,437	726,471
Impact of the application of IAS 32/39	20,788	-
Balance at 1 of January	793,225	726,471
Endowments	281,974	285,597
Uses	(181,148)	(175,589)
Reversions	(62,058)	(59,296)
Effect of the secular value	(11,180)	-
Differences of exchange and others	9,061	(4,746)
Final balance	**829,874**	**772,437**

During the year ended 31 December 2005, the Group recovered euro 20,187 thousand of loans previously written-off (31 December 2004: euro 25,561 thousand).

The unwind of discount represents the interest on overdue loans, recognised as interest and similar income, as impairment losses are calculated using the discounted cash flows method.

As at 31 December 2004, the balance impairment losses includes the amount of euro 336.537 thousand related to the transfer of the general provision for credit risks, at transition date.

The following table sets forth information about the Group's impaired loans:

in thousand of euros

	31.12.2005
Overdue loans and remaining principle amount (not yet due) of loans accounted for as overdue loans [(a)]	1,023,633
Impaired performing loans	2,331,317
Total impaired loans	**3,354,950**
Total non-impaired loans	**28,307,048**
	31,661,998
Provisions	
specific impairment	595,527
collective impairment	234,347
	829,874
Average balance of impaired loans during the year	**3,489,831**
Interest income on impaired loans	**150,580**

(a) From the total amount euro 477 million relate to mortgage loans individuals.

Interest income on impaired loans includes the unwind of discount related to overdue loans and the interest income related to the impaired loans that are not overdue.

Loans and advances to customers by interest rate type is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Variable interest rate	27,524,407	24,826,867
Fixed interest rate	4,137,591	3,660,841
	31,661,998	**28,487,708**

The analysis of finance leases by the period to maturity is as follows:

in thousand of euros

	31.12.2005	31.12.2004
Gross investment in finance leases, receivable:		
Up to 1 year	896,482	711,003
From 1 to 5 years	1,991,898	1,438,033
More than 5 years	1,059,526	731,819
	3,947,906	**2,880,855**
Unearned future finance income on finance leases:		
Up to 1 year	531,594	335,649
From 1 to 5 years	1,048,322	661,911
More than 5 years	356,539	225,119
	1,936,455	**1,222,679**
Net investment in finance leases:		
Up to 1 year	364,888	375,354
From 1 to 5 years	943,576	776,122
More than 5 years	702,987	506,700
	2,011,451	**1,658,176**

Note_21
Held to maturity investments

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Bonds and other fixed income securities		
Issued by government and public entities	588,457	445,596
Issued by other entities	8,396	32,050
	596,853	**477,646**
Impairment losses	(13)	(1,444)
	596,840	**476,202**

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

in thousand of euros

	31.12.2005	31.12.2004
Balance as at 31 December	1,444	2,211
Impact of adoption IAS 32 and IAS 39	(1,418)	-
Balance as at 1 January	26	2,211
Charge for the year	-	1
Write back for the year	-	(843)
Exchange differences and other	(13)	75
	13	**1,444**

Until 31 December 2004, securities under the held to maturity portfolio were recognised as investment securities at cost less unrealised losses. As at 1 January 2005, those provisions for unrealised losses in the amount of euro 1,418 thousand were reversed in accordance with IAS 39, as they did not correspond to impairment losses.

The analysis of held to maturity investments by the period to maturity is as follows:

in thousand of euros

	31.12.2005	31.12.2004
Up to 3 months	29,605	33,612
3 to 12 months	59,838	36,426
1 to 5 years	500,340	388,561
More than 5 years	7,070	19,047
	596,853	**477,646**

The fair value of held to maturity investments is presented in Note 41.

Note_22
Hedging derivatives

As at 31 December 2005 and 2004, the balance hedging derivatives is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Hedging derivatives with positive fair value (Assets)	124,505	249,200
Hedging derivatives with negative fair value (liabilities)	(111,098)	(240,100)
	13,407	**9,100**

Following the adoption of IAS 39 as at 1 January 2005, certain hedging transactions that were not complying with all the criteria required by that standard were reclassified to the trading portfolio.

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:

in thousand of euros

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (2)	Changes in the fair value of the derivative in the year (2)	Hedged item fair value (1)	Changes in the fair value of the hedged item in the year (1)
Currency Interest Rate Swaps	Deposits	FX and interest rate	648,511	32,847	27,608	(27,986)	(27,697)
Equity / Index Swaps	Bonds	Equity	117,276	7,447	7,552	(9,252)	(8,933)
Equity Swap	Bonds	Interested rate	8,477	(1,208)	244	1,336	127
FX Swap	Deposits	Interested rate	83,430	(1,574)	(792)	61	61
Index Swap	Bonds	Equity	100,662	(180)	(1,786)	52	52
Interest Rate Swaps	Deposits	Interested rate	19,553	4,662	1,299	(2,629)	746
Interest Rate Swaps	Loans	Interested rate	77,821	(4,787)	672	4,858	637
Interest Rate Swaps	Bonds	Interested rate	1,470,852	(23,800)	(5,149)	28,002	8,401
			2,526,582	**13,407**	**29,648**	**(5,558)**	**(26,606)**

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

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under other operating income.

As at 31 December 2005, the ineffectiveness of the fair value hedge operations amounted to euro 1.8 million and was recognised in the income statement. BES Group evaluates on an ongoing basis the effectiveness of the hedges.

The analysis of fair value hedge transactions by the period to maturity is as follows:

in thousand of euros

	31.12.2005	
	Notional	Fair value
Up to 3 months	153,314	352
3 to 12 months	180,224	5,826
1 to 5 years	1,678,804	19,398
More than 5 years	514,240	(12,169)
	2,526,582	**13,407**

Note_23
Non-current assets and liabilities held for sale

In September 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 in Portugal two hospitals and three ambulatory centres.

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 the assets and liabilities of the referred company held for sale, the amounts of euro 157,536 thousand and euro 112,428 thousand are recorded under non-current assets and liabilities held for sale respectively. In relation to this transaction the BES Group has not recognised any gain or loss during the year.

Note_24
Property and equipment

As at 31 December 2005 and 2004 this balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Property		
For own use	289,037	270,283
Improvements in leasehold property	180,995	156,932
Other	103	3,876
	470,135	**431,091**
Equipment		
Computer equipment	235,913	225,951
Fixtures	88,799	83,510
Furniture	79,942	83,448
Security equipment	16,833	21,718
Office equipment	32,151	15,667
Motor vehicles	3,869	4,672
Other	5,142	605
	462,649	**435,571**
Other	3,385	870
	936,169	**867,532**
Work in progress		
Improvements in leasehold property	5,156	12,976
Property for own use	12,825	15,889
Computer equipment	5,812	6,571
Others	1,223	1,055
	25,016	**36,491**
	961,185	**904,023**
Accumulated depreciation	(598,093)	(561,965)
	363,092	**342,058**

The movement in this balance was as follows:

in thousand of euros

	Property	Equipment	Other	Work in progress	Total
Net balance as at 1 January 2004	**234,734**	**74,366**	**72**	**27,141**	**336,313**
Acquisitions	5,399	17,632	45	28,786	51,862
Depreciation of the year	(14,217)	(29,514)	(54)	-	(43,785)
Disposals	(1,379)	(650)	-	(165)	(2,194)
Transfers	9,737	7,619	18	(17,374)	-
Exchange differences and other	1,459	(294)	594	(1,897)	(138)
Net balance as at 31 December 2004	**235,733**	**69,159**	**675**	**36,491**	**342,058**
Acquisitions	6,090	19,198	15	35,554	60,857
Depreciation of the year	(14,231)	(27,290)	(227)	-	(41,748)
Disposals	(743)	(157)	-	(401)	(1,301)
Transfers	33,804	13,078	(154)	(46,728)	-
Exchange differences and other	403	1,262	1,461	100	3,226
Net balance as at 31 December 2005	**261,056**	**75,250**	**1,770**	**25,016**	**363,092**

Note_25
Intangible assets

As at 31 December 2005 and 2004 this balance is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Goodwill	**2,874**	**2,458**
Internally developed		
Software	2,155	-
	2,155	**-**
Acquired to third parties		
Software	384,910	371,290
Other	35,571	34,760
	420,481	**406,050**
Work in progress	**19,892**	**19,769**
	445,402	**428,277**
Accumulated amortisation	(373,462)	(355,899)
	71,940	**72,378**

The balance internally developed – software includes the costs incurred by the Group in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.13).

The movement in this balance was as follows:

in thousand of euros

	Goodwill	Software	Other	Total
Net balance as at 1 January 2004	**-**	**90,790**	**444**	**91,234**
Acquisitions:				
Acquired from third parties	2,458	35,441	960	38,859
Amortisation of the year		(56,691)	(652)	(57,343)
Disposals	-	(375)	(76)	(451)
Transfers	-	(451)	451	-
Exchange differences and other	-	(194)	273	79
Net balance as at 31 December 2004	**2,458**	**68,520**	**1,400**	**72,378**
Acquisitions:				
Internally developed	-	7,154,[a]	-	7,154
Acquired from third parties	416	27,014	5,954	33,384
Amortisation of the year	-	(36,700)	(1,831)	(38,531)
Disposals	-	(4,139)	(66)	(4,205)
Transfers	-	818	(818)	-
Exchange differences and other	-	2,651	(891)	1,760
Net balance as at 31 December 2005	**2,874**	**65,318**	**3,748**	**71,940**

a) Includes euro 4,999 thousand and of work in progress

Note_26
Investments in associates

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

in thousand 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
ES SEGUROS	79,103	65,924	57,066	48,217	22,037	17,707	59,605	55,195	4,324	3,326	6,000	6,000
BES VÉNÉTIE [a]	1,247,066	1,281,760	1,169,303	1,212,599	77,763	69,161	68,090	91,829	10,861	4,857	22,000	22,000
SCI GEORGES MANDEL	11,332	10,970	155	97	11,177	10,873	1,050	1,034	215	155	2,401	2,401
EUROP ASSISTANCE	23,892	21,608	15,693	13,979	8,199	7,629	21,636	19,854	1,060	1,011	1,147	1,147
ESUMÉDICA	3,049	3,884	2,456	3,349	593	535	4,732	5,704	58	(789)	395	395
FIDUPRIVATE	865	702	121	115	744	587	777	542	157	86	31	31
ESEGUR	40,675	38,642	31,793	31,010	8,882	7,632	53,701	51,400	4,134	3,466	2,134	2,134
LOCARENT	134,933	34,379	133,929	32,994	1,004	1,385	18,070	1,959	(2,381)	(2,005)	1,617	1,617
PORTLINE [b]	-	-	-	-	-	-	-	-	-	585	-	-
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	3,018
CLARITY [b]	-	-	-	-	-	-	-	-	-	-	-	-
OTHERS	-	-	-	-	-	-	-	-	-	-	18,555	19,515
											59,212	**60,347**

a) Investment sold in December 2005 by BES to ES Tech Ventures
b) The attributable share of profit was considered until this investment was sold during 2004

in thousand 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
ES SEGUROS	40.00%	40.00%	8,815	7,083	1,730	1,329
BES VÉNÉTIE	40.00%	40.00%	31,105	27,667	4,345	1,943
SCI GEORGES MANDEL	22.50%	22.50%	2,515	2,447	48	35
EUROP ASSISTANCE	23.00%	23.00%	1,886	1,755	244	233
ESUMÉDICA	24.90%	24.90%	148	133	14	(196)
FIDUPRIVATE	24.76%	24.76%	184	145	39	21
ESEGUR	34.00%	34.00%	3,020	2,595	1,406	1,178
LOCARENT	45.00%	45.00%	452	624	(1,071)	(902)
PORTLINE	-	-	-	-	-	195
COMINVEST	25.00%	25.00%	1,695	1,640	23	14
SOTANCRO	49.00%	55.00%	7,594	8,338	494	692
CLARITY	-	-	-	-	-	(518)
Other	-	-	4,960	6,513	423	536
			62,374	**58,940**	**7,695**	**4,560**

The movement in this balance was as follows:

in thousand of euros

	31.12.2005	31.12.2004
Balance at the beginning of the year	**58,940**	**61,297**
Disposals	(4,074)	(10,795)
Acquisitions	3,859	4,013
Share of profit of associates	7,695	4,560
Dividends received	(1,779)	(1,371)
Exchange differences and other	(2,267)	1,236
Balance at the end of the year	**62,374**	**58,940**

Note_27
Other assets

As at 31 December 2005 and 2004, the balance Other assets is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Debtors		
Deposits placed with options contracts	142,997	3,708
Debtors from transactions with securities	125,708	-
Deposits placed with futures contracts	98,580	57,798
Recoverable government subsidies on mortgage loans	39,934	43,691
Debtors for unrealised capital in subsidiaries	23,072	-
Collateral deposits placed	19,682	39,532
Loans to companies in which the Group has a minority interest	44,214	79,095
Public sector	14,407	21,166
Sundry debtors	157,653	69,585
	666,247	314,575
Impairment losses on debtors	(10,338)	(12,299)
	655,909	**302,276**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	52,851	28,240
Other assets	23,689	23,309
	76,540	**51,549**
Accrued income	**42,552**	**43,436**
Prepayments and deferred costs	**75,972**	**19,362**
Other sundry assets		
Foreign exchange transactions pending settlement	20,927	2,942
Stock exchange transactions pending settlement	-	360,889
Other transactions pending settlement	15,680	23,559
	36,607	**387,390**
Assets received as a recovery of non-performing loans	82,889	150,779
Impairment losses on these assets	(8,169)	(15,117)
	74,720	**135,662**
Assets recognised on pensions (see Note 11)	**620,404**	**448,888**
	1,582,704	**1,388,563**

As at 31 December 2005, the balance prepayments and deferred costs include the amount of euro 57,838 thousand related to the difference between the nominal amount of loans granted to Group's employees under the collective labour agreement for the banking sector (ACT) and their respective fair value at grant date, calculated in accordance with IAS 39. This amount is charged to the income statement over the lower period between the (i) remaining maturity of the loan granted, and the (ii) estimated remaining service life of the employee.

Debtors from transactions with securities represent amounts from short-sales pending settlement.

Stock exchange transactions pending settlement (see Note 34) 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:

in thousand of euros

	31.12.2005	31.12.2004
Balance at the begining of the year	**27,416**	**27,630**
Charge for the year	2,591	8,733
Charge off	(8,251)	(4,053)
Write back for the year	(2,162)	(4,045)
Exchange differences and other	(1,087)	(849)
Balance at the end of the year	**18,507**	**27,416**

Note_28
Deposits from banks

The balance deposits from banks is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Domestic		
Loans	745,945	536,882
Inter-bank money market	68,421	107,371
Deposits	93,777	59,816
Very short term funds	17,805	14,684
Repurchase agreements	-	150,000
Other funds	3,019	8,107
	928,967	**876,860**
International		
Deposits	3,130,983	2,724,257
Loans	1,716,671	1,775,508
Very short term funds	71,229	94,405
Repurchase agreements	325,797	55,431
Other funds	91,245	210,956
	5,335,925	**4,860,557**
	6,264,892	**5,737,417**

The analysis of deposits from banks by the period to maturity is as follows:

in thousand of euros

	31.12.2005	31.12.2004
Up to 3 months	2,861,933	2,872,788
1 to 12 months	660,850	845,769
1 to 5 years	1,717,258	1,218,742
More than 5 years	1,024,851	800,118
	6,264,892	**5,737,417**

Note_29
Due to customers

The balance due to customers is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Repayable on demand		
Demand deposits	8,790,753	8,276,893
Time deposits		
Time deposits	7,523,978	8,500,235
Notice deposits	1,226	5,292
Other	3,205	-
	7,528,409	**8,505,527**
Savings accounts		
Pensioners	222,855	268,239
Emigrants	346	399
Other	2,008,586	1,899,863
	2,231,787	**2,168,501**
Other funds		
Repurchase agreements	1,486,553	1,282,180
Other	715,581	185,689
	2,202,134	**1,467,869**
	20,753,083	**20,418,790**

The analysis of the amounts due to customers by the period to maturity is as follows:

in thousand of euros

	31.12.2005	31.12.2004
Repayable on demand	8,790,753	8,276,893
With agreed maturity		
Up to 3 months	8,684,668	9,188,090
3 to 12 months	2,492,641	1,628,025
1 to 5 years	614,582	1,061,861
More than 5 years	170,439	263,921
	11,962,330	**12,141,897**
	20,753,083	**20,418,790**

Note_30
Debt securities issued

Outstanding debt securities is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Euro Medium Term Notes	7,291,038	5,498,652
Cash bonds	3,181,310	2,354,809
Certificate of deposit	3,553,193	1,995,452
Other	376,750	387,389
	14,402,291	**10,236,302**

During the year ended 31 December 2005, BES Group issued debt securities amounting to euro 5,756.8 million (31 December 2004: euro 3,261.3 million), and reimbursed euro 1,460.3 million (31 December 2004: 1,590.2 million).

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

in thousand of euros

	31.12.2005	31.12.2004
Up to 3 months	3,592,332	1,924,583
3 to 12 months	1,491,581	1,316,710
1 to 5 years	6,225,207	4,675,249
More than 5 years	3,093,171	2,319,760
	14,402,291	**10,236,302**

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

			31.12.2005				
Issuer	Designation		Currency	Issue Date	Book value ('000 euros)	Maturity	Global yield / interest rate
BES	Certificates of deposit		EUR	2003 - 2005	3,530,013	2006 - 2007	1.08% - 4.53%
BES	Bonds BES Rendimento Mais – 1st Serie		EUR	2000	10,777	2008	Fixed - 5.80%
BES	Bonds BES Rendimento Mais – 2nd Serie		EUR	2000	4,948	2008	Fixed - 5.95%
BES	Bonds BES Rendimento Mais – 3rd Serie		EUR	2000	6,866	2008	Fixed - 5.98%
BES	Bonds BES Rendimento Mais – 4th Serie		EUR	2000	7,118	2008	Fixed - 2.76%
BES	Bonds BES Rendimento Mais – 5th Serie		EUR	2000	5,142	2008	Fixed - 5.96%
BES	Bonds BES Valor Indexado Mercury Selected Fund	a)	EUR	2001	6,000	2006	1.00% + Mercury Selected Fund
BES	Bonds BES EURO RENDA August 2001		EUR	2001	15,001	2009	Fixed - 2.75%
BES	Bonds BES Euro Renda		EUR	2002	22,320	2010	Fixed - 5.32%
BES	Bonds BES DJ Global Titans	a)	EUR	2002	14,587	2007	0.85% + index Eurostat MUICP
BES	Bonds BES Rendimento Private 2007	a)	EUR	2002	11,099	2007	3.90% + DJ Euro Stoxx 50
BES	Bonds BES Cabaz 2008	a)	EUR	2003	6,500	2008	International stock Basket
BES	Bonds BES índices Mundiais - February 2003	a)	EUR	2003	1,826	2008	c)
BES	Bonds BES Multivalor - Mars 2003	a)	EUR	2003	3,219	2006	d)
BES	Bonds BES Valor Seguro - April 2003	a)	EUR	2003	2,092	2008	0.25 + e)
BES	Bonds BES índices Mundiais - May 2003	a)	EUR	2003	2,500	2008	0.75 + c)
BES	Bonds BES índices Mundiais - June 2003	a)	EUR	2003	831	2008	0.75 + c)
BES	Bonds BES Cabaz Gás Natural - July 2003	a)	EUR	2003	1,138	2006	f)
BES	Bonds BES índices Mundiais - September 2003	a)	EUR	2003	3,650	2006	c)
BES	Bonds BES Indice Sectoriais - October 2003	a)	EUR	2003	3,622	2006	DJ Index Basket
BES	Bonds BES Indice Sectoriais - November 2003	a)	EUR	2003	2,828	2006	DJ Index Basket
BES	Bonds BES Indice Sectoriais - January 2004	a)	EUR	2004	1,712	2007	DJ Index Basket
BES	Bonds BES Target 8.5% - January 2004	a)	EUR	2004	19,750	2009	Indexed to Euribor 12 months
BES	Bonds BES Target 8.5% - February 2004	a)	EUR	2004	13,783	2009	Indexed to Euribor 12 months
BES	Bonds BES Investimento Global	a)	EUR	2004	1,889	2007	g)
BES	Bonds BES Target 14.5% - April 2004	a)	EUR	2004	4,748	2014	Indexed to Euribor 12 months
BES	Bonds BES Target 14.5% - May 2004	a)	EUR	2004	4,976	2014	Indexed to Euribor 12 months
BES	Bonds BES Set UP Global - May 2004	a)	EUR	2004	653	2007	c)
BES	Bonds BES Set UP Global - June 2004	a)	EUR	2004	935	2007	c)
BES	Bonds BES Libor Invest	a)	USD	2004	1,735	2009	Indexed to US LIbor 3 months
BES	Bonds BES índices Mundiais - July 2004	a)	EUR	2004	1,369	2007	c)
BES	Bonds BES Target 11% Eurostoxx 50 - October 2004	a)	EUR	2004	2,689	2012	Indexed to DJ Eurostoxx 50
BES	Bonds BES Libor Nov04	a)	USD	2004	790	2008	Indexed to US LIbor 6 months
BES	BES 12/01/2009	a)	USD	2005	937	2009	Indexed to US LIbor 6 months
BES	BES CHINA FEV05	a)	EUR	2005	7,432	2008	Indexed to FSTE/Xinhua China 25 Index
BES	BES COMMODIT 7%		EUR	2005	582	2014	Fixed - 7.00%
BES	BES ER 4% ABR05	a)	EUR	2005	2,329	2013	o)
BES	BES ER 4% ABR05	a)	EUR	2005	1,753	2013	p)

Issuer	Designation		Currency	Issue Date	Book value ('000 euros)	Maturity	Global yield / interest rate
			31.12.2005				
BES	BES ER3.75%0805	a)	EUR	2005	2,500	2013	q)
BES	BES TARGET 10%		EUR	2005	4,978	2013	Fixed - 5.00%
BES	BES-E.RENDA 4%	a)	EUR	2005	8,344	2013	r)
BES	Bonds BIC 99 - 3rd issue		EUR	1999	24,005	2008	Fixed - 2.80%
BES	Bonds BIC TOP 2006	a)	EUR	2003	4,925	2006	n)
BES	Bonds BIC CAPITAL MAIS - Mars 2007	a)	EUR	2004	7,271	2007	h)
BES	BIC E.RENDA 4%	a)	EUR	2005	2,920	2013	r)
BES	BIC EURO 4%		EUR	2005	3,211	2007	Fixed - 4.00%
BES	BIC EURO VALOR		EUR	2005	35,014	2010	Fixed - 4.25%
BES	BIC GLOBAL IND		EUR	2005	6,568	2010	m)
BES	BIC SNOWBL ABR0		EUR	2005	37,796	2012	Indexed to Euribor 6 months
BES	Bonds TOP BIC SELECÇÃO	a)	EUR	2004	5,290	2007	Indexed to a fund Basket
BES SFE	Bonds BES-SFE 27/11/2008	a)	EUR	2003	45,463	2008	Indexed to CMS 10 years EUR
BES CAYMAN	BES CAYMAN 3.63% 11/15/04		EUR	2001	25,000	2006	Fixed - 4.66%
BES CAYMAN	BES CAYMAN - Zero Coupon		EUR	2002	49,389	2027	Zero Coupon - Effective rate 5.90%
BES CAYMAN	BES CAYMAN - Zero Coupon		EUR	2002	81,347	2027	Zero Coupon - Effective rate 5.90%
BES CAYMAN	BES CAYMAN - Zero Coupon		EUR	2002	104,107	2027	Zero Coupon - Effective rate 5.74%
BES CAYMAN	BES CAYMAN 4.82% 01/28/13		USD	2003	63,575	2013	Fixed - 4.82%
BES CAYMAN	BES CAYMAN - Zero Coupon		EUR	2003	61,124	2028	Zero Coupon - Effective rate 5.50%
BES CAYMAN	BES CAYMAN - MIX	a)	EUR	2003	181	2006	d)
BES CAYMAN	BES CAYMAN - Zero Coupon		EUR	2003	11,592	2028	Zero Coupon - Effective rate 5.75%
BES CAYMAN	BES CAYMAN Step Up 08/27/13		EUR	2003	75,000	2013	Step Up (1º Cupão 3.00%)
BES CAYMAN	BES CAYMAN Step Up 09/02/13		EUR	2003	75,000	2013	Step Up (1º Cupão 3.00%)
BES CAYMAN	BES CAYMAN Step Up 09/16/13		EUR	2003	75,000	2013	Step Up (1º Cupão 2.90%)
BES CAYMAN	BES CAYMAN - Zero Coupon		USD	2003	264	2019	Zero Coupon - Effective rate 5.72%
BES CAYMAN	BES CAYMAN Step Up 10/07/13		EUR	2003	75,000	2013	Step Up (1º Cupão 3.10%)
BES CAYMAN	BES CAYMAN - Zero Coupon		EUR	2003	70,791	2028	Zero Coupon - Effective rate 5.81%
BES CAYMAN	BES CAYMAN - FIXED NOTE		EUR	2003	22,579	2013	Up-front coupon
BES CAYMAN	BES CAYMAN - FIXED NOTE		EUR	2004	10,438	2014	Up-front coupon
BES CAYMAN	BES CAYMAN - FIXED NOTE		EUR	2004	26,129	2014	Up-front coupon
BES CAYMAN	BES CAYMAN - FIXED NOTE		EUR	2004	6,257	2014	Up-front coupon
BES CAYMAN	BES CAYMAN - FIXED NOTE		EUR	2004	5,214	2014	Up-front coupon
BES CAYMAN	BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	4,805	2009	Indexed to Euribor 6 months
BES CAYMAN	BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	1,820	2009	Indexed to Euribor 6 months
BES CAYMAN	BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	691	2009	Indexed to Euribor 6 months
BES CAYMAN	BES CAYMAN - BES Libor 4%		USD	2005	874	2008	Euribor 6 months + 0.51%
BES CAYMAN	BES CAYMAN - BES Libor 4%		USD	2005	1,069	2008	Fixed - 4.00%
BES CAYMAN	BES CAYMAN Step Up 06/30/08		USD	2005	2,105	2008	Step Up (1st coupon 4.00%)
BES CAYMAN	BES CAYMAN Step Up 07/11/08		USD	2005	2,036	2008	Step Up (1st coupon 3.60%)

Issuer	Designation	Currency	Issue Date	31.12.2005 Book value ('000 euros)	Maturity	Global yield / interest rate
BES CAYMAN	BES CAYMAN Step Up 08/08/08	USD	2005	1,793	2008	Step Up (1st coupon 3.60%)
BES CAYMAN	BES CAYMAN Step Up 08/09/08	USD	2005	723	2008	Step Up (1st coupon 3.75%)
BES CAYMAN	BES CAYMAN Step Up 10/14/08	USD	2005	2,047	2008	Step Up (1st coupon 3.75%)
BES CAYMAN	BES CAYMAN Step Up 11/10/08	USD	2005	1,687	2008	Step Up (1st coupon 3.75%)
BES CAYMAN	BES CAYMAN Step Up 12-15-08	USD	2005	1,804	2008	Step Up (1st coupon 4.25%)
BES CAYMAN	Bonds - Index Nikkei 225	USD	2000	(1,193)	2009	Indexed to Nikkei 225
BES CAYMAN	BIC CAYMAN 1 2001	EUR	2001	50,000	2008	Fixed - 5.48%
BES CAYMAN	BIC CAYMAN 2 2001	EUR	2001	50,000	2011	Fixed - 5.68%
BES CAYMAN	BIC CAYMAN 3 2001	EUR	2001	50,000	2008	Fixed - 5.40%
BES CAYMAN	BIC CAYMAN 4 2001	EUR	2001	50,000	2008	Fixed - 5.46%
BES CAYMAN	BIC CAYMAN 5 2001	EUR	2001	50,000	2008	Fixed - 5.48%
BES CAYMAN	BIC CAYMAN 6 2001	EUR	2001	50,000	2009	Fixed - 5.43%
BES CAYMAN	BIC CAYMAN 7 2001	EUR	2001	50,000	2009	Fixed - 5.41%
BES CAYMAN	BIC CAYMAN 8 2001	EUR	2001	50,000	2009	Fixed - 5.45%
BES CAYMAN	BIC CAYMAN 9 2001	EUR	2001	50,000	2009	Fixed - 5.42%
BES CAYMAN	BIC CAYMAN 10 2001	EUR	2001	50,000	2010	Fixed - 5.53%
BES CAYMAN	BIC CAYMAN 11 2001	EUR	2001	50,000	2010	Fixed - 5.57%
BES CAYMAN	BIC CAYMAN 12 2001	EUR	2001	50,000	2010	Fixed - 5.58%
BES CAYMAN	BIC CAYMAN 13 2001	EUR	2001	50,000	2010	Fixed - 5.73%
BES CAYMAN	BIC CAYMAN 14 2001	EUR	2001	50,000	2011	Fixed - 5.80%
BES CAYMAN	BIC CAYMAN 15 2001	EUR	2001	50,000	2011	Fixed - 5.79%
BES CAYMAN	BIC CAYMAN 16 2001	EUR	2001	50,000	2011	Fixed - 5.90%
BES CAYMAN	BIC CAYMAN 17 2001	EUR	2001	50,000	2012	Fixed - 5.89%
BES CAYMAN	BIC CAYMAN 18 2001	EUR	2001	50,000	2012	Fixed - 5.83%
BES CAYMAN	BIC CAYMAN 19 2001	EUR	2001	50,000	2012	Fixed - 5.96%
BES CAYMAN	BIC CAYMAN 20 2001	EUR	2001	50,000	2012	Fixed - 5.94%
BES CAYMAN	BIC CAYMAN 21 2001	EUR	2001	50,000	2013	Fixed - 6.03%
BES CAYMAN	BIC CAYMAN 22 2001	EUR	2001	75,000	2013	Fixed - 6.08%
BES CAYMAN	BIC CAYMAN 23 2001	EUR	2001	75,000	2013	Fixed - 6.03%
BES CAYMAN	BIC CAYMAN 24 2001	EUR	2001	75,000	2014	Fixed - 6.01%
BES CAYMAN	BIC CAYMAN 25 2001	EUR	2001	75,000	2014	Fixed - 6.02%
BES CAYMAN	BIC CAYMAN 26 2001	EUR	2001	75,000	2015	Fixed - 6.16%
BES CAYMAN	BIC CAYMAN 27 2001	EUR	2001	50,000	2015	Fixed - 6.09%
BES CAYMAN	BIC CAYMAN 29 2001	EUR	2001	50,000	2011	Fixed - 5.28%
BES CAYMAN	BIC CAYMAN 1 2002	EUR	2002	70,000	2012	Fixed - 5.92%
BES CAYMAN	BIC CAYMAN 2 2002	EUR	2002	4,985	2012	Fixed - 4.65%
BES CAYMAN	BIC CAYMAN 3 2002	EUR	2002	30,000	2007	Fixed - 5.42%
BES CAYMAN	BIC CAYMAN 4 2002	EUR	2002	50,000	2007	Fixed - 5.32%
BES CAYMAN	BIC CAYMAN 5 2002	EUR	2002	50,000	2007	Fixed - 5.23%

		31.12.2005				
Issuer	Designation	Currency	Issue Date	Book value ('000 euros)	Maturity	Global yield / interest rate
BAC	Bonds BES Açores August 2004	EUR	2004	35,005	2007	Fixed - 2.52%
BESLEASING	Bonds BLI 99	EUR	1999	2,500	2009	Fixed - 3.32%
BESLEASING	Bonds BLI 00	EUR	2000	1,968	2010	Fixed - 3.17%
BESLEASING	OBRIGAÇÕES DE CAIXA BEF 2004/2014	EUR	2004	1,000	2014	Fixed - 2.92%
BESLEASING	OBRIGAÇÕES DE CAIXA BEF 2005/2015	EUR	2005	10,000	2015	Fixed - 3.14%
BESLEASING	OBRIGAÇÕES DE CAIXA BEF 2005/2008	EUR	2005	6,000	2008	Fixed - 3.00%
BESLEASING	OBRIGAÇÕES DE CAIXA BEF 2005/2011	EUR	2005	78,199	2011	Fixed - 3.07%
BESLEASING	Commercial paper	EUR	1998	27,821	2010	Fixed - 2.31%
BESNAC	Commercial paper	USD	2005	1,855	2006	Fixed - 4.47%
BESIL	BESIL STEP UP 08/27/13	EUR	2003	25,000	2013	Fixed - 3.00%
BESIL	BESIL STEP UP 09/02/13	EUR	2003	25,000	2013	Fixed - 3.24%
BESIL	BESIL STEP UP 09/16/13	EUR	2003	25,000	2013	Fixed - 3.14%
BESIL	BESIL STEP UP 10/07/13	EUR	2003	25,000	2013	Fixed - 3.34%
BESIL	BESIL LTD 5.7065% 11/02/19	USD	2004	63,575	2019	Fixed - 5.71%
BESFIN	EMTN 12	EUR	2001	399,986	2006	Euribor 3 months + 0.18%
BESFIN	EMTN 15	EUR	2001	599,909	2006	Euribor 3 months + 0.20%
BESFIN	EMTN 19	EUR	2002	599,669	2007	Euribor 3 months + 0.20%
BESFIN	EMTN 20	HKD	2002	19,130	2006	HKD Hibor 3 months + 0.26%
BESFIN	EMTN 21	EUR	2003	99,962	2010	Fixed - 4.00%
BESFIN	EMTN 23	CZK	2003	17,243	2008	Fixed - 3.75%
BESFIN	EMTN 24	EUR	2003	298,556	2008	Indexed to HICP Ex-Tobacco
BESFIN	EMTN 25	EUR	2003	64,818	2008	Indexed to HICP Ex-Tobacco
BESFIN	EMTN 27	EUR	2003	126,528	2008	Indexed to DJ Eurostoxx 50
BESFIN	EMTN 28	EUR	2004	50,000	2009	Fixed - 3.83%
BESFIN	EMTN 29	EUR	2004	599,077	2009	Euribor 3 months + 0.15%
BESFIN	EMTN 30	EUR	2004	299,390	2011	Euribor 3 months + 0.20%
BESFIN	EMTN 31	EUR	2004	150,000	2007	Euribor 3 months + 0.15%
BESFIN	EMTN 32	EUR	2004	150,000	2007	Euribor 3 months + 0.15%
BESFIN	EMTN 33	EUR	2004	299,858	2008	Euribor 3 months + 0.15%
BESFIN	EMTN 34	EUR	2004	18,763	2029	Zero Coupon - Effective rate 5.43%
BESFIN	EMTN 35	EUR	2004	14,530	2019	s)
BESFIN	EMTN 36	EUR	2004	599,770	2009	Euribor 3 months + 0.19%
BESFIN	EMTN 37	EUR	2004	19,242	2029	Zero Coupon - Effective rate 5.30%
BESFIN	EMTN 39	EUR	2005	100,000	2015	Euribor 3 months + 0.23%
BESFIN	EMTN 41	EUR	2005	499,887	2010	Euribor 3 months + 0.15%
BESFIN	EMTN 44	EUR	2005	299,746	2010	Euribor 3 months + 0.13%
BESFIN	EMTN 45	EUR	2005	199,942	2007	Euribor 3 months + 0.05%
BESFIN	EMTN 46	EUR	2005	299,808	2008	Euribor 3 months + 0.10%
BESFIN	EMTN 47	EUR	2005	499,998	2008	Euribor 3 months + 0.05%

					31.12.2005			
Issuer	**Designation**		**Currency**	**Issue Date**	**Book value ('000 euros)**	**Maturity**	**Global yield / interest rate**
BESFIN	EMTN 40		EUR	2005	250,000	2035	t)
GBESI	BESI Rendimento 2008		EUR	2004	365	2008	Fixed - 2.75%
GBESI	BESI Rendimento Plus 2008		EUR	2004	3,237	2008	Fixed - 4.85%
GBESI	BESI RENDIM PLUSII TX VAR AGO08		EUR	2004	1,211	2008	Fixed - 4.85%
GBESI	BESI RENDIM PLUS TX VAR OUT07		EUR	2004	2,008	2007	Fixed - 4.15%
GBESI	BESI CAIXA BEST ACÇÕES EUROPA 4%	a)	EUR	2005	2,500	2010	Fixed - 4.00%
GBESI	BESI MULTIESTRATEGIA MAR2010	a)	EUR	2005	2,612	2010	b)
GBESI	BESI OBRIG RENDIMENT 20% MAY2015		EUR	2005	3,018	2015	Fixed - 5.00%
GBESI	BESI OBRIG BULL&BEAR JUN10	a)	EUR	2005	1,444	2010	Indexed to DJ Eurostoxx 50
GBESI	BESI CX RANGE ACCR AND FX NOV11		EUR	2005	5,598	2011	Range accrual
GBESI	ESIP FEB2007 REV FLOATER EUR QTO		EUR	2002	10,507	2007	Fixed - 18.56%
GBESI	ESIP NOV03/JAN07 EQTYILK IBEX35	a)	EUR	2003	2,421	2007	Indexed to IBEX 35
GBESI	ESIP NOV03/JAN07 EQTYILK STOXX50	a)	EUR	2003	2,421	2007	Indexed to DJ Eurostoxx 50
GBESI	ESIP JAN07 STOCK BASKET LINKED	a)	EUR	2004	2,426	2007	Equity Basket linked
GBESI	ESIP JAN04/JAN06 IBEX35 LINKED	a)	EUR	2004	999	2006	Indexed to IBEX 35
GBESI	ESIP JAN04/JAN06 EQL STOXX50 123	a)	EUR	2004	1,000	2006	Indexed to DJ Eurostoxx 50
GBESI	ESIP JAN04/JAN06 EQL STOXX50 124	a)	EUR	2004	999	2006	Indexed to DJ Eurostoxx 50
GBESI	ESIP JAN04/JAN06 EQL IBEX35	a)	EUR	2004	1,298	2006	Indexed to IBEX 35
GBESI	ES INVESTPLC SEP09 EURIBOR CAPII		EUR	1999	2,586	2009	Fixed - 2.95%
GBESI	ESIP NOV02 OCT2017 CALLABLE STEP		EUR	2002	7,683	2017	Fixed - 6.00%
GBESI	ESIP APR11 INDX BASQ LINQ 90%	a)	EUR	2003	4,257	2011	l)
GBESI	ESIP APR11 INDX BASQ LINQ 80%	a)	EUR	2003	3,793	2011	l)
GBESI	ESIP JUL03/JUL11 LINKED CMS		EUR	2003	15,907	2011	Fixed - 5.10%
GBESI	ESIP NOV2011 CMS LINKED EUR 5M		EUR	2003	5,488	2011	Fixed - 4.75%
GBESI	ESIP DEC2011 CMS LINKED EUR 6.5M		EUR	2003	7,105	2011	Fixed - 4.95%
GBESI	ESIP JUL2012 CMS LINKED EUR 5.5M		EUR	2004	6,016	2012	Fixed - 4.95%
GBESI	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	12,831	2024	Fixed - 5.00%
GBESI	ESIP EURCRE CRDLINK NOV09		EUR	2004	12,000	2009	Fixed - 3.61%
GBESI	ESIP CMS LINKED NOV2014		EUR	2004	6,235	2014	Fixed - 6.00%
GBESI	ESIP EUR SNOWBALL FLOAT NOV2012		EUR	2004	6,484	2012	Fixed - 4.75%
GBESI	ESIP NOV03/JAN07 EQILK DOW JON I	a)	USD	2003	2,011	2007	Indexed to DJ Industrial Average
GBESI	ESIP JAN07 INDEX BASKET LINKED	a)	USD	2004	2,007	2007	h)
GBESI	ESIP JAN01/JAN11 CRDLKD US 11.85	a)	USD	2001	2,685	2011	Fixed - 11.85% i)
GBESI	ESIP FEB01/FEB06 CRDLKD US 10.0	a)	USD	2001	4,244	2006	Fixed - 10.00% i)
GBESI	ESIP EUR SNOWBALL FLOAT FEB2010		EUR	2005	369	2010	Fixed - 4.25%
GBESI	ESIP EUR SNOWB FLOAT FEB2010 II		EUR	2005	923	2010	Fixed - 4.25%
GBESI	ESIP ZERO COUPON SEP2006		EUR	2005	19,443	2006	0%
GBESI	ESIP NOV02 OCT2017 CALLABLE STEP		EUR	2002	1,682	2010	Fixed - 2.32%
GBESI	ESIP EUR12M+14 BPS APR2008		EUR	2005	15,000	2008	Fixed - 2.50%

Issuer	Designation		Currency	Issue Date	Book value ('000 euro)	Maturity	Global yield / interest rate
			31.12.2005				
GBESI	ESIP AMORTIZING MAY2010 ESTOXX50	a)	EUR	2005	3,766	2010	Indexed to DJ Eurostoxx 50
GBESI	ESIP ASIAN BASKET EURO MAY2008	a)	EUR	2005	7,179	2008	j)
GBESI	ESIP ASIAN BASKET USD MAY2008	a)	USD	2005	722	2008	j)
GBESI	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	8,579	2015	Fixed - 6.00%
GBESI	ESIP RANGE ACCRUAL JUN15		EUR	2005	1,783	2015	Range accrual
GBESI	ESIP RANGE ACCRUAL AUG2013		EUR	2005	4,881	2013	Fixed - 1.90%
GBESI	ESIP BESLEAS&INFLAT LINK MAY15	a)	EUR	2005	7,016	2015	Indexed to HIPC Ex-Tobacco
GBESI	ESIP EURIBOR12M+13 BP MAY2008		EUR	2005	8,100	2008	Fixed - 2.11%
GBESI	ESIP EUR6M+2 BPS JAN2006		EUR	2005	66,500	2006	Fixed - 6.25%
GBESI	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1,591	2015	Fixed - 7.06%
GBESI	ES INVEST PLC AGO06 BRISA LINKED	a)	EUR	2005	2,857	2006	Indexed to BRISA market price
GBESI	ESIP FEB2007 EQLK IBEX & ESTX50	a)	EUR	2005	2,681	2007	Indexed to IBEX 35 and Eurostoxx 50
GBESI	ESIP AGO05 AGO08 FTD USD 1M		USD	2005	793	2008	Fixed - 5.25%
GBESI	ESIP AGO05 SEP35 CALLABLE INV FL		EUR	2005	12,528	2035	Fixed - 4.75%
GBESI	ESIP SEP17 RANGE ACC TARN		EUR	2005	2,632	2017	4.75%
GBESI	ESIP IBEX & SX5E LNQ MAR07	a)	EUR	2005	3,575	2007	Indexed to IBEX 35 and Eurostoxx 50
GBESI	ESIP ZERO COUPON NOTE MAR06		EUR	2005	49,462	2006	Fixed - 15.00%
GBESI	ESIP EURBRL LNQ NOTE SEP13		EUR	2005	2,541	2013	Fixed - 6.10%
GBESI	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	7,003	2015	Fixed - 2.64%
GBESI	ESIP EMERG SOVEREIGN SEP 2006		EUR	2005	30,988	2006	2.48%
GBESI	ESIP SX5E E S&P500 00407		EUR	2005	2,180	2007	Reference indexes Basket
GBESI	ESIP CALL RANGE ACCRUAL OCT2008		EUR	2005	9,163	2008	Range accrual
GBESI	ESIP EQLK TELEFONICA OCT2008 USD		USD	2005	1,484	2008	Equity Linked
GBESI	ESIP EQLK TELEFONICA OCT2008 EUR		EUR	2005	12,009	2008	Equity Linked
GBESI	ESIP CALL RANGE ACCRUAL NOV2017		EUR	2005	2,335	2017	Range accrual
GBESI	ESIP HYBRID (FX AND EUR6M) OCT09		EUR	2005	3,558	2009	Fixed - 4.30%
GBESI	ESIP 30CMS-2CMS LKD NOTE NOV2036		EUR	2005	(3,054)	2036	7.44%
GBESI	ESIP RANGE ACCRUAL AND FX NOV11		EUR	2005	273	2011	Range accrual
GBESI	ESIP 07-12-06 ZERO COUPON		EUR	2005	48,622	2006	0.00%
GBESI	ESIP ZERO COUPON DEC08		EUR	2005	1,961	2008	0.00%
GBESI	ESIP RANGE ACCRUAL DEC08		EUR	2005	1,839	2008	Range accrual
GBESI	ESIP-ESP SANTO IN PLC 3.04% 2007		EUR	2005	3,996	2007	3.04%
GBESI	ESIP ZERO COUPON NOTE JUN06		EUR	2005	118,427	2006	0.00%
CLNs	ALSIR 0 12/01/11		EUR	2001	24,100	2011	Fixed - 3.21%
CLNs	EARLS 0 11/22/11		USD	2001	2,120	2011	Fixed - 5.09%
CLNs	ELAN 0 02/12/15		USD	2003	3,178	2015	Fixed - 4.63%
CLNs	SBFLTD 0 02/18/15		USD	2003	3,178	2015	Fixed - 4.80%
CLNs	SEAFIN 0 02/06/13		USD	2003	4,238	2013	Fixed - 4.62%
CLNs	SEAFIN 0 03/13/18		USD	2003	21,191	2018	Fixed - 4.99%

Issuer	Designation	31.12.2005 Currency	Issue Date	Book value ('000 euros	Maturity	Global yield / interest rate
CLNs	ARLO 0 07/15/13	USD	2003	3,178	2013	Fixed - 4.30%
CLNs	RAMPER 0 07/29/10	USD	2003	3,178	2010	Fixed - 4.69%
CLNs	VRDNT 0 07/26/13	USD	2003	3,390	2013	Fixed - 4.62%
CLNs	SEAFIN 0 02/03/17	USD	2004	3,178	2017	Fixed - 4.82%
CLNs	SOLAR 0 02/13/19	USD	2004	3,893	2019	Fixed - 4.93%
CLNs	SOLAR 0 07/23/14	USD	2005	4,238	2014	Fixed - 4.13%
CLNs	SOLAR 0 02/02/17	USD	2005	31,363	2017	Fixed - 4.13%
CLNs	EIRLES 0 07/21/14	USD	2004	4,238	2014	Fixed - 4.22%
CLNs	BTARI 0 06/23/16	EUR	2002	5,300	2015	Fixed - 4.15%
SPE-LF2	Class A	EUR	2002	73,991	2010	Euribor 3 months + 0.27%
SPE-LF2	Class B	EUR	2002	11,250	2010	Euribor 3 months + 0.45%
SPE-LF2	Class C	EUR	2002	29,030	2010	Euribor 3 months + 0.83%
SPE-LF2	Class D	EUR	2002	4,770	2010	-
				14,260,191		
	Accrued interest			142,100		
				14,402,291		

a) debt issues with embedded derivatives 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 Jones Eurostoxx 50, Standard & Poors 500 and Nikkei 225
d) indexed to a Basket composed by the indexes Dow Jones Eurostoxx 50; Goldman Sachs Commodity Index Total Return and Bloomberg/EFFAS Bond Indices EURO GOVT
e) indexed to a Basket composed by the indexes Dow Jones Eurostoxx 50 and HICP Ex-Tobacco
f) indexed to a Basket composed by shares of the energy sector
g) indexed to a Basket composed by the indexes Dow Jones Eurostoxx 50; Goldman Sachs Commodity Index Excess Return; Iboxx Euro Sovereign and exchange rate USD/EUR
h) indexed to a Basket composed by the indexes Dow Jones Eurostoxx 50 and Dow Jones Industrials
i) subject to adjustment in accordance with a credit operation
j) indexed to a Basket composed by the indexes Nifty India Index; REX Russia Index and China HSCE Index
l) indexed to a Basket composed by the indexes DJ Eurostoxx 50; Standard & Poors 500 and Nasdaq 100
m) indexed to a Basket composed by the indexes Dow Jones Eurostoxx 50, Nasdaq 100 and Nikkei 225
n) indexed to a Basket composed by the funds European Equity, Top Ranking and HighYield
o) indexed to fixed rate (4.08%) in the 1st, 2nd and 8th year; indexed to CMS from the 3rd to the 7th year
p) indexed to fixed rate (4.14%) in the 1st, 2nd and 8th year; indexed to CMS from the 3rd to the 7th year
q) indexed to fixed rate (3.85%) in the 1st, 2nd and 8th year; indexed to CMS from the 3rd to the 7th year
r) indexed to fixed rate (4.15%) in the 1st, 2nd and 8th year; indexed to CMS from the 3rd to the 7th year
s) indexed to fixed rate (6.60%) from the 1st to the 5th year; indexed to CMS after the 6th year
t) indexed to fixed rate (6.00%) from the 1st to the 4th year; indexed to CMS after the 4th year

Note_31
Provisions

As at 31 December 2005 and 2004, the balance of provisions presents the following movements:

in thousand of euros

	Provision for employee benefits	Restructuring provision	Other provisions	Total
Balance as at 1 January 2004	**-**	**-**	**81,673**	**81,673**
Charge for the year	2,679	-	137,995	140,674
Charge off	(3,720)	-	(76,019)	(79,739)
Write back for the year	-	-	(67,640)	(67,640)
Exchange differences and other	9,216	-	(28)	9,188
Balance as at 31 December 2004	**8,175**	**-**	**75,981**	**84,156**
Charge for the year	-	57,554	23,116	80,670
Charge off	-	(7,892)	(13,224)	(21,116)
Write back for the year	-	-	(5,665)	(5,665)
Changes in the consolidation scope	-	-	16,715	16,715
Exchange differences and other	(742)	-	1,338	596
Balance as at 31 December 2005	**7,433**	**49,662**	**98,261**	**155,356**

As at 31 December 2005, the changes in consolidation scope relate to the acquisition of Banco Inversión in Spain.

In accordance with the decision taken by the Board of Directors of BES on 19 September 2005, Banco Internacional de Crédito, S.A. was merged into Banco Espírito Santo, S.A. at 30 December 2005. After this decision, a restructuring plan was prepared and approved by BES and the respective implementation started during the last quarter of 2005. A provision in the amount of euro 57.6 million to meet the costs with the restructuring, was set up.

Other provisions in the amount of euro 98,261 thousand as at 31 December 2005 (31 December 2004: euro 75,981 thousand) are intended to cover certain contingencies related to the Group's activities.

Note_32
Income Taxes

The Bank and its subsidiaries domiciled in Portugal are subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes.

BES Group determined its 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:

in thousand 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	51,046	-	(58,180)	-	(7,134)	-
Available-for-sale financial assets	15,601	-	(157,333)	-	(141,732)	-
Loans and advances to customers	48,511	35,401	-	-	48,511	35,401
Property and equipment	-	-	(10,740)	(11,019)	(10,740)	(11,019)
Intangible assets	5,097	11,888	-	-	5,097	11,888
Investments in subsidiaries and associates	6,448	15,953	(16,829)	(1,749)	(10,381)	14,204
Provisions	27,458	7,982	-	-	27,458	7,982
Pensions	1,407	1,265	(58,063)	(26,536)	(56,656)	(25,271)
Health care - SAMS	20,454	19,813	-	-	20,454	19,813
Long-service benefits	6,450	5,484	-	-	6,450	5,484
Other	1,522	6,284	(2,875)	(4,389)	(1,353)	1,895
Tax credits resulting from double tax treaties	18,712	18,712	-	-	18,712	18,712
Tax losses brought forward	97,113	12,766	-	-	97,113	12,766
Deferred tax asset / (liability)	**299,819**	**135,548**	**(304,020)**	**(43,693)**	**(4,201)**	**91,855**
Assets/liabilities compensation for deferred taxes	(257,609)	(42,749)	257,609	42,749	-	-
Deferred tax asset / (liability), net	**42,210**	**92,799**	**(46,411)**	**(944)**	**(4,201)**	**91,855**

The deferred tax movement in 2005 and 2004 can be analysed as follows:

in thousand of euros

	31.12.2005		31.12.2004	
	Recognised in profit	Recognised in reserves	Recognised in profit	Recognised in reserves
Derivative financial instruments	8,899	-	1,084	-
Available-for-sale financial assets	28,977	137,183	-	-
Loans and advances to customers	(9,750)	-	(3,573)	-
Property and equipment	(279)	-	(273)	-
Intangible assets	6,791	-	5,356	-
Investments in subsidiaries and associates	24,585	-	1,480	-
Provisions	(19,476)	-	1,979	-
Pensions	32,471	(1,087)	(12,066)	-
Health care - SAMS	(674)	33	(1,768)	-
Long-service benefits	(966)	-	(702)	-
Other	2,849	-	6,564	-
Tax losses brought forward	(84,347)	-	5,785	-
Transition adjustment at 1 January 2005	-	(29,153)	-	-
	(10,920)	106,976	3,866	-

The income tax recognised in profit for the years ended 31 December 2005 and 2004, is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Current tax	76,791	42,834
Deferred tax		
Temporary differences and reversals	73,427	(1,919)
Tax losses brought forward	(84,347)	5,785
	(10,920)	3,866
Total income tax recognised in profit	65,871	46,700

The income tax recongnised in reserves for the years ended 31 December 2005 and 2004 is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Current tax	1,054	-
Deferred tax		
Transition adjustment at 1 January 2005	(29,153)	-
Changes in fair value reserve	137,183	-
Other	(1,054)	-
	106,976	-
Total income tax recognised in reserves	108,030	-

The reconciliation of the income tax rate is shown in the following table:

in thousand of euros

	31.12.2005		31.12.2004	
	%	Amount	%	Amount
Profit before minority interests and taxes		**355,948**		**221,192**
Statutory tax rate	27.5%		27.5%	
Income tax calculated based on the statutory tax rate		97,886		60,828
Diferences on the subsidiaries statutory tax rates		6,119		1,959
Tax-exempt dividends		(2,869)		(2,512)
Tax-exempt profits (off shore)		(40,880)		(19,065)
Tax-exempt gains		(8,783)		(6,436)
Tax on capital gains obtained abroad		11,745		-
Changes in tax basis of assets and liabilities due to changes in tax laws		6,750		-
Changes in estimates		(12,482)		3,391
Unrecognised deferred tax assets related to tax losses generated in the period		7,076		13,415
Tax losses used for which no defered tax assets were recognised		(6,061)		-
Tax credits resulting from double tax treaties		-		(6,168)
Non deductible costs		6,364		4,247
Other		1,006		(2,959)
		65,871		**46,700**

Note_33
Subordinated debt

The balance subordinated debt is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Cash bonds	1,081,237	1,018,286
Loans	247,026	-
Perpetual bonds	1,039,334	1,047,638
	2,367,597	**2,065,924**

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

in thousand of euros

		31.12.2005				
Issuer	Designation	Issue Date	Amount issued	Carrying amount	Interest Rate	Maturity
BES	Subordinated bonds	1996	59,856	59,861	2.81%	2006
BES	Subordinated bonds	1997	99,762	99,771	2.69%	2007
BES (Cayman)	Subordinated loans	2005	215,983	246,980	3.95%	2015
BES Finance	Subordinated bonds	1999	42,384	42,371	7.80%	2009
BES Finance	Subordinated bonds	2000	300,000	299,887	6.63%	2010
BES Finance	Subordinated bonds	2001	400,000	399,907	6.25%	2011
BES Finance	Subordinated perpetual bonds	2002	500,000	499,837	6.63%	2012*
BES Finance	Subordinated perpetual bonds	2004	500,000	499,960	4.50%	2015*
Besleasing e Factoring	Subordinated bonds	2001	7,000	7,000	3.64%	2011
Besleasing e Factoring	Subordinated bonds	2004	25,000	25,000	3.52%	2014
Besleasing e Factoring	Subordinated bonds	2005	15,000	15,000	4.74%	-
BESI	Subordinated bonds	1996	29,928	28,886	2.62%	2006
BESI	Subordinated bonds	2003	10,000	10,196	5.50%	2033
BESI	Subordinated bonds	2005	60,000	60,000	2.93%	2015
Sub-total			**2,264,913**	**2,294,656**		
Accrued interest				72,941		
				2,367,597		

* Call option date

During the year ended 31 December 2005, BES Group issued subordinated debt securities in the amount of euro 291 million (31 December 2004: euro 1,100 million), and reimbursed euro 44.9 million (31 December 2004: euro 161.6 million).

Note_34
Other liabilities

As at 31 December 2005 and 2004, the balance Other liabilities is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Creditors		
Public sector	33,596	29,147
Creditors arising out from futures contracts	18,576	10,041
Sundry creditors		
Creditors from health care benefits (see Note 11)	76,093	73,313
Creditors from transactions with securities	71,195	35,928
Suppliers	64,228	47,302
Creditors from factoring	4,479	4,952
Other sundry creditors	129,415	76,256
	397,582	**276,939**
Accrued expenses		
Long-service benefits (see Note 11)	22,042	19,942
Other accrued expenses	90,196	48,760
	112,238	**68,702**
Deferred income	**23,236**	**35,759**
Other sundry liabilities		
Stock exchange transactions pending settlement	279,816	139,377
Foreign exchange transactions pending settlement	202	2,938
Other transactions pending settlement	191,006	31,282
	471,024	**173,597**
	1,004,080	**554,997**

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 (see Note 27).

Note_35
Share capital, share premium, treasury stock and preference shares

Ordinary shares

As at 31 December 2005, the Bank's share capital was represented by 300 million ordinary shares with a face value of 5 euros each, which were subscribed and fully paid by the following entities:

	% Share capital	
	31.12.2005	31.12.2004
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	41.98%	41.98%
Credit Agricole, S.A.	8.81%	8.81%
Companhia de Seguros Tranquilidade Vida, S.A.	6.46%	6.45%
Bradeport, SGPS, S.A.[1]	3.05%	3.00%
Others	39.70%	39.76%
	100.00%	100.00%

(1) Portuguese company fully owned by Banco Bradesco, S.A.

During 2005 the Bank did not issue any ordinary shares representative of its share capital.

Preference shares

The Group issued 450 thousand non-voting preference shares, which were listed in the Luxembourg stock exchange in July 2003. In March 2004, 150 thousand preference shares were additionally issued forming a single series with the existing preference shares, in a total amount of 600 millions of euros. The face value of these shares is 1,000 euros and is wholly (but not partially) redeemable by option of the issuer at its face value, as at 2 July 2014, subject to prior approvals of BES and the Bank of Portugal.

These preference shares pay an annual preferred dividend, if and when declared by the Board of Directors of the issuer, of 5.58% p.a. on nominal value. The dividend is paid on 2 July of each year, beginning 2 July 2004 and ending 2 July 2014.

If the issuer does not redeem these preference shares on 2 July 2014, the dividend applicable rate will be the 3 months Euribor plus 2.65% p.a., with payments on 2 January, 2 April, 2 July and 2 October of each year, if declared by the Board of Directors of the issuer.

BES unconditionally guarantees dividends and principal repayment related to the above mentioned issue, until the limit of the dividends previously declared by the Board of Directors of the issuer.

As at 31 December 2005, the Group recognised as a debit to reserves the amount of 33,480 thousands of euros related to the dividends declared by the Board of Directors of the issuer, as at 23 May 2005, which were paid as at 5 July 2005 (see Note 32).

These shares rank lower than any BES liability, and "pari passu" relative to any preference shares that may come to be issued by the Bank.

Share premium

As at 31 December 2005, the share premium in the amount of 300,000 thousands of euros relates to the capital increase that occurred during the first half of 2002.

Treasury stock

The Bank's General Meeting of 20 June 2000 approved the set up of a stock-based incentive scheme (see Note 2.15), which started in 2000. As at 31 December 2005, 7,617 thousand shares of BES (2.54% of total share capital), are allocated (31 December 2004: 7,991 thousand shares, 2.66% of total share capital), for an overall amount of euro 96.3 million (31 December 2004: euro 100.2 million). These shares are recognised as treasury stock, as described in Note 2.15.

The movement in treasury stocks is analysed as follows:

	31.12.2005		31.12.2004	
	Number of shares	Amount (euro'000)	Number of shares	Amount (euro'000)
Opening balance	7,991,482	100,174	8,358,605	102,304
Shares bought	1,811,774	24,544	1,601,919	22,427
Shares sold	(2,185,756)	(28,471)	(1,969,042)	(24,557)
Year-end balance	7,617,500	96,247	7,991,482	100,174

Note_36
Fair value reserve, other reserves and 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:

in 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)	**-**	**-**	**-**	**40,865**	**(150,590)**	**(109,725)**
Share-based incentive plan (SIBA)	-	-	-	-	2,955	2,955
Regulation nr. 4/2002	-	-	-	-	26,974	26,974
Exchange differences	-	-	-	-	(12,486)	(12,486)
Transfer to reserves	-	-	-	19,200	132,045	151,245
Balance as at 31 December 2004 IFRS (excluding IAS 32 and IAS 39)	-	-	-	**60,065**	**(1,102)**	**58,963**
Effect of adoption of IAS 32 and IAS 39	29,296	2,875	32,171	-	(123,293)	(123,293)
Balance as at 1 January 2005 IFRS	**29,296**	**2,875**	**32,171**	**60,065**	**(124 395)**	**(64 330)**
Share-based incentive plan (SIBA)	-	-	-	-	2,060	2,060
Dividends from preference shares	-	-	-	-	(33,480)	(33,480)
Changes in fair value	470,703	(137,183)	333,520	-	-	-
Exchange differences	-	-	-	-	26,086	26,086
Transfer to reserves [a]	-	-	-	56,789	(15,546)	41,243
Balance as at 31 December 2005	**499,999**	**(134 308)**	**365,691**	**116,854**	**(142,919)**	**(26,065)**

(a) includes euro 36,289 thousand related to the legal reserve of BIC which was incorporated into BES.

As at 31 December 2005, the fair value reserve can be analysed as follows:

in thousand of euros

	31.12.2005
Amortised cost of available-for-sale financial assets	3,346,961
Accumulated impairment recognised	(60,012)
Amortised cost of available-for-sale financial assets, net of impairment	3,286,949
Fair value of available-for-sale financial assets	3,808,554
Net unrealised gains recognised in the fair value reserve	521,605
Deferred taxes	(134,308)
Minority interests	(21,606)
Balance as at 31 December 2005	**365,691**

The movement in the fair value reserve, net of deferred taxes, in the year ended 31 December 2005 is analysed as follows:

in thousand of euros

	31.12.2005
1 January 2005	**32,171**
Changes in fair value	452,694
Disposals during the year	(18,193)
Impairment recognised during the year	36,202
Deferred taxes recognised in reserves during the year (see Note 32)	(137,183)
Balance as at 31 December 2005	**365,691**

Minority interests

Minority interests are analysed as follows:

in thousand of euros

	31.12.2005		31.12.2004	
	Balance sheet	Income statement	Balance sheet	Income statement
BES FINANCE	-	-	600,000	31,399
ESOL	-	-	-	6,240
BEST	7,164	(2,099)	7,255	(3,204)
BESI	33,013	(114)	4,081	-
ESAF	11,318	3,018	11,165	2,058
BESLEASING	8,063	1,305	7,809	1,044
BES AÇORES	11,214	1,537	12,634	1,697
BES ANGOLA	6,611	6,020	7	4
ES CONTACT CENTER	776	77	697	67
ES CONCESSÕES	20,811	(702)	146	(28)
OTHERS [(a)]	6,782	554	2,041	(16,428)
	105,752	**9,596**	**645,835**	**22,849**

(a) - includes amounts related to the consolidation of SPEs.

The changes in minority interests for the years ended 31 December 2005 and 2004 are analysed as follows:

in thousand of euros

	2005	2004
Minority interests as at 1 January	**645,835**	**637,804**
Impact of adoption IAS 32 and IAS 39	(564,206)	-
	81,629	637,804
Preference shares issued	-	150,000
Reimbursement of preference shares	-	(119,531)
Changes in the scope of consolidation	30,049	-
Increase in share capital of subsidiaries	2,040	-
Dividends paid	(4,900)	(2,171)
Dividends paid on preference shares	-	(37,639)
Regulation nr. 4/2002	-	(59)
Changes in fair value reserve	(14,601)	-
Exchange differences and other	1,939	(5,418)
Profit for the year	9,596	22,849
Minority interests as at 31 December	**105,752**	**645,835**

The impact of adoption IAS 32 and IAS 39 include euro 600,000 thousand related to the reclassification of the preference shares issued by the Group from minority interests to equity attributable to equity holders of the Bank.

Note_37
Contingent liabilities and commitments

As at 31 December 2005 and 2004, this caption can be analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Contingent liabilities		
Guarantees and standby letters of credit	4,818,084	4,363,799
Assets pledged as collateral	646,389	624,493
Open documentary credits	353,068	326,782
Other	94,343	51,413
	5,911,884	**5,366,487**
Commitments		
Revocable commitments	16,746,492	7,493,163
Irrevocable commitments	1,711,274	1,847,499
	18,457,766	**9,340,662**

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

Documentary credits are irrevocable commitments, by the Group, in the name of its clients, to pay or order to pay a certain amount to a supplier of goods or services, within a determined term, against the exhibition of the expedition documentation of the goods or service provided. The condition of irrevocable consists of the fact that neither of the involved parties can ask the cancellation or changes in terms initially agreed.

Revocable and irrevocable commitments represent contractual agreements to extend credit to Group'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 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 158,490 thousand (31 December 2004: euro 150,203 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 52,247 thousand (31 December 2004: euro 37,167 thousand);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 61,709 thousand (31 December 2004: euro 50,062 thousand);

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

in thousand of euros

	31.12.2005	31.12.2004
Securities and other items held for safekeeping on behalf of customers	48,480,685	37,810,680
Assets for collection on behalf of clients	603,220	422,507
Securitised loans under management (servicing)	3,789,306	2,911,295
Other responsabilities related with banking services	27,514	-
	52,900,725	**41,144,482**

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_38
Assets under management

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the nonfulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2005 and 2004, the amount of the investment funds managed by the Group is analysed as follows:

in thousand of euros

	31.12.2005	31.12.2004
Securities investment funds	5,392,511	4,442,148
Real estate investment funds	1,462,708	1,406,237
	6,855,219	**5,848,385**

Note_39
Related parties transactions

As at 31 December 2005 and 2004, the balances and transactions with related parties are presented as follows:

in thousand of euros

	31.12.2005					31.12.2004				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associated companies										
ESUMÉDICA	1,094	80	-	17	18	2,505	2,744	-	86	42
EUROP ASSISTANCE	8	52,750	14	25	35	-	913	12	-	25
FIDUPRIVATE	-	306	-	-	-	-	209	-	-	-
BES VÉNÉTIE	511,327	128,146	-	65	11	671,952	199,765	-	60	598
ES SEGUROS	-	6,629	-	51	16	-	12,385	-	30	32
ESEGUR	399	1,940	115	19	122	399	840	87	3	13
OTHERS	1,668	1,724	5,414	60	492	1,429	2,205	1,401	-	1
	514,496	**191,575**	**5,543**	**237**	**694**	**676,285**	**219,061**	**1,500**	**179**	**711**

As at 31 December 2005 and 2004, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

in thousands of euros

	31.12.2005							31.12.2004		
	Assets					Guarantees	Liabilities	Assets	Guarantees	Liabilities
	Deposits	Loans	Securities	Other	Total					
ES FINANCIAL GROUP	-	-	-	165	165	-	165	2,877	-	7
ESFG OVERSEAS	-	-	-	-	-	-	7	-	-	7
ESF PORTUGAL	-	-	63,457	-	63,457	-	19,795	44,442	-	50,440
BESPAR	-	651	-	-	651	-	2,083	18,986	-	3
PARTRAN	-	70,176	-	-	70,176	-	78	70,030	-	89
CENTUM	-	-	-	-	-	-	68	-	-	110
BES VÉNÉTIE	499,299	-	6,500	5,528	511,327	-	128,146	671,952	-	199,765
ESPÍRITO SANTO FINANCIÉRE, SA	-	197,993	-	-	197,993	-	2,063	71,581	-	6,006
GRUPO TRANQUILIDADE	-	1,751	-	396	2,147	819	566,747	1,034	830	1,437,527
GRUPO ESPÍRITO SANTO INTERNATIONAL	-	188,710	30	7,359	196,099	42,521	14,520	188,325	38,658	38,761
COMPAGNIE BANCAIRE ESPÍRITO SANTO, SA	45	-	-	-	45	338	421,915	-	338	73,260
GESFIMO	-	-	-	-	-	-	-	-	-	1,100
EUROP ASSISTANCE	-	-	-	8	8	14	52,750	-	12	913
COMINVEST	-	-	-	-	-	-	7	-	-	8
ES BANK PANAMA	90,888	-	-	-	90,888	-	-	67,859	-	-
FRAYBELL COMPANY	-	139,352	-	-	139,352	-	-	138,622	-	-
OTHER	-	73,215	9,156	5,093	87,464	26	4,940	37,113	2,640	2,065
TOTAL	**590,232**	**671,848**	**79,143**	**18,549**	**1,359,772**	**43,718**	**1,213,284**	**1,312,821**	**42,478**	**1,810,061**

During the year ended 31 December 2005, and excluding the payment of dividends, no additional transactions with related parties were undertaken between the Group and its shareholders.

The transactions with the pensions fund are analysed in Note 11.

Note_40
Securitisation transactions

As at 31 December 2005, the outstanding securitisation transactions performed by the Group were as follows:

in thousand of euros

Designation	Initial date	Original amount	Current amount	Asset securitised
Lusitano Global CDO No.1 plc	August 2001	1,144,300	367,074	Domestic bonds and eurobonds
Lusitano Finance No. 2 plc	April 2002	450,000	122,292	Consumer loans and finance lease
Lusitano Mortgages No.1 plc	December 2002	1,000,000	752,990	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2,plc	November 2003	1 000,000	781,832	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	1,082,190	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	1,172,294	Mortgage loans (general regime)

The main characteristics of these transactions, as at 31 December 2005, can be analysed as follows:

in thousand of euros

Designation	Notes issued	Issued amount (par value)	Current amount (par value)	Securities held by BES Group (par value)	Maturity date	Ratings Fitch	Ratings Moody's	Ratings S&P
Lusitano Global CDO No.1 plc	Class A1	350,000	-	-	December 2015	AAA	Aaa	AAA
	Class A2	623,800	206,163	165	December 2015	AAA	Aaa	AAA
	Class B	42,300	42,300	-	December 2015	AAA	Aa1	AA
	Class C	25,200	25,200	15,500	December 2015	AA	A1	A+
	Class D	103,000	103,000	14,000	December 2015	-	-	-
Lusitano Finance No. 2 plc	Class A	409,720	114,526	-	April 2010	AAA	Aaa	AAA
	Class B	11,250	11,250	-	April 2010	AA+	Aa2	AA
	Class C	29,030	29,030	-	April 2010	A	A2	A-
	Class D	20,250	15,480	15,480	April 2010	-	-	-
Lusitano Mortgages No.1 plc	Class A	915,000	670,976	-	December 2035	AAA	Aaa	AAA
	Class B	32,500	32,500	-	December 2035	AA	Aa3	AA
	Class C	25,000	25,000	-	December 2035	A	A2	A
	Class D	22,500	22,500	-	December 2035	BBB	Baa2	BBB
	Class E	5,000	5,000	-	December 2035	BB	Ba1	BB
	Class F	10,000	10,000	1,000	December 2035	-	-	-
Lusitano Mortgages No.2,plc	Class A	920,000	720,124	-	December 2036	AAA	Aaa	AAA
	Class B	30,000	30,000	-	December 2046	AA	Aa3	AA
	Class C	28,000	28,000	5,000	December 2046	A	A3	A
	Class D	16,000	16,000	-	December 2046	BBB	Baa3	BBB
	Class E	6,000	6,000	-	December 2046	BBB-	Ba1	BB
	Class F	9,000	9,000	900	December 2046	-	-	-
Lusitano Mortgages No.3 plc	Class A	1,140,000	1,050,697	-	December 2047	AAA	Aaa	AAA
	Class B	27,000	27,000	500	December 2047	AA	Aa2	AA
	Class C	18,600	18,600	-	December 2047	A	A2	A
	Class D	14,400	14,400	-	December 2047	BBB	Baa2	BBB
	Class E	10,800	10,800	1,000	December 2047	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	1,115,018	-	December 2048	AAA	Aaa	AAA
	Class B	22,800	22,800	-	December 2048	AA	Aa2	AA
	Class C	19,200	19,200	-	December 2048	A+	A1	A+
	Class D	24 000	24,000	-	December 2048	BBB+	Baa1	BBB+
	Class E	10,200	10,200	-	December 2048	-	-	-

As permitted by IFRS 1, the Group has applied the derecognition requirements of IAS 39 for the transactions entered into after 1 January 2004. Therefore, the assets derecognised until that date, in accordance with the previous accounting policies, were not restated in the balance sheet.

The assets sold in the securitisation transactions Lusitano Mortgages No.3 and Lusitano Mortgages No.4, performed in November 2004 and September 2005, respectively, were derecognised considering that the Group has transferred substantially all the risks and rewards of ownership.

In accordance with SIC 12, since 1 January 2004, the Group fully consolidates Lusitano Finance No. 2, plc, as it retains the majority of the risks and rewards associated with the activity of this SPE. Therefore, assets and liabilities of Lusitano Finance No. 2 plc are included in the consolidated balance sheet of the Group. The other securitisation vehicles are not included in the consolidated financial statements of the Group as it has not retained the majority of the risks and rewards of ownership.

Note_41
Risk management

A qualitative outlook of the risk management at BES Group is presented below.

Risk control and risk management provides an active support to management, being one of the strategic mainstays supporting BES Group's balanced and sustained development.

Risk management is organised into two broad areas - the Global Risk Department and the Company Monitoring and Credit Recovery Department - having 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 help achieve BES Group's value creation objectives by fine-tuning tools to support the structuring of transactions and by developing 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 risk profile of BES Group's credit portfolios is analysed on a monthly basis by the Risk Committee. In these monthly meetings the Committee monitors and analyses the risk profile of BES Group and respective business units under four major angles: evolution of credit exposures, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

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Market risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or share prices.

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. BES's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

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 thousand of euros

	31.12.2005						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Assets							
Cash and deposits at central banks	918,903	22,587	2,892	33	1	60,592	1,005,008
Deposits with banks	521,715	81,959	20,668	2,782	14,012	14,044	655,180
Financial assets held for trading	2,109,773	245,074	125,068	6,407	499,821	9,600	2,995,743
Financial assets at fair value through profit or loss	1,643,489	89,199	-	-	-	14,210	1,746,898
Available-for-sale financial assets	2,630,006	302,072	12,626	-	693,148	170,702	3,808,554
Loans and advances to banks	3,941,362	1,924,156	206,236	13,679	38,082	40,529	6,164,044
Loans and advances to customers	29,228,517	746,094	769,312	16,664	37	71,500	30,832,124
Held to maturity investments	-	596,840	-	-	-	-	596,840
Hedging derivatives	76,660	2,039	8,929	36,126	-	751	124,505
Non-current assets held for sale	157,536	-	-	-	-	-	157,536
Investments in associates	62,374	-	-	-	-	-	62,374
Other non-financial assets	2,884,190	625,897	1,182,838	216,403	14,295	2,453,596	7,377,219
Total assets	**44,174,525**	**4,635,917**	**2,328,569**	**292,094**	**1,259,396**	**2,835,524**	**55,526,025**
Liabilities							
Deposits from central banks	113,281	443,911	96,179	-	-	945	654,316
Financial liabilities held for trading	937,286	234,207	71,005	3,465	9,110	16,659	1,271,732
Deposits from banks	3,939,175	1,565,146	454,389	14,433	58,574	233,175	6,264,892
Due to customers	18,223,071	1,304,082	577,033	12,664	418,304	217,929	20,753,083
Debt securities issued	12,030,830	854,274	1,259,830	-	-	257,357	14,402,291
Hedging derivatives	106,648	2,349	946	-	-	1,155	111,098
Subordinated debt	2,066,042	54,314	-	247,241	-	-	2,367,597
Other non-financial liabilities	4,120,382	202,567	20,234	18,554	20,061	1,987,163	6,368,961
Total liabilities	**41,536,715**	**4,660,850**	**2,479,616**	**296,357**	**506,049**	**2,714,383**	**52,193,970**
Equity	**2,637,810**	**(56,040)**	**-**	**-**	**392,312**	**55,530**	**3,029,612**
Net exposure	**-**	**31,107**	**(151,047)**	**(4,263)**	**361,035**	**65,611**	**302,443**
Operational exposure	**-**	**31,107**	**(151,047)**	**(4,263)**	**361,035**	**65,611**	**302,443**

	31.12.2005						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Total Assets	38,715,602	3,450,557	65,204	28,081	291,910	580,985	43,132,339
Total Liabilities	36,166,360	3,741,897	37,999	5,485	51,620	499,196	40,502,557
Equity	2,549,242	7,025	-	-	-	-	2,556,267
Net exposure	-	(298,365)	27,205	22,596	240,290	81,789	73,515
Operational exposure	-	(298,365)	27,205	22,596	240,290	81,789	73,515

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 Financial 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, there was 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. The system is supported at organisational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

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 thousand of euros

	31.12.2005										
	Loans and advances to customers		Financial assets held for trading		Financial assets at fair value through profit or loss		Available-for-sale financial		Held to maturity investments		
	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	Guarantees granted
Agriculture	372,286	(13,221)	-	-	-	-	-	-	-	-	34,625
Mining	93,776	(2,542)	4	-	2,103	-	62	-	-	-	16,515
Food, beverage and tobacco	392,393	(11,254)	2,354	-	6,376	-	125,868	(34)	-	-	108,910
Textiles	398,180	(15,472)	-	-	-	-	2,133	(1,972)	-	-	58,062
Shoes	81,547	(5,761)	-	-	-	-	1,933	(1,933)	-	-	9,986
Wood and cork	178,565	(10,457)	-	-	-	-	-	-	-	-	14,463
Printing and publishing	166,476	(5,389)	2,512	-	-	-	12,578	-	-	-	43,418
Refining and oil	14,626	(280)	2,578	-	-	-	-	-	-	-	34,427
Chemicals and rubber	375,401	(8,151)	-	-	-	-	16,042	(353)	-	-	47,562
Non-metalic minerals	235,738	(6,537)	941	-	-	-	3,356	(469)	-	-	50,561
Metalic products	298,533	(9,438)	396	-	-	-	6	(6)	-	-	45,234
Production of machinery, equipment and electric devices	245,072	(6,042)	-	-	-	-	8,955	(1,544)	-	-	103,200
Production of transport material	65,928	(4,648)	3,609	-	-	-	114,320	-	356	-	68,590
Other transforming industries	329,256	(7,019)	1,656	-	-	-	10,380	(63)	-	-	22,162
Electricity, gas and water	425,657	(5,790)	13,465	-	-	-	40,038	(2)	-	-	341,445
Construction	3,667,782	(69,746)	2,575	-	3,005	-	113,632	(1,691)	-	-	957,753
Wholesale and retail	2,907,276	(108,332)	-	-	-	-	113,066	(918)	-	-	599,998
Tourism	617,684	(14,713)	77	-	-	-	7,242	(171)	-	-	94,801
Transports and communications	1,358,176	(36,149)	45,502	-	133,879	-	663,005	(428)	-	-	728,717
Financial activities	824,123	(56,811)	718,962	-	875,865	-	1,673,391	(25,822)	-	-	99,629
Real estate activities	3,523,826	(49,836)	414	-	-	-	182,865	(563)	-	-	411,965
Services provided to companies	2,309,956	(47,729)	3,758	-	186,649	-	539,621	(12,829)	-	-	625,054
Public services	381,528	(3,380)	980,938	-	144,122	-	115,785	(359)	588,457	(13)	35,834
Non-profit organisations	1,680,154	(31,512)	8,652	-	387,191	-	105,499	(10,813)	-	-	140,677
Mortgage loans	8,480,856	(156,200)	-	-	-	-	-	-	-	-	-
Consumer loans	1,802,434	(118,022)	-	-	-	-	-	-	-	-	89,990
Other	434,769	(25,443)	21,661	-	7,708	-	18,789	(42)	8,040	-	34,506
TOTAL	**31,661,998**	**(829,874)**	**1,810,054**	**-**	**1,746,898**	**-**	**3,868,566**	**(60,012)**	**596,853**	**(13)**	**4,818,084**

in thousand of euros

	31.12.2004										
	Loans and advances to customers		Financial assets held for trading		Financial assets at fair value through profit or loss		Available-for-sale financial		Held to maturity investments		
	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	Guarantees granteds
Agriculture	314,471	(7,603)	-	-	-	-	-	-	-	-	33,412
Mining	102,772	(2,463)	25	-	-	-	2,380	(10)	-	-	17,851
Food, beverage and tobacco	430,295	(12,229)	11,546	-	-	-	107,993	(279)	-	-	122,873
Textiles	407,893	(21,861)	-	-	-	-	2,625	(2,284)	-	-	45 842
Shoes	91,749	(7,511)	-	-	-	-	505	(499)	-	-	6,359
Wood and cork	197,598	(8,785)	-	-	-	-	598	-	-	-	13,052
Printing and publishing	221,850	(6,202)	-	-	-	-	421	-	-	-	41,020
Refining and oil	1,638	(23)	-	-	-	-	4,603	-	-	-	16,378
Chemicals and rubber	299,000	(7,806)	-	-	-	-	26,291	(203)	-	-	37,809
Non-metalic minerals	232,504	(5 570)	-	-	-	-	11,527	-	-	-	37,959
Metalic products	300,864	(6,952)	-	-	-	-	1,572	(6)	-	-	47,244
Production of machinery, equipment and electric devices	241,458	(6,404)	-	-	-	-	11,091	(743)	-	-	48,450
Production of transport material	62,663	(1,664)	30	-	-	-	135,223	(441)	-	-	55,959
Other transforming industries	409,956	(12,172)	17,283	-	-	-	3,514	(932)	-	-	14,185
Electricity, gas and water	360,451	(9,911)	31,494	-	-	-	66,877	(269)	-	-	359,151
Construction	3,017,670	(64,562)	2,631	-	-	-	23,192	(2,335)	-	-	948,675
Wholesale and retail	2,833,180	(107,661)	3,243	-	-	-	29,645	(862)	-	-	561,173
Tourism	532,578	(10,797)	-	-	-	-	13,083	(251)	-	-	78,462
Transports and communications	922,474	(19,004)	37,391	-	-	-	883,729	(11,361)	-	-	670,106
Financial activities	877,609	(13,844)	712,086	-	-	-	422,597	(49,851)	-	-	17,201
Real estate activities	2,782,008	(45,549)	304	-	-	-	3,364	(623)	-	-	399,186
Services provided to companies	2,148,610	(44,570)	605	-	-	-	350,898	(33,343)	-	-	471,882
Public services	301,805	(4,114)	860,018	-	-	-	21,064	2	477,646	(1,444)	38,788
Non-profit organisations	946,133	(20,827)	-	-	-	-	1,140,925	(10,964)	-	-	131,202
Mortgage loans	8,337,746	(199,708)	-	-	-	-	-	-	-	-	-
Consumer loans	1,725,736	(110,710)	-	-	-	-	-	-	-	-	86,147
Other	386,997	(13,935)	97,340	-	-	-	94,567	(11,975)	-	-	63,433
TOTAL	**28,487,708**	**(772,437)**	**1,773,996**	**-**	**-**	**-**	**3,358,284**	**(127,229)**	**477,646**	**(1,444)**	**4,363,799**

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 thousand of euros

	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Cash and deposits at central banks	1,005,008	1,005,008	999,499	999,499
Deposits with banks	655,180	655,180	602,182	602,182
Loans and advances to Banks	6,164,044	6,164,044	5,463,525	5,463,525
Loans and advances to customers	30,832,124	31,099,795	27,715,271	27,970,992
Held to maturity investments	596,840	597,345	476,202	479,582
Total financial assets at fair value	**39,253,196**	**39,521,372**	**35,256,679**	**35,515,780**
Deposits from central banks	654,316	654,316	498,953	498,953
Deposits from banks	6,264,892	6,264,892	5,737,417	5,737,417
Due to customers	20,753,083	20,753,083	20,418,790	20,418,790
Debt securities issued	14,402,291	14,436,378	10,236,302	10,377,572
Subordinated debt	2,367,597	2,607,339	2,065,924	2,953,576
Total financial liabilities at fair value	**44,442,179**	**44,716,008**	**38,957,386**	**39,986,308**

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. The expected future cash flows of loans with similar credit risk characteristics are estimated together. The discount rates used by the Group are current interest rates used in loans with similar characteristics.

Held-to-maturity investments

The fair values of these financial instruments are based on market prices, when available. For unlisted securities the fair value is estimated by discounting the expected future cash-flows.

Deposits from central banks and Deposits from banks

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

Due to customers

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined. The discount rates used by the Group are the current interest rates used in instruments with similar characteristics.

Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, 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.

Financial branches' activities

BES Group has a branch in the Madeira Free Zone and an international branch in the Cayman Islands.

Through the Madeira Free Zone branch, BES Group develops its funding activity, both with clients and non-resident banks, and emigrants. These deposits from clients and banks are applied abroad so as to meet the requirements of its fiscal statute.

As at 31 December 2005, the total net assets of Madeira Free Zone Branch amounted to euro 1,959 million, structured as follows:

in millions of euros

	31.12.2005
Financial assets at fair value through profit or loss	399
Available-for-sale financial assets	682
Loans and advances to banks	385
Loans and advances to customers	292
Other assets	201
	1,959
Deposits from banks	441
Due to customers	1,325
Other liabilities	65
Own funds	128
	1,959

The Madeira Free Zone branch uses the shared services of BES, and so the internal control procedures are the same as those used in the global structure of the Bank.

Through the Cayman Islands branch, BES Group develops mainly its funding activity with (i) non resident clients, through time deposits and issue of bonds and (ii) by BES Finance, through funding by the issue of debt under international medium and long term issue programmes, issued by the Group in international capital markets. These two areas of funding activity represent over 90% of the total assets of the branch, which as at 31 December 2005 amounted to euro 13,391 million. These funding amounts are applied in the global liquidity management of the Group in the development of minor investment activities, such as loans and securities, that as at 31 December 2005 amounted to euro 271 million.

The internal control procedures in the Cayman Islands branch are the same as those used in the global structure of the Bank.

Note_42
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.

An explanation of how the transition to IFRS has affected the reported financial position, is set out as follows:

euro million

	1 January 2004				31 December 2004				1 January 2005	
	Bank of Portugal rules	Reclassifications	Effect of transitions to IFRS	IFRS	Bank of Portugal rules	Reclassifications	Effect of transitions to IFRS	IFRS	Effect of adoption IAS 32 and IAS 39	IFRS
Assets										
Cash and deposits at central banks	931,567	550	-	932,117	999,036	463	-	999,499	-	999,499
Deposits with banks	697,176	11	-	697,187	602,182	-	-	602,182	-	602,182
Financial assets held for trading	442,070	405,094	-	847,164	1,773,996	581,903	-	2,355,899	155,771	2,511,670
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	67,261	67,261
Available-for-sale financial assets	5,179,196	(332,503)	(1,858,306)	2,988,387	5,628,349	(363,150)	(2,034,144)	3,231,055	(68,457)	3,162,598
Loans and advances to banks	6,846,329	12,731	16,585	6,875,645	5,434,552	12,388	16,585	5,463,525	-	5,463,525
Loans and advances to customers	25,639,063	(205,593)	-	25,433,470	27,652,033	(218,594)	281,832	27,715,271	(34,230)	27,681,041
Held to maturity investments	-	474,202	-	474,202	-	476,202	-	476,202	-	476,202
Hedging derivatives	-	138,629	-	138,629	-	249,200	-	249,200	2,179	251,379
Non-current assets held for sale	-	-	-	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-	-	-	-
Property and equipment	344,695	(8,382)	-	336,313	352,372	(10,314)	-	342,058	-	342,058
Intangible assets	171,673	(13,236)	(67,203)	91,234	132,989	(14,067)	(46,544)	72,378	-	72,378
Investments in associates	53,221	-	8,076	61,297	50,601	-	8,339	58,940	-	58,940
Current income tax assets	4,458	-	-	4,458	15,943	(11,715)	-	4,228	-	4,228
Deferred income tax assets	-	-	84,660	84,660	-	10,524	82,275	92,799	84,219	177,018
Other assets	2,973,903	(369,338)	(1,320,392)	1,284,173	3,258,912	(552,655)	(1,317,694)	1,388,563	-	1,388,563
Total assets	**43,283,351**	**102,165**	**(3,136,580)**	**40,248,936**	**45,900,965**	**160,185**	**(3,009,351)**	**43,051,799**	**206,743**	**43,258,542**
Liabilities										
Deposits from central banks	184,805	-	-	184,805	498,953	-	-	498,953	-	498,953
Financial liabilities held for trading	-	363,753	-	363,753	-	611,038	23,825	634,863	205,310	840,173
Deposits from banks	6,283,835	18,984	-	6,302,819	5,713,249	24,168	-	5,737,417	-	5,737,417
Due to customers	20,136,614	54,139	-	20,190,753	20,371,090	47,700	-	20,418,790	-	20,418,790
Debt securities issued	10,905,624	105,583	(2,825,567)	8,185,640	12,702,526	128,734	(2,594,958)	10,236,302	(16,433)	10,219,869
Hedging derivatives	-	98,652	-	98,652	-	240,100	-	240,100	33,398	273,498
Provisions	510,176	(323,939)	(105,152)	81,085	560,679	(336,537)	(139,986)	84,156	-	84,156
Current income tax liabilities	31,191	-	-	31,191	23,086	-	-	23,086	-	23,086
Deferred income tax liabilities	-	-	-	-	-	(537)	1,481	944	55,066	56,010
Subordinated debt	1,651,558	54,728	-	1,706,286	2,013,143	52,781	-	2,065,924	1,425	2,067,349
Other liabilities	865,556	(269,735)	32,111	627,932	1,119,012	(607,262)	43,247	554,997	(16,695)	538,302
Total liabilities	**40,569,359**	**102,165**	**(2,898,608)**	**37,772,916**	**43,001,738**	**160,185**	**(2,666,391)**	**40,495,532**	**262,071**	**40,757,603**
Equity										
Share capital	1,500,000	-	-	1,500,000	1,500,000	-	-	1,500,000	-	1,500,000
Share premium	300,000	-	-	300,000	300,000	-	-	300,000	-	300,000
Treasury stock	-	-	(102,304)	(102,304)	-	-	(100,174)	(100,174)		(100,174)
Preference shares	-	-	-	-	-	-	-	-	600,000	600,000
Revaluation reserves	-	-	-	-	-	-	-	-	32,171	32,171
Other reserves and retained earnings	45,880	-	(155,605)	(109,725)	178,643	-	(119,680)	58,963	(123,293)	(64,330)
Profit for the year	250,245	-	-	250,245	275,179	-	(123,536)	151,643	-	151,643
Total equity attributable to equity holders of the Bank	**2,096,125**	**-**	**(257,909)**	**1,838,216**	**2,253,822**	**-**	**(343,390)**	**1,910,432**	**508,878**	**2,419,310**
Minority interests	617,867	-	19,937	637,804	645,405	-	430	645,835	(564,206)	81,629
Total equity	**2,713,992**	**-**	**(237,972)**	**2,476,020**	**2,899,227**	**-**	**(342,960)**	**2,556,267**	**(55,328)**	**2,500,939**
Total equity and liabilities	**43,283,351**	**102,165**	**(3,136,580)**	**40,248,936**	**45,900,965**	**160,185**	**(3,009,351)**	**43,051,799**	**206,743**	**43,258,542**

in thousand of euros

	31 December 2004			
	Bank of Portugal rules	Reclassifications	Effect of transition to IFRS	IFRS
Interest and similar income	2,217,984	(7,755)	89	2,210,318
Interest expense and similar charges	1,516,811	(3,450)	-	1,513,361
Net interest income	**701,173**	**(4,305)**	**89**	**696,957**
Dividend income	17,262	-	-	17,262
Fee and commission income	450,194	-	3,830	454,024
Fee and commission expense	(52,100)	-	-	(52,100)
Net (losses)/ gains from financial assets at fair value through profit or loss	43,137	-	-	43,137
Net gains from available-for-sale financial assets	110,041	47,214	(97,088)	60,167
Net gains from foreign exchange differences	9,927	-	-	9,927
Net gains from the sale of other financial assets	129,283	(121,026)	-	8,257
Other operating income	51,887	54,724	582	107,193
Operating income	**1,460,804**	**(23,393)**	**(92,587)**	**1,344,824**
Staff costs	330,143	57,627	98,587	486,357
General and administrative expenses	289,388	590	10,028	300,006
Depreciations and amortisation	130,632	-	(29,504)	101,128
Provisions net of reversals	107,818	624	(35,408)	73,034
Loans impairment net of reversals	226,968	(667)	-	226,301
Impairment on other financial assets net of reversals	18,245	-	-	18,245
Impairment on other assets net of reversals	4,688	-	-	4,688
Operating expenses	**1,107,882**	**58,174**	**43,703**	**1,209,759**
Gains on disposal of investments in subsidiaries and associates	-	81,567	-	81,567
Share of profit of associates	4,560	-	-	4,560
Profit before income tax	**357,482**	**-**	**(136,290)**	**221,192**
Income tax				
Current tax	42,301	-	533	42,834
Deferred tax	-	-	3,866	3,866
Profit after income tax	**315,181**	**-**	**(140,689)**	**174,492**
Minority interests	40,002	-	(17,153)	22,849
Profit for the year	**275,179**	**-**	**(123,536)**	**151,643**
Basic earning per share (in Euros)				0.52
Diluted earning per share (in Euros)				0.52

An explanation of the major adjustments made under the adoption of the IFRS 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 thousand of euros

		01.01.2004	31.12.2004
Equity (Bank of Portugal rules) [(1)]		**2,713,992**	**2,899,227**
IFRS adjustments (excluding IAS 32 and IAS 39)			
Bonus to employees	a)	(32,111)	(43,247)
SIBA	b)	(102,304)	(100,174)
Fund for general banking risks	c)	105,152	140,560
Pensions and health care benefits	d)	(174,167)	(224,472)
Long-service benefits	e)	(17,388)	(19,942)
Intangible assets and deferred costs	f)	(68,674)	(49,198)
Changes in the scope of consolidation	g)	(30,717)	(125,122)
Deferred taxes	h)	84,660	80,794
Other		(2,423)	(2,159)
Equity IFRS adjusted (excluding IAS 32 and IAS 39)		**2,476,020**	**2,556,267**

in thousand of euros

		01.01.2005
Equity IFRS adjusted (excluding IAS 32 and IAS 39)		2,556,267
IAS 32 e IAS 39 adjustments		
Derivative financial instruments and hedge accounting	i)	(63,396)
Available-for-sale financial assets	j)	(1,196)
Loan impairment	k)	(20,788)
Amortised cost	l)	(15,795)
Preference shares	m)	16,694
Deferred taxes	h)	29,153
Equity IFRS		**2,500,939**

(1) Includes minority interests, which under IFRS are included in equity.

Additionally, as referred to in Note 42 m), as at 1 January 2005, euro 600,000 thousand related to preference shares issued by the Group were reclassified from minority interests to equity attributable to equity holders of the Bank, since, under IAS 32, these preference shares are classified as equity instruments.

Reconciliation of profit

		in thousand of euros 31.12.2004
Profit for the year (Bank of Portugal rules)		**275,179**
IFRS adjustments:		
Bonus to employees	a)	(43,665)
SIBA	b)	(1,042)
Fund for general banking risks	c)	35,408
Pensions and health care benefits	d)	(50,305)
Long-service benefits	e)	(2,554)
Intangible assets and deferred costs	f)	19,476
Changes in the scope of consolidation	g)	(94,405)
Deferred taxes	h)	(3,866)
Minority interests		17,153
Other		264
Profit for the year (IFRS comparable)		**151,643**

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 equity in the amount of euro 43,247 thousand as at 31 December 2004 (1 January 2004: euro 32,111 thousand) and a decrease in the profit of the year ended 31 December 2004 in the amount of euro 43,665 thousand.

b) SIBA

BES and its subsidiaries established a Share Based Incentive Program (SIBA), which consists on the sale to Group employees of one or more blocks of BES ordinary shares, with deferred settlement between 2 and 4 years. The employees have to hold the shares during that period, after which they can sell the shares in the market or they have the option to sell them back to BES at acquisition price at the settlement date.

According to the previous accounting policies of the Group, the shares underlying SIBA plan were accounted for as an asset. Under IFRS, these shares were reclassified as treasury stock, with its value deducted from equity. The options associated to this program are valued at its inception date and the fair value is recognised during the life of the program.

The impact with the IFRS adoption led to a decrease in equity in the amount of euro 100,174 thousand as at 31 December 2004 (1 January 2004: euro 102,304 thousand) and a decrease in the profit of the year ended 31 December 2004 in the amount of euro 1,042 thousand.

c) 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 equity as at 31 December 2004 amounted to euro 140,560 thousand (1 January 2004: euro 105,152 thousand), and the impact in profit for the year ended 31 December 2004 amounted to euro 35,408 thousand related with the charges made during 2004.

d) 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 and (iii) unrecognised liabilities with past service costs following the transitional rules of the Bank of Portugal.

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.

In accordance with Bank of Portugal rules, the shortfall calculated as at 31 December 1994, regarding employees with estimated retirement date after 31 December 1997, was charged to the income statement on a systematic basis during the remaining expected service years of these employees. In accordance with IAS 19 this shortfall was fully recognised on transition date.

On this basis, the adjustment as at 1 January 2004 and 31 December 2004 relating to pensions and other employee benefits is analysed as follows:

in thousand of euros

	01.01.2004	31.12.2004
Early retirements	(114,892)	(161,229)
Health-care benefits	(66,885)	(73,313)
Unrecognised prior service costs (shortfall)	(54,800)	(42,364)
Adjustment to actuarial gains and losses	57,523	51,198
Excess of coverage and other	4,887	1,236
	(174,167)	(224,472)

e) 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 equity in the amount of euro 19,942 thousand (1 January 2004: euro 17,388 thousands), and a decrease in the profit for the year ended 31 December 2004 in the amount of euro 2,554 thousand.

f) Intangible assets and deferred costs

In accordance with the previous accounting policies of the Group, internally developed software was capitalised and amortised over a 3 years period.

Under IAS 38, internally developed software can only be capitalised if it is expected that it will generate future economic benefits beyond one year and if those benefits can be reliably measured.

As at 31 December 2004, the impact with the adoption of IAS 38 led to a decrease in equity in the amount of euro 49,198 thousand (1 January 2004: euro 68,674 thousands), and an increase in the profit for the year ended 31 December 2004 in the amount of euro 19,476 thousand.

g) Changes in the consolidation scope

In accordance with the previous accounting policies, the Group was not required to consolidate Special Purpose Entities. Under IFRS, all SPE with which the Group establishes relations should be analysed in the light of the consolidation rules applicable to such entities (and expressed in SIC 12), namely those which may have been set up within the scope of the securitisation transactions carried out.

On the basis of SIC 12, the scope of consolidation of the Group includes certain SPE that were previously accounted for under the investment securities portfolio, as well as other entities held in the scope of venture capital activity. The consolidation of these entities had a negative impact as at 31 December 2004 in equity amounting to euro 125,122 thousand (1 January 2004: euro 30,717 thousand) and a negative impact in the profit for the year ended 31 December 2004 in the amount of euro 94,405 thousand. Additionally, the consolidation of these entities led to a decrease in assets and liabilities in the amount of euro 2,010 million and euro 1,889 million, respectively (1 January 2004: euro 1,824 million) due to the elimination of balances and transaction between group companies.

h) 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 80,794 thousand (1 January 2004: euro 84,660 thousand) and an additional deferred tax asset as at 1 January 2005 in the amount of euro 16,694 thousand.

Explanation of the major transition adjustments related to the adoption of IAS 32 and IAS 39 as at 1 January 2005

i) 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 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 equity in the amount of euro 63,396 thousand due to the booking of derivative financial instruments. This amount includes (i) a decrease of euro 50,249 thousand related to the impact of the reclassification of hedging derivatives to the trading portfolio, (ii) an increase of euro 1,070 thousand relating to the recognition of embedded derivatives and (iii) a decrease of euro 14,217 thousand related to the impact of hedging operations.

j) 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 a decrease in equity in the amount of euro 1,195 thousand, being euro 29,296 thousand recognised against fair value reserve and euro 30,492 thousand against other reserves.

k) 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 a decrease in equity in the amount of euro 20,788 thousand.

l) 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 equity in the amount of euro 15,795 thousand.

m) Preference shares

In accordance with the previous accounting policies adopted, the preference shares issued by the Group were classified as minority interests and preferred dividends were accounted for on an accrual basis against income.

Following IFRS adoption, preference shares redeemable at the option of the issuer and with discretionary dividends, payable if and when declared by the respective board of directors, are considered as equity instruments. Consequently, dividends are recognised only when declared, as a deduction from equity.

As at 1 January 2005, the adoption of IAS 32 relating to the treatment of preference shares issued by the Group led to an increase in equity attributable to the equity holders of the Bank in the amount of euro 616,694 thousand.

Note_43
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 analysed 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 (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 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).

Note_44
Subsequent events

- In the beginning of 2006 BES acquired a stake of 2.17% in the EDP capital.
- The Board of Directors of Banco Espírito Santo approved in the meeting of 20 February 2006, to submit to the General Shareholders Meeting on 30 March 2006 a proposal to increase the share capital from euro 1 500 million up to euro 2 500 million, through the issue of up to 200 million new shares, including 50 million new shares by incorporation of reserves, and approved the acquisition of 50% of Tranquilidade Vida from Partran (a company which is part of the Espírito Santo Financial Group) for a total consideration of euro 450 million, in order to strengthen the bancassur ance partnership with Crédit Agricole in Portugal.
- Crediflash, Sociedade Financeira para aquisições a Crédito, S.A. will be incorporated into Banco Espírito Santo, S.A.. This merger will be concluded by the end of the first half of 2006.

02.
Individual Financial Statements and Notes to the Financial Statements

2.1.
Individual Statement of Income as of 31 December 2005

in thousands of euros

	“Dec. 04” PABS (eur thousand)	“Dec. 04” IFRS (eur thousand)	“Dec. 05” IFRS (eur thousand)
Interest income	1,632,542	1,624,787	1,344,874
Interest expense	1,228,450	1,226,077	931,946
Net interest income	**404,092**	**398,710**	**412,928**
Dividends from securities	162,574	162,573	182,841
Commissions and other similar income	289,328	289,328	291,273
Commissions and other similar expenses	26,076	26,076	37,560
Gains and losses in financial assets at fair value	(9,220)	(9,220)	(67,411)
Gains and losses in financial assets available for sale	24,324	71,538	74,625
Gains and losses from foreign exchange revaluation	1,501	1,501	(228)
Gains and losses from sale of other assets	42,185	14,066	15,539
Other income from banking activity	7,515	52,410	67,547
Banking Income	**896,223**	**954,830**	**939,554**
Staff expenses	171,447	253,864	242,858
Other administrative expenses	219,893	226,910	243,799
Depreciation	101,512	73,586	60,703
Provisions net of reversals	81,932	53,481	88,679
Loan Impairment net of reversals and recoveries	144,853	144,853	117,033
Other financial assets' impairment net of reversals and recoveries	20,291	20,291	33,014
Other assets' impairment net of reversals and recoveries	6,169	6,169	(2,425)
Disposal of financial investments	60,670	57,884	61,644
Income before tax	**210,796**	**233,560**	**217,537**
Tax			
Current tax	6,487	6,487	22,851
Deferred tax	-	23,168	4,517
Income after tax	204,309	203,905	190,169
o.w. after tax income from discontinued operations	-	-	-
Net income	**204,309**	**203,905**	**190,169**

Chief Accountant

The Board of Directors

2.2.
Individual Balance Sheet as of 31 December 2005

in thousands of euros

	"Dec.04" PABS	"Dec.04" NCA	"Dez.05" NCA
ASSETS			
Cash and deposits at Central Banks	738,387	738,730	900,339
Loans and advances to credit institutions repayable on demand	426,923	426,923	582,704
Financial Assets held for trading	1,176,851	1,621,903	2,249,710
Financial assets at fair value through profit or loss	-	-	1,397,101
Financial Assets held for trading	3,613,852	4,111,724	3,622,574
Loans and advances to banks	5,768,983	5,781,289	7,510,617
Loans and advances to customers	17,457,270	17,540,133	25,322,957
Held to maturity investments	-	476,203	555,823
Financial Assets with repurchase agreements	-	-	-
Hedging derivatives	-	208,079	88,909
Non current assets held for sale	-	-	-
Investment property	-	-	-
Other Intagible assets	224,153	215,778	291,594
Intagible assets	92,181	53,737	49,787
Investments in associated companies	1,677,871	785,501	577,562
Current tax assets	2,526	2,527	2,435
Deferred tax assets	-	91,370	145,514
Other assets	2,724,502	1,125,119	1,345,547
TOTAL ASSETS	**33,903,499**	**33,179,016**	**44,643,173**
LIABILITIES			
Amounts owed to central banks	645,405	646,547	591,142
Financial liabilities held for trading	-	414,363	953,199
Deposits from banks	10,297,815	10,337,923	12,847,528
Due to customers	13,299,987	13,256,492	16,941,541
Debt securities	4,767,191	3,820,873	7,372,192
Financial liabilities associated to transferred assets	-	-	-
Hedging derivatives	251,677	251,677	87,827
Non current liabilities held for sale	-	-	-
Provisions	391,824	263,525	432,478
Current income tax liabilities	5,571	5,571	9,579
Deferred income tax liabilities	-	74,334	223,089
Instruments representing capital	-	-	-
Other subordinated loans	1,706,323	1,769,315	2,212,838
Other liabilities	352,453	261,771	579,753
TOTAL LIABILITIES	**31,718,246**	**31,102,391**	**42,251,166**
SHAREHOLDERS' EQUITY			
Share capital	1,500,000	1,500,000	1,500,000
Share premium	300,000	300,000	300,000
(own shares)	-	(100,174)	(96,247)
Other capital interests	-	-	-
Fair value reserve	-	-	326,223
Other reserves and retained earnings	180,944	172,894	171,862
Profit for the period / year	204,309	203,905	190,169
(Anticipated dividends)	-	-	-
TOTAL SHAREHOLDER' EQUITY	**2,185,253**	**2,076,625**	**2,392,007**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**33,903,499**	**33,179,016**	**44,643,173**

2.3.

Notes to the Individual Financial Statements

Non-consolidated 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	1,344,874	1,624,787
Interest expense and similar charges	4	931,946	1,226,077
Net interest income		**412,928**	**398,710**
Dividend income	5	182,841	162,573
Fee and commission income	6	291,273	289,328
Fee and commission expense	6	37,560	26,076
Net gains from financial assets at fair value through profit or loss	7	(67,411)	(9,220)
Net gains from available-for-sale financial assets	8	74,625	71,538
Net gains from foreign exchange differences	9	(228)	1,501
Net gains from the sale of other financial assets		15,539	14,066
Other operating income		67,547	52,410
Operating income		**939,554**	**954,830**
Staff costs	10	242,858	253,864
General and administrative expenses	12	243,799	226,910
Depreciation and amortisation	23 and 24	60,703	73,586
Provisions net of reversals	30	88,679	53,481
Loans impairment net of reversals	19 and 20	117,033	144,853
Impairment on other financial assets net of reversals	18 and 21	33,014	20,291
Impairment on other assets net of reversals	25 and 26	(2,425)	6,169
Operating expenses		**783,661**	**779,154**
Gains on disposal of investments in subsidiaries and associates	25	61,644	57,884
Profit before income tax		**217,537**	**233,560**
Income tax			
Current tax	31	22,851	6,487
Deferred tax	31	4,517	23,168
Profit for the year		**190,169**	**203,905**
Basic earnings per share (in Euros)	13	0.65	0.70
Diluted earnings per share (in Euros)	13	0.65	0.70

The following notes form an integral part of these financial statements

Non-consolidated 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	14	900,339	738,730
Deposits with banks	15	582,704	426,923
Financial assets held for trading	16	2,249,710	1,621,903
Financial assets at fair value through profit or loss	17	1,397,101	-
Available-for-sale financial assets	18	3,622,574	4,111,724
Loans and advances to banks	19	7,510,617	5,781,289
Loans and advances to customers	20	25,322,957	17,540,133
Held to maturity investments	21	555,823	476,203
Hedging derivatives	22	88,909	208,079
Property and equipment	23	291,594	215,778
Intangible assets	24	49,787	53,737
Investments in subsidiaries and associates	25	577,562	785,501
Current income tax assets		2,435	2,527
Deferred income tax assets	31	145,514	91,370
Other assets	26	1,345,547	1,125,119
Total assets		**44,643,173**	**33,179,016**
Liabilities			
Deposits from central banks		591,142	646,547
Financial liabilities held for trading	16	953,199	414,363
Deposits from banks	27	12,847,528	10,337,923
Due to customers	28	16,941,541	13,256,492
Debt securities issued	29	7,372,192	3,820,873
Hedging derivatives	22	87,827	251,677
Provisions	30	432,478	263,525
Current income tax liabilities		9,579	5,571
Deferred income tax liabilities	31	223,089	74,334
Subordinated debt	32	2,212,838	1,769,315
Other liabilities	33	579,753	261,771
Total liabilities		**42,251,166**	**31,102,391**
Equity			
Share capital	34	1,500,000	1,500,000
Share premium	34	300,000	300,000
Treasury stock	34	(96,247)	(100,174)
Fair value reserve	35	326,223	-
Other reserves and retained earnings	35	171,862	172,894
Profit for the year		190,169	203,905
Total equity		**2,392,007**	**2,076,625**
Total equity and liabilities		**44,643,173**	**33,179,016**

The following notes form an integral part of these financial statements

Statement of Chances in non-consolidated Equity for the Years ended 31 December 2005 and 2004

in thousands of euros

	Share capital	Share premium	Treasury stock	Fair value reserve	Legal reserves, other reserves and retained earnings	Profit for the year	Total equity
Balance as at 1 January 2004 NCA (excluding IAS 32 and IAS 39)	**1,500,000**	**300,000**	**(102, 304)**	**-**	**53,420**	**191,835**	**1,942,951**
Changes in treasury stock	-	-	2,130	-	2,955	-	5,085
Transfer to reserves	-	-	-	-	92,835	(92,835)	-
Dividends on ordinary shares [a]	-	-	-	-	-	(99,000)	(99,000)
Regulation nr. 4/2002 (see Note 2.5)	-	-	-	-	28,276	-	28,276
Changes in branche's foreign exchange	-	-	-	-	(4,592)	-	(4,592)
Profit for the year	-	-	-	-	-	203,905	203,905
Balance as at 31 December 2004 NCA (excluding IAS 32 and IAS 39)	**1,500,000**	**300,000**	**(100,174)**	**-**	**172,894**	**203,905**	**2,076,625**
Effect of adoption of IAS 32 and IAS 39 and pensions transitional rules (see Note 39)	-	-	-	(7,619)	(272,580)	-	(280,199)
Balance as at 1 January 2005 NCA	**1,500,000**	**300,000**	**(100,174)**	**(7,619)**	**(99,686)**	**203,905**	**1,796,426**
Changes in fair value, net of taxes	-	-	-	332,795	-	-	332,795
Pensions (transitional rules)	-	-	-	-	(29,776)	-	(29,776)
Transfer to reserves	-	-	-	-	95,861	(95,861)	-
Dividends on ordinary shares [a]	-	-	-	-	-	(108,044)	(108,044)
Changes in treasury stock	-	-	3,927	-	2,060	-	5,987
Effect of BIC's merger	-	-	-	1,047	203,403	-	204,450
Profit for the year	-	-	-	-	-	190,169	190,169
Balance as at 31 December 2005	**1,500,000**	**300,000**	**(96,247)**	**326,223**	**171,862**	**190,169**	**2,392,007**

(a) Corresponds to a dividend per share of 0,37 euros and 0,34 euros as at 31 December 2005 and 2004, respectively, distributed to the shares outstanding.

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		1,314,366	1,566,656
Interest expense and similar charges paid		(876,546)	(1,150,416)
Fee and commission expense received		351,320	348,985
Fee and commission income paid		(37,560)	(26,076)
Recoveries on loans previously written off		12,360	18,476
Cash payments to employees and suppliers		(684,725)	(526,570)
		79,215	**231,055**
Changes in operational assets and liabilities:			
Cash and deposits at central banks		(184,481)	468,042
Financial assets at fair value through profit or loss		257,799	(914,989)
Deposits with banks		(1,553,897)	226,567
Deposits from banks		1,716,163	1,177,089
Loans and advances to customers		(1,902,512)	(1,197,089)
Due to customers		441,074	232,033
Hedging derivatives		25,723	19,809
Other operational assets and liabilities		117,405	(118,681)
Net cash flow from operating activities before income taxes		**(1,003,511)**	**123,836**
Income taxes paid		(19,055)	(7,394)
Net cash flow from operating activities		**(1,022,566)**	**116,442**
Cash flows arising from investing activities			
Acquisition of subsidiaries and associates		(19,860)	(194,451)
Disposal of subsidiaries and associates		108,415	254,085
Dividends received		182,841	162,573
Acquisition of available-for-sale financial assets		(8,038,509)	(10,594,506)
Sale of available-for-sale financial assets		7,261,107	9,879,441
Acquisition of held to maturity investments		(180,388)	(62,191)
Maturity of held to maturity investments		176,122	60,830
Acquisition of tangible and intangible assets		(56,848)	(40,767)
Sale of tangible and intangible assets		131	557
Net cash flow from investing activities		**(566,989)**	**(534,429)**
Cash flows arising from financing activities			
Proceeds from issue of cash bonds		1,667,209	754,165
Reimbursement of cash bonds		(185,242)	(197,294)
Proceeds from issue of subordinated debt		246,980	-
Reimbursement of subordinated debt		-	(99,760)
Treasury stock		3,927	-
Dividends paid from ordinary shares		(108,044)	(99,000)
Net cash flow from financing activities		**1,624,830**	**358,111**
Effect of exchange rate changes on cash and cash equivalents		14,888	35,365
Effect of BIC's merger on cash and cash equivalents		89,909	-
Net changes in cash and cash equivalents		**140,072**	**(24,511)**
Cash and cash equivalents at the beginning of the year		648,863	673,374
Cash and cash equivalents at the end of the year		788,935	648,863
		140,072	**(24,511)**
Cash and cash equivalents include:			
Cash	13	206,231	221,940
Deposits with banks	14	582,704	426,923
Total		**788,935**	**648,863**

The following notes form an integral part of these financial statements

Banco Espírito Santo, S.A.
Notes to the individual financial statements as at 31 December 2005
(Amounts expressed in thousands of euros, except when indicated)

Note_01
Activity

Banco Espírito Santo, S.A. (Bank or BES) is a commercial bank headquartered in Portugal, Avenida da Liberdade, no. 195, in Lisbon. The Bank is 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.

BES's foundation dates back to the last quarter of the 19th century. The Bank began operations as a commercial bank in 1937, following the merger of Banco Espírito Santo and Banco Comercial de Lisboa, from which resulted Banco Espírito Santo e Comercial de Lisboa. By public deed of 6 July 1999, the Bank changed its name to Banco Espírito Santo, S.A. During December 2005, Banco Internacional de Crédito, S.A. was merged in Banco Espírito Santo S.A.

BES is listed on the Euronext Lisbon.

Since 1992, BES is part of the Espírito Santo Group, therefore its financial statements are consolidated by BESPAR SGPS, S.A., headquartered in Rua de São Bernardo, no. 62 in Lisbon, and by Espírito Santo Financial Group, S.A. (ESFG), with headquarters in Luxemburg.

BES has a network of 584 branches throughout Portugal (31 December 2004: 471), 122 of them results form the merger of Banco Intenacional de Crédito, S.A, international branches in London, New York, Nassau and the Cayman Islands, a branch in the Madeira Free Zone, and twelve overseas representative offices.

Note_02
Summary of significant account principles

2.1
Basis of presentation

For all periods up to and including the year ended 31 December 2004, Banco Espírito Santo, S.A. ("BES") 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 2005 and Regulation no. 1/2005 from the Bank of Portugal, Banco Espírito Santo, S.A. ("BES") 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 EU, with the exception of issues regulated by the Bank of Portugal such as loans impairment and recognition in retained earnings of the adjustments related to pensions during the transition period.

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

These non-consolidated financial statements for the year ended 31 December 2005 were prepared in accordance with Adjusted Accounting Standards ("NCA"), which includes the IFRS 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 and financial liabilities 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 NCA requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the Bank 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 judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

In accordance with the decision taken by the Board of Directors on 19 September, Banco Internacional de Crédito, S.A. (BIC) was merged into Banco Espírito Santo, S.A. on 30 December 2005. As at 31 December 2005 balance sheet includes assets and liabilities of the incorporated company. These assets and liabilities are analysed in Note 42. As such, the financial statements as at 31 December 2005 are not comparable with 31 December 2004 financial statements.

These financial statements were approved in the Board of Directors meeting held on 20 February 2006.

Transition to NCA

In preparing these financial statements for the year ended 31 December 2005 and in determining the IFRS transition adjustments, BES 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, BES has elected to adopt the following:

(I) Property and equipment

As allowed by IFRS 1, the Bank has elected to consider as deemed cost individual items of property and equipment at the date of the transition to IFRS (1 January 2004), their revalued amount as determined in accordance with the previous accounting policies of the Bank, which is broadly similar to depreciated cost measured under IFRS adjusted changes in a specific price index.

(II) Derecognition of financial assets
In accordance with the exemption granted by IFRS 1, the Bank decided to apply the IAS 39 derecognition requirements to the transactions made from 1 January 2004, prospectively. Therefore, assets derecognised until that date, in accordance with the previous accounting policies of the Bank, were not restated in the balance sheet.

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

An explanation of how the transition to NCA has affected the reported financial position and financial performance of the Bank is provided in Note 40.

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 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 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 fair value. This impairment adjustment must be equal or greater than the determined under the regulation nr 3/95, from the Bank of Portugal, which estabilishes 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

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 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 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

In accordance with NCA, BES assesses periodically whether there is object evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the assets 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 acquisition 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 criterion 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 deemed cost less accumulated depreciation and impairment losses. As referred to in Note 2.1, at the transition date to NCA, the Bank elected to consider as deemed cost, the revalued amount of property and equipment as determined in accordance with previous accounting policies of the Bank, which was broadly similar to depreciated cost measured under NCA adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank. All other repairs and maintenance are charged to the income statement during the 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	35 to 50
Improvements in leasehold property	10
Computer equipment	4 to 5
Furniture	4 to 10
Fixtures	5 to 12
Security equipment	4 to 10
Office equipment	4 to 10
Motor vehicles	4
Other equipment	5

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

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

2.12
Intangible assets

Acquired computer software 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 as incurred.

2.13
Leases

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.

• As lessor

Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets.

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

2.14
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 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.

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 corresponds 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%.

In preparing these financial statements in accordance with NCA, the recognition of the impact with NCA adoption as at 31 December 2004, is amortised until 31 December 2009, except for the medical assistance post employment and changes in mortality tables assumptions, which can be amortised for a period of 7 years.

Additionally, in accordance with Bank of Portugal Regulation no. 12/95, in preparing financial statements in accordance with NCA, the increase in liabilities resulting from changes in actuarial assumptions related to mortality tables after 1 January 2005, is added to corridor limit.

Health care benefits

The Bank provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and 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.

In preparing these financial statements in accordance with NCA, the recognition of the impact with NCA adoption as at 31 December 2004, is amortised until 31 December 2011.

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.

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.

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.

Share based payments (SIBA)

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

The shares held by the employees under this scheme are accounted for as treasury stock.

Each option under the scheme, corresponding to an equity-settled share based payment, is fair valued on grant date and is recognised as an expense, with a corresponding increase in equity, over the vesting period. Annually the amount recognised as an expense is adjusted to reflect the actual number of options that vest.

The equity instruments granted are not remeasured for subsequent changes in their fair value.

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, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be 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 return that are different from those of segments operating in other economic environments.

According 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.

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_03
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
Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement.

In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

The use of different assumptions and estimates would result in the determination of the fair value of this portfolio with a corresponding entry in the fair value reserve in shareholders' equity.

3.5
Income taxes

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

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

The Tax Authorities are entitled to review the Bank's determination of its annual taxable earnings, for a period of four years or six years in case there is 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.

3.6
Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

Note_04
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	805,888	755,392
Interest from financial assets at fair value through profit or loss	209,240	10,083
Interest from deposits with banks	187,415	130,005
Interest from hedging derivatives	56,036	308,322
Interest from available-for-sale financial assets	52,342	136,423
Other interest and similar income	33,953	284,562
	1,344,874	1,624,787
Interest expense and similar charges		
Interest from deposits from central banks and other banks	363,863	230,074
Interest from debt securities	169,870	124,567
Interest from amounts due to customers	138,992	151,906
Interest from hedging derivatives	154,531	353,118
Interest from subordinated debt	104,435	103,884
Other interest expense and similar charges	255	262,528
	931,946	1,226,077
	412,928	**398,710**

Note_05
Dividend income

This caption is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Dividends from subsidiaries and associates	145,026	158,123
Dividends from available-for-sale financial assets	37,815	4,450
	182,841	**162,573**

Note_06
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	172,949	175,307
From guarantees granted	47,320	45,068
From transactions with securities	6,742	5,113
From commitments assumed to third parties	4,347	11,102
Other fee and commission income	59,915	52,738
	291,273	289,328
Fee and commission expense		
From banking services rendered by third parties	24,271	16,943
From transactions with securities	3,400	2,941
From guarantees received	514	446
Other fee and commission expense	9,375	5,746
	37,560	26,076
	253,713	**263,252**

Note_07
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	81,967	98,404	(16,437)	42,867	51,511	(8,644)
Issued by other entities	143,467	101,466	42,001	10,877	119	10,758
Shares	36,726	29,947	6,779	-	-	-
Other variable income securities	94,639	80,299	14,340	22,515	3,768	18,747
Derivative financial instruments	2,946,776	3,061,407	(114,631)	1,206,050	1,236,131	(30,081)
Other	537	-	537	-	-	-
	3,304,112	**3,371,523**	**(67,411)**	**1,282,309**	**1,291,529**	**(9,220)**

Note_08
Net gains from available-for-sale financial assets

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	180	393	(213)	8,954	9,292	(338)
Issued by other entities	29,534	18,096	11,438	65,087	38,397	26,690
Shares	138,077	76,245	61,832	48,245	3,584	44,661
Other variable income securities	1,568	-	1,568	525	-	525
	169,359	**94,734**	**74,625**	**122,811**	**51,273**	**71,538**

During the third quarter of 2005, the Bank sold Portugal Telecom shares, which generated a loss of approximately euro 69.8 million.

Also during the third quarter of 2005, the Bank sold approximately 1.3% of Banco Bradesco ordinary shares to the Pension Fund, generating a gain in the amount of approximately euro 72.6 million. After this transaction, BES maintains a stake of 2.67% in the share capital of Banco Bradesco.

The other major transactions ocurred during 2005, include the following: (i) the sale of the residual notes acquired following the mortgage loans securitisation transaction carried out in September 2005 (Lusitano Mortgages No.4), which generated a gain of euro 27.2 million (during 2004, the sale of part of the residual notes acquired following the mortgage loans securitisation transactions realized, originated a gain of euro 63.5 million), and (ii) the disposal of part of Bank's stake in PT Multimédia, that generated a gain of euro 29.3 million. In this transaction, approximately 15.2 million of PT Multimédia shares were sold to the Pension Fund, originating a gain of approximately euro 27 million.

Note_9
Net gains from foreign exchange differences

This caption is analysed as follows:

in thousands of euros

	31.12.2005			31.12.2004		
	Gain	Losses	Total	Gain	Losses	Total
Foreign exchange translation	340,398	340,626	(228)	346,927	345,426	1,501
	340,398	**340,626**	**(228)**	**346,927**	**345,426**	**1,501**

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:

in thousands of euros

	31.12.2005	31.12.2004
Wages and salaries	152,081	147,082
Remuneration	149,184	144,524
Long-service benefits (see Note 11)	2,897	2,558
Health-care benefits - SAMS	14,116	11,438
Other mandatory social charges	14,605	13,725
Pension costs (see Note 11)	56,613	75,817
Other costs	5,443	5,802
	242,858	**253,864**

The health-care benefits – SAMS include the amount of euro 7,124 thousand related to the health care net periodic benefit cost, which was determined based on an actuarial valuation (see Note11).

Included in other costs is the amount of euro 2,060 thousand (31 December 2004: euro 2,955 thousand) related to the "Stock Based Incentive Scheme" (SIBA), in accordance with the accounting policy described in Note 2.14. The details of this scheme are analysed in Note 11.

The salaries and other benefits costs attributed to the Board of Directors and Fiscal Board of BES are analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Board of Directors		
Salaries and other short-term benefits	4,014	3,561
Pension costs and health-care benefits (SAMS)	297	239
Long-service benefits	64	69
Bonus	4,602	4,086
	8,977	7,955
Fiscal Board	22	22
	8,999	**7,977**

As at 31 December 2005 and 2004, the loans granted by the Bank to the Board of Directors amounted to 4,670 thousand euros and 1,500 thousand euros, respectively.

As at 31 December 2005 and 2004, the number of employees of the Bank is 5,084 and 4,115, respectively.

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

	31.12.2005	31.12.2004
Senior management	326	245
Management	798	666
Specific functions	1,717	1,308
Administrative functions	2,221	1,885
Auxilliary functions	22	11
	5,084	**4,115**

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.

As at 30 December 1987, the Bank established a pension fund to cover the above mentioned liabilities with pension payments in relation to the employees in service at that time. In 1998, the Bank decided to set up an autonomous open-up pension fund – the Fundo de Pensões Aberto GES – to fund complementary pension benefits of pensioners and employees in service.

These pension funds in Portugal are 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%	5.32%	6.8%
Pensions increase rate	1.75%	1.75%	1.98%	2.5%
Expected return of plan assets	5.25%	5.5%	10.49%	5.1%
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, BES 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 110.1 million (2004: euro 45.1 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 72.9 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	5,634	4,598
Pensioners	4,430	4,312
Widows and other direct relatives	841	811
TOTAL	**10,905**	**9,721**

The real estate assets rented to the BES and 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
Shares	51,011	38,237
Real estate assets	120,417	108,348
Total	**171,428**	**146,585**

The shares held by the pension fund are 3.7 million shares of BES (31 December 2004: 3.0 million shares).

During 2005 the Bank sold to the pension fund: 16.5 million Treasury Bonds; 11.7 million investment fund units of Fungere; 3.3 million shares of Banco Bradesco; and 15 million shares of PT Multimédia. In 2005, the Bank acquired from the Pension Fund 6.2 million shares of PT Multimédia.

During 2004, BES sold to the pension fund 10% of the equity pieces of the securitisation transactions Lusitano Mortgages No.1 and No.2, and 35% of the residual note of the transaction Lusitano Global CDO No.1 (see Note 8).

As at 31 December 2005 and 2004, the amounts recognised in the balance sheet are determined as follows:

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	(1,264,806)	(82,212)	(1,347,018)	(1,104,078)	(69,005)	(1,173,083)
Employees	(507,590)	(32,161)	(539,751)	(288,922)	(17,275)	(306,197)
	(1,772,396)	**(114,373)**	**(1,886,769)**	**(1,393,000)**	**(86,280)**	**(1,479,280)**
Fair value of plan assets at 31 December	1,766,187	-	1,766,187	1,354,289	-	1,354,289
Unfunded liabilities	(6,209)	(114,373)	(120,582)	(38,711)	(86,280)	(124,991)
Unrecognised net actuarial losses at 31 December	618,377	40,364	658,741	441,016	20,043	461,059
Transitional rules	118,409	61,037	179,446	147,252	66,237	213,489
Asset/ (liabilities) recognised in the balance sheet as at 31 December	**730,577**	**(12,972)**	**717,605**	**549,557**	**-**	**549,557**

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 at 1 January	**1,393,000**	**86,280**	**1,479,280**	**1,284,983**	**79,604**	**1,364,587**
Service cost	13,785	1,026	14,811	12,511	885	13,396
Interest cost	70,885	4,385	75,270	68,504	4,241	72,745
Plan participants' contribution	2,386	-	2,386	2,037	-	2,037
Actuarial (gains) / losses						
- by changes in the mortality table	68,416	4,447	72,863	-	-	-
- by changes in the discount rate	103,350	6,718	110,068	42,420	2,651	45,071
- other actuarial (gains) / losses	28,899	5,418	34,317	2,482	144	2,626
Benefits paid by the Fund	(87,122)	-	(87,122)	(79,543)	-	(79,543)
Benefits paid by the Bank	-	(5,523)	(5,523)	-	(4,970)	(4,970)
Curtailment losses related to early retirements	14,308	930	15,238	59,606	3,725	63,331
Integration of BIC's liabilities	164,489	10,692	175,181	-	-	-
Liabilities at 31 December	**1,772,396**	**114,373**	**1,886,769**	**1,393,000**	**86,280**	**1,479,280**

From the total amount of curtailment losses related to early retirements occurred during 2005, the amounts of euro 3,165 thousand related to pensions and euro 205 thousand related to health-care benefits which were recognised through the utilisation of the restructuring provision (see Note 30).

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	**1,354,289**	**-**	**1,354,289**	**1,235,333**	**-**	**1,235,333**
Actual return on plan assets	132,013	-	132,013	61,111	-	61,111
Bank contribution	200,132	-	200,132	135,351	-	135,351
Plan participants' contribution	2,386	-	2,386	2,037	-	2,037
Benefits paid by the Fund	(87,122)	-	(87,122)	(79,543)	-	(79,543)
Other	164,489	-	164,489	-	-	-
Fair value of plan assets as at 31 December	**1,766,187**	**-**	**1,766,187**	**1,354,289**	**-**	**1,354,289**

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	**441, 016**	**20,043**	**461,059**	**432,068**	**18,636**	**450,704**
Actuarial (gains) / losses						
- by changes in the mortality table	68,416	4,447	72,863	-	-	-
- by changes in the discount rate	103,350	6,718	110,068	42,420	2,651	45,071
- other actuarial (gains) / losses	(35,888)	5,418	(30,470)	4,660	144	4,804
Amortisation of the year	(23,563)	(761)	(24,324)	(22,599)	(712)	(23,311)
Additional amortisation (curtailment)	(3,826)	(182)	(4,008)	(15,533)	(676)	(16,209)
Integration of BIC's net actuarial losses	68,871	4,681	73,552	-	-	-
Unrecognised net actuarial losses as at 31 December	**618,376**	**40,364**	**658,740**	**441,016**	**20,043**	**461,059**
Of which:						
Within the corridor	177,240	11,438	188,678	139,300	8,628	147,928
Within the adjusted corridor	75,604	4,914	80,518	-	-	-
Outside the corridor	365,532	24,012	389,544	301,716	11,415	313,131

From the amount of the additional amortisation (curtailment) resulting from early retirements occurred during 2005, the amounts of euro 277 thousand related to pensions and euro 13 thousand related to health-care benefits were recognised as a charge off of the restructuring provision (see Note 30).

The change in the transitional rules in 2005 is analysed as follows:

in thousands of euros

	Pension plans	Health-care plans	Total
Balance as at 1 January 2005	**147,252**	**66,237**	**213,489**
Integration of BIC's transitional rules	608	4,262	4,870
Amortisation through reserves	(29,450)	(9,462)	(38,912)
Balance as at 31 December 2005	**118,410**	**61,037**	**179,447**

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	**38,711**	**86,280**	**124,991**	**49,650**	**79,604**	**129,254**
Actuarial (gains) / losses of liabilities	200,665	16,583	217,248	44,902	2,795	47,697
Actuarial (gains) / losses of plan assets	(64,787)	-	(64,787)	2,178	-	2,178
Charges for the year:						
- Service cost	13,785	1,026	14,811	12,511	885	13,396
- Interest cost	70,885	4,385	75,270	68,504	4,241	72,745
- Expected return on plan assets	(67,226)	-	(67,226)	(63,289)	-	(63,289)
- Curtailment losses related to early retirements	14,308	930	15,238	59,606	3,725	63,331
- Other	(1)	-	(1)	-	-	-
Contributions of the year and pensions paid by the Bank	(200,132)	(5,523)	(205,655)	(135,351)	(4,970)	(140,321)
Integration of BIC's unfunded liabilities	-	10,692	10,692	-	-	-
Unfunded liabilities as at 31 December	**6,208**	**114,373**	**120,581**	**38,711**	**86,280**	**124,991**

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	13,785	1,026	14,811	12,511	-	12,511
Interest cost	70,885	4,385	75,270	70,691	-	70,691
Expected return on plan assets	(67,226)	-	(67,226)	(63,354)	-	(63,354)
Amortisation of the unrecognised net gain / (loss)	23,563	761	24,324	38,532	-	38,532
Curtailment losses related to early retirements	15,606	952	16,558	5,961	-	5,961
Other	-	-	-	11,476	-	11,476
Net periodic benefit cost	**56,613**	**7,124**	**63,737**	**75,817**	**-**	**75,817**

The curtailment losses related to early retirements include the effect of the additional amortisation.

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

in thousands of euros

	31.12.2005 Pension plans	31.12.2005 Health-care plans	31.12.2005 Total	31.12.2004 Pension plans	31.12.2004 Health-care plans	31.12.2004 Total
At 1 January	**549,557**	**-**	**549,557**	**382,418**	**(60,968)**	**321,450**
Net periodic benefit cost	(56,613)	(7,124)	(63,737)	(115,464)	(10,239)	(125,703)
Charge-off of provisions	(2,528)	(159)	(2,687)	-	-	-
Contributions of the year and pensions paid by the Bank	200,132	5,521	205,653	135,351	4,970	140,321
Integration of BIC's net assets/(liabilities)	69,479	(1,748)	67,731	-	-	-
Amortisation of transitional rules (reserves)	(29,450)	(9,462)	(38,912)			
Transitional rules	-	-	-	147,252	66,237	213,489
At 31 December	**730,577**	**(12,972)**	**717,605**	**549,557**	**-**	**549,557**

The assets recognised in the balance sheet are included under other assets (see Note 26).

SIBA

During 2000, BES established a "Stock Based Incentive Scheme" (SIBA). This incentive scheme consists on the sale to BES employees of one or more blocks of BES ordinary shares with deferred settlement for a period that can vary between two to four years. During this period the employees are required to hold the shares, after which they are allowed to sell the shares in the market or, alternatively, have the option to sell back to BES at acquisition cost.

The main characteristics of each plan are presented as follows:

	Plan maturity (expected)	Number of shares at the grant date	Average strike price (Euros)	Number of shares as at 31 December	Coverage by shares
Plan 2000					
1st block	Expired (Dec-04)	548,389	17.37	-	-
2nd block	Expired (Dec-05)	1,279,576	17.37	-	-
Plan 2001					
1st block	May-06	1,358,149	11.51	205,811	100%
2nd block	May-07	3,169,016	11.51	2,408,462	100%
Plan 2002					
1st block	Apr-05	755,408	12.02	132,516	100%
2nd block	Apr-08	1,762,619	12.02	1,579,829	100%
Plan 2003					
1st block	May-06	480,576	14.00	442,093	100%
2nd block	May-09	1,121,343	14.00	1,037,015	100%
Plan 2005					
1st block	Dec-07	541,599	13.54	541,599	100%
2nd block	Dec-10	1,270,175	13.54	1,270,175	100%

The changes in the number of underlying shares to the outstanding plans during 2005 and 2004 were as follows:

	31.12.2005		31.12.2004	
	Number of shares	Average price (Euros)	Number of shares	Average price (Euros)
Opening balance	7,991,482	12.54	8,358,605	12.24
Shares attributed	1,811,774	13.54	1,601,919	14.00
Shares sold (1)	(2,185,756)	13.17	(1,969,042)	12.47
Year-end balance	7,617,500	12.59	7,991,482	12.54

(1) Includes shares sold in the market, after the exercise of the option of sell back to BES at acquisition cost and those that were sold to employees at the maturity of the plans.

The assumptions used in the initial valuation of each plan were the following:

	Plan 2005	Plan 2003	Plan 2002	Plan 2001	Plan 2000
Maturity					
1st block	24 months	5 months	4 months	5 months	Expired
2nd block	60 months	41 months	28 months	17 months	Expired
Volatility	10%	11%	12%	12%	12%
Risk free interest rate					
1st block	3.04%	2.63%	2.7%	4.38%	4.71%
2nd block	3.22%	3.52%	3.56%	5.01%	5.05%
Dividend yield	2.9%	2.9%	2.9%	2.9%	2.9%
Fair value at the grant date (thousands of euros)	2,305	2,137	2,830	6,530	3,056

The total costs recognised related to the plan are as follows:

in thousands of euros

	31.12.2005	31.12.2004
Total costs of the plans (see Note 10)	2,060	2,955

Long-service benefits

As referred in Note 2.14 for employees that achieve certain years of service, the Group 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	**14,736**	**13,754**
Costs of the year		
normal	2,088	2,558
changes in mortality table and discount rates	809	-
Benefits paid	1,317	1,576
Liabilities as at 31 December	**16,316**	**14,736**

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, BES charged to staff costs the amount of euro 2,897 thousand (31 December 2004: euro 2,558 thousand) related to long-service benefits (see Note 10).

Note_12
General and administrative expenses

This caption is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Rental costs	36,814	31,222
Advertising costs	26,924	23,472
Communication costs	22,124	22,292
Maintenance and related services	9,850	8,711
Travelling and representation costs	10,245	10,210
Water, energy and fuel	4,861	4,752
Transportation	4,502	4,193
Consumables	3,353	4,059
Specialised services		
IT services	41,922	35,119
Temporary work	3,345	3,752
Independent work	2,823	2,468
Electronic payment system	11,269	8,656
Advisory services	6,834	11,220
Security and surveillance	2,243	2,187
Information services	1,962	1,103
Other specialised services	40,727	38,623
Other	14,001	14,871
	243,799	**226,910**

The balance other specialised services includes, among others, costs with data banks, judicial and legal services. The balance other costs includes 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 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	190,169	203,905
Weighted average number of ordinary shares (thousands)	300,000	300,000
Weighted average number of treasury shares (thousands)	7,413	8,439
Weighted average number of ordinary shares outstanding (thousands)	**292,587**	**291,561**
Basic earnings per share (in euro)	**0.65**	**0.70**

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. In the case of BES, the outstanding plans of the stock based incentive scheme (SIBA) as described in Note 11, are dilutive potential ordinary shares.

The diluted earning per share is not different from the basic earning per share as the outstanding plans of SIBA do not have a dilutive effect as at 31 December 2005 and 2004.

Note_14
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	206,231	221,940
Deposits at central banks		
Bank of Portugal	693,901	516,579
Other central banks	207	211
	694,108	**516,790**
	900,339	**738,730**

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_15
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		
Uncollected cheques	338,116	319,623
Repayable on demand	16,899	21,327
Other	48,649	47,518
	403,664	**388,468**
Deposits with banks abroad		
Repayable on demand	177,856	35,461
Uncollected cheques	1,184	2,994
	179,040	**38,455**
	582,704	**426,923**

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

Note_16
Financial assets and liabilities held for trading

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	656,997	892,137
Issued by other entities	742	616
Other variable income securities	572,795	284,610
	1,230,534	**1,177,363**
Derivatives		
Derivative financial instruments with positive fair value	1,019,176	444,540
	2,249,710	**1,621,903**

As at 31 December 2005, the acquisition cost of the securities held for trading amounted to euro 1,230,688 thousand (31 December 2004: euro 1,170,873 thousand).

As at 31 December 2005 and 2004, the analysis of the securities held for trading by the period to maturity, is as follows:

in thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	127,964	163,140
3 to 12 months	479,909	445,864
1 to 5 years	26,200	47,930
More than 5 years	23,666	235,819
Undertermined	572,795	284,610
	1,230,534	**1,177,363**

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

As at 31 December 2005 and 2004, the balance financial assets held for trading 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 government and public entities	640,695	16,302	656,997	886,301	5,836	892,137
Issued by other entities	656	86	742	616	-	616
Other variable income securities	-	572,795	572,795	-	284,610	284,610
	641,351	**589,183**	**1,230,534**	**886,917**	**290,446**	**1,177,363**

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			
	Notional	Assets	Liabilities	Notional	Fair value
Exchange rate contracts					
Forward					
- buy	23,678,715	252,680	229,005	-	-
- sell	23,629,752			-	
Currency Swaps					
- buy	725,307	1,387	3,068	-	-
- sell	723,995			-	
Currency Interest Rate Swaps					
- buy	131,138	119,838	115,880	97,829	4,105
- sell	135,356			95,708	
Currency Options	1,932,863	14,712	29,360	494,177	3,000
	50,957,126	**388,617**	**377,313**	**687,714**	**7,105**
Interest rate contracts					
Forward Rate Agreements	491,750	-	192	68,250	(16)
Interest Rate Swaps	21,057,012	538,298	480,834	12,131,697	12,398
Swaption - Interest Rate Options	3,002,897	13,684	15,377	2,029,627	2,346
Interest Rate Caps & Floors	1,107,860	3,543	2,763	1,085,938	3,392
Interest Rate Futures	-	-	-	72,546	-
Bonds Options	132,532	2,960	60	132,532	(60)
Future Options	10,009,875	-	-	14,892,966	-
	35,801,926	**558,485**	**499,226**	**30,413,556**	**18,060**
Equity / index contracts					
Equity / Index Swaps	1,337,597	33,867	28,411	828,006	15,491
Equity / Index Options	1,610,258	32,381	39,419	1,212,073	(9,042)
	2,947,855	**66,248**	**67,830**	**2,040,079**	**6,449**
Credit default contracts					
Credit Default Swaps	1,155,342	5,826	8,830	1,758,189	(1,437)
	1,155,342	**5,826**	**8,830**	**1,758,189**	**(1,437)**
Total	**90,862,249**	**1,019,176**	**953,199**	**34,899,538**	**30,177**

As at 31 December 2005, the fair value of derivatives under liabilities includes the amount of euro 6,788 thousand related to the fair value of the embedded derivatives as described in Note 2.3.

As at 31 December 2005, the analysis of trading derivatives by the period to maturity is as follows:

in thousands of euros

	31.12.2005	
	Notional	Fair value
Up to 3 months	44,006,623	15,031
3 to 12 months	22,219,049	(25,555)
1 to 5 years	13,757,440	82,761
More than 5 years	10,879,137	(6,260)
	90,862,249	**65,977**

Note_17
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
Bonds and other fixed income securities		
Issued by government and public entities	144,122	-
Issued by other entities	1,066,330	-
Shares	186,649	-
Book value	1,397,101	-
(Acquisition cost)	*1,389,228*	-

As at 31 December 2005, this balance includes securities designated by the Group at 1 January 2005 as financial assets at fair value through profit or loss, as a consequence of the adoption of IAS 39.

In light of IAS 39, the Bank designated these financial assets as at fair value through profit or loss, in accordance with a documented risk management and investment strategy, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

Until that date, these securities were included in the portfolio of available-for-sale financial assets, valued at acquisition cost net of provisions for unrealised losses, calculated as the difference between the acquisition cost and the market value.

As at 31 December 2005 and 2004, 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
Up to 3 months	18,737	-
3 to 12 months	436,284	-
1 to 5 years	258,521	-
More than 5 years	496,910	-
Undetermined	186,649	-
	1,397,101	**-**

Regarding listed or unlisted securities, the balance financial assets at fair value through profit or loss, is 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 government and public entities	-	144,122	144,122	-	-	-
Issued by other entities	72,836	993,494	1,066,330	-	-	-
Shares	186,649	-	186,649	-	-	-
Book value	259,485	1,137,616	1,397,101	-	-	-

Note_18
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	7,457	-	-	(12)	7,445
Issued by other entities	2,858,476	-	-	(17,920)	2,840,556
Shares	1,085,239	-	-	(61,151)	1,024,088
Other variable income securities	255,217	-	-	(15,582)	239,635
Balance as at 31 December 2004	**4,206,389**	**-**	**-**	**(94,665)**	**4,111,724**
Obrigações e outros títulos de rendimento fixo					
Issued by government and public entities	32,001	335	(221)	-	32,115
Issued by other entities	2,362,657	2,610	(2,170)	(10,082)	2,353,015
Shares	585,286	441,242	(2,501)	(33,938)	990,089
Other variable income securities	244,065	11,522	(488)	(7,744)	247,355
Balance as at 31 December 2005	**3,224,009**	**455,709**	**(5,380)**	**(51,764)**	**3,622,574**

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	94,665	112,226
Impact of adoption IAS 32 and IAS 39	38,172	-
Balance as at 1 January	132,837	112,226
Charge for the year	34,193	65,516
Charge off	(122,647)	(26,725)
Write back for the year	(1,179)	(54,900)
Exchange differences and other	8,560 [a]	(1,452)
Balance at the end of the year	**51,764**	**94,665**

a) Includes euros 3,406 thousands from BIC's merger

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	45,452	99,259
3 to 12 months	107,485	184,725
1 to 5 years	985,402	940,818
More than 5 years	1,030,016	1,616,247
Undetermined	1,454,219	1,270,675
	3,622,574	**4,111,724**

The main contributions to the fair value reserve, as at 31 December 2005, can be analysed as follows:

in thousands of euros

	Acquisition	Fair value reserve		Impairment	Book
	cost	Positive	Negative		value
Portugal Telecom	217,796	29,083	-	-	246,879
Banco Bradesco	207,518	397,705	-	-	605,223
BMCE Bank	27,909	10,182	-	(3,917)	34,174
	453,223	**436,970**	**-**	**(3,917)**	**886,276**

Note_19
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	805,696	741,024
Loans	527,936	648,152
Deposits	154,278	457,119
Short term deposits	33,916	39,053
Other loans and advances	523	657
	1,522,349	**1,886,005**
Loans and advances to banks abroad		
Deposits	3,774,565	3,508,381
Short term deposits	1,859,806	315,296
Sales with repurchase agreement	253,306	10,226
Loans	101,780	63,886
Other loans and advances	1,373	1,577
	5,990,830	**3,899,366**
Impairment losses	(2,562)	(4,082)
	7,510,617	**5,781,289**

The main loans and advances to banks in Portugal, as at 31 December 2005, bore interest at an average annual interest rate of 2.71% (31 December 2004: 2.02%). Loans and advances to banks abroad bear interest at international market rates where the Bank operates.

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	6,197,111	5,288,639
3 to 12 months	645,246	374,555
1 to 5 years	256,649	61,820
More than 5 years	414,173	60,357
	7,513,179	**5,785,371**

The changes occurred in impairment losses of 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	**4,082**	**39,837**
Charge for the year	1,050	12,117
Charge off	-	(46,782)
Write back for the year	(3,138)	(1,600)
Exchange differences and other	568	510
Balance at the end of the year	**2,562**	**4,082**

Note_20
Loans and advances to customers

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	6,881,977	5,609,562
Loans	5,024,146	2,799,720
Discounted bills	1,417,206	1,278,504
Factoring	67,185	54,925
Overdrafts	41,926	59,584
Finance leases	2,099	3,439
Other loans	276,616	137,941
Retail		
Mortgage loans	7,805,305	4,405,759
Consumer and other loans	1,288,003	865,930
	22,804,463	**15,215,364**
Foreign loans		
Corporate		
Loans	1,757,105	1,456,979
Commercial lines of credits	368,728	344,151
Overdrafts	27,740	34,339
Discounted bills	88,597	88
Other loans	277,773	437,902
Retail		
Consumer and other loans	796	795
	2,520,739	**2,274,254**
Overdue loans and interest		
Up to 90 days	33,825	41,985
More than 90 days	378,387	294,566
	412,212	**336,551**
	25,737,414	**17,826,169**
Provision for impaired loans	**(414,457)**	**(286,036)**
	25,322,957	**17,540,133**

During September 2005, BES carried out a mortgage loans securitisation transaction (Lusitano Mortgages No.4) in the amount of euro 1,200 million (2004: euro 1,200 million – Lusitano Mortgages No.3) (see Note 38).

During 2005, BES sold overdue mortgage loans in the amount of euro 34.8 million (31 December 2004: euro 34.7 million).

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	4,822,775	4,213,776
3 to 12 months	4,050,370	3,203,511
1 to 5 years	4,363,399	3,418,387
More than 5 years	12,088,658	6,653,944
Undetermined	412,212	336,551
	25,737,414	**17,826,169**

The changes occurred in the provision for impaired loans are presented as follows:

in thousands of euros

	31.12.2005	31.12.2004
Balance as at 1 January	**286,036**	**272,907**
Charge for the year	161,252	174,338
Charge off	(134,078)	(131,616)
Write back for the year	(42,131)	(29,485)
Exchange differences and other (a)	143,378	(108)
Balance at the end of the year	**414,457**	**286,036**

(a) Includes euros 143,201 thousands from BIC's merger.

Additionally, as at 31 December 2005, the Bank has a provision for general banking risks in the amount of euros 321,791 thousands (31 December 2004: euros 244,782 thousands), which in accordance to NCA is presented as a liability (see Note 30).

During the year ended 31 December 2005, the Bank recovered euro 12,360 thousand of loans previously written-off (31 December 2004: euro 18,476 thousand).

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	3,756,003	2,156,748
Variable interest rate	21,981,411	15,669,421
	25,737,414	**17,826,169**

Note_21
Held to maturity investments

As at 31 December 2005 and 2004, this balance is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Bonds and other fixed income securities		
Issued by government and public entities	555,480	445,597
Issued by other entities	356	32,050
	555,836	477,647
Impairment losses	(13)	(1,444)
	555,823	**476,203**

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

in thousands of euros

	31.12.2005	31.12.2004
Balance as at 31 December	**1,444**	**2,211**
Impact of adoption IAS 32 and IAS 39	(1,418)	-
Balance as at 1 January	**26**	**2,211**
Charge for the year	-	1
Write back for the year	-	(843)
Exchange differences and other	(13)	75
Balance as at 31 December	**13**	**1,444**

Until 31 December 2004, securities under the held to maturity portfolio were recognised as investment securities at cost less unrealised losses. As at 1 January 2005, those provisions for unrealised losses in the amount of euro 1,418 thousand were reversed in accordance with IAS 39, as they did not correspond to impairment losses.

The analysis of held to maturity investments by the period to maturity is as follows:

in thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	27,354	32,169
3 to 12 months	44,194	36,426
1 to 5 years	478,123	388,561
More than 5 years	6,152	19,047
	555,823	**476,203**

The fair value of held to maturity investments is presented in Note 39.

Note_22
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)	88,909	208,079
Hedging derivatives with negative fair value (liabilities)	(87,827)	(251,677)
	1,082	**(43,598)**

Following the adoption of IAS 39 as at 1 January 2005, certain hedging transactions that were not complying with all the criteria required by that standard were reclassified to the trading portfolio.

From 1 January 2005, the Bank follows the criteria defined in IAS 39 when applying hedge accounting (see Note 2.3).

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 of derivative [1]	Changes in the fair value of the derivative in the year	Hedged item fair value [2]	Changes in the fair value of the hedged item in the year [2]
Currency Interest Rate Swaps	Deposits	FX and interest rate	648,511	32,847	27,608	(27,986)	(27,697)
Equity Swap	Bonds	interest rate	8,477	(1,208)	244	1,336	127
FX Swap	Deposits	interest rate	83,430	(1,574)	(792)	61	61
Interest Rate Swaps	Deposits	interest rate	73,599	330	131	29	29
Interest Rate Swaps	Loans	interest rate	77,821	(4,787)	672	4,858	637
Interest Rate Swaps	Bonds	interest rate	320,927	(24,526)	3,876	25,449	(1,358)
			1,212,765	**1,082**	**31,739**	**3,747**	**(28,201)**

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

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under other operating income.

As at 31 December 2005, the ineffectiveness of the fair value hedge operations amounted to euro 3.5 million and was recognised in the income statement. BES evaluates on an ongoing basis the effectiveness of the hedges.

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
Up to 3 months	131,487	119
3 to 12 months	69,224	(648)
1 to 5 years	558,867	(1,908)
More than 5 years	453,187	3,519
	1,212,765	**1,082**

Note_23
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	260,226	176,600
Improvements in leasehold property	167,264	137,788
Other	14	14
	427,504	**314,402**
Equipment		
Computer equipment	211,169	176,757
Fixtures	82,428	65,796
Furniture	62,456	51,855
Security equipment	15,838	16,844
Office equipment	29,723	11,347
Motor vehicles	1,625	1,895
Other	437	388
	403,676	**324,882**
Work in progress		
Improvements in leasehold property	4,926	10,809
Computer equipment	5,575	5,610
Property for own use	1,215	10,614
Other	1,125	735
	12,841	**27,768**
	844,021	**667,052**
Accumulated depreciation	(552,427)	(451,274)
	291,594	**215,778**

The movement in this balance was as follows:

in thousands of euros

	Property	Equipment	Work in progress	Total
Net balance as at 1 January 2004	**143,749**	**48,965**	**20,565**	**213,279**
Acquisitions	550	10,879	23,556	34,985
Disposals	(271)	(104)	-	(375)
Depreciation of the year	(11,201)	(20,842)	-	(32,043)
Transfers	8,689	7,619	(16,308)	-
Exchange differences and other	1	(23)	(46)	(68)
Net balance as at 31 December 2004	**141,517**	**46,494**	**27,767**	**215,778**
Acquisitions	635	10,627	25,593	36,855
Disposals	(36)	(22)	-	(58)
Depreciation of the year	(11,087)	(19,830)	-	(30,917)
Transfers	31,001	10,314	(41,315)	-
Exchange differences and other (a)	64,030	5,110	796	69,936
Net balance as at 31 December 2005	**226,060**	**52,693**	**12,841**	**291,594**

(a) Includes euros 64,030 thousands of property, euros 5,065 thousands of equipment and euros 796 thousands of work in progress related to BIC's merger

Note_24
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
Internally developed		
Software	1,045	-
Acquired to third parties		
Software	341,192	318,887
Other	17,962	13,250
	359,154	**332,137**
Work in progress	18,790	16,295
	378,989	**348,432**
Accumulated amortisation	(329,202)	(294,695)
	49,787	**53,737**

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

The movement in this balance was as follows:

in thousands of euros

	Software	Other	Total
Net balance as at 1 January 2004	**72,356**	**844**	**73,200**
Acquisitions:			
Internally developed	16,612	-	16,612
Acquired from third parties	5,782	-	5,782
Disposals	-	-	-
Amortisation of the year	(40,891)	(652)	(41,543)
Transfers	-	-	-
Exchange differences and other	(355)	41	(314)
Net balance as at 31 December 2004	**53,504**	**233**	**53,737**
Acquisitions:			
Internally developed	4,999[a]	-	4,999
Acquired from third parties	19,993	-	19,993
Disposals	-	-	-
Amortisation of the year	(29,600)	(186)	(29,786)
Transfers	-	-	-
Exchange differences and other (b)	841	3	844
Net balance as at 31 December 2005	**49,737**	**50**	**49,787**

a) Referred to work in progress

b) Includes euros 910 thousands of software related to BIC's merger

Note_25
Investments in subsidiaries and associates

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

in thousands of euros

	31.12.2005				31.12.2004			
	No of shares	% held by the Bank	Par value euros	Acquisition Cost	No of shares	% held by the Bank	Par value euros	Acquisition Cost
BES AÇORES	2,035,459	58.16%	5.00	9,760	2,035,459	58.16%	5.00	9,760
BES FINANCE	100,000	100.00%	1.00	25	100,000	100.00%	1.00	25
BES ORIENTE	199,500	99.75%	106.13	21,341	199,500	99.75%	91.69	21,341
BES VÉNÉTIE (a)	-	-	-	-	1,390,883	40.00%	15.00	22,000
BES ANGOLA	799,600	79.96%	8.47	9,102	999,600	99.96%	7.34	11,379
BESI	14,000,000	100.00%	5.00	159,834	14,000,000	100.00%	5.00	159,834
BESIL	12,000,000	100.00%	5.00	65,343	12,000,000	100.00%	5.00	65,343
BESLEASING E FACTORING (b)	8,777,241	89.36%	5.00	45,934	8,406,751	85.58%	5.00	43,232
BESNAC	1,000	100.00%	0.84	36	1,000	100.00%	0.73	36
BESOL	1,000	100.00%	0.84	1	1,000	100.00%	0.73	1
BESSA	9,700,000	89.61%	8.00	93,484	9,700,000	89.61%	8.00	93,484
BEST	18,861,680	30.92%	1.00	18,862	14,901,580	27.09%	1.00	14,902
BIC (b)	-	-	-	-	30,000,000	100.00%	5.00	208,521
BIC INTERNATIONAL BANK (b)	10,000,000	100.00%	1.00	24,197	-	-	-	-
CÊNTIMO (b)	2	95.00%	124,700.00	509	1	55.00%	124,700.00	409
CREDIFLASH	1,349,997	90.00%	5.00	6,594	1,349,997	90.00%	20.00	6,594
E.S. BANK	6,377,050	98.45%	4.23	71,027	6,377,050	98.45%	3.66	71,027
ES CAPITAL (c)	-	-	-	-	3,964,060	79.28%	5.00	19,774
ES INTERACTION (d)	-	-	-	-	100,000	20.00%	1.00	100
E.S. PLC	29,994	99.98%	5.00	38	29,994	99.98%	5.00	38
ES SEGUROS	1,200,000	40.00%	5.00	6,000	1,200,000	40.00%	5.00	6,000
ES RESEARCH	10,000	100.00%	5.00	50	10,000	100.00%	5.00	50
E.S. TECH VENTURES (e)	65,000,000	100.00%	1.00	65,000	50,000,000	100.00%	1.00	50,000
ESAF SGPS (b)	1,645,000	70.00%	5.00	8,205	1,527,500	65.00%	5.00	7,619
ESCLINC	100	100.00%	6,879.67	787	100	100.00%	5,958.40	787
ES CONCESSÕES	20,000	20.00%	5.00	100	20,000	20.00%	5.00	100
ESDATA (b)	686,000	49.00%	5.00	4,114	486,000	34.71%	5.00	2,960
ESEGUR	187,000	34.00%	5.00	2,134	187,000	34.00%	5.00	2,134
ESGEST	20,000	100.00%	5.00	100	20,000	100.00%	5.00	100
ESOL	1,000	100.00%	0.85	1	1,000	100.00%	0.73	1
E.S. CONTACT CENTER (b)	1,155,000	32.08%	1.00	1,155	945,000	26.25%	1.00	945
ES COBRANÇAS (f)	-	-	-	-	75,000	46.88%	5.00	374
E.S. F. CONSULTANTS	700,000	100.00%	5.00	3,500	700,000	100.00%	5.00	3,500
E.S. REPRESENTAÇÕES	49,995	99.99%	0.36	39	49,995	99.99%	0.27	39
ESUMÉDICA	74,700	24.90%	5.00	395	74,700	24.90%	5.00	395
EUROP ASSISTANCE	230,000	23.00%	5.00	1,147	230,000	23.00%	5.00	1,147
FIDUPRIVATE	6,190	24.76%	5.00	31	6,190	24.76%	5.00	31
JAMPUR (a)	-	-	-	-	1	75.00%	3,750,.00	4
LOCARENT	472,500	45.00%	5.00	2,518	292,500	45.00%	5.00	1,617
QUINTA DOS CÓNEGOS (b)	487,400	65.85%	5.00	3,960	377,400	51.00%	5.00	3,064
PARSUNI (b)	1	100.00%	5,000.00	5	-	-	-	-
SCI GEORGES MANDEL	15,750	22.50%	152.00	2,401	15,750	22.50%	152.00	2,401
SPAINVEST	1,849,999	100.00%	10.00	21,977	1,849,999	100.00%	10.00	21,977
				649,706				853,046
Impairment losses				(72,144)				(67,545)
				577,562				785,501

(a) Investment sold to ES TECH VENTURES in December 2005
(b) Resulting from BIC's merger
(c) Investment sold to BESI in December 2005
(d) Investment sold to ESDATA in November 2005
(e) This company increased its share capital from euros 50,000 thousands to euros 65,000 thousands in December 2005
(f) This subsidiarie change its legal form, in December 2005

Changes in impairment losses are presented as follows:

in thousands of euros

	31.12.2005	31.12.2004
Balance as at 31 December	**67,545**	**91,435**
Impact of adoption IAS 32 and IAS 39	(1,509)	-
Balance as at 1 January	**66,036**	**91,435**
Charge for the year	6,894	4,661
Charge off	-	(384)
Write back for the year	(1,290)	-
Exchange differences and other (a)	504	(28,167)
Balance at the end of the year	**72,144**	**67,545**

(a) As at 2005 includes the amount of euros 503 thousands related to BIC's merger. As at 2004 includes provisions made under Regulation no. 4/2002 of the Bank of Portugal.

As at 31 December 2005 and 2004, gains on disposal of investments in subsidiaries and associates are analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
JAMPUR - Trading Internacional, Lda	36,052	-
Espírito Santo Capital - Sociedade de Capital de Risco, S.A.	17,660	-
Banque Espírito Santo et de la Vénétie, S.A.	7,862	-
ES INTERACTION - Sistemas de Informação Interactiva, S.A.	70	-
CREDIBOM, Sociedade Financeira para Aquisições a Crédito, S.A.	-	24,753
PORTLINE, Transportes Marítimos Internacionais, S.A.	-	800
ES CONCESSÕES, SGPS, S.A.	-	32,331
	61,644	**57,884**

Note_26
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		
Debtors from transactions with securities	125,708	-
Deposits placed with futures contracts	20,607	13,530
Recoverable government subsidies on mortgage loans	39,729	7,809
Collateral deposits placed	19,682	39,532
Loans to companies in which the Group has a minority interest	106,160	103,179
Public sector	580	517
Sundry debtors	71,758	32,576
	384,224	**197,143**
Impairment losses on debtors	(4,112)	(9,792)
	380,112	**187,351**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	47,791	23,102
Other assets	11,400	8,374
	59,191	**31,476**
Accrued income	**40,533**	**48,135**
Prepayments and deferred costs	**244,817**	**225,442**
Other sundry assets		
Foreign exchange transactions pending settlement	20,429	-
Stock exchange transactions pending settlement	-	232,406
Other transactions pending settlement	-	1,006
	20,429	**233,412**
Assets received as a recovery of non-performing loans	**69,252**	**70,737**
Impairment losses on these assets	(6,946)	(7,502)
	62,306	**63,235**
Assets recognised on pensions (see Note 11)	**538,159**	**336,068**
	1,345,547	**1,125,119**

As at 31 December 2005, the balance prepayments and deferred costs include the amount of euro 42,120 thousand related to the difference between the nominal amount of loans granted to Bank's employees under the collective labour agreement for the banking sector (ACT) and their respective fair value at grant date, calculated in accordance with IAS 39. This amount is charged to the income statement over the lower period between the (i) remaining maturity of the loan granted, and the (ii) estimated remaining service life of the employee. This caption also includes the amount of euros 179,446 thousands related to pensions transitional rules and health-care plans (31 December 2004: euros 213,489 thousands) – see Note 11.

Debtors from transactions with securities represent amounts from short-sales pending settlement.

Stock exchange transactions pending settlement (see Note 33) 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 31 December	17,294	19,504
Charge for the year	431	5,522
Charge off	(1,409)	(3,407)
Write back for the year	(8,460)	(4,014)
Exchange differences and other [(a)]	3,202	(311)
Balance at the end of the year	**11,058**	**17,294**

(a) As at 31 December 2005 this amount is related to BIC's merger.

Note_27
Deposits from banks

The balance deposits from banks is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Domestic		
Deposits	136,854	137,273
Inter-bank money market	38,395	-
Very short term funds	32,807	52,931
Other funds	1,523	2,382
	209,579	**192,586**
International		
Deposits	10,312,125	8,819,391
Loans	1,863,503	1,005,004
Very short term funds	63,087	272,413
Repurchase agreements	243,241	-
Other funds	155,993	48,529
	12,637,949	**10,145,337**
	12,847,528	**10,337,923**

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	3,508,248	2,574,282
1 to 12 months	1,098,651	1,206,286
1 to 5 years	6,043,089	4,881,283
More than 5 years	2,197,540	1,676,072
	12,847,528	**10,337,923**

Note_28
Due to customers

The balance due to customers is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Repayable on demand		
Demand deposits	7,969,914	6,834,538
Time deposits		
Notice deposits	1,226	5,292
Time deposits	6,079,433	4,237,973
Other	3,277	25,065
	6,083,936	**4,268,330**
Savings accounts		
Emigrants	346	-
Pensioners	218,537	247,366
Other	1,989,290	1,818,755
	2,208,173	**2,066,121**
Other funds	**679,518**	**87,503**
	16,941,541	**13,256,492**

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	**7,969,914**	**6,834,538**
With agreed maturity		
Up to 3 months	6,530,158	5,444,487
3 to 12 months	1,869,678	956,766
1 to 5 years	429,751	5,856
More than 5 years	142,040	14,845
	8,971,627	**6,421,954**
	16,941,541	**13,256,492**

Note_29
Debt securities issued

Outstanding debt securities is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Certificates of deposit	3,526,683	1,993,811
Cash bonds	3,792,674	1,773,558
Euro Medium Term Notes	45,551	46,163
Other	7,284	7,341
	7,372,192	**3,820,873**

During the year ended 31 December 2005, BES issued debt securities amounting to euro 1,676.2 million (31 December 2004: euro 754.1 million), and reimbursed euro 260.8 million (31 December 2004: 197.3 million).

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

in thousands of euros

	31.12.2005	31.12.2004
Up to 3 months	3,036,534	1,527,812
3 to 12 months	652,205	610,623
1 to 5 years	1,107,486	253,363
More than 5 years	2,575,967	1,429,075
	7,372,192	**3,820,873**

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

				31.12.2005		
Issuer	Designation	Currency	Issue Date	Book value ('000 euros)	Maturity	Global yield / interest rate
BES	Certificates of deposit	EUR	2003 - 2005	3,530,013	2006 - 2007	1.08% - 4.53%
BES	Bonds BES Rendimento Mais – 1st Serie	EUR	2000	10,777	2008	Fixed - 5.80%
BES	Bonds BES Rendimento Mais – 2nd Serie	EUR	2000	4,947	2008	Fixed - 5.95%
BES	Bonds BES Rendimento Mais – 3rd Serie	EUR	2000	6,866	2008	Fixed - 5.98%
BES	Bonds BES Rendimento Mais – 4th Serie	EUR	2000	7,118	2008	Fixed - 2.76%
BES	Bonds BES Rendimento Mais – 5th Serie	EUR	2000	5,142	2008	Fixed - 5.96%
BES	Bonds BES Valor Indexado Mercury Selected Fund	a) EUR	2001	6,000	2006	1.00% + Mercury Selected Fund
BES	Bonds BES EURO RENDA Aug 2001	EUR	2001	15,001	2009	Fixed - 2.75%
BES	Bonds BES Euro Renda	EUR	2002	22,320	2010	Fixed - 5.32%
BES	Bonds BES DJ *Global Titans*	a) EUR	2002	14,587	2007	0.85% + Índice Eurostat MUICP
BES	Bonds BES Rendimento *Private* 2007	a) EUR	2002	11,099	2007	3.90% + DJ Euro Stoxx 50
BES	Bonds BES Cabaz 2008	a) EUR	2003	6,500	2008	International stock basket
BES	Bonds BES índices Mundiais - Feb 2003	a) EUR	2003	1,826	2008	b)
BES	Bonds BES Multivalor Mar 2003	a) EUR	2003	3,218	2006	c)
BES	Bonds BES Valor Seguro Apr 2003	a) EUR	2003	2,092	2008	0.25,+ d)
BES	Bonds BES índices Mundiais - May 2003	a) EUR	2003	2,500	2008	0.75,+ b)
BES	Bonds BES índices Mundiais - Jun 2003	a) EUR	2003	831	2008	0.75,+ b)
BES	Bonds BES Cabaz Gás Natural Jul 2003	a) EUR	2003	1,137	2006	e)
BES	Bonds BES índices Mundiais - Sep 2003	a) EUR	2003	3,651	2006	b)
BES	Bonds BES Indice Sectoriais Oct 2003	a) EUR	2003	3,622	2006	DJ Index Basket
BES	Bonds BES Indice Sectoriais Nov 2003	a) EUR	2003	2,828	2006	DJ Index Basket
BES	Bonds BES Indice Sectoriais Jan 2004	a) EUR	2004	1,712	2007	DJ Index Basket
BES	Bonds BES Target 8.5% Jan 2004	a) EUR	2004	19,750	2009	Indexed to Euribor 12 months
BES	Bonds BES Target 8.5% Feb 2004	a) EUR	2004	13,783	2009	Indexed to Euribor 12 months
BES	Bonds BES Investimento Global	a) EUR	2004	1,889	2007	f)
BES	Bonds BES Target 14.5% Apr 2004	a) EUR	2004	4,748	2014	Indexed to Euribor 12 months
BES	Bonds BES Target 14.5% May 2004	a) EUR	2004	4,977	2014	Indexed to Euribor 12 months
BES	Bonds BES Set UP Global - May 2004	a) EUR	2004	653	2007	b)
BES	Bonds BES Set UP Global - Jun 2004	a) EUR	2004	935	2007	b)
BES	Bonds BES Libor Invest	a) USD	2004	1,736	2009	Indexed to US Libor 3 months
BES	Bonds BES índices Mundiais - Jul 2004	a) EUR	2004	1,369	2007	b)
BES	Bonds BES Target 11% Eurostoxx 5 Oct 2004	a) EUR	2004	2,689	2012	Indexed to DJ Eurostoxx 50
BES	Bonds BES Libor Nov 04	a) USD	2004	790	2008	Indexed to US LIbor 6 months
BES	BES 12/01/2009	a) USD	2005	937	2009	Indexed to US LIbor 6 months
BES	BES CHINA Feb 05	a) EUR	2005	7,431	2008	Indexed to FSTE/Xinhua China 25 Index
BES	BES COMMODIT 7%	EUR	2005	582	2014	Fixed - 7.00%
BES	BES ER 4% Apr 05	a) EUR	2005	2,329	2013	j)
BES	BES ER 4% Apr 05	a) EUR	2005	1,753	2013	l)
BES	BES ER3.75% 08 05	a) EUR	2005	2,500	2013	m
BES	BES TARGET 10%	EUR	2005	4,977	2013	Fixed - 5.00%
BES	BES-E.RENDA 4%	a) EUR	2005	8,344	2013	n)
BES	Bonds Caixa BIC 99,- 3rd issue	EUR	1999	24,005	2008	Fixed - 2.80%
BES	Bonds Caixa BIC TOP 2006	a) EUR	2003	4,925	2006	i)
BES	Bonds BIC CAPITAL MAIS - Mar 2007	a) EUR	2004	7,271	2007	g)
BES	BIC E.RENDA 4%	a) EUR	2005	2,920	2013	n)
BES	BIC EURO 4%	EUR	2005	3,211	2007	Fixed - 4.00%

Issuer	Designation	Currency	Issue Date	31.12.2005 Book value ('000 euros)	Maturity	Global yield / interest rate
BES	BIC EURO VALOR	EUR	2005	35,014	2010	Fixed - 4.25%
BES	BIC GLOBAL IND	EUR	2005	6,568	2010	h)
BES	BIC SNOWBL Apr 0	EUR	2005	37,796	2012	Indexed to Euribor 6 months
BES	Bonds TOP BIC SELECÇÃO	a) EUR	2004	5,290	2007	Indexed to a fund basket
BES SFE	Bonds BES-SFE 27/11/2008	a) EUR	2003	45,463	2008	Indexed to CMS 10 years EUR
BES (Cayman)	BES CAYMAN 5.22%	USD	2001	42,384	2011	Fixed - 5.22%
BES (Cayman	BES CAYMAN 5.22%	USD	2001	42,384	2011	Fixed - 5.22%
BES (Cayman)	BES CAYMAN 3.63% 11/15/04	EUR	2001	25,000	2006	Fixed - 4.66%
BES (Cayman)	BES CAYMAN - Zero Coupon	EUR	2002	49,389	2027	Zero Coupon - Effective rate 5.90%
BES (Cayman)	BES CAYMAN - Zero Coupon	EUR	2002	81,347	2027	Zero Coupon - Effective rate 5.90%
BES (Cayman)	BES CAYMAN - Zero Coupon	EUR	2002	104,107	2027	Zero Coupon - Effective rate 5.74%
BES (Cayman)	BES CAYMAN 4.82% 01/28/13	USD	2003	63,575	2013	Fixed - 4.82%
BES (Cayman)	BES CAYMAN 4.83% 02/05/13	USD	2003	63,575	2013	Fixed - 4.83%
BES (Cayman)	BES CAYMAN 5.06% 02/11/15	USD	2003	63,575	2015	Fixed - 5.06%
BES (Cayman)	BES CAYMAN - Zero Coupon	EUR	2003	61,124	2028	Zero Coupon - Effective rate 5.50%
BES (Cayman)	BES CAYMAN 5.01% 02/18/15	USD	2003	63,575	2015	Fixed - 5.01%
BES (Cayman)	BES CAYMAN 5.37% 03/12/18	USD	2003	63,575	2018	Fixed - 5.37%
BES (Cayman)	BES CAYMAN - MIX	a) EUR	2003	181	2006	c)
BES (Cayman)	BES CAYMAN Step Up 07/15/13	USD	2003	63,575	2013	StepUp (1st coupon 1.25%)
BES (Cayman)	BES CAYMAN Step Up 07/25/13	USD	2003	63,575	2013	StepUp (1st coupon 1.50%)
BES (Cayman)	BES CAYMAN Step Up 07/28/10	USD	2003	63,575	2010	StepUp (1st coupon 3.50%)
BES (Cayman)	BES CAYMAN - Zero Coupon	EUR	2003	11,592	2028	Zero Coupon - Effective rate 5.75%
BES (Cayman)	BES CAYMAN Step Up 08/27/13	EUR	2003	75,000	2013	StepUp (1st coupon 3.00%)
BES (Cayman)	BES CAYMAN Step Up 09/02/13	EUR	2003	75,000	2013	StepUp (1st coupon 3.00%)
BES (Cayman)	BES CAYMAN Step Up 09/16/13	EUR	2003	75,000	2013	StepUp (1st coupon 2.90%)
BES (Cayman)	BES CAYMAN - Zero Coupon	USD	2003	264	2019	Zero Coupon - Effective rate 5.72%
BES (Cayman)	BES CAYMAN Step Up 10/07/13	EUR	2003	75,000	2013	StepUp (1st coupon 3.10%)
BES (Cayman)	BES CAYMAN - Zero Coupon	EUR	2003	70,791	2028	Zero Coupon - Effective rate 5.81%
BES (Cayman)	BES CAYMAN - FIXED NOTE	EUR	2003	22,579	2013	Up-front coupon
BES (Cayman)	BES CAYMAN Step Up 02/02/17	USD	2004	42,384	2017	StepUp (1st coupon 1.87%)
BES (Cayman)	BES CAYMAN Step Up 02/11/19	USD	2004	42,384	2019	StepUp (1st coupon 1.78%)
BES (Cayman)	BES CAYMAN - FIXED NOTE	EUR	2004	10,438	2014	Up-front coupon
BES (Cayman)	BES CAYMAN - FIXED NOTE	EUR	2004	26,129	2014	Up-front coupon
BES (Cayman)	BES CAYMAN - FIXED NOTE	EUR	2004	6,257	2014	Up-front coupon
BES (Cayman)	BES CAYMAN - FIXED NOTE	EUR	2004	5,214	2014	Up-front coupon
BES (Cayman)	BES CAYMAN Step Up 07/21/14	USD	2004	63,575	2014	StepUp (1st coupon 2.07%)
BES (Cayman)	BES CAYMAN - 4% Mais R.E.	a) EUR	2004	4,805	2009	Indexed to Euribor 6, months
BES (Cayman)	BES CAYMAN - 4% Mais R.E.	a) EUR	2004	1,820	2009	Indexed to Euribor 6, months
BES (Cayman)	BES CAYMAN - 4% Mais R.E.	a) EUR	2004	691	2009	Indexed to Euribor 6, months
BES (Cayman)	BES CAYMAN - BES Libor 4%	USD	2005	874	2008	Euribor 6,meses + 0.51%
BES (Cayman)	BES CAYMAN - BES Libor 4%	USD	2005	1,069	2008	Fixed - 4.00%
BES (Cayman)	BES CAYMAN Step Up 06/30/08	USD	2005	2,105	2008	StepUp (1st coupon 4.00%)
BES (Cayman)	BES CAYMAN Step Up 07/11/08	USD	2005	2,036	2008	StepUp (1st coupon 3.60%)
BES (Cayman)	BES CAYMAN Step Up 08/08/08	USD	2005	1,793	2008	StepUp (1st coupon 3.60%)
BES (Cayman)	BES CAYMAN Step Up 08/09/08	USD	2005	723	2008	StepUp (1st coupon 3.75%)
BES (Cayman)	BES CAYMAN Step Up 10/14/08	USD	2005	2,047	2008	StepUp (1st coupon 3.75%)
BES (Cayman)	BES CAYMAN Step Up 11/10/08	USD	2005	1,687	2008	StepUp (1st coupon 3.75%)
BES (Cayman)	BES CAYMAN Step Up 12-15-08	USD	2005	1,804	2008	StepUp (1st coupon 4.25%)

				31.12.2005		
Issuer	Designation	Currency	Issue Date	Book value ('000 euros)	Maturity	Global yield / interest rate
BES (Cayman)	Bonds - Index Nikkei 225	USD	2000	(1,193)	2009	Indexed to Nikkei 225
BES (Cayman)	BIC CAYMAN 1 2001	EUR	2001	50,000	2008	Fixed - 5.48%
BES (Cayman)	BIC CAYMAN 2 2001	EUR	2001	50,000	2011	Fixed - 5.68%
BES (Cayman)	BIC CAYMAN 3 2001	EUR	2001	50,000	2008	Fixed - 5.40%
BES (Cayman)	BIC CAYMAN 4 2001	EUR	2001	50,000	2008	Fixed - 5.46%
BES (Cayman)	BIC CAYMAN 5 2001	EUR	2001	50,000	2008	Fixed - 5.48%
BES (Cayman)	BIC CAYMAN 6 2001	EUR	2001	50,000	2009	Fixed - 5.43%
BES (Cayman)	BIC CAYMAN 7 2001	EUR	2001	50,000	2009	Fixed - 5.41%
BES (Cayman)	BIC CAYMAN 8 2001	EUR	2001	50,000	2009	Fixed - 5.45%
BES (Cayman)	BIC CAYMAN 9 2001	EUR	2001	50,000	2009	Fixed - 5.42%
BES (Cayman)	BIC CAYMAN 10 2001	EUR	2001	50,000	2010	Fixed - 5.53%
BES (Cayman)	BIC CAYMAN 11 2001	EUR	2001	50,000	2010	Fixed - 5.57%
BES (Cayman)	BIC CAYMAN 12 2001	EUR	2001	50,000	2010	Fixed - 5.58%
BES (Cayman)	BIC CAYMAN 13 2001	EUR	2001	50,000	2010	Fixed - 5.73%
BES (Cayman)	BIC CAYMAN 14 2001	EUR	2001	50,000	2011	Fixed - 5.80%
BES (Cayman)	BIC CAYMAN 15 2001	EUR	2001	50,000	2011	Fixed - 5.79%
BES (Cayman)	BIC CAYMAN 16 2001	EUR	2001	50,000	2011	Fixed - 5.90%
BES (Cayman)	BIC CAYMAN 17 2001	EUR	2001	50,000	2012	Fixed - 5.89%
BES (Cayman)	BIC CAYMAN 18 2001	EUR	2001	50,000	2012	Fixed - 5.83%
BES (Cayman)	BIC CAYMAN 19 2001	EUR	2001	50,000	2012	Fixed - 5.96%
BES (Cayman)	BIC CAYMAN 20 2001	EUR	2001	50,000	2012	Fixed - 5.94%
BES (Cayman)	BIC CAYMAN 21 2001	EUR	2001	50,000	2013	Fixed - 6.03%
BES (Cayman)	BIC CAYMAN 22 2001	EUR	2001	75,000	2013	Fixed - 6.08%
BES (Cayman)	BIC CAYMAN 23 2001	EUR	2001	75,000	2013	Fixed - 6.03%
BES (Cayman)	BIC CAYMAN 24 2001	EUR	2001	75,000	2014	Fixed - 6.01%
BES (Cayman)	BIC CAYMAN 25 2001	EUR	2001	75,000	2014	Fixed - 6.02%
BES (Cayman)	BIC CAYMAN 26 2001	EUR	2001	75,000	2015	Fixed - 6.16%
BES (Cayman)	BIC CAYMAN 27 2001	EUR	2001	75,000	2015	Fixed - 6.09%
BES (Cayman)	BIC CAYMAN 29 2001	EUR	2001	50,000	2011	Fixed - 5.28%
BES (Cayman)	BIC CAYMAN 30 2001	EUR	2001	50,000	2011	Fixed - 5.42%
BES (Cayman)	BIC CAYMAN 1 2002	EUR	2002	70,000	2012	Fixed - 5.92%
BES (Cayman)	BIC CAYMAN 2 2002	EUR	2002	4,985	2012	Fixed - 4.65%
BES (Cayman)	BIC CAYMAN 3 2002	EUR	2002	30,000	2007	Fixed - 5.42%
BES (Cayman)	BIC CAYMAN 4 2002	EUR	2002	50,000	2007	Fixed - 5.32%
BES (Cayman)	BIC CAYMAN 5 2002	EUR	2002	50,000	2007	Fixed - 5.23%
				7,259,789		
	Accrued interest			112,403		
				7,372,192		

a) debt issues with embedded derivatives attached
b) Indexed to a basket composed by the indexes Dow Jones Eurostoxx 50, Standard & Poors 500 and Nikkei 225
c) Indexed to a basket composed by the indexes Dow Jones Eurostoxx 50; Goldman Sachs Commodity Index Total Return and Bloomberg/EFFAS Bond Indices EURO GOVT
d) indexed to a basket composed by the indexes Dow Jones Eurostoxx 50 and HICP Ex-Tobacco
e) indexed to a basket composed by shares of the energy sector
f) indexed to a basket composed by the indexes Dow Jones Eurostoxx 50; Goldman Sachs Commodity Index Excess Return; Iboxx Euro Sovereign and exchange rate USD/EUR
g) indexed to a basket composed by the indexes Dow Jones Eurostoxx 50 and Dow Jones Industrials
h) indexed to a basket composed by the indexes Dow Jones Eurostoxx 50, Nasdaq 100 and Nikkei 225
i) indexed to a basket composed by the funds European Equity, Top Ranking and HighYield
j) indexed to fixed rate (4.08%) in the 1st, 2nd and 8th year; indexed to CMS from the 3rd to the 7th year
l) indexed to fixed rate (4.14%) in the 1st, 2nd and 8th year; indexed to CMS from the 3rd to the 7th year
m) indexed to fixed rate (3.85%) in the 1st, 2nd and 8th year; indexed to CMS from the 3rd to the 7th year
n) indexed to fixed rate (4.15%) in the 1st, 2nd and 8th year; indexed to CMS from the 3rd to the 7th year

Note_30
Provisions

As at 31 December 2005 and 2004, the balance of provisions presents the following movements:

in thousands of euros

	General banking risk provision	Restructuring provision	Other provisions	Total
Balance as at 1 January 2004	**239,449**	**-**	**40,055**	**279,504**
Charge for the year	15,057	-	50,429	65,486
Charge off	(3,233)	-	(66,188)	(69,421)
Write back for the year	(6,000)	-	(6,005)	(12,005)
Exchange differences and other	(491)	-	452	(39)
Balance as at 31 December 2004	**244,782**	**-**	**18,743**	**263,525**
Transition to NCA	20,138	-	13,876	34,014
Charge for the year	14,259	57,554	20,547	92,360
Charge off	-	(7,892)	(798)	(8,690)
Write back for the year	(1,212)	-	(2,469)	(3,681)
Exchange differences and other (a)	43,824	-	11,126	54,950
Balance as at 31 December 2005	**321,791**	**49,662**	**61,025**	**432,478**

(a) Includes euros 42,815 thousands and euros 11,053 thousands related to BIC's merger.

In accordance with the decision taken by the Board of Directors of BES on 19 September 2005, Banco Internacional de Crédito, S.A. was merged into Banco Espírito Santo, S.A. at 30 December 2005. After this decision, a restructuring plan was prepared and approved by BES and the respective implementation started during the last quarter of 2005. A provision in the amount of euro 57.6 million to meet the costs with the restructuring, was set up.

Other provisions in the amount of euro 61,025 thousand as at 31 December 2005 (31 December 2004: euro 18,743 thousand) are intended to cover certain contingencies related to the Bank's activities.

Note_31
Income taxes

The Bank is subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes.

BES 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 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, 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:

in thousands of euros

	Net	
	31.12.2005	31.12.2004
Available-for-sale financial assets	(131,334)	-
Investments in associates	(10,043)	7,467
Loans and advances to customers	33,788	21,771
Property and equipment	(9,595)	(9,874)
Intangible assets	4,947	11,715
Derivative financial instruments	(22,361)	-
Pensions	(81,764)	(56,640)
Health care - SAMS	3,445	-
Provisions	24,322	3,814
Long-service benefits	5,979	5,021
Other	1	2,284
Tax credits resulting from double tax treaties	18,712	18,712
Tax losses brought forward	86,328	12,766
Deferred tax asset / (liability)	**(77,575)**	**17,036**
Deferred tax asset / (liability), net	**(94,611)**	**23,168**

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
Available-for-sale financial assets	(29,741)	(126,590)	-	-
Investments in associates	(17,510)	-	-	-
Loans and advances to customers	4,478	-	(1,948)	-
Property and equipment	270	-	(171)	-
Intangible assets	(6,283)	-	5,750	-
Derivative financial instruments	(19,159)	-	1,738	-
Pensions	(29,562)	6,534	15,766	-
Health care - SAMS	408	2,602	-	-
Provisions	20,508	-	4,765	-
Long-service benefits	796	-	(270)	-
Other	(2,284)	-	(2,079)	-
Tax credits resulting from double tax treaties	73,562	-	(383)	-
BIC's integration	-	(60,029)		
Transition adjustment at 1 January 2005	-	87,298	-	-
	(4,517)	**(90,094)**	**23,168**	**-**

The income tax recognised in profit for the years ended 31 December 2005 and 2004, is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Current tax	**22,851**	**6,487**
Deferred tax		
Temporary differences and reversals	78,079	23,551
Tax losses brought forward	(73,592)	(383)
	4,517	23,168
Total income tax recognised in profit	**27,368**	**29,655**

The income tax recognised in reserves for the years ended 31 December 2005 and 2004 is related to deferred tax.

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 minority interests and taxes		**217,537**		**233,560**
Statutory tax rate	27.5		27.5	
Income tax calculated based on the statutory tax rate		59,823		64,229
Tax-exempt dividends		(42,121)		(41,906)
Tax-exempt gains		(8,977)		(3,618)
Tax on capital gains obtained abroad		11,745		-
Tax credits resulting from double tax treaties		-		(6,168)
Tax paid by branches		3,625		144
Non deductible costs		2,854		4,432
Changes in tax basis of assets and liabilities due to changes in tax laws		6,751		-
Changes in estimates		(8,780)		5,785
Other		2,448		6,757
		27,368		**29,655**

Note_32
Subordinated debt

The balance subordinated debt is analysed as follows:

in thousands of euros

	31.12.2005	31.12.2004
Cash bonds	159,925	159,616
Loans	2,052,913	1,609,699
	2,212,838	**1,769,315**

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
BES	Subordinated cash bonds	1996	59,856	59,861	2.8125%	2006
BES	Subordinated cash bonds	1997	99,762	99,771	2.6875%	2007
BES (Cayman)	Subordinated loans	2000	42,385	42,384	7.9000%	2009
BES (Cayman)	Subordinated loans	2000	300,000	299,246	6.6250%	2010
BES (Cayman)	Subordinated loans	2002	400,000	397,615	6.2500%	2011
BES (Cayman)	Subordinated loans	2002	500,000	495,493	6.6250%	2012
BES (Cayman)	Subordinated loans	2003	310,000	306,285	5.5850%	2014
BIC (Cayman)	Subordinated perpetual bonds	2004	100,000	100,000	3.8700%	-
BIC (Cayman)	Subordinated perpetual bonds	2004	100,000	100,000	3.8700%	-
BES (Cayman)	Subordinated loans	2005	215,983	246,980	3.9450%	2015
Sub-total			**2,127,986**	**2,147,635**		
Accrued interest				65,203		
				2,212,838		

During the year ended 31 December 2005, BES issued subordinated debt securities in the amount of euro 247 million, and reimbursed euro 24.9 million (31 December 2004: reimbursed euro 99.8 million).

Note_33
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	20,107	14,641
Creditors arising out from futures contracts	18,577	9,663
Sundry creditors		
Suppliers	28,456	17,940
Creditors from transactions with securities	25,397	10,761
Other sundry creditors	60,919	55,694
	153,456	**108,699**
Accrued expenses		
Long-service benefits (see Note 11)	16,316	14,736
Other accrued expenses	61,786	65,528
	78,102	**80,264**
Deferred income	**461**	**6,931**
Other sundry liabilities		
Stock exchange transactions pending settlement	265,393	-
Foreign exchange transactions pending settlement	-	20,227
Other transactions pending settlement	82,341	45,650
	347,734	**65,877**
	579,753	**261,771**

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 (see Note 26).

Note_34
Share capital, share premium, treasury stock and preference shares

Ordinary shares

As at 31 December 2005, the Bank's share capital was represented by 300 million ordinary shares with a face value of 5 euros each, which were subscribed and fully paid by the following entities:

	% Share capital	
	31.12.2005	31.12.2004
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	41.98%	41.98%
Credit Agricole, S.A.	8.81%	8.81%
Companhia de Seguros Tranquilidade Vida, S.A.	6.46%	6.45%
Bradeport-SGPS, S.A.[1]	3.05%	3.00%
Others	39.70%	39.76%
	100.00%	**100.00%**

(1) Portuguese company fully owned by Banco Bradesco, 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 300,000 thousands of euros relates to the capital increase that occurred during the first half of 2002.

Treasury stock

The Bank's General Meeting of 20 June 2000 approved the set up of a stock-based incentive scheme, which started in 2000. As at 31 December 2005, 7,617 thousand shares of BES (2.54% of total share capital), are allocated (31 December 2004: 7,991 thousand shares, 2.66% of total share capital), for an overall amount of euro 96.3 million (31 December 2004: euro 100.2 million). These shares are recognised as treasury stock, as described in Note 2.14.

The movement in treasury stocks is analysed as follows:

	31.12.2005		31.12.2004	
	Number of shares	Amount (euro'000)	Number of shares	Amount (euro'000)
Opening balance	7,991,482	100,174	8,358,605	102,304
Shares bought	1,811,774	24,544	1,601,919	22,427
Shares sold	(2,185,756)	(28,471)	(1,969,042)	(24,557)
Year-end balance	7,617,500	96,247	7,991,482	100,174

Note_35
Fair value reserve, other reserves and 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:

in 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 NCA (excluding IAS 32 and IAS 39)	**-**	**-**	**-**	**40,865**	**10,918**	**51,783**
Transfer to reserves	-	-	-	19,200	73,635	92,835
Regulation nr. 4/2002	-	-	-	-	28,276	28,276
Balance as at 31 December 2004 NCA (excluding IAS 32 and IAS 39)	**-**	**-**	**-**	**60,065**	**112, 829**	**172,894**
Effect of adoption of IAS 32 and 39 and pensions transitional rules	(10,509)	2,890	(7,619)	-	(272,580)	(272,580)
Balance as at 1 January 2005 NCA	**(10,509)**	**2,890**	**(7,619)**	**60,065**	**(159,751)**	**(99,686)**
Changes in treasury stock	-	-	-	-	2,060	2,060
Changes in fair value	459,294	(126,499)	332,795	-	-	-
Transfer to reserves	-	-	-	20,500	75,361	95,861
Pensions - Transitional rules	-	-	-	-	(29,776)	(29,776)
Effect of BIC's merger	1,544	(497)	1,047	36,289	167,114	203,403
Balance as at 31 December 2005	**450,329**	**(124,106)**	**326,223**	**116,854**	**55,008**	**171,862**

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	3,224,009
Accumulated impairment recognised	(51,764)
Amortised cost of available-for-sale financial assets, net of impairment	3,172,245
Fair value of available-for-sale financial assets	3,622,574
Net unrealised gains recognised in the fair value reserve	450,329
Deferred taxes	(124,106)
Balance as at 31 December 2005	**326,223**

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	**(7,619)**
Changes in fair value	420,574
Disposals during the year	3,181
Impairment recognised during the year	34,193
Deferred taxes recognised in reserves during the year (see Note 32)	(124,106)
Balance as at 31 December 2005	**326,223**

Note_36
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	13,868,432	11,348,761
Assets pledged as collateral	527,926	502,878
Open documentary credits	292,512	284,487
Other	94,343	51,391
	14,783,213	**12,187,517**
Commitments		
Revocable commitments	14,634,088	5,865,447
Irrevocable commitments	658,951	306,895
	15,293,039	**6,172,342**

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

Documentary credits are irrevocable commitments, by the Bank, in the name of its clients, to pay or order to pay a certain amount to a supplier of goods or services, within a determined term, against the exhibition of the expedition documentation of the goods or service provided. The condition of irrevocable consists of the fact that neither of the involved parties can ask the cancellation or changes in terms initially agreed.

Revocable and 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 requires 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 132,105 thousand (31 December 2004: euro 131,237 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 50,212 thousand (31 December 2004: euro 35,154 thousand);
- Securities pledged as collateral to the Deposits Guarantee Fund (*Fundo de Garantia de Depósitos*) in the amount of euro 61,109 thousand (31 December 2004: euro 49,487 thousand);

Additionally, the liabilities accounted for off-balance sheet 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	40,813,947	31,426,345
Assets for collection on behalf of clients	262,099	140,359
Securitised loans under management (servicing)	3,832,591	1,282,894
Other responsabilities related with banking services	266	163
	44,908,903	**32,849,761**

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_37
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										
BESLEASING E FACTORING	1,684,503	-	-	40,438	-	1,413,314	39	-	24,549	-
BIC	-	-	-	-	-	338,494	56,968	-	27,319	66,735
ES COBRANÇAS	-	6,465	-	-	4,599	563	770	-	-	4,094
ES CONCESSÕES	40,926	-	-	-	-	30,176	-	-	-	-
ES ACE	-	3,847	-	11,339	33,576	-	1,561	-	10,689	31,677
ESAF SGPS	-	41,075	-	19,493	77	-	2,403	-	15,461	67
BESSA	727,543	278,095	472,009	11,298	10,262	65,116	149,204	-	1,386	2,399
ESGEST	-	255	-	-	1,068	-	63	-	-	747
ESDI	-	3,972	-	-	4,510	-	2,098	-	255	2,693
BESNAC	-	1,853	-	-	188	-	18,478	-	1	216
CREDIFLASH	25,635	4,794	-	6,485	2,311	46,306	-	-	7,049	2,349
CÊNTIMO	-	69	-	-	5	5	26	-	-	-
BESOL	-	24	-	-	-	-	32	-	-	6
BESI	311,857	16,487	30,000	12,362	375	372,870	1,310	90,172	46,254	14,080
BESIL	599,415	57	-	14,367	-	244,168	111,330	-	6,415	1,280
BES ORIENTE	-	368	-	-	-	55	320	-	207	62
BES FINANCE	-	8,810,664	8,911,032	1,266	280,434	-	7,346,631	7,633,021	2,903	235,664
ES CAPITAL	-	-	-	-	-	-	-	-	-	-
ESOL	-	323	-	-	6	-	316	-	-	15
ES PLC	174,844	877	-	50	36	35,877	1,934	-	818	29
ES BANK	29,128	635	-	-	-	-	5,881	-	-	-
ES TECH VENTURES	144,723	6,099	-	27	94	10,477	115	-	325	-
ES REPRESENTAÇÕES	-	-	-	-	-	-	-	-	-	489
ES CONTACT CENTER	-	1,167	-	-	3,532	-	95	-	-	3,863
ESCLINC	-	-	-	-	1,091	-	-	-	-	1,210
ES RESEARCH	-	37	-	-	-	-	50	-	-	-
BEST	50,000	13,365	-	1,460	-	50,000	22,006	-	494	1,637
BES AÇORES	29,184	28,774	-	220	53	12,635	27,460	-	55	46
INTERACTION	-	-	-	-	732	-	691	-	-	608
BES SPEs	4,013	-	-	-	-	-	-	-	-	-
BES ANGOLA	28,922	43,298	25,430	-	1,669	3,579	45,727	-	-	696
ES FIN. CONSULTANTS	90	-	-	-	-	90	4	-	-	-
QUINTA DOS CONEGOS	1,174	-	-	-	176	915	-	-	-	217
JAMPUR	-	-	-	2,586	-	148,707	-	-	-	-
	3,851,957	**9,262,600**	**9,438,471**	**121,391**	**344,794**	**2,773,347**	**7,795,512**	**7,723,193**	**144,180**	**370,879**
Associated companies										
ESUMÉDICA	1,094	80	-	17	1	2,505	2,744	-	86	-
EUROP ASSISTANCE	-	2,373	14	-	35	-	870	12	-	25
FIDUPRIVATE	-	306	-	-	-	-	209	-	-	-
BES VÉNÉTIE	504,614	128,101	-	-	11	467,419	65,846	-	-	598
ES SEGUROS	-	1,537	-	-	16	-	1,288	-	-	32
ESEGUR	399	1,940	115	19	12	399	840	87	3	13
OTHERS	1,668	1,724	5,414	60	2	1,429	2,205	1,401	-	1
	507,775	**136,061**	**5,543**	**96**	**77**	**471,752**	**74,002**	**1,500**	**89**	**669**

As at 31 December 2005 and 2004, the total amount of assets and liabilities of BES with ESFG (Bank holding) and related companies, is as follows:

in thousands of euros

	31.12.2005							31.12.2004		
	Assets					Guarantees	Liabilities	Assets	Guarantees	Liabilities
	Deposits	Loans	Securities	Other	Total					
ESF PORTUGAL	-	-	-	-	-	-	19,795	-	-	2
BESPAR	-	651	-	-	651	-	2,083	-	-	3
PARTRAN	-	70,176	-	-	70,176	-	77	70,000	-	81
BES VÉNÉTIE	499,126	-	-	5,488	504,614	-	128,101	467,419	-	65,846
ESPÍRITO SANTO FINANCIÉRE, SA	-	189,516	-	-	189,516	-	2,063	71,581	-	6,006
GRUPO TRANQUILIDADE	-	304	-	-	304	819	554,977	140	830	1,435,659
GRUPO ESPÍRITO SANTO INTERNATIONAL	-	169,347	-	7,268	176,615	9,885	14,453	131,938	18,299	30,289
COMPAGNIE BANCAIRE ESPÍRITO SANTO, SA	16	-	-	-	16	338	394,258	-	338	72,483
EUROP ASSISTANCE	-	-	-	-	-	14	2,373	-	12	870
ES BANK PANAMA	90,888	-	-	-	90,888	-	-	-	-	-
FRAYBELL COMPANY	-	139,352	-	-	139,352	-	-	138,622	-	-
OTHERS	-	72,648	8,855	4,800	86,303	26	4,686	34,613	2,640	3,195
TOTAL	**590,030**	**641,994**	**8,855**	**17,556**	**1,258,435**	**11,082**	**1,122,866**	**914,313**	**22,119**	**1,614,434**

During the year ended 31 December 2005, and excluding the payment of dividends, no additional transactions with related parties were undertaken between the Bank and its shareholders.

The transactions with the pensions fund are analysed in Note 11.

Note_38
Securitisation transactions

As at 31 December 2005, the outstanding securitization transactions performed by the Bank were as follows:

in thousands of euros

Designation	Initial date	Original amount	Current amount	Asset securitised
Lusitano Global CDO No.1 plc	August 2001	1,144,300	367,074	Domestic bonds and eurobonds
Lusitano Finance No. 2 plc	April 2002	450,000(*)	122,292(*)	Consumer loans and finance lease
Lusitano Mortgages No.1 plc	December 2002	1,000,000	752,990	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	781,832	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	1,082,190	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	1,172,294	Mortgage loans (general regime)

(*) These amounts include euro 150 million and euro 42,6 million related to the initial and current amount, respectively, of consumer credits securitised by BES. The remaining amounts are related to finance leases securitised by Besleasing and Factoring.

The main characteristics of these transactions, as at 31 December 2005, can be analysed as follows:

in thousands of euros

Designation	Notes issued	Issued amount (par value)	Current amount (par value)	Securities held by BES (par value)	Maturity date	Ratings Fitch	Ratings Moody's	Ratings S&P
Lusitano Global CDO No.1 plc	Class A1	350,000	-	-	December 2015	AAA	Aaa	AAA
	Class A2	623,800	206,163	-	December 2015	AAA	Aaa	AAA
	Class B	42,300	42,300	-	December 2015	AAA	Aa1	AA
	Class C	25,200	25,200	12,700	December 2015	AA	A1	A+
	Class D	103,000	103,000	11,900	December 2015	-	-	-
Lusitano Finance No. 2 plc	Class A	409,720	114,526	-	April 2010	AAA	Aaa	AAA
	Class B	11,250	11,250	-	April 2010	AA+	Aa2	AA
	Class C	29,030	29,030	-	April 2010	A	A2	A-
	Class D	20,250	15,480	4,013	April 2010	-	-	-
Lusitano Mortgages No.1 plc	Class A	915,000	670,976	-	December 2035	AAA	Aaa	AAA
	Class B	32,500	32,500	-	December 2035	AA	Aa3	AA
	Class C	25,000	25,000	-	December 2035	A	A2	A
	Class D	22,500	22,500	-	December 2035	BBB	Baa2	BBB
	Class E	5,000	5,000	-	December 2035	BB	Ba1	BB
	Class F	10,000	10,000	-	December 2035	-	-	-
Lusitano Mortgages No.2 plc	Class A	920,000	720,124	-	December 2036	AAA	Aaa	AAA
	Class B	30,000	30,000	-	December 2046	AA	Aa3	AA
	Class C	28,000	28,000	5,000	December 2046	A	A3	A
	Class D	16,000	16,000	-	December 2046	BBB	Baa3	BBB
	Class E	6,000	6,000	-	December 2046	BBB-	Ba1	BB
	Class F	9,000	9,000	-	December 2046	-	-	-
Lusitano Mortgages No.3 plc	Class A	1,140,000	1,050,697	-	December 2047	AAA	Aaa	AAA
	Class B	27,000	27,000	-	December 2047	AA	Aa2	AA
	Class C	18,600	18,600	-	December 2047	A	A2	A
	Class D	14,400	14,400	-	December 2047	BBB	Baa2	BBB
	Class E	10,800	10,800	1,000	December 2047	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	1,115,018	-	December 2048	AAA	Aaa	AAA
	Class B	22,800	22,800	-	December 2048	AA	Aa2	AA
	Class C	19,200	19,200	-	December 2048	A+	A1	A+
	Class D	24,000	24,000	-	December 2048	BBB+	Baa1	BBB+
	Class E	10,200	10,200	-	December 2048	-	-	-

As permitted by IFRS 1, the Bank has applied the derecognition requirements of IAS 39 for the transactions entered into after 1 January 2004. Therefore, the assets derecognised until that date, in accordance with the previous accounting policies, were not restated in the balance sheet.

The assets sold in the securitisation transactions Lusitano Mortgages No.3 and Lusitano Mortgages No.4, performed in November 2004 and September 2005, respectively, were derecognised considering that the Bank has transferred substantially all the risks and rewards of ownership.

Note_39
Risk management

A qualitative outlook of the risk management at BES is presented below.

Risk control and risk management provides an active support to management, being one of the strategic mainstays supporting BES 's balanced and sustained development.

Risk management is organised into two broad areas - the Global Risk Department and the Company Monitoring and Credit Recovery Department - having the following objectives:

- to identify, quantify and monitor the different types of risk, progressively applying uniform and consistent principles and methodologies;
- to help achieve BES value creation objectives by fine-tuning tools to support the structuring of transactions and by developing 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 risk profile of BES credit portfolios is analysed on a monthly basis by the Risk Committee. In these monthly meetings the Committee monitors and analyses the risk profile of BES and respective business units under four major angles: evolution of credit exposures, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

Market risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or share prices.

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. BES's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

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 foreing currencies	Total
Assets							
Cash and deposits at central banks	889,698	4,305	2,861	33	-	3,442	900,339
Deposits with banks	477,995	72,409	16,587	2,506	5,886	7,321	582,704
Financial assets held for trading	1,915,660	212,513	105,762	3,423	2,752	9,600	2,249,710
Financial assets at fair value through profit or loss	904,380	492,721	-	-	-	-	1,397,101
Available-for-sale financial assets	2,794,578	150,584	12,626	-	614,696	50,090	3,622,574
Loans and advances to banks	4,920,476	2,393,630	154,510	13,679	-	28,322	7,510,617
Loans and advances to customers	24,175,802	395,013	706,132	16,664	-	29,346	25,322,957
Held to maturity investments	-	555,823	-	-	-	-	555,823
Hedging derivatives	41,511	1,592	8,929	36,126	-	751	88,909
Non-current assets held for sale	-	-	-	-	-	-	-
Investments in associates	491,380	65,117	-	-	18	21,047	577,562
Other non-financial assets	2,540,813	580,886	1,177,138	216,320	2,804	2,449,261	6,967,222
Total assets	**39,152,293**	**4,924,593**	**2,184,545**	**288,751**	**626,156**	**2,599,180**	**49,775,518**
Liabilities							
Deposits from central banks	113,281	380,737	96,179	-	-	945	591,142
Financial liabilities held for trading	672,195	197,817	61,249	3,465	2,653	15,820	953,199
Deposits from banks	10,659,250	1,553,258	382,503	14,067	-	238,450	12,847,528
Due to customers	15,474,912	834,592	572,276	4,115	-	55,646	16,941,541
Debt securities issued	4,180,402	1,711,608	1,259,830	-	-	220,352	7,372,192
Hedging derivatives	83,824	1,902	946	-	-	1,155	87,827
Subordinated debt	1,923,016	42,581	-	247,241	-	-	2,212,838
Other non-financial liabilities	4,067,093	190,956	18,682	18,554	5,358	1,990,519	6,291,162
Total liabilities	**37,173,973**	**4,913,451**	**2,391,665**	**287,442**	**8,011**	**2,522,887**	**47,297,429**
Equity	**1,978,320**	**11,723**	**-**	**-**	**392,344**	**9,620**	**2,392,007**
Net exposure	**-**	**(581)**	**(207,120)**	**1,309**	**225,801**	**66,673**	**86,082**
Operational exposure	**-**	**(581)**	**(207,120)**	**1,309**	**225,801**	**66,673**	**86,082**

	31.12.2004						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Total Assets	29,861,592	2,770,459	53,329	17,892	220,676	309,357	**33,233,305**
Total Liabilities	27,791,992	3,009,435	30,761	5,479	-	217,460	**31,055,127**
Equity	2,069,600	7,025	-	-	-	-	**2,076,625**
Net exposure	-	(246,001)	22,568	12,413	220,676	91,897	101,553
Operational exposure [(1)]	**-**	**(246,001)**	**22,568**	**12,413**	**220,676**	**91,897**	**101,553**

1) The operational exposure in each currency represents the open net exposure, as the foreign branches make their exchange rate management in their functional currency and not in the financial statements reporting currency.

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 Financial 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, there was 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. The system is supported at organisational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

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 customers		Financial assets held for trading		Financial assets at fair value through profit or loss		Available-for-sale financial assets		Held to maturity investments		Guarantees granted
	Gross amount	Impairment losses[(a)]	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	
Agriculture	303,289	(9,835)	-	-	-	-	-	-	-	-	36,364
Mining	69,154	(2,207)	-	-	-	-	-	-	-	-	9,288
Food, beverage and tobacco	319,497	(10,468)	-		3,235	-	98,439	(34)	-	-	107,299
Textiles	348,106	(14,492)	-	-	-	-	2,011	(1,972)	-	-	63,848
Shoes	71,036	(5,595)	-	-	-	-	499	(499)	-	-	10,981
Wood and cork	146,524	(10,046)	-	-	-	-	-	-	-	-	15,659
Printing and publishing	74,097	(3,998)	-	-	-	-	96	-	-	-	47,744
Refining and oil	13,728	(269)	-	-	-	-	-	-	-	-	37,858
Chemicals and rubber	278,233	(7,156)	-	-	-	-	5,043	(353)	-	-	50,023
Non-metalic minerals	177,351	(5,868)	-	-	-	-	1,967	(469)	-	-	55,484
Metalic products	206,192	(8,563)	-	-	-	-	6	(6)	-	-	33,436
Production of machinery, equipment and electric devices	196,374	(5,469)	-	-	-	-	1,378	(596)	-	-	113,436
Production of transport material	31,072	(2,298)	-	-	-	-	104,034	-	-	-	72,880
Other transforming industries	242,979	(6,652)	-	-	-	-	-	-	356	-	20,449
Electricity, gas and water	270,447	(3,988)	-	-	-	-	39,985	(2)	-	-	374,717
Construction	2,839,687	(60,637)	-	-	-	-	16,503	(1,691)	-	-	1,028,759
Wholesale and retail	2,140,962	(95,836)	-	-	-	-	90,873	(633)	-	-	530,368
Tourism	450,686	(12,537)	-	-	-	-	241	(171)	-	-	99,087
Transports and communications	1,104,162	(33,409)	14	-	25,238	-	642,167	(428)	-	-	787,893
Financial activities	815,750	(55,737)	560,492	-	657,886	-	2,080,297	(27,816)	-	-	9,005,322
Real estate activities	2,661,002	(43,566)	-	-	-	-	1,727	(467)	-	-	377,311
Services provided to companies	2,192,616	(45,561)	86	-	186,649	-	479,606	(5,808)	-	-	677,810
Public services	284,939	(2,148)	656,997	-	144,122	-	29,993	-	-	-	37,813
Non-profit organisations	1,016,809	(24,705)	642	-	374,576	-	73,457	(10,813)	555,480	(13)	153,950
Mortgage loans	7,903,774	(155,498)	-	-	-	-	-	-	-	-	-
Consumer loans	1,370,270	(107,670)	-	-	-	-	-	-	-	-	78,328
Other	208,678	(2,040)	12,303	-	5,395	-	6,016	(6)	-	-	42,325
TOTAL	**25,737,414**	**(736,248)**	**1,230,534**	**-**	**1,397,101**	**-**	**3,674,338**	**(51,764)**	**555,836**	**(13)**	**13,868,432**

(a) includes the amount of euros 414,457 thousands related to provision for impaired loans (see Note 20) and provisions for general banking risks in the amount of euros 321,791 thousands (see Note 30).

in thousands of euros

	31.12.2005										
	Loans and advances customers		Financial assets held for trading		Financial assets at fair value through profit or loss		Available-for-sale financial assets		Held to maturity investments		Guarantees granted
	Gross amount	Impairment losses[(a)]	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	Gross amount	Impairment losses	
Agriculture	231,293	(4,784)	-	-	-	-	-	-	-	-	29,243
Mining	60,788	(1,995)	-	-	-	-	163	(4)	-	-	10,351
Food, beverage and tobacco	330,045	(11,628)	-	-	-	-	50,828	(113)	-	-	101,839
Textiles	321,257	(24,123)	-	-	-	-	2,461	(2,266)	-	-	39,911
Shoes	74,075	(11,083)	-	-	-	-	504	(499)	-	-	6,159
Wood and cork	152,518	(9,661)	-	-	-	-	-	-	-	-	12,324
Printing and publishing	134,584	(4,040)	-	-	-	-	421	-	-	-	40,965
Refining and oil	607	-	-	-	-	-	-	-	-	-	16,378
Chemicals and rubber	183,705	(6,625)	-	-	-	-	4,888	(157)	-	-	27,904
Non-metalic minerals	171,143	(4,038)	-	-	-	-	3,773	-	-	-	29,582
Metalic products	157,786	(4,729)	-	-	-	-	6	(6)	-	-	23,967
Production of machinery, equipment and electric devices	172,854	(4,606)	-	-	-	-	2,355	(731)	-	-	42,682
Production of transport material	34,770	(1,477)	-	-	-	-	64,804	(172)	-	-	53,514
Other transforming industries	317,679	(11,445)	-	-	-	-	859	(850)	-	-	9,254
Electricity, gas and water	303,227	(9,197)	-	-	-	-	12,238	-	-	-	303,521
Construction	1,467,317	(32,803)	-	-	-	-	8,861	(94)	-	-	821,493
Wholesale and retail	1,877,057	(110,140)	-	-	-	-	14,661	(862)	-	-	424,356
Tourism	366,415	(4,205)	-	-	-	-	286	(176)	-	-	69,636
Transports and communications	538,311	(9,052)	-	-	-	-	700,658	(10,573)	-	-	660,136
Financial activities	853,990	(1,286)	284,610	-	-	-	2,075,812	(30,122)	-	-	7,703,445
Real estate activities	1,742,039	(6,623)	-	-	-	-	1,132	(389)	-	-	252,556
Services provided to companies	1,710,388	(22,546)	605	-	-	-	206,198	(30,015)	-	-	415,129
Public services	286,368	-	852,816	-	-	-	9,279	15	477,647	(1,444)	37,634
Non-profit organisations	721,192	(6,586)	-	-	-	-	1,037,136	(10,458)	-	-	114,836
Mortgage loans	4,455,766	(108,060)	-	-	-	-	-	-	-	-	-
Consumer loans	927,660	(107,117)	-	-	-	-	-	-	-	-	44,564
Other	233,335	(12,969)	39,332	-	-	-	9,066	(7,193)	-	-	57,382
TOTAL	**17,826,169**	**(530,818)**	**1,177,363**	**-**	**-**	**-**	**4,206,389**	**(94,665)**	**477,647**	**(1,444)**	**11,348,761**

(a) includes the amount of euros 286,036 thousands related to provision for impaired loans (see Note 20) and provisions for general banking risks in the amount of euros 321,791 thousands (see Note 30).

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		2004	
	Carrying value	Fair value	Carrying value	Fair value
Cash and deposits at central banks	900,339	900,339	738,730	738,730
Deposits with banks	582,704	582,704	426,923	426,923
Loans and advances to banks	7,510,617	7,510,617	5,781,289	5,781,289
Loans and advances to customers	25,322,957	25,572,445	17,540,133	17,648,271
Held to maturity investments	555,823	556,328	476,203	479,583
Total financial assets at fair value	**34,872,440**	**35,122,433**	**24,963,278**	**25,074,796**
Deposits from central banks	591,142	591,142	646,547	646,547
Deposits from banks	12,847,528	12,847,528	10,337,923	10,337,923
Due to customers	16,941,541	16,941,541	13,256,492	13,256,492
Debt securities issued	7,372,192	7,422,610	3,820,873	3,953,690
Subordinated debt	2,212,838	2,452,122	1,769,315	2,382,277
Total financial liabilities at fair value	**39,965,241**	**40,254,943**	**29,831,150**	**30,576,929**

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. The expected future cash flows of loans with similar credit risk characteristics are estimated together. The discount rates used by the Group are current interest rates used in loans with similar characteristics.

Held-to-maturity investments

The fair values of these financial instruments are based on market prices, when available. For unlisted securities the fair value is estimated by discounting the expected future cash-flows.

Deposits from central banks and Deposits from banks

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

Due to customers

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined. The discount rates used by the Group are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, 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.

Financial branches' activities

BES Group has a branch in the Madeira Free Zone and an international branch in the Cayman Islands.

Through the Madeira Free Zone branch, BES develops its funding activity, both with clients and non-resident banks, and emigrants. These deposits from clients and banks are applied abroad so as to meet the requirements of its fiscal statute.

As at 31 December 2005, the total net assets of Madeira Free Zone Branch amounted to euro 1,959 million, structured as follows:

euro million

	31.12.2005
Financial assets at fair value through profit or loss	399
Available-for-sale financial assets	682
Loans and advances to banks	385
Loans and advances to customers	292
Other assets	201
	1,959
Deposits from banks	441
Due to customers	1,325
Other liabilities	65
Own funds	128
	1,959

The Madeira Free Zone branch uses the shared services of BES, and so the internal control procedures are the same as those used in the global structure of the Bank.

Through the Cayman Islands branch, BES develops mainly its funding activity with (i) non resident clients, through time deposits and issue of bonds and (ii) credit institutions. These two areas of funding activity represent over 84% of the total assets of the branch, which as at 31 December 2005 amounted to euro 13,391 million. These funding amounts are applied in the global liquidity management of the Bank in the development of minor investment activities, such as loans and securities, that as at 31 December 2005 amounted to euro 271 million.

The internal control procedures in the Cayman Islands branch are the same as those used in the global structure of the Bank.

Note_41
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 consolidated 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 how the transition to NCA has affected the reported financial position, is set out as follows:

in thousands of euros

Balance	1 January 2004				31 December 2004				1 January 2005	
	Bank of Portugal rules	Reclassifications	Effect of transition to NCA	NCA	Bank of Portugal rules	Reclassifications	Effect of transition to NCA	NCA	Effect of adoption IAS 32 and IAS 39	NCA
Assets										
Cash and deposits at central banks	689,626	535	-	690,161	738,387	343	-	738,730	-	738,730
Deposits with banks	495,436	-	-	495,436	426,923	-	-	426,923	-	426,923
Financial assets held for trading	269,496	392,795	-	662,291	1,176,851	445,052	-	1,621,903	363,265	1,985,168
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	1,864,485	1,864,485
Available-for-sale financial assets	2,911,126	382,343	-	3,293,469	3,613,852	497,872	-	4,111,724	(1,942,064)	2,169,660
Loans and advances to banks	6,006,577	13,519	-	6,020,096	5,768,983	12,306	-	5,781,289	(74)	5,781,215
Loans and advances to customers	16,396,372	77,658	-	16,474,030	17,457,270	82,863	-	17,540,133	4,221	17,544,354
Held to maturity investments	-	559,394	-	559,394	-	476,203	-	476,203	1,418	477,621
Hedging derivatives	-	141,194	-	141,194	-	208,079	-	208,079	(64,027)	144,052
Non-current assets held for sale	-	-	-	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-	-	-	-
Property and equipment	220,295	(7,016)	-	213,279	224,153	(8,375)	-	215,778	-	215,778
Intangible assets	132,869	(1)	(59,353)	73,515	92,181	-	(38,444)	53,737	-	53,737
Investments in associates	1,620,083	(771,563)	(60,420)	788,100	1,677,871	(831,950)	(60,420)	785,501	1,508	787,009
Current income tax assets	917	-	-	917	2,527	-	-	2,527	-	2,527
Deferred income tax assets	-	-	97,759	97,759	-	-	91,370	91,370	87,289	178,659
Other assets	2,641,080	(1,446,695)	(112,621)	1,081,764	2,724,500	(1,483,460)	(115,921)	1,125,119	(19,881)	1,105,238
Total assets	**31,383,877**	**(657,837)**	**(134,635)**	**30,591,405**	**33,903,498**	**(601,067)**	**(123,415)**	**33,179,016**	**296,140**	**33,475,156**
Liabilities										
Deposits from central banks	172,796	220	-	173,016	645,405	1,142	-	646,547	-	646,547
Financial liabilities held for trading	-	360,520	-	360,520	-	414,363	-	414,363	645,386	1,059,749
Deposits from banks	9,120,726	29,118	-	9,149,844	10,297,815	40,108	-	10,337,923	(1,505)	10,336,418
Due to customers	13,067,954	(42,008)	-	13,025,946	13,299,987	(43,495)	-	13,256,492	878	13,257,370
Debt securities issued	4,266,284	(971,874)	-	3,294,410	4,767,191	(946,318)	-	3,820,873	16,702	3,837,575
Hedging derivatives	164,983	-	-	164,983	251,677	-	-	251,677	(104,947)	146,730
Provisions	379,804	497	(100,300)	280,001	391,824	452	(128,751)	263,525	33,998	297,523
Current income tax liabilities	4,868	-	-	4,868	5,571	-	-	5,571	-	5,571
Deferred income tax liabilities	-	-	58,392	58,392	-	-	74,334	74,334	-	74,334
Subordinated debt	1,808,963	63,284	-	1,872,247	1,706,323	62,992	-	1,769,315	(15,920)	1,753,395
Other liabilities	326,375	(97,594)	35,446	264,227	352,452	(130,311)	39,630	261,771	1,747	263,518
Total liabilities	**29,312,753**	**(657,837)**	**(6,462)**	**28,648,454**	**31,718,245**	**(601,067)**	**(14,787)**	**31,102,391**	**576,339**	**31,678,730**
Equity										
Share capital	1,500,000	-	-	1,500,000	1,500,000	-	-	1,500,000	-	1,500,000
Share premium	300,000	-	-	300,000	300,000	-	-	300,000	-	300,000
Treasury stock	-	-	(102,304)	(102,304)	-	-	(100,174)	(100,174)	-	(100,174)
Revaluation reserves	-	-	-	-	-	-	-	-	(7,619)	(7,619)
Other reserves and retained earnings	79,289	-	(25,869)	53,420	180,945	-	(8,051)	172,894	(272,580)	(99,686)
Profit for the year	191,835	-	-	191,835	204,308	-	(403)	203,905	-	203,905
Total equity	**2,071,124**	**-**	**(128,173)**	**1,942,951**	**2,185,253**	**-**	**(108,628)**	**2,076,625**	**(280,199)**	**1,796,426**
Total equity and liabilities	**31,383,877**	**(657,837)**	**(134,635)**	**30,591,405**	**33,903,498**	**(601,067)**	**(123,415)**	**33,179,016**	**296,140**	**33,475,156**

in thousands of euros

	31 December 2004			
	Bank of Portugal rules	Reclassifications	Effect of transition to NCA	NCA
Interest and similar income	1,632,542	(7,755)	-	1,624,787
Interest expense and similar charges	1,228,450	(2,373)	-	1,226,077
Net interest income	**404,092**	**(5,382)**	**-**	**398,710**
Dividend income	162,573	-	-	162,573
Fee and commission income	289,328	-	-	289,328
Fee and commission expense	26,076	-	-	26,076
Net (losses)/ gains from financial assets at fair value through profit or loss	(9,220)	-	-	(9,220)
Net gains from available-for-sale financial assets	24,324	47,214	-	71,538
Net gains from foreign exchange differences	1,501	-	-	1,501
Net gains from the sale of other financial assets	102,855	(88,789)	-	14,066
Other operating income	7,515	44,895	-	52,410
Operating income	**956,892**	**(2,062)**	**-**	**954,830**
Staff costs	171,447	55,822	26,595	253,864
General and administrative expenses	219,893	-	7,017	226,910
Depreciations and amortisation	101,512	-	(27,926)	73,586
Provisions net of reversals	81,932	-	(28,451)	53,481
Loans impairment net of reversals	144,853	-	-	144,853
Impairment on other financial assets net of reversals	20,291	-	-	20,291
Impairment on other assets net of reversals	6,169	-	-	6,169
Operating expenses	**746,097**	**55,822**	**(22,765)**	**779,154**
Gains on disposal of investments in subsidiaries and associates	-	57,884	-	57,884
Profit before income tax	**210,795**	**-**	**22,765**	**233,560**
Income tax				
Current tax	6,487	-	-	6,487
Deferred tax	-	-	23,168	23,168
Profit for the year	**204,308**	**-**	**(403)**	**203,905**

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)		**2,071,124**	**2,185,253**
NCA adjustments (excluding IAS 32 and IAS 39)			
Bonus to employees	a)	(19,456)	(23,640)
SIBA	b)	(102,304)	(100,174)
Pensions and health care benefits	c)	(15,008)	(15,990)
Fund for general banking risks	d)	100,300	128,751
Intangible assets	e)	(59,353)	(38,444)
Investment in subsidiaries impairment	f)	(60,420)	(60,420)
Deferred taxes	g)	39,367	17,036
Other		(11,299)	(15,747)
Equity NCA adjusted (excluding IAS 32 and IAS 39)		**1,942,951**	**2,076,625**

in thousands of euros

		01.01.2005
Equity NCA adjusted (excluding IAS 32 and IAS 39)		**2,076,625**
IAS 32 e IAS 39 adjustment		
Derivative financial instruments and hedge accounting	h)	(247,479)
Available-for-sale financial assets	i)	(91,247)
Loan impairment	j)	(21,287)
Deferred taxes	g)	87,298
Amortised cost		(6,647)
Other		(837)
Equity NCA		**1,796,426**

Reconciliation of profit

in thousands of euros

		31.12.2004
Profit for the year (Bank of Portugal rules)		**204,308**
NCA adjustments:		
Bonus to employees	a)	(23,640)
SIBA	b)	(1,042)
Pensions and health care benefits	c)	(982)
Fund for general banking risks	d)	28,451
Intangible assets	e)	20,909
Deferred taxes	g)	(23,168)
Other		(931)
Profit for the year (NCA comparable)		**203,905**

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 23,640 thousand as at 31 December 2004 (1 January 2004: euro 19,456 thousand) and a decrease in the profit of the year ended 31 December 2004 in the amount of euro 23,640 thousand.

b) SIBA

BES established a Share Based Incentive Program (SIBA), which consists on the sale to Bank employees of one or more blocks of BES ordinary shares, with deferred settlement between 2 and 4 years. The employees have to hold the shares during that period, after which they can sell the shares in the market or they have the option to sell them back to BES at acquisition price at the settlement date.

According to the previous accounting policies of the Bank, the shares underlying SIBA plan were accounted for as an asset. Under NCA, these shares were reclassified as treasury stock, with its value deducted from equity. The options associated to this program are valued at its inception date and the fair value is recognised during the life of the program.

The impact with the NCA adoption led to a decrease in equity in the amount of euro 100,174 thousand as at 31 December 2004 (1 January 2004: euro 102,304 thousand) and a decrease in the profit of the year ended 31 December 2004 in the amount of euro 1,973 thousand.

c) 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 and (iii) unrecognised liabilities with past service costs following the transitional rules of the Bank of Portugal.

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.

In accordance with Bank of Portugal rules, the shortfall calculated as at 31 December 1994, regarding employees with estimated retirement date after 31 December 1997, was charged to the income statement on a systematic basis during the remaining expected service years of these employees.

In accordance with NCA, the transition adjustment calculated as at 31 December 2004 is amortized until 31 December 2009, with the exception of the component referring to health care benefits, which are amortized until 31 December 2014. As such, the transition to the NCA, in what concerns to pensions and health care benefits of the Portuguese activities, did not have impact in the Bank's equity.

In what concerns the London branch, as at transition date the Bank booked euro 1 254 thousands against reserves.

Long-service benefits

In accordance with the collective labour agreement for the banking sector in Portugal, BES 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 14,736 thousand (1 January 2004: euro 13,754 thousands), and a decrease in the profit for the year ended 31 December 2004 in the amount of euro 982 thousand.

d) 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 128,751 thousand (1 January 2004: euro 100,300 thousand), and the impact in profit for the year ended 31 December 2004 amounted to euro 28,451 thousand related with the charges made during 2004.

e) Intangible assets

In accordance with the previous accounting policies of the Bank, internally developed software was capitalised and amortised over a 3 years period.

Under IAS 38, internally developed software can only be capitalised if it is expected that it will generate future economic benefits beyond one year and if those benefits can be reliably measured.

As at 31 December 2004, the impact with the adoption of IAS 38 led to a decrease in equity in the amount of euro 38,444 thousand (1 January 2004: euro 59,668 thousands), and an increase in the profit for the year ended 31 December 2004 in the amount of euro 20,909 thousand.

f) Impairment on Investments in subsidiaries

According to PABS, investments in subsidiaries were recognised in the Balance sheet at acquisition cost. Following the adoption of IAS 36, the Bank recognized, in the transition to NCA, an impairment loss of euro 60,420 thousands in some investments in subsidiaries.

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 17,036 thousand (1 January 2004: euro 39,367 thousand) and an additional deferred tax asset as at 1 January 2005 in the amount of euro 86,467 thousand.

Explanation of the major transition adjustments related to the adoption of IAS 32 and IAS 39 as at 1 January 2005

h) 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 a decrease in equity in the amount of euro 247,479 thousand due to the booking of derivative financial instruments. This amount includes (i) a decrease of euro 248,189 thousand related to the impact of the reclassification of hedging derivatives to the trading portfolio, (ii) an increase of euro 1,495 thousand relating to the recognition of embedded derivatives and (iii) a decrease of euro 785 thousand related to the impact of hedging operations.

i) 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 months, 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 a decrease in equity in the amount of euro 91,264 thousand, being euro 10,509 thousand recognised against fair value reserve and euro 80,755 thousand against other reserves.

j) Loan impairment

In accordance with the previous accounting policies adopted by the Bank, 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.

The amount of impairment losses, calculated using the formula described above, can not be less than the one determined in accordance with Regulation no. 3/95 from the Bank of Portugal, which establish the minimum for level of provisions.

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 a decrease in equity in the amount of euro 21,287 thousand.

Note_41
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 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 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 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 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 7 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).

Note_42
Merger of Banco Internacional de Crédito

As at 30 December 2005 Banco Internacional de Crédito, S.A. (BIC) was merged into Banco Espírito Santo, S.A (BES).

Being BIC's only shareholder, assets and liabilities were merged into BES accounts at book value as at the merger date. The captions fair value reserve and other reserves and retained earnings were added to the respective captions of BES equity, being net profit of the year added to BES retained earnings. The difference between the amount of the investment and BIC's equity was recognised as a merger reserve and added to BES equity.

BIC's balance sheet as at the merger date is analysed as follows:

Banco Internacional de Crédito, S.A., Balance sheet as at 29 de December de 2005 in thousands of euros

	29.12.2005
Assets	
Cash and deposits at central banks	77,561
Deposits with banks	65,413
Financial assets held for trading	242,912
Available-for-sale financial assets	87,370
Loans and advances to banks	174,070
Loans and advances to customers	6,029,276
Hedging derivatives	2,086
Property and equipment	69,891
Intangible assets	910
Investments in subsidiaries and associates	31,538
Deferred income tax assets	5,875
Other assets	179,610
Total assets	**6,966,512**
Liabilities	
Deposits from central banks	4,235
Financial liabilities held for trading	9,497
Deposits from banks	761,500
Due to customers	3,227,411
Debt securities issued	2,182,008
Hedging derivatives	2,823
Provisions	53,868
Current income tax liabilities	304
Deferred income tax liabilities	65,070
Subordinated debt	201,892
Other liabilities	44,927
Total liabilities	**6,553,535**
Equity	
Share capital	150,000
Fair value reserve	1,046
Other reserves and retained earnings	248,893
Profit for the year	24,738
(Antecipated dividends)	**(11,700)**
Total equity	**412,977**
Total equity and liabilities	**6,966,512**

Note_43
Subsequent events

- In the beginning of 2006 BES acquired a stake of 2.17% in the EDP capital;

- The Board of Directors of Banco Espírito Santo approved in the meeting of 20 February 2006, to submit to the General Shareholders Meeting on 30 March 2006 a proposal to increase the share capital from euro 1 500 million up to euro 2 500 million, through the issue of up to 200 million new shares, including 50 million new shares by incorporation of reserves, and approved the acquisition of 50% of Tranquilidade Vida from Partran (a company which is part of the Espírito Santo Financial Group) for a total consideration of euro 450 million, in order to strengthen the bancassurance partnership with Crédit Agricole in Portugal.

- Crediflash, Sociedade Financeira para aquisições a Crédito, S.A. will be incorporated into Banco Espírito Santo, S.A.. This merger will be concluded by the end of the first half of 2006.

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
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BANCO ESPÍRITO SANTO, S.A.

AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

Introduction

1. In accordance with the applicable legislation, we present our Audit Report on the financial information included in the Annual Report of the Board of Directors and in the accompanying consolidated financial statements for the year ended 31 December 2005, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2005 (showing total consolidated assets of Euros 50,221,841 thousand and total equity attributable to the equity holders of the Bank of Euros 2,923,860 thousand, including a profit for the year attributable to the equity holders of the Bank of Euros 280,481 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) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

e) the communication of any relevant fact that may have influenced the activity of the Bank and its subsidiaries, their financial position or results.

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

KPMG

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;
- assessment of the appropriateness of the overall presentation of the financial statements; and
- assessment of whether the consolidated financial information, is complete, true, current, clear, objective and lawful.

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, 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, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 24 February 2006

KPMG & Associados, SROC, S.A.
Represented by
Inês Maria Bastos Viegas Clare Neves Girão de Almeida
(ROC nº 967)

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BANCO ESPÍRITO SANTO, S.A.

AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)

Introduction

1. In accordance with the applicable legislation, we present our Audit Report on the financial information included in the Annual Report of the Board of Directors and in the accompanying financial statements for the year ended 31 December 2005, of **Banco Espírito Santo, S.A.**, which comprise the balance sheet as at 31 December 2005 (showing total assets of Euros 44,643,173 thousand and total equity of Euros 2,392,007 thousand, including a profit for the year of Euros 190,169 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) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

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

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

KPMG

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;
- assessment of the appropriateness of the overall presentation of the financial statements; and
- assessment of whether the financial information, is complete, true, current, clear, objective and lawful.

5. Our 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, 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, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 24 February 2006

KPMG & Associados, SROC, S.A.
Represented by
Inês Maria Bastos Viegas Clare Neves Girão de Almeida
(ROC nº 967)

REPORT OF THE SUPERVISORY BOARD

FOR THE YEAR 2005

To the Shareholders of
Banco Espírito Santo, S.A.,

As required by law, we present our report related to the activity performed on the Annual Report of the Board of Directors and the accompanying unconsolidated and consolidated Financial Statements prepared by the Management of **Banco Espírito Santo, S.A.** for the year ended 31 December 2005.

In compliance with our legal and statutory responsibilities as Supervisory Board of **Banco Espírito Santo, S.A.**, during 2005, we have been informed of Management decisions and the deliberations of the Board of Directors regarding the businesses of the Bank. We have carried out periodical checks of the Bank's accounting records, as well as of the related supporting documents, on a test basis.

As part of our functions, we have reviewed the unconsolidated and consolidated Financial Statements of the Bank, which comprises the unconsolidated and consolidated Balance Sheet as of 31 December 2005, the unconsolidated and consolidated Statements of Income, of Cash Flows and of Changes in Equity for the year then ended and the related Notes to the accounts.

We have also verified the appropriate application of the accounting policies in accordance with the Adjusted Accounting Standards ("NCA") as defined by the Bank of Portugal for the unconsolidated financial statements and the appropriate preparation of the consolidated financial statements of the Bank in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

From the Board of Directors and staff we obtained all the information required, and we take this opportunity to thank the cooperation received.

Furthermore, we reviewed the Auditors' Report on the unconsolidated and consolidated financial statements, which have been both issued without any qualification, with which we agree.

We have reviewed the Annual Report of the Board of Directors, which describes the Bank's activity during the year, both on an unconsolidated and consolidated basis, which was prepared in conformity with the law and statutory requirements.

All considered, we are of the opinion that the Annual General Meeting of **Banco Espírito Santo, S.A**. may approve:

a) The Annual Report of the Board of Directors and the Unconsolidated and Consolidated Financial Statements of the Bank for the financial year ended 31 December, 2005;

b) The proposed appropriation of profit for the year as set out in the Annual Report of the Board of Directors;

c) The management of the Bank performed by the Board of Directors for 2005.

Lisbon, 13 March, 2006

The Supervisory Board

Mr. Jacques dos Santos (Chairman)

Mr. José Queiroz Lopes Raimundo (Member)

KPMG & Associados, SROC, S.A.
represented by
Inês Maria Bastos Viegas Clare Neves Girão de Almeida
(Official Auditor No. 967)

_ Our permanent mission is to transform diversity into results.

J. M. Ballester
"Contenedores 7" | Photograph/paper Fuji Cristal Archiv | 299,2 X 144,6 cm

03. CORPORATE GOVERNANCE REPORT

Banco Espírito Santo _ AR05

Corporate Governance Report

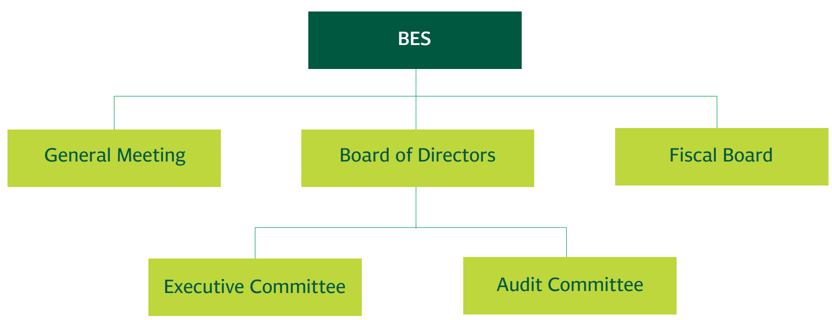
Contents

01.
Introduction

BES is a Bank registered in Lisbon and listed on the Euronext Lisbon. It is subject to supervision by the Bank of Portugal and the Portuguese Securities Market Commission (CMVM).

BES has branches in Nassau, New York, the Cayman Islands, London and Madeira (off-shore branch) and subsidiaries in Spain (Banco Espírito Santo), Macao (BES Oriente), Angola (BES Angola), the United States of America (Espírito Santo Bank) and the Cayman Islands (Bank Espírito Santo International Limited, BES Finance Limited and BIC International Bank Limited). These branches and subsidiaries are subject to supervision and control by the competent authorities in their respective countries.

BES has the following governance structure:



External Auditor: KPMG
Supervision Autorities: Bank of Portugal; CMVM

The General Shareholders' Meeting is held at least once a year. Its main responsibilities are to make an appreciation of and deliberate on the management report and accounts for each financial year, the distribution of net income and elect the members of the Bank's corporate bodies.

The Company's management is the responsibility of a Board of Directors composed of 31 members elected for periods of four years (they may be re-elected). The Board of Directors meets at least quarterly.

The Board of Directors delegates the day-to-day management of the Company to an Executive Committee, which elects its Chairman and is currently composed of 13 members of the Board of Directors. The Executive Committee meets once a week.

In addition to the Executive Committee, there is an Audit Committee composed of three independent members of the Board of Directors.

The Bank also has a statutory supervisory body, the Fiscal Board. The Fiscal Board is composed of three members, who may or may not be Shareholders and are elected at the General Meeting for periods of four years (they may be re-elected).

The bank's auditors are KPMG & Associados SROC, S.A.

Structure of BES Group: main Units

Banking	BES	BES (Spain) 100%	BES Oriente (Macao) 100%	BES Angola (Angola) 80%	ES Bank (USA) 98%	BEST 66%	BES Açores 58%	BES Vénétie (France) 40%	BESIL (Cayman I.) 100%	BIBL (Cayman I.) 100%
Investment Banking	BESI 100%	BESI (Brazil) 80%	ES Investment (Spain) 100%	BES Securities (Brazil) 80%	ES Capital 100%					
Specialised Credit	Besleasing & Factoring 89%	Crediflash 99%	Locarent 45%							
Asset Management	ESAF SGPS 85%	ESAF (Spain) 93%	BESAF (Brazil) 100%							
Insurance	ES Seguros 40%	Europ Assistance 23%								
Others	ES Cobranças 90%	ES Data 49%	ES Contact Center 77%	ES Serviços						
Issuers of Securities	BES Finance (Cayman I.) 100%									

On December 30th, 2005 Banco Internacional de Crédito, S.A. was merged into BES.

On February 20th, 2006, following BES' acquisition of the entire share capital of Crediflash, SFAC, S.A., the Boards of Directors of both companies approved a merger by incorporation of Crediflash into BES, subject to the authorisation of the Bank of Portugal.

On the same date, BES' Board of Directors decided to acquire a 50% stake in Companhia de Seguros Tranquilidade-Vida and to hold a stake of 25% in Espírito Santo Companhia de Seguros, S.A. The transaction is subject to the authorisation of the pertinent supervision authorities.

Scheme of the CMVM Corporate Governance Report	BES Corporate Governance Report
CHAPTER 0. Declaration of Compliance	
Detailed list of the adopted and non adopted CMVM Recommendations on the governance of listed companies	2 / Annex 1
CHAPTER I. Disclosure of Information	
1 - Functional organisation charts or maps describing the sharing of powers between the company's various bodies and departments, including distribution of areas of responsibility among the Members of the Board	6.1. / 5.6.
2 - List of specific committees created within the company, indicating who are the independent Members of the Board of Directors who belong to these committees	5.6. / 7.1.
3 - Description of the risk control system implemented in the company	8
4 - Description of the issuer's share price performance	3.2.
5 - Description of the dividend distribution policy adopted	3.3.
6 - Description of the main characteristics of the plans to allot shares and stock option plans adopted or in force in the company in the reporting year	6.4.
7 - Description of main elements of the business and transactions carried out by the company with members of its management asd supervision bodies, holders of qualified stakes or companies under a parent-subsidiary or group relationship	5.5. / 9.
8 - Reference to the existence of an Investor Relations Office	3.6.
9 - Indication of the composition of the remuneration committee	5.8.
10 - Indication of the amount of the annual remuneration paid to the external auditors and to other person or corporate entity pertaining to the same network	7.2.1.
CHAPTER II. Exercise of shareholder voting and representation rights	
1 - Existing of statutory rules on the exercise of voting rights	4.4.
2 - Existence of a form for the exercise of voting rights by post	4.4.
3 - Possibility of exercising voting rights by electronic means	4.4.
4 - Prior period required for the deposit or blocking of shares for purposes of taking part in the general meeting	4.4.
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6 - Number of shares corresponding to one vote	4.4.
CHAPTER III. Corporate rules	
1 - Reference concerning the existence of codes of conduct of the company's bodies or other internal regulations	6.2. / 10.
2 - Description of the internal procedures adopted to control the risks arising from the Company's activities	7.1. / 8.
3 - Indication of the measures susceptible of interfering with the success of public offerings for acquisition	3.1.3.
CHAPTER IV. Management body	
1 - Description of the Board of Directors	5.1. to 5.5./ Attachment 2
2 - Reference to the existence of an executive committee and other committees with powers to intervene in management matters	5.6.
3 - Description of the mode of functioning of the Board of Directors	5.4.
4 - Description of the remuneration policy	5.7.
5 - Indication of the individual or collective remuneration earned by the members of the board of directors in the reporting year, in the broad sense, i.e. including performance bonuses or others	5.7.
6 - General lines of the whistler blowing procedures	6.3.

02.
Declaration of Compliance with CMVM Recommendations

As principles of good corporate governance, the Board of Directors observes the Recommendations approved by the CMVM as well as the international principles approved by the Basel Committee on Banking Supervision and the OECD. International recommendations on Corporate Social Responsibility are also observed.

In 1999, the CMVM established a set of Recommendations on the Governance of Companies, which since then have been progressively updated. Based on the principle of "comply and explain", the CMVM determines that companies should indicate which Recommendations they adopt and which they do not, explaining the reason for non-adoption.

BES adopts the majority of these recommendations (see Appendix 1 for the text of the applicable Recommendations).

With regard to Recommendation 2 (the active exercising of voting rights should not be restricted), and notwithstanding the fact that general meetings can only be attended by holders of shares registered in their name no later than fifteen days prior to the date of the meeting, none of the cases considered by CMVM that restrict the active exercising of voting rights apply to BES. BES therefore deems that Recommendation 2 has been adopted.

Recommendation 8, concerning the remuneration of the Board of Directors, is partly adopted.

Recommendation 8 reads as follows:

8. The remuneration of the members of the board should be structured so as to permit to align their interests to the interests of the company and should be disclosed every year for each one individually.

The remuneration of the members of the Executive Committee of the Board of Directors has a variable component that is dependent on Company results. This ensures that the interests of the Board members are aligned to the interests of the Company. This remuneration is disclosed as a whole; therefore the Recommendation was not adopted in the part that concerns the disclosure of individual remuneration. Banco Espírito Santo considers that disclosing the remuneration in individual terms would add no value to the overall information made available to Shareholders, or permit them to assess the performance of each individual board member. Disclosure of overall remuneration ensures adequate knowledge of the cost (fixed and variable) incurred by the Company with regard to its Board of Directors.

03.
BES Share and BES Shareholders

3.1
BES share capital and rules for the acquisition of shares

3.1.1
BES share capital and BES share

BES is structured as a public limited company. It has share capital of euro 1,500 million, represented by 300 million shares with nominal value of euro 5 each. BES shares are listed on the Euronext Lisbon Stock Exchange.

The shares are registered and dematerialised (they are represented as records in an account). All shares are ordinary shares, conferring the same political and economic rights.

Banco Espírito Santo has
a) no capital subscribed and not paid up or non-issued authorised capital;
b) no convertible bonds, warrants and/or shares conferring special rights or privileges;
c) no forms of exponentially increasing the influence of Shareholders, or figures such as golden shares or priority shares;
d) no shares carrying multiple voting rights;
e) no limits on the exercising of voting rights have been established;
f) no restriction in the by-laws referring to the acquisition or transferability of shares;
g) no provisions in the by-laws specifically concerning share capital alterations, which are governed by the general legal regime.
As far as BES is aware there is no shareholder agreement determining the exercising voting rights in the Company;

Any increase in the share capital must be previously authorised at the General Shareholders' Meeting and be approved by two thirds of the votes cast at the meeting. Hence, no capital increase may result from a decision of the Board of Directors.

On February 20th, 2006 the Board of Directors decided to submit before the General Shareholders Meeting on April 17th, 2006 a proposal to increase Banco Espírito Santo's share capital from euro 1,500 million to up to euro 2,500 million.

The Group also has non-voting preference shares issued by BES' wholly-owned subsidiary BES Finance, Ltd totaling euro 600 million, represented by 600,000 shares with nominal value of euro 1,000 each. This issue is fully guaranteed by BES. These preference shares are listed on the Luxembourg Stock Exchange.

3.1.2

Special rules for the acquisition of shares

In 2003 all provisions still imposing limits on the participation of foreign entities in the capital of re-privatised companies in Portugal were abolished. At present there is no discrimination against the acquisition of equity holdings in BES by national or foreign entities.

Under current banking legislation (Legal Framework of Credit Institutions and Financial Companies) any person who intends to hold a stake of at least 2% in the share capital or voting rights of a bank, or to increase an existing stake so that the proportion of the share capital or of the voting rights held reaches or surpasses any of the threshold limits of 5%, 10%, 20%, 33% or 50% shall give prior notice of this intent to Bank of Portugal. The Bank of Portugal may oppose such a plan if it is not satisfied that the person in question or the characteristics of the plan are appropriate to ensure sound and prudent management of the credit institution.

In addition to the provisions set forth by the banking legislation, in accordance with the Securities Code (Código dos Valores Mobiliários) applicable to BES, whomever reaches or exceeds a holding of 2%, 5%, 10%, 20%, one third, one half, two thirds and 90% of the voting rights in the capital of a listed company (qualified holding) – which is the case of BES - must within 3 days after the occurrence of such fact inform the CMVM, the investee company and the regulated markets managing entities in which the trading of securities issued by this company is admitted.

In accordance with the Securities Code , in the calculation of qualifying holdings consideration should be given, in addition to those attached to shares of which the participant has ownership or fruition, to the voting rights

a) held by third parties in their own name, but on behalf of the participant;

b) held by a company with which the participant is in a control or group relationship;

c) held by holders of voting rights with whom the participant has a voting agreement, except if, by virtue of this same agreement, the participant is bound to follow a third party's instructions;

d) held, if the participant is a company, by members of its management and fiscal boards;

e) that the participant can acquire pursuant to agreements executed with the respective Shareholders;

f) attached to shares given in guarantee to the participant or administered by or deposited with the participant, if the voting rights have been attributed to the participant or if discretionary exercising powers have been granted to the participant.

g) attributable to any person or entity referred to in one of the previous paragraphs by application, with due adaptations, of the criteria referred to in any of the other insertions.

(1) Article 20 of the Securities Code on the attribution of voting rights.

3.1.3
Measures intended to prevent a public offering for acquisition

BES has taken no measures which could interfere with the success of public offerings for acquisition.

There is no Shareholders agreement or strategic alliance intended to prevent a take-over bid from succeeding.

There are no statutory defenses such as the creation of multiple or plural voting rights or limitations to voting rights.

There are no preference shares or any non-voting shares issued by BES [2].

There are no classes of shares with special rights.

There are no qualifying majorities foreseen in the Company's by-laws.

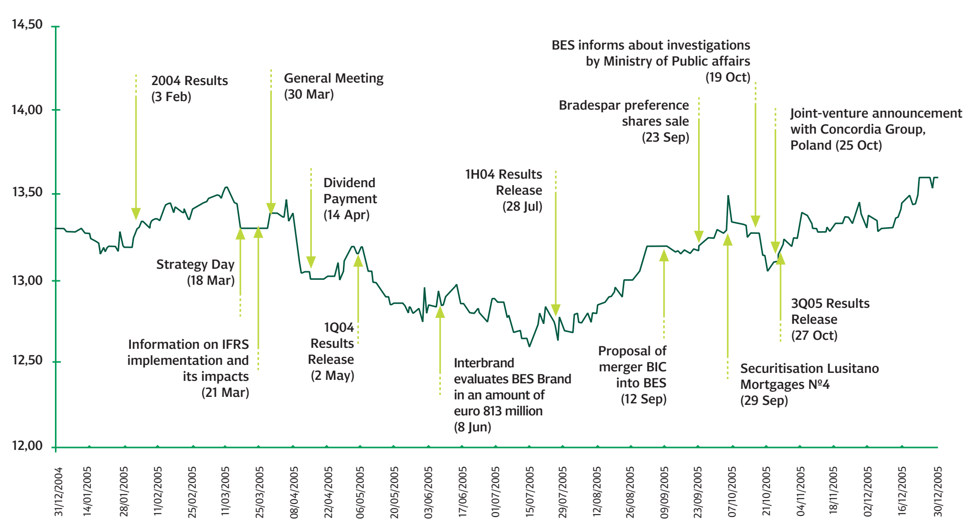
There are no special qualification requirements for the Board of Directors.

The mandate of all directors ends on the same date.

(2) As described in paragraph 3.1.1. of this Report, on BES share capital and the BES share, there are only preference shares issued by the subsidiary BES Finance, which are fully guaranteed by BES.

3.2
Share price performance

BES' share price rose by 2.26% in 2005, closing the year at euro 13.60 per share.



The most significant events occurring in 2005 and communicated to the market are described below.

In accordance with European Parliament and Council regulation 1606/2002, on January 1st, 2005 Banco Espírito Santo adopted the International Financial Reporting Standards (IFRS), which from that date replaced the accounting regulations previously in force, i.e: the Plan of Accounts for the Banking System (PABS).

2004 annual results, still stated under PABS, were released on February 3rd, 2005. The Bank posted net income for the year of euro 275.1 million, corresponding to a year-on-year increase of 11.5% and a Return on Equity (ROE) of 13.9%.

On March 18th, 2005 Banco Espírito Santo held its fifth Strategy Day - an annual event dedicated to investors and analysts - which included various presentations on the Group's strategy and activity.

On March 21st BES informed the market of the estimated impact of the first-time adoption of International Financial Reporting Standards on the bank's equity and results.

BES held its Annual General Meeting on March 30th to approve the management report, 2004 individual and consolidated accounts and the proposed distribution of earnings. The meeting also ratified the appointment of KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. as an executive member of BES' Fiscal Board, and elected Bernard Delas and Miguel António Igrejas Horta e Costa to replace two members of the Board of Directors who had resigned their mandates prior to term.

On April 14th, 2006 BES paid its shareholders a gross dividend per share of euro 0.368 against 2004 results. This corresponds to a net value per share of euro 0.3128 for resident shareholders and euro 0.2760 for non resident shareholders. The dividend distributed implies a consolidated pay-out ratio of 40.1%, and an individual ratio of 54%.

The first quarter of 2005 results were presented on May 2nd. These accounts were prepared and published for the first time in accordance with the new accounting regulations (International Financial Reporting Standards). Consolidated net income for the period was euro 80.3 million, corresponding to a ROE of 14.9%.

On June 8th BES informed the market that an Interbrand survey had valued the Banco Espírito Santo brand at euro 813 million. Interbrand is a renowned international brand management and valuation consultant.

On July 28th BES reported the first half of 2005 results. Consolidated net income was euro 149.0 million, implying a year-on-year increase of 13.0% and a ROE of 13.6%.

On September 12th, BES announced that the Executive Committee would propose to the Board of Directors the merger by incorporation of Banco Internacional de Crédito, S.A. (BIC) into BES. This operation was subsequently approved on September 19th. The stated purpose of the merger was to integrate both branch networks, thus optimizing Portuguese market coverage and promoting seamless quality standards and a homogeneous product offer.

On September 23rd BES informed the market that it had sold all preference shares held in Bradespar (holding company of the Bradesco Group for non-financial areas). This corresponded to a holding of 16.8% and the bank cashed in euro 178.2 million. The sale generated a capital gain of euro 28 million.

On September 29th BES Group performed its seventh securitisation transaction in the international market. The Lusitano Mortgages No. 4 transaction totaled euro 1.2 billion.

On October 19th, following investigations conducted by police and the Public Ministery and ministerial authorities into the bank and some participated companies, as well as other Portuguese financial institutions, BES issued a press release stating that the Executive Committee had on the same date ordered an internal audit on the matter.

On October 25th BES informed the market about a joint venture created by Banco Espírito Santo de Investimento (BES Investimento) and the Polish Concordia Group to set up Concordia Espírito Santo Investment (CESI). The new company will be based in Warsaw and specialise in providing financial advisory services in the Polish market, specifically in project finance, M&A, and other areas of corporate finance.

The third quarter of 2005 results were released on October 27th. The Group posted net income euro 208.0 million in the period, corresponding to a year-on-year increase of 19.9% and a ROE of 13.2%.

2005 annual results were presented to the market on February 2nd 2006. BES Group posted net income of euro 280.5 million, an 85% increase on the previous year (under IFRS) and a ROE of 13.5%.

Information on the main events occurring in 2005, including press releases and presentations, are available on our website (www.bes.pt/ir).

The table below shows BES' share price performance in 2005, indicating the high, low, average and closing values for each month.

2005	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Set	Oct	Nov	Dec
High	13.48	13.50	13.55	13.47	13.25	13.00	12.91	13.14	13.39	13.49	13.45	13.65
Low	13.08	13.20	13.20	12.96	12.75	12.73	12.56	12.65	13.10	13.00	13.15	13.25
Average(*)	13.20	13.40	13.38	13.06	12.80	12.88	12.70	13.11	13.25	13.20	13.36	13.59
Closing	13.19	13.44	13.40	13.10	12.75	12.89	12.70	13.14	13.29	13.20	13.35	13.60

(*) Average Price weighted for traving volume.
Source: Bloomberg.

3.3
Description of the dividend policy

The Bank's target is to pay out at least 50% of its net individual earnings as dividends to its shareholders. However, this depends on its financial conditions and results, as well as other factors deemed relevant by the Board of Directors.

Over the last five years the consolidated pay-out ratio has stood between 38% and 43% (calculation based on consolidated net income).

In this context, as described in the proposed the distribution of 2005 earnings, BES' Board of Directors will submit before the General Shareholders' Meeting a proposal to pay a gross dividend per share of euro 0.40, which corresponds to a pay-out ratio of 42.8% on a consolidated basis and 63.1% on an individual basis.

This value compares with the following application of the five previous years' results:

	Gross dividend (euro)	Shares outstanding	Gross dividend per share (euro)	*Payout Ratio*	
				Individual	Consolidated
2001	75,200,000,00	200,000,000	0,367	53.3%	38.0%
2002	86,100,000,00	300,000,000	0,287	66.6%	38.7%
2003	99,000,000,00	300,000,000	0,330	51.6%	39.6%
2004	110,400,000,00	300,000,000	0,368	54.0%	40.1%
2005	120,000,000,00	300,000,000	0,400	63.1%	42.8%

3.4
BES Shareholders

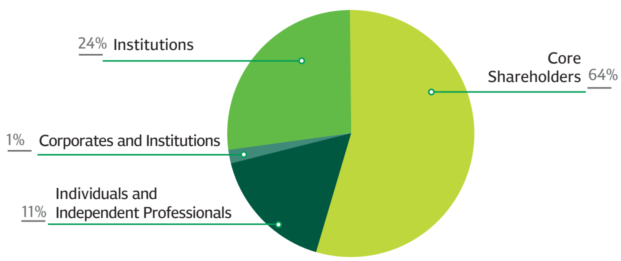
3.4.1
Statistical data

On December 31st, 2005 BES' share capital (represented by 300 million shares) could be broken down as follows:

	% Capital
Individuals and Independent Professionals	10.6%
Companies	1.0%
Institutionals and Custodian Banks[1]	24.1%
Reference Shareholders [2]	64.3%

(1) Institucional and custodian bank shareholders registered with the Central Securities Depository (*Central de Valores Mobiliários*) .
(2) Includes all Shareholders' having direct qualified holdings, as described in paragraph 3.4.2 of this report, i.e. excludes attributable voting rights under the terms of article 20 of the Securities Code, except for the voting rights inherent in the indirect stake held by Portugal Telecom through the Pension Funds managed by Previsão , SGFP whose associates are companies of the PT Group.

On December 31st, 2005 BES had the following shareholder structure:



3.4.2
Qualified Holdings in BES

Identification of holders of qualified shareholdings

The table below lists the holders of qualified shareholdings, calculated in accordance with article 20 of the Securities Code.

Qualified Holdings	DeC 2005	
	No. of shares	% of voting rights
BESPAR - SOCIEDADE GESTORA DE PARTICIPAÇÕES SOCIAIS, S.A.		
- directly	125,929.168	41.98%
- through Companhia de Seguros Tranquilidade Vida, S.A. (a company controlled by BESPAR)	19,374.655	6.46%
- through the members of its Board of Directors and Fiscal Board	729,592	0.24%
Total Attributable	**146,033,415**	**48.68%**
CRÉDIT AGRICOLE, S.A (France)		
- directly	26,419,710	8.81%
Total Attributable	**26,419,710**	**8.81%**
COMPANHIA DE SEGUROS TRANQUILIDADE VIDA, S.A		
- directly	19,374,655	6.46%
- through the members of its Board of Directors and Fiscal Board	138,418	0.05%
Total Attributable	**19,513,073**	**6.50%**
BRADPORT, SGPS, S.A.[(4)]		
- directly	9,150,000	3.05%
Total Attributable	**9,150,000**	**3.05%**
PORTUGAL TELECOM, SGPS, S.A.		
- directly	4,200,000	1.40%
- through the Pension Funds whose associates are companies of the PT Group and which are managed by PREVISÃO - Sociedade Gestora de Fundos de Pensões, S.A.	7,864,744	2.62%
- through the members of its Board of Directors and Fiscal Board of PT Group	65,705	0.02%
Total Attributable	**12,130,449**	**4.04%**
ESPÍRITO SANTO FINANCIAL GROUP, S.A. (Luxemburgo)		
- directly	2,039,710	0.68%
- through BESPAR, SGPS, S.A (a company controlled by Espírito Santo Financial (Portugal), SGPS, S.A, which in turn is wholly owned by Espírito Santo Financial Group S.A.)	146,033,415	48.68%
- through the members of its Board of Directors and Fiscal Board	45,704	0.02%
- through companies controlled by it directly and indirectly and/or members of its Board of Directors and Fiscal Board	1163,226	0.39%
Total Attributable	**149,282,055**	**49.76%**
ESPÍRITO SANTO INTERNATIONAL, S.A. (Luxemburgo)		
- through Espírito Santo Financial Group, S.A.	149,282,055	49.76%
- through companies controlled by it directly and indirectly and/or members of its Board of Directors and Fiscal Board	42,271	0.01%
Total Attributable	**149,324,326**	**49.77%**

(4) Company incorporated under Portuguese law wholly owned by Banco Bradesco, S.A (Brazil)

Between 2004 and 2005 there were no significant changes either in the holders of BES qualified holdings or in the percentages held.

BES relevant holdings in holders of qualified stakes in BES

As of December 31st 2005, BES has the following holdings in companies that hold qualified stakes in BES:

In Portugal Telecom, SGPS, S.A.:

• 41,624,735 shares held directly, corresponding to 3.69% of the share capital.

• Under the terms of article 20 of the Securities Code, the voting rights of 94,387,699 shares, corresponding to 8.36% of the share capital, are attributable to BES.

In Banco Bradesco, S.A.:

• 26,154,826 voting shares;

• 88,200 preference shares;

• the voting and preference shares together represent 2.68% of Banco Bradesco's share capital.

3.4.3

BES employees' shareholdings

Since June 20th 2000 BES has had a stock-based incentive system (SIBA) in place which was approved at the General Shareholders' Meeting held on that date. This incentive scheme consists of selling employees one or more blocks of BES shares with deferred settlement, as detailed in section 6.3 of this report. The table below shows changes in BES employees' shareholdings over the last three years as a result of shares allocated within the scope of the SIBA plan.

	2003	2004	2005
No. of shares held within the scope of the SIBA ('000)	8,359	7,991	7,617
% of share capital	2,79	2,66	2,54

3.4.4

Holdings of BES Board members

Share and bond holdings held by members of BES' Board of Directors as of December 31st, 2005 pursuant to Section 5, Article 447 of the Companies Code were as follows:

Shareholders/Bondholders	Securities	No. of securities held 01/01/2005	Transactions during 2005			Unit price (euro)	No. of securities hold Dec 31st, 2005
			Date	Acquisitions	Disposals		
António Ricciardi	Shares BES	88,500					88,500
	Bonds ES Invest PLC 11/07/05	1,000	13-07-2005		1,000	50,00	0
Ricardo Salgado	Shares BES	263,107	29-12-2005	14,772	15,750	13,54	262,129
	Shares Crediflash	1					1
	Shares Fiduprivate	20					20
Mário Mosqueira do Amaral	Shares BES	58,662	29-12-2005	10,832	9,625	13,54	59,869
	Shares Crediflash	1					1
	Shares Fiduprivate	20					20
José Manuel Espírito Santo	Shares BES	80,709	29-12-2005	10,832	11,550	13,54	79,991
	Shares Credifash	1					1
	Shares Fiduprivate	20					20
António Souto	Shares BES	51,440	29-12-2005	10,832	11,550	13,54	50,722
	Bonds ES Investment Plc 2009	75	09-02-2005		75	1,000,00	0
Jorge Martins	Shares BES	51,420	14-04-2005		4,668	13,40	
			29-12-2005	10,832	11,550	13,54	46,034
Aníbal Oliveira	Shares BES	110,000					110,000
	Bonds BES Finance Ltd Perp.	440	18-01-2005		440	1,089,00	0
	Bonds ES Investment Plc 5% 2010	0	25-05-2005	50		986,30	
			05-12-2005		25	1,000,00	25
	Bonds BES Investimento S.A.	0	30-11-2005	6,000		50,00	6,000
José Neto	Shares BES	58,430	14-04-2005		5,304	13,40	
			29-12-2005	12,309	13,125	13,54	52,310
Manuel Villas-Boas	Shares BES	576	28-06-2005		576	12,83	0
Manuel Fernando Espírito Santo	Shares BES	912					912
José Maria Ricciardi	Shares BES	51,421	14-04-2005		4,668	13,40	
			29-12-2005	10,832	11,551	13,54	46,034
Jean-Luc Guinoiseau	Shares BES	57,903	14-04-2005		4,668	13,40	
			29-12-2005	10,832	11,550	13,54	52,517
Rui Silveira	Shares BES	52,433	29-12-2005	10,832	11,550	13,54	51,715
	Bonds BES Finance 2035	0	07-02-2005	100		1,000,00	100
Joaquim Goes	Shares BES	58,998	14-04-2005		4,668	13,40	
			29-12-2005	10,832	11,550	13,54	53,612
	Bonds BES Finance 2035	0	07-02-2005	160		1,000,00	160
Pedro Fernandes Homem	Shares BES	51,420	14-04-2005		4,668	13,40	
			29-12-2005	10,832	11,550	13,54	46,034
Patrick Coudène	Shares BES	46,353	29-12-2005	10,832		13,54	57,185
Mário Adegas	Shares BES	100,000					100,000
	Bonds ES Inv 5% 2024	150					150
	Bonds BES Finance 2035	0	07-02-2005	50		1,000,00	50
Ricardo Abecassis Espírito Santo	Shares BES	50,707	14-04-2005		4,031	13,40	
			18-04-2005	150		13,01	
			06-05-2005	500		13,22	
			09-05-2005	50		13,20	
			29-12-2005	9,355	9,975	13,54	46,756
Amílcar Morais Pires	Shares BES	27,190	29-12-2005	10,832	3,938	13,54	34,084
José Pena	Bonds BES Finance 2035	0	07-02-2005	60		1,000,00	60

As of December 31st, 2005 members of BES' Board of Directors had a total of 1,260,181 of the company's shares - 0.42% of the Bank's share capital.

According to SIBA regulations, approved at the General Shareholder's Meeting on June 20th, 2000, executive board members may also participate in the bank's stock allocation scheme, under the terms established by the Remuneration Committee, as referred to in section 5.7 of this report.

The sale of BES shares on the dates referred to in the chart above was carried out in accordance with SIBA regulations.

3.5
Own Shares

	2003	2004	2005
No. of Own Shares	354(*)	354(*)	0
% of Share Capital	0%	0%	0%

(*) BES shares held by the subsidiary BES Açores.

On December 31st , 2005, BES' financial statements reflected the shares allocated within the scope of the stock based incentive system (SIBA), whose recognition in the accounts is in accordance with International Financial Reporting Standards (IFRS) and duly explained in the Notes to the Financial Statements. On this date, a total of 7,617,500 shares were recognised as "own shares", at a cost of euro 95,941,127.

Transactions of own shares cannot be made freely, being subject to prior approval at the General Shareholders' Meeting.

At the General Shareholders' Meeting held on March 30th, 2005 it was resolved to authorise the Board of Directors to carry out transactions with own shares, under the following terms:

"That within a period of eighteen months as from the date of this resolution Banco Espirito Santo, S.A. or any of its subsidiaries, now or in the future, be authorised, in accordance with the decision of the Board of Directors of the acquiring company, to acquire shares representing its own capital, as follows:

1. to acquire

a) in regulated and/or non regulated markets, from employees of Banco Espirito Santo Group, shares of Banco Espirito Santo, SA resulting from the conditions established in the Regulation of the Stock-Based Incentive System under the terms of the contract established with Banco Espirito Santo, SA;

b) in regulated markets, shares of Banco Espirito Santo, SA, where the maximum acquisition price shall not exceed 10% of the average weighted price of Banco Espirito Santo, SA shares in the ten Stock Exchange sessions prior to the date of the purchase.

c) Together, the acquisitions made pursuant to paragraphs a) and b) above shall not exceed a maximum of 10% of the share capital of Banco Espirito Santo, SA, as per Article 317 (2) of the Companies Code.

That for a period of eighteen months from the date of this resolution the disposal of own shares previously acquired be authorised, in accordance with the decision of the Board of Directors of the selling company, as follows:

2. to sell:

a) in regulated and/or non regulated markets, to employees of Banco Espirito Santo Group, shares of Banco Espirito Santo, SA resulting from the scope of application of the Stock-Based Incentive System, where the price shall be the lowest of:

- the closing price of said shares in the Stock exchange session immediately preceding the date of the sale; or
- the value corresponding to the average weighted price of Banco Espirito Santo, SA shares in the ten stock exchange sessions prior to the date of the sale.

b) In regulated markets, shares of Banco Espírito Santo, S.A. in which case the minimum selling price shall not be lower than 10% below the average weighted price of Banco Espírito Santo S.A. shares in the ten stock exchange sessions prior to the date of the sale;

c) The minimum number of shares sold shall be that required to meet obligations assumed by the selling company."

3.6
Investor Relations

The Investor Relations Division is responsible for ensuring that the market has regular access to all the information on results, events or any other facts concerning the BES Group that may be of interest to the financial community in general. It also clarifies questions and provides information for Shareholders, investors and analysts. The Representative for Relations with the Portuguese Securities Market Commission (CMVM) is responsible for BES' relationship with the CMVM and for filing information through this supervising authority, by means of announcements or significant event notices.

The Investor Relations Division regularly issues presentations, notices or press releases on quarterly, interim and annual results, as well as on any other facts concerning the life of the Company that may be of interest to the financial community in general, and to Shareholders and investors in particular.

The website (www.bes.pt/ir) as well as "Valor BES", a quarterly newsletter for Shareholders, are used as favoured tools for disclosing all information considered relevant to the life of the Company (including compulsory disclosure information and other). BES also publishes on its website information concerning its Corporate Governance model, General Meetings and a calendar of company events. Within the scope of BES' relationship with Shareholders, investors and analysts, it is also possible to contact the Bank, make inquiries or ask for clarifications through the Internet. Finally, anyone can request to be sent the annual report of BES or of any other Group company, or other regular information. In addition to the website, electronic mail (investor.relations@bes.pt) is increasingly used to answer or clarify questions addressed to BES.

Information available on the website www.bes.pt/ir

	Online	For download
BES Group Overview		
Mission and Objectives, Milestones, BES Group Structure, International Presence and Shareholder Structure. Identity of the members of the Corporate Bodies.	X	
Corporate Governance		
BES Corporate Governance Model, Governing Bodies and their main functions, Company's Management (main competencies, management model, *Curricula* of the Executive Members of the Board and Remuneration), Supervision of the Company, Shareholder Structure, Qualified Holdings and Holdings of Members of the Board of Directors, Dividend Policy, Shareholder's rights, Plans to allot shares and stock option plans, Company organisation, Disclosure of Information, BES by-laws, Corporate Governance Report.	X	X
Shareholder		
"Valor BES", Information on General Meetings: Convening Notices, Motions and voting intructions.	X	X
Social Responsibility		
"Accomplish More" Program, Staff relations, Customer relations, Supplier relations, Photography, Community affairs and the Environment.	X	X
Financial Information		
Quarterly, interim and annual results, Annual and Interim Reports, Key figures.	X	X
News and Events		
Material Events and other filings, Results presentations and Strategy day, other presentations and Calendar of events.	X	X
Shares information		
Information on BES shares (dividends, capital increases, yield) and Analyst coverage.	X	
Debt information		
Preference shares, EMTN & ECP, Securitisation transactions, Rating, Analyst coverage.	X	X
Useful information		
Useful links, FAQs.	X	
IR Contacts		
Investor Relations Office, functions and IR contacts. Representative for Market and CMVM relations.	X	

Any investor may contact BES by post, phone or e-mail at the following addresses:

Investor Relations Divison
Avenida da Liberdade, 195 – 11.º
1250-142 Lisbon
Portugal
Phone / Fax: (351) 21 359 7390 / (351) 21 359 7309
E-mail: investor.relations@bes.pt
Website: http://www.bes.pt/ir

Representative for the relation with the Portuguese Securities Market Commission (CMVM)
Júlio André
Avenida da Liberdade, 195 – 14.º
1250-142 Lisbon
Portugal
Phone / Fax: (351) 21 350 88 38 / (351) 21 350 12 89
E-mail: juandre@bes.pt

04.
General Shareholders' Meeting

4.1
Powers of the General Shareholders' Meeting

In Portugal, shareholders deliberate on matters which are specifically attributed to them by law or by the Company's by-laws and on those which are not included within the powers of the other company bodies. Shareholders can only deliberate on management or administration acts at the request of the Board of Directors. A General Shareholders' Meeting must be held at least once a year.

Main Powers of the General Shareholders' Meeting:

a) To approve the annual management report and accounts;

b) To approve the proposed distribution of the year's results;

c) To make a general appraisal of the Company's management and supervision, including the dismissal of or expression of misgivings regarding to directors or managers;

d) To elect the members of the Board of Directors and of the fiscal board;

e) To decide on the remuneration of the members of the Board of Directors, either directly or through a remuneration committee which it elects for the purpose;

f) To authorise directors to exercise activities that compete with the Company's activity;

g) To decide on the issue of any class of shares, whether ordinary or preference shares, as well as on the issue of bonds convertible into shares (the Board of Directors may deliberate on the issue of the remaining bonds);

h) To decide on the acquisition and disposal of own shares;

i) To approve liability actions to be brought by the company against directors or managers;

j) To approve any changes to the memorandum of association, including capital increases and decreases, merger and demerger operations, or the company's transformation or dissolution.

4.2
Composition of the Board of the General Shareholders' Meeting

The Board of the General Meeting is made up of one Chairman, one Vice-Chairman and one Secretary. Its members may or may not be Shareholders, they are elected for periods of four years, and their re-election is permitted.

At the General Shareholders' Meeting of March 30th , 2004 the following members were elected to the Board of the General Meeting for the 2004-2007 period:

Chairman:

Carlos Fernando Olavo Corrêa de Azevedo, born in Lisbon in 1947. He is graduate in Law from Lisbon University (1969) and holds a Master's Degree in Legal Sciences from the same school (1971). He has worked as a Lawyer and Legal Consultant since 1969, mainly in the fields of Commercial, Banking and Industrial Property Law. He is also a university teacher, and the author of several publications and articles on Commercial Law, including Banking Law. He was a member of the Committee that prepared the Legal Framework of Credit Institutions and Financial Companies in 1992.

Vice-Chairman:

Eugénio Fernando de Jesus Quintais Lopes was born in Lisbon in 1950 and is a graduate in Law from Lisbon University. He became a lawyer in 1977. He worked as Legal Consultant to several Employer's and Business associations (1974-1980) and Manager of Companhia de Seguros de Créditos (1980-1989). He is currently the Coordinator of Banco Espírito Santo's Legal Department.

Secretary:

José Jácome da Costa Marques Henriques was born in Lisbon in 1965. He is a graduate in Law from Lisbon University (1990).
He is a Lawyer and since January 1991 has worked for A.M. Pereira, Sáragga Leal, Oliveira Martins, Júdice e Associados, where he has been a partner since January 2002.

4.3
Functioning Rules of the General Shareholders' Meeting

The General Shareholder's Meeting is convened whenever the Board of Directors or the Fiscal Board deem it convenient, or when requested by one or more shareholders owning shares that correspond to at least 5% of the share capital. Ordinary General Meetings should be held within three months of the close of year or within five months of the same date in the case of companies that are obliged to present consolidated accounts. Shareholders owning shares corresponding to at least 5% of the share capital may request that certain matters be included in the agenda of a general meeting already convened or to be convened.

During the fifteen days preceding the date of the General Shareholders' Meeting, the following information is at the disposal of the shareholders for consultation at the company's headquarters:
a) The full names of the members of the Board of Directors and fiscal board, as well as the names of the members of the board of the general meeting;
b) Indication of positions occupied by members of the corporate bodies in other companies, except private professional companies;
c) The proposals for deliberation to be submitted by the Board of Directors as well as any reports or other justification documents that must be attached;
d) When the election of members of the corporate bodies is included in the meeting's agenda, the names of the persons proposed to fill those positions, accompanied by an account of their professional qualifications, professional activity in the previous five years - namely positions held in other companies or in the company itself, and number of shares held in the company;
e) In the case of the Annual General Meeting, the annual management report and accounts and other reporting documents, including the legal certification of accounts and the opinion of the fiscal board or the annual report of the General Board, as appropriate.

These documents must be sent to the holders of registered shares or registered bearer shares corresponding to at least 1% of the share capital within a period of eight days, when so required by those shareholders. The proposals to be submitted for discussion and voting at the General Shareholders' Meeting are available on BES' website (www.bes.pt/ir) fifteen days prior to the date of the meeting, and the convening notices for each General Shareholders' Meeting are available thirty days before the day of the meeting. Other information which shareholders wishing to exercise their voting rights may find relevant, including contacts for clarifying any doubts related to the exercising of voting rights may also be found on the BES website.

The General Shareholders' Meeting may not be held on the first call when shareholders holding at least fifty per cent of the share capital are not present or represented, regardless of the matters on the agenda. The General Shareholders' Meeting may be held on second call to pass resolutions regardless of the number of shareholders who may be present or represented and the percentage of the capital represented by them.

General Shareholders' Meeting resolutions can only be passed by a majority of votes. However, resolutions concerning changes in the by-laws, mergers, demergers, the transformation or winding up of the company and other matters for which the law requires a qualified majority corresponding to a given percentage of the share capital or voting rights, must be approved by two thirds of the votes expressed, regardless of whether the meeting is held on the first or second call.

Preparatory information for the General Shareholders' Meeting and available information

	Made available by BES		Other Channels	
	In Person	Internet (www.bes.pt/ir)	Site CMVM (www.cmvm.pt)	Media
Elements required by law or regulations				
Convening notice	X	X	-	X
Board of Directors' Proposals	X	X	-	-
2005 Annual Report	X	X	X	-
Other management and supervisory positions held in other companies by members of governing bodies	X	X	X	-
Additional elements made available by BES				
Drafts of proxy vote forms	X	X	-	-
Ballot papers for the exercise of postal voting	X	X	-	-
Clarification of matters	X	X	-	-
BES by-laws	X	X	-	-
Results of voting on the proposals	X	X	X	-

4.4.
Shareholders' Rights in the General Shareholders' Meeting

4.4.1
Information

In the course of General Shareholders' Meetings, any shareholder may request that true, comprehensive and clarifying information be supplied so that he/she can form a solid opinion about the matters being discussed. The obligation to provide information also applies to the company in its relations with other associated companies.

Such information must be provided by the body in the company qualified to do so and can only be refused if its disclosure is liable to cause serious damage to the Company or its associated companies, or if it constitutes a violation of the secrecy obligation imposed by law.

4.4.2

Attendance of General Shareholder's Meetings and rules on representation

General Shareholders' Meetings can only be attended by holders of shares registered in their name no later than fifteen days prior to the date of the meeting. Until the fifth day prior to the day of the meeting, shareholders wishing to nominate proxies are required by law to deliver to the Company the relevant representation documents. Shareholders who are companies must also indicate their proxies. However, the Chairman of the General Meeting may authorise the participation in the meeting of proxies that were not appointed within the time period specified above, if he thinks that such a decision will cause no inconvenience to the meeting. The prior period required for the deposit or blocking of shares for purposes of participating in general meetings is five days.

Shareholders with no voting rights and bondholders are not allowed to attend General Shareholders' Meetings. However, should they wish to do so, they may request an authorisation for the purpose from the Chairman of the General Meeting through the Company's website (investor.relations@bes.pt) or through the BES Secretary (phone no. +351 213 501 010). Shareholders with no voting rights and bondholders who attend General Shareholders' Meetings are not allowed to participate in the discussion on the items in the agenda.

In order to confirm the identity of the entities admitted to take part in the General Shareholders' Meeting or that of whomever validly represents them, they may be required on entry to the meeting to show a personal identification, either a passport or national identity card.

4.4.3

Voting rights

Each one hundred shares are entitled to one vote. However, shareholders owning less than one hundred shares may form a group so as to complete the required or a higher number and nominate one representative from among the group. There are no limits on voting rights or shares conferring plural votes or any other special voting rights.

According to the Companies Code, there are legal impediments to voting. A shareholder is not allowed to vote, either on his own or through a representative or in representation of a third party, when the law expressly forbids it and even should the deliberation concern issues such as the existence of a dispute between the company and that shareholder, or a relationship established or to be established between the company and the shareholder that is not foreseen in the by-laws. Shareholders owning more than one vote are not allowed to divide their votes so as to vote differently on the same proposal, or abstain from voting with all their shares having voting rights.

Shareholders acting as proxies for others may vote differently with their shares and the shares of the represented parties, and may also withhold from voting with their shares or with the shares of the represented parties.

4.4.4
Postal voting and voting via electronic means

Convening notices to General Meetings state that voting rights may be exercised by post, also setting out the manner in which the scrutiny of votes cast by correspondence is conducted.

Shareholders who wish to vote by post may easily obtain voting instructions to exercise their postal vote either from BES' Secretary (Fernando Quintais Lopes, phone no: +351 213 501 010) or from the Company's website (www.bes.pt/ir). These voting instructions set out the items in the agenda of the meeting as well as, when appropriate, the specific motions to which they relate.

Postal voting does not prevent a shareholder from being represented at the General Meeting. Postal votes count towards the constitution of the quorum and are equally valid for the same General Meeting when convened on second call. Postal votes must be received at least five business date prior to the date of the General Shareholders' Meeting.

The Company Secretary and the Chairman of the Board of the General Shareholders' Meeting are responsible for checking the authenticity of postal votes and for ensuring their confidentiality up to the time of voting. The procedure is as follows: postal votes are immediately placed in the care of the Secretary, who keeps them and hands them over to the Chairman of the Board of the General Meeting at the time each item is being voted on.

Postal votes can be revoked at any time. Postal votes cast by a shareholder who is present or represented at the General Shareholders' Meeting shall be ignored.

Voting rights may currently not be exercised electronically.

4.4.5
Statistical data on meeting attendance and voting

Shareholder participation in General Meetings

	26.03.2003	30.03.2004	30.03.2005
% Share capital present or represented	73%	73%	72%

Main proposals presented at the General Shareholders' Meetings held in the last 3 years and respective percentage of votes in favour (calculated as a percentage of the entire share capital and not as a percentage of present or represented capital)**:**

	26.03.2003	30.03.2004	30.03.2005
Approval of Management Report and Individual and Consolidated Accounts	73%	73%	72%
Approval of Proposed Distribution of Earnings	73%	73%	72%
Appraisal of management and supervision	73%	73%	72%
Election of Governing Bodies for 2004-2007 period	-	73%	-
Ratification of designation, by cooptation, of Board Members José Pena and Michel Le Masson	-	73%	-
Resolution on acquisition and subsequent sale of own shares	-	73%	72%
Election of Board Members Bernard Delas and Miguel Horta e Costa (5)			72%

(5) To fill two vacancies in the Board of Directors due to renunciation of Michel le Masson and Francisco Murteira Nabo.

05.
The Company's Management

5.1
BES Management structure

According to Company by-laws the Board of Directors shall be composed of an odd number of members, which may vary from a minimum of eleven to a maximum of thirty one. BES is managed by a Board of Directors composed of thirty one members.

Board Members may or may not be shareholders and they are elected at the General Shareholders' Meeting.

A minority of shareholders who voted against the winning proposal for the election of Board members is entitled to designate at least one board member, providing that minority represents at least 10% of the share capital.

For the purpose, an election from shareholders making up the afore-mentioned minority is held during the same meeting and the Board member elected automatically replaces the least voted person in the winning list, or, in the event of a tie, the person appearing in last place in said list.

The duration of the mandate of each board member is four years. The current mandate started on March 30th , 2004. All Board members mandates terminate on the same date. The current mandate ends in 2007.

The re-election of board members is permitted, and there is no limit on the number of re-elections. There is also no age limit for occupying the position of board member.

The average age of the Company's Board members is currently 58, the oldest member being 86 years old and the youngest 39.

The Board of Directors appoints one of its members as Chairman. In the Chairman's absence or in the event of an impediment arising, he is replaced by the Chairman of the Executive Committee. The Board of Directors may also elect one, two or three of its members to take the position of Vice-Chairman.

The election of the Chairman and Vice-Chairmen of the Board of Directors may be revoked at any time. The Board of Directors is free to replace the Chairman and Vice-Chairmen.

In the case of the definitive absence or impediment of any member of the Board, a substitute member will be co-opted, and this co-option ratified at the next General Shareholders' Meeting. The mandate of the member so elected will expire at the end of the period for which the replaced member had been elected.

5.2
Responsibilities of the Board of Directors

The Board of Directors manages the Company's activities, having exclusive and full powers of representation. This body is responsible for managing BES and for defining its strategy. In particular, the Board of Directors is responsible for guaranteeing that the bank establishes adequate policies to manage the various categories of risk incurred in its activities, as well as for establishing means guaranteeing the independence of the decisions taken and ensures that all shareholders are treated equally.

As the body with exclusive management powers in the company, the Board of Directors is responsible for:

a) requesting the convening of general meetings;

b) preparing the annual reports;

c) proposing the distribution of earnings;

d) deciding on the opening or closing down of establishments or important parts thereof;

e) deliberating on important extensions or reductions of the company's activity;

f) deciding on important changes in the company's organizational structure;

g) establishing or terminating long-lasting and important cooperation relations with other companies;

h) deciding to move the company's headquarters;

i) deliberating about mergers, demergers and transformation projects;

j) deliberating on bond issues, providing they are not convertible into shares;

BES' Board of Directors has no powers to decide on a capital increase.

5.3
Composition of the Board of Directors

Board Member	Birth Date	Nationality	Designation/ Election	End of Mandate	No. of Shares	Executive Committee	Independent	Reason for not being independent
António Ricciardi	06-04-1919	Portuguese	Apr.-92	2007	88,500	No	No	Member of the Board of Directors of Espírito Santo Financial Group, S. A.
Ricardo Salgado	25-06-1944	Portuguese	Sep-91	2007	262,129	Yes	No	Executive Member
Jean Laurent	31-07-1944	French	Sep-99	2007	-	No	No	Member of the Board of Directors or contractual obligation with Shareholder Crédit Agricole, S. A.
Mário Amaral	14-11-1932	Portuguese	Sep-91	2007	59,869	Yes	No	Executive Member
José Manuel Espírito Santo	02-05-1945	Portuguese	Apr.-92	2007	79,991	Yes	No	Executive Member
António Souto	17-04-1950	Portuguese	Nov-90	2007	50,722	Yes	No	Executive Member
Jorge Martins	17-07-1957	Portuguese	Jul-93	2007	46,034	Yes	No	Executive Member
Aníbal Oliveira	24-09-1935	Portuguese	Apr.-92	2007	110,000	No	No	Member of the Board of Directors of Espírito Santo Financial (Portugal), SGPS, S.A.
José Neto	08-01-1937	Portuguese	Apr.-94	2007	52,310	Yes	No	Executive Member
Manuel Villas-Boas	29-05-1945	Portuguese	Apr.-92	2007	0	No	No	Member of the Board of Directors of Espírito Santo Financial Group, S.A.
Manuel Fernando Espírito Santo	20-07-1958	Portuguese	Apr.-94	2007	912	No	No	Member of the Board of Directors of Espírito Santo Financial Group, S.A.
José Maria Ricciardi	27-10-1954	Portuguese	Mar-99	2007	46,034	Yes	No	Executive Member
Jean-Luc Guinoiseau	20-12-1954	French	Sep-99	2007	52,517	Yes	No	Executive Member
Rui Silveira	11-12-1954	Portuguese	Mar-00	2007	51,715	Yes	No	Executive Member
Joaquim Goes	09-09-1966	Portuguese	Mar-00	2007	53,612	Yes	No	Executive Member
Pedro Homem	19-07-1947	Portuguese	Jun-00	2007	46,034	Yes	No	Executive Member
Herman Agneessens	08-05-1949	Belgian	Jun-00	2007	-	No	No	
Patrick Coudène	24-09-1951	French	Feb-01	2007	57,185	Yes	No	Executive Member
Michel Villatte	30-10-1945	French	Mar-02	2007	-	No	No	Member of the Board of Directors or contractual obligation with Shareholder Crédit Agricole, S. A.
Mário Adegas(6)	25-10-1935	Portuguese	Nov-90	2007	100,000	No	Yes	
Luís Daun e Lorena	11-10-1944	Portuguese	Mar-02	2007	-	No	Yes	
Lázaro Brandão	15-06-1926	Brazilian	Mar-02	2007	-	No	Yes	
Ricardo Abecassis Espírito Santo	04-11-1958	Portuguese	Mar-02	2007	46,756	No	No	Member of the Board of Directors of Espírito Santo Financial (Portugal), SGPS, S.A.
Bernard De Wit	17-06-1959	Belgian	May -02	2007	-	No	No	Member of the Board of Directors or contractual obligation with Shareholder Crédit Agricole, S. A.
José Pena	05-11-1940	Portuguese	May-03	2007	-	No	Yes	
Jean-Frédéric de Leusse	29-10-1957	French	Mar-04	2007	-	No	No	Member of the Board of Directors or contractual obligation with Shareholder Crédit Agricole, S. A.
Amílcar Morais Pires	30-05-1961	Portuguese	Mar-04	2007	34,084	Yes	No	Executive Member
Bernard Delas	01-08-1948	French	Mar-05	2007	-	No	No	Member of the Board of Directors or contractual obligation with Shareholder Crédit Agricole, S. A.
Miguel Horta e Costa(7)	28-07-1948	Portuguese	Nov-90	2007	-	No	No	Member of the Board of Directors of Portugal Telecom, SGPS, S.A.

(6) Mandates – November 1990 until March 2000; until March 2002
(7) Mandates – November 1990 until March 1992; until March 2005

In 2005 Board Members Manuel Pinho and Ilídio Pinho resigned. On February 20th, 2006 BES' Board of Directors co-opted Nuno Maria Monteiro Godinho de Matos and Alberto de Oliveira Pinto to replace them. This co-option will be submitted for ratification at the General Shareholders' Meeting on April 17th , 2006.

BES' Board of Directors comprises executive and non-executive members. The non-executive board members are responsible for generally overseeing the Executive Committee's activities. In the interest of the Company, all directors should act with the diligence of a discerning and organised manager, taking into account the interests of both shareholders and employees.

In accordance with the criteria approved by the CMVM, non-executive directors who are in any way associated with specific interest groups in the company may be considered non independent.

Directors not considered independent non-executive directors(3) are those who:

a) are also members of the Board of Directors of a company exercising control over BES, as set out in the Securities Code (*Código dos Valores Mobiliários*);

b) have qualified holdings equal to or higher than 10% of BES' share capital or voting rights, or hold a position on the board, are under a contractual obligation to, or act for or on behalf of holders of qualified holdings equal to or higher than 10% of BES' share capital or voting rights, or have an identical percentage in a controlling company, according to the definition of controlling relationship as set out in the Securities Code;

c) have qualified holdings equal to or higher than 10% in the share capital or voting rights of a rival company, or hold a position on the board, are under a contractual obligation to, or act for or on behalf of holders of qualified holdings equal to or higher than 10% in the share capital or voting rights of a rival company;

d) receive any other remuneration, even if that remuneration has been suspended and except for remuneration due for their work, from the company, or from other companies with which it has a controlling or group relationship;

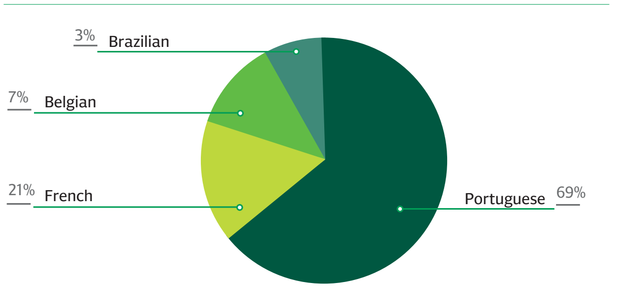
e) have a significant commercial relation with the company or with another company having with which it has a controlling or group relationship either directly or through a third party. A significant commercial relationship is understood to be that of a significant provider of services or goods, an important client or an organisation receiving significant contributions from the company or the controlling entity.

f) are spouses, family and kin in direct lineage up to and including the third degree, of the persons referred to above.

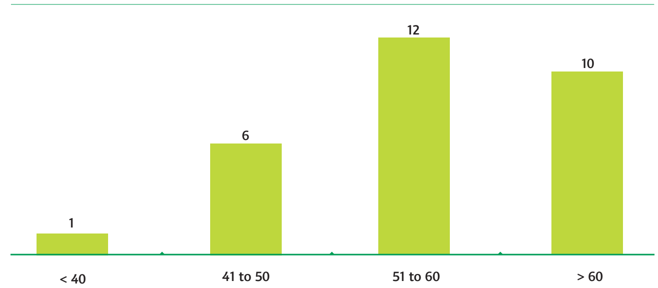
(3) According to the definition given in article 1 number 2 of CMVM Regulation 07/2001 (as amended by article 1 of Regulation 10/2005)

In any case, and in addition to the circumstances listed above, the Board of Directors must ensure, in a well founded manner, the independence of the directors in light of other pertinent circumstances. Every year, based on the replies to a questionnaire that is sent to all board members, the Board of Directors decides which directors should be considered to be independent. In 2005 the Company qualified 5 (five) directors as being independent.

Nationality of the Members of the Board of Directors



Age of the Members of the Board of Directors



Board Member	Academic Degree	Professional Career in the last 5 years
António Ricciardi	Faculdade de Ciências de Lisboa; Escola Naval da Marinha de Guerra; Escola da Aviação Naval	Chairman of the Board of Directors of Banco Espírito Santo.
Ricardo Salgado	Graduated in Economics from Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa.	Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of Banco Espírito Santo, Chairman of the Board of Directors of the companies Partran, SGPS, S.A., Espírito Santo Financial Group, S.A. and Bespar - SGPS, S.A.. Since 2003 Member of the Executive Committee of the Instituto Internacional de Estudos Bancários and its Chairman since October 2005. Since 2002, Member of the Supervisory Board of Euronext NV and Member of the Board of Directors of Banco Bradesco (Brazil) since 2003.
Jean Laurent	Engénieur Civil de l'Aéronautique - École Nationale Supérieure de l'Aéronautique; Master of Sciences, Wichita State University.	Untill 2001Member of the Board of Directors of Banque de Gestion Privée Indosuez. Untill 2002, Member of the Board of Directors of Crédit Agricole Asset Management, AMACAM, Union d'Études et d'Investissements and Chairman of the Board of Directors of Segespar. Untill 2003, Member of the Board of Directors of the company SA Rue Impériale. Untill September 2005, Member of the Executive Committee of Fédération Bancaire Française and its Chairman between 2001and 2002, Member of Conseil de l'Association Française des Banques, Member of the Bureau da AFECEI and its Chairman between 2001and 2002,and General Director of Crédit Agricole.
Mário Amaral	Graduated in Economics from the Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa and post-graduate degree in the London School of Economics.	Executive Member of the Board of Directors of Banco Espírito Santo.
José Manuel Espírito Santo	Graduated in Economics, specialising in Company Administration and Management, form Évora University (former Instituto de Estudos Superiores de Évora).	Chairman of Compagnie Bancaire Espírito Santo, Executive Member of the Board of Directors of Banco Espírito Santo and Chairman of Banco Espírito Santo (Espanha) since 2000.
António Souto	Graduated in Economics from the School of Economics of Porto University.	Executive Member of the Board of Directors of Banco Espírito Santo.
Jorge Martins	Graduated in Economics from the School of Economics of Porto University.	Executive Member of the Board of Directors of Banco Espírito Santo.
Aníbal Oliveira	General Commercial Management (Oporto); Chemical Engeneering (Germany)	Executive functions in the companies of Riopele Group.
José Neto	Graduated in History from the Lisbon University.	Executive Member of the Board of Directors of Banco Espírito Santo.
Manuel Villas-Boas	Graduated in Economics from the Instituto Superior de Ciências Económicas e Financeiras.	Senior Vice President of Sociedade Espírito Santo International and Member of the Board of Directors of Espírito Santo Financial Group, Member of the Board of Directors of Banco Espírito Santo and Banco Espírito Santo de Investimento.
Manuel Fernando Espírito Santo	B.A. Business Administration, Richmond College, London International Bankers' Course at Barclays and Midland Bank, in London; INSEAD, Fontainebleau - "Inter-Alpha Banking Programme".	Member of the Higher Council of Espírito Santo Group and Chairman of the Executive Committee of Espírito Santo Resources. Executive Member of World Travel & Tourism Council since 2003.
José Maria Ricciardi	Graduated in "Sciences Economiques Appliquées" from the Université Catholique de Louvain, Faculté des Sciences Économiques, Sociales et Politiques, Institut d'Administration et de Gestion, Belgium.	Member of the Executive Committe of Banco Espírito Santo. Member of the Executive Committe of BES Investimento and since 2003 Vice-Chairman of the Board of Directors and Chairman of the Executive Committe.
Jean-Luc Guinoiseau	Graduated in Higher Economic Studies from Conservatoire National des Arts et Métiers (Paris), taking the CESA course on Strategic Management – HEC, Paris.	Executive Member of the Board of Directors of Banco Espírito Santo.
Rui Silveira	Graduated in Law from the Law School of the Lisbon University and is a Lawyer.	Lawer, Legal Advisor to the Higher Council of the Espírito Santo Group, Executive Member of the Board of Directors of Banco Espírito Santo.
Joaquim Goes	Graduated in Corporate Management and Administration, specialising in Marketing and Finance from Lisbon's Universidade Católica Portuguesa. In 1994 obtained a Masters Degree in Business Administration from INSEAD, Fontainebleau.	Executive Member of the Board of Directors of Banco Espírito Santo.
Pedro Homem	Graduated in Law from the Faculdade de Direito da Universidade de Lisboa.	Executive Member of the Board of Directors of Banco Espírito Santo.
Herman Agneessens	Doctor of Laws, University of Leuven.	Executive Member of KBC Group, Chief Financial Officer and Chief Risk Officer since 2004.
Patrick Coudène	Graduated from IAE (Instituto de Administração de Empresas) – Lyon. Graduated in Law from the Lyon University.	Commercial Manager of Pacífica (Crédit Agricole Group). Executive Member of the Board of Directors of Espírito Santo Seguros. Executive Member of the Board of Directors of Banco Espírito Santo since 2001.

Board Member	Academic Degree	Professional Career in the last 5 years
Michel Villatte	Graduated in Law from the Institut d'Études Politiques de Paris; Graduated in Études Supérieures de Droit - Certificat d'Études Littéraires Générales Modernes.	General Manager of PREDICA, many positions in Crédit Agricole Group and he's member of the Board of Directors of Banco Espírito Santo.
Mário Adegas	Graduated in Economics from the School of Economics of Porto University.	Member of the Board of Directors of Banco Internacional de Crédito between 2000and 2002. Since 2002,Member of the Board of Directors of Banco Espírito Santo, where he is also Member of the Audit Committee.
Luís Daun e Lorena	Law from Lisbon University.	Member of the Board of Directors of the company Hotéis Tivoli, between 2001 and 2002. Since 2002, Member of the Board of Directors of Banco Espírito Santo, where he is also Member of the Audit Committee.
Lázaro Brandão	Graduated in Economics and Company Administration (Brazil).	Chairman of the Board of Directors of Banco Bradesco and since 2004 Coordinator of the Remuneration Committee, Chairman of the Board of Directors of the company ELO Participações and Chairman of the Management Board of Bradesco Foundation. Since 2000, Chairman of the Board of Directors of Bradespar and Director-President of NCF Participações. Untill 2001, Member of the Director Council of the Brazilian Banks Foundation. Since 2001, Director-President of Nova Cidade de Deus Participações. Since 2002, Chairman of the Board of Directors of Banco Bradesco Luxemburgo. Between 2002 and 2003, Chairman of Banco Mercantil de São Paulo. In 2004 Chairman of the Board of Directors of Banco BEM. Since 2004 Chairman of the Board of Directors of Bradesco Leasing and Manager of Bradport. Untill 2005, Chairman of the Board of Directors of Bradesco Seguros. Member of the Board of Directors of Banco Espírito Santo since 2002.
Ricardo Abecassis Espírito Santo	Graduated in Economics from the City University, London.	Since 2000 Director President and Member of the Board of Directors of Banco Espírito Santo de Investimento of Brazil. Member of the Board of Directors of Banco Espírito Santo since 2002.
Bernard De Wit	Masters Degree in Applied Economics; MBA from Université de Louvain and University of Chicago.	Untill 2001, KPMG Peat Marwick Partner. Since 2001, Manager of the International Subsidiaries area - International Banking Retail Business of Crédit Agricole. Since 2002, Member of the Board of Directors of Banco Espírito Santo.
José Pena	Graduated in Company Organisation and Management from the Instituto Superior das Ciências do Trabalho e da Empresa (ISCTE); subsequently attending the International Advanced Executive Program (IAEP) of the JL Kellog Graduate School of Management, Northwestern University, Chicago, EUA.	Untill 2001, Pricewaterhouse Partner. Between 2002 and 2003, Advisor to the Audit Committe of the Board of Directors of BES. Since 2003, Member of the Board of Directors of Banco Espírito Santo and Member of the Audit Committe.
Jean-Frédéric de Leusse	École Polytechnique; École Nationale d'Administration.	Untill 2001, Chairman General Manager of Sofipost. Since 2001 General Manager of Féderation Nationale du Crédit Agricole. Since 2004, Member of the Executive Committe of Crédit Agricole and Member of the Board of Directors of Banco Espírito Santo.
Amílcar Morais Pires	Graduated in Economic Sciences from the Universidade Católica Portuguesa.	Untill 2004 advisor to the Board of Directors of BES and Coordinator of the Financial Department, Markets and Surveys of Banco Espírito Santo. Since 2004, Executive Member of the Board of Directors of Banco Espírito Santo and since 2005 Member of the Board of Directors of Banco Espírito Santo de Investimento.
Bernard Delas	Graduated in Sciences Économiques, from the Université de Paris.	Between 2001 and 2003, General Manager of CNP International. Since 2004, Advisor to the Chairman of the Management Board and Manager of l'Assurance à l'International in Crédit Agricole Group. Since 2005, Member of the Board of Directors of Banco Espírito Santo.
Miguel Horta e Costa	Graduated in Economics from the Universidade Técnica de Lisboa; Post-Graduation in Company Higher Management from the Navarra University; Post-Graduation in Communications Management from the Management College (British post Office) in United Kingdom.	Member of the Board of Directors of Telefónica and Member of the Board of Directors of PGA - Portugália Airlines. Untill 2002, Member of the Board of Directors of Banco Espírito Santo de Investimento, Chairman of the Board of Directors of Euroges Factoring and Executive Vice-President of the Board of Directors of Portugal Telecom. Since 2002, Executive President of Portugal Telecom. Since 2003, Vice-President of AIP.

A list of the corporate positions occupied by the members of the Board of Directors is attached as an appendix to this report (Appendix 2), indicating the positions held in BES Group companies (understood as BES and its fully consolidated subsidiaries).

5.4
Organisation and functioning of the Board of Directors

According to the bank's by-laws, the Board of Directors meets at least quarterly and whenever convened by the Chairman or by two board members. In 2005 the Board of Directors held five meetings.

The Board of Directors' Executive Committee meets at least once a week, also ensuring day-to-day monitoring that on occasion requires extraordinary meetings.

The Board of Directors' Secretariat makes sure that the members of the Board and of the Executive Committee receive in due time – usually at least 72 hours in advance – all the appropriate documents for the analysis of the items included in the Agenda for each of these bodies' meetings.

5.5
Business transactions between the Company and Members of the Board of Directors

All business and transactions between the Company and members of the Board of Directors are undertaken under normal market conditions for similar operations and form part of the bank's day-to-day activity.

The chart below shows the total amount of loans granted to members of BES' Board of Directors:

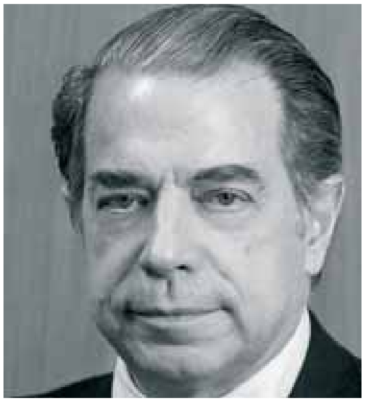
	2005
Credit granted (euro '000)	4,952

5.6
Executive Committee and other Committees

Under the terms of article 21 (2) of the bank's by-laws, the Board of Directors delegates the day-to-day running of the company to an Executive Committee composed of eleven, thirteen or fifteen directors. The Executive Committee currently comprises thirteen members. The average age of the members of the Executive Committee is 55, the oldest being 73 years old and the youngest 39.

5.6.1
Composition of the Executive Committee

	1992	1997	2002	2005
No. of Members of the Executive Committee	9	9	13	13



Ricardo Espírito Santo Salgado

Born in Cascais (Portugal) on June 25th, 1944. Graduate in Economics from the Instituto Superior de Ciências Económicas e Financeiras at the Universidade Técnica de Lisboa.

Current areas of responsibility:

Chairman of the Executive Committee. Directly responsible for the Corporate Communications and Planning and Accounting Departments, the Basel II Office, Compliance Office, Costs Control Office, Investor Relations Division, General Secretariat of the Executive Committee, Purchases and Property Division, ES Research, and Security Coordination Office. He also ensures coordination between BES and ESAF, ES Tech Ventures, Banco BEST, BES Angola and ES Bank.

He is a member of the following committees:

Retail; Corporate banking; International; Assets and Liabilities (ALCO); Risk, Information Systems, Operations, Quality and Costs (CIOQC); Financial and Credit.

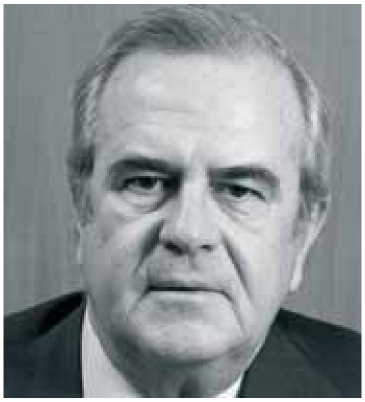
Born in Lisbon (Portugal) on May 2nd, 1945. Graduate in Economics, specialising in Company Administration and Management, from Évora University (former Instituto de Estudos Superiores de Évora).

Current areas of responsibility:

Coordinates Private Banking in BES Group, Residents Abroad, Iberian Relations, BES History Research Centre. Coordination with Banco Espírito Santo (Spain), of which he is the Chairman of the Board of Directors.

He is a member of the following committees:

Private Banking; International; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC).



José Manuel Pinheiro Espírito Santo Silva

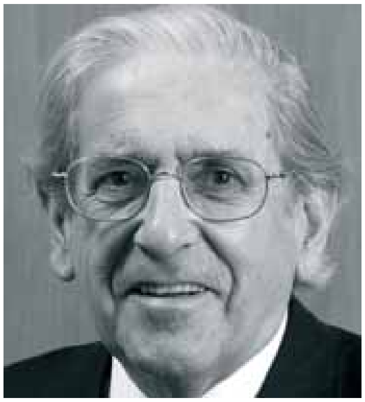
Born in Estoril (Portugal) on November 14th, 1932. Graduate in Economics from the Instituto Superior de Ciências Económicas e Financeiras at Universidade Técnica de Lisboa and holder of a post-graduate degree from the London School of Economics.

Current areas of responsibility:

Transactional Banking and International Business, Corporate International, Subsidiaries Office, International Branches (New York and London) and International Holdings. Ensures coordination between BES and BES Oriente.

He is a member of the following committees:

Corporate Banking; International; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Financial and Credit.



Mário Mosqueira do Amaral

José Manuel Ferreira Neto

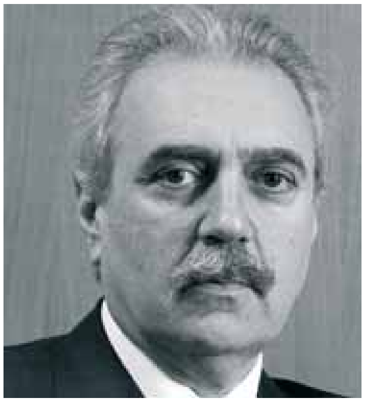
Born in Sintra (Portugal) on January 8th, 1937. Graduate in History from Lisbon University.

Current areas of responsibility:

Company Monitoring and Credit Recovery Department, Real Estate Division. Ensures coordination between BES and Espírito Santo Cobranças.

He is a member of the following committees:

Retail; Corporate Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Financial and Credit.



António José Baptista do Souto

Born in Espinho (Portugal) on April 17th, 1950. Graduate in Economics from the Porto University School of Economics.

Current areas of responsibility:

Corporate North, Corporate South, Large Companies, Corporate and Institutional Marketing, Municipals and Institutionals and Human Resources Department. Ensures coordination between BES and Besleasing & Factoring, where he is Chairman of the Board of Directors.

He is a member of the following committees:

Corporate Banking; International; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Financial and Credit.

Born in Póvoa de Varzim (Portugal) on July 17th, 1957. Graduate in Economics from Porto University's School of Economics.

Current areas of responsibility:

Personal loans and payment solutions, Commercial Department – North, BES 360º Marketing. He also ensures coordination between BES and Crediflash – Sociedade Financeira para Aquisições a Crédito and Locarent – Companhia Portuguesa de Aluguer de Viaturas, where he is Chairman of the Board of Directors.

He is a member of the following committees:

Retail; Private Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Financial and Credit.

Jorge Alberto Carvalho Martins

Born in Lisbon (Portugal) on October 27th, 1954. Graduate in Sciences Economiques Appliquées from the Université Catholique de Louvain, Faculté des Sciences Economiques, Sociales et Politiques, Institut d'Administration et de Gestion.

Current areas of responsibility:

Global Risk; he also ensures coordination between BES and Banco Espírito Santo de Investimento, where he is Vice-Chairman of the Board of Directors and Chairman of the Executive Committee.

He is a member of the following committees:

Corporate Banking; International; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC).

José Maria Espírito Santo Silva Ricciardi

Jean-Luc Louis Marie Guinoiseau

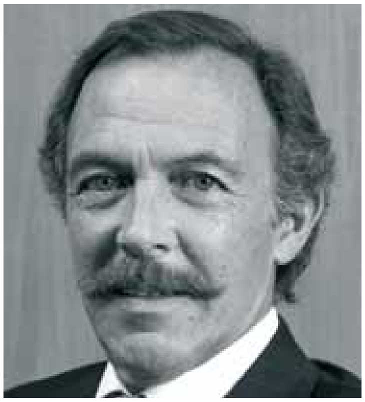
Born in Cossé le Vivien (France) on December 20th, 1954. Graduate in Higher Economic Studies from the Conservatoire National des Arts et Métiers (Paris), taking the CESA course on Strategic Management– HEC, Paris.

Current areas of responsibility:

Organisation; Execution of Operations.

He is a member of following committees:

Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC).



Rui Manuel Duarte Sousa da Silveira

Born in Lisbon (Portugal) on December 11th, 1954. Graduate in Law from the Law School of Lisbon a lawyer.

Current areas of responsibility:

Supervises the entire Legal Affairs of the BES Group; Internal Audit; Legal Department.

Takes part in the following Committees:

Risk.

Born in Lisbon (Portugal) on September 9th, 1966. Graduate in Corporate Management and Administration, specialising in Marketing and Finance, from Universidade Católica Portuguesa. In 1994 obtained a Master's Degree in Business Administration from INSEAD, Fontainebleau.

Current areas of responsibility:
Management Information, Strategic Marketing, Service Quality, Direct and Self Banking, Virtual Banking; Universities Office; also ensures coordination between BES and ES Interaction, where he is the Chairman of the Board of Directors, and also ES Contact Center, ES Innovation and ES Data.

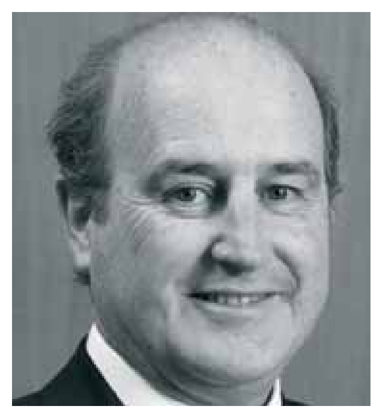
He is a member of the following committees:
Retail; Corporate Banking; Assets and Liabilities (ALCO), Information Systems, Operations, Quality and Costs (CIOQC).

Joaquim Anibal Brito Freixial de Goes

Born in Lisbon (Portugal) on July 19th, 1947. Graduate in Law from the Law School of Lisbon.

Current areas of responsibility:
Private Banking, Madeira off-shore branch.

He is a member of the following committees:
Private Banking; International; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC).



Pedro José de Sousa Fernandes Homem

Patrick Gérard Daniel Coudène

Born in Lyon (France) on September 24th, 1951. Graduated from Institut d'Administration des Entreprises (Lyon) and in Law from the Lyon Law University.

Current areas of responsibility:
Commercial Department – South, Small Businesses Marketing, Retail Marketing, Mortgage Credit; also ensures coordination between BES activity and the activity of BES Açores, of which he is Vice-Chairman of the Board of Directors, and ES Seguros.

He is a member of the following committees:
Retail; Private Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC).

Amílcar Carlos Ferreira de Morais Pires

Born in Beira (Mozambique) on May 30th, 1961. Graduate in Economic Sciences from the Universidade Católica Portuguesa.

Current areas of responsibility:
Financial Department, Markets and Research, Management of Savings; also ensures coordination between BES and BES Finance.

He is a member of the following committees:
Private Banking; Corporate; International; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC); Financial and Credit, Risk.

5.6.2
Other Committees

Business Units Monitoring Committees

i) Corporate / Wholesale / Investment banking

This committee's main functions are to monitor the development of these business areas, coordinating initiatives and ensuring that there is coordination between BES' corporate banking activity and the activity of Banco Espírito Santo de Investimento, and at international level, promoting coordinated action with Banco Espírito Santo (Spain) and Banco Espírito Santo de Investimento do Brasil. The committee also submits to the Executive Committee the major strategic development guidelines for the business areas under its responsibility,

ii) Retail Banking (Individual Clients and Small Businesses)

This committee's main responsibilities are to submit to the Executive Committee the major strategic development guidelines for Retail Banking, to monitor business with each of the retail segments (Affluent Clients, Small Companies and Independent Professionals and Mass Market), and to promote cross-segment business with other business areas (namely medium sized and large Corporates). The committee also oversees Assurfinance activities, promoting the acquisition of Companhia de Seguros Tranquilidade customers.

iii) Private banking

This committee's main responsibilities are to submit to the Executive Committee the major strategic development guidelines for private banking, to promote the international development of private banking activities and to ensure that there is coordination with other business areas with the objective of promoting cross-segment business (with both medium sized and large companies and with the Affluent clients segment).

iv) International banking

The committee's main responsibilities are to monitor and promote the development of the BES Group's international banking activity, contributing to fostering existing subsidiaries and branches, and evaluating and submitting to the Executive Committee new initiatives in previously unexplored markets or businesses areas. The committee also ensures that there is coordination between BES' activity in Portugal and its various units abroad, specifically in Spain, Brazil and Angola, with a view to promoting business and fostering customer loyalty via cross-border activities.

Group-wide Committees

i) Assets and Liabilities (ALCO)

The ALCO committee analyses macroeconomic data from Portugal and from the world's main economic areas, and assesses potential impacts on the banking business. The ALCO committee also monitors the BES Group's consolidated balance sheet and those of its main business units, specifically the balances of customer loans and funds and margins, providing the Executive Committee with the data required to set growth targets for customer loans and deposits, and define a funding strategy (management of balance sheet mismatch) and price/margin targets. Its functions also include monitoring and benchmarking products sold by competitors and approving the product offer and pricing within the scope of the established strategy.

ii) Information Systems, Operations, Quality and Costs (CIOQC)

The CIOQC committee is responsible for analysing and prioritising investments in information systems to support business development, subsequently monitoring their implementation. It also monitors the development of special projects in the areas of operations, systems, quality and costs. In particular, the committee oversees the bank's overall performance in terms of quality indicators – with particular regard to customer service quality and the support provided by the central areas to the commercial areas – promoting measures intended to enhance quality in the BES Group.

iii) Risk

The Risk Committee is responsible for all matters related to the BES Group's overall risk, and specifically for monitoring risk in each of the main customer segments and product categories. It submits to the Executive Committee methodologies, policies, procedures and instruments to monitor and assess all types of risk incurred by the Group, namely credit, operational and market risk. The Committee also oversees special projects in this area, specifically the Basel II project.

iv) Financial and Credit

By delegation of the Executive Committee, the Financial and Credit Committee rules on all operations submitted to it, namely those falling outside the scope of the credit granting limits established for each board member, and thereby plays a critical role in carrying out and monitoring the Group's credit and risk policies.

5.7
Board Members' Remuneration

Remuneration for members of the Executive Committee comprises a fixed part to which a variable component may be added subject to approval at the General Shareholders' Meeting. The variable component of this remuneration consists of a percentage of the year's results, which, according to BES' articles of association cannot as a whole exceed five per cent of the year's profit on an individual basis. The members of the Executive Committee who carry out executive functions on the board of a BES subsidiary may receive remuneration from such companies. However, in that case, they will not receive remuneration for exercising executive functions at BES.

Members of the Executive Committee are eligible for the stock-based incentive system (SIBA), as described in sections 3.4.4 and 6.4 of this report. The number of shares attributed to the members of the Executive Committee is established by the Remuneration Committee, as stipulated in the SIBA regulation approved at the General Shareholders' Meeting of June 20th, 2000.

The following may be beneficiaries of the SIBA plan:

a) members of the Executive Committees of the Boards of Directors of companies included in BES Group;

b) employees in active service and under an effective labour contract working for any BES Group company.

When it involves members of the Executive Committees of Boards of Directors of BES Group companies, the quantity of shares to be allocated to each board member will be decided by the Remuneration Committee.

The fixed remuneration received by members of the Executive Committee is also established by the Remuneration Committee, which is elected at the General Shareholders' Meeting. The criteria are to align this remuneration to the Group's strategic objectives, also taking into account current practices in the Portuguese market. More specifically, the strategic objectives which are taken into consideration when assessing the performance of the Board of Directors, and in particular of the Executive Committee are as follows:

a) Business growth, measured as the increase in the average market share of the various products sold by the Group. As related to the market, the bank has pursued an organic growth strategy since its privatization in 1992 and its current target is to reach an average market share of 20% in the medium term, which compares with an average share of 8.5% in 1992.

b) To maintain an adequate return on equity - above the average for the European banking sector.

c) To maintain a leading position in terms of efficiency among the main Iberian listed banks.

The non-executive members of the Board of Directors who are members of the Audit Committee receive fixed remuneration only, which is established for their supervisory functions.

The remuneration of the other non-executive members of the Board of Directors consists of attendance fees, except when they exercise executive functions on the board of companies which have a control or group relationship with BES, in which case they may be remunerated by those companies in accordance with their relative importance within the Group and the importance of the functions they exercise.

BES has no payments negotiated with directors in the case of removal, either contractually or by means of a transaction, or any other compensation in connection to the early termination of contracts.

Members of the Board of Directors are entitled to receive retirement pensions or complementary pension benefits if they are members of the Executive Committee.

The main points of the regulation on the directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability may be summed up as follows:

a) The right to receive a retirement pension or complementary pension benefits falls due on reaching sixty five years of age, or in the event of disability, when disability occurs.

b) The right to receive retirement pension or complementary pension benefits may be brought forward to the age of fifty five, providing the board member has served on BES' Board of Directors for a minimum period of 9 years.

c) Complementary pension benefits may exist as a way of topping up other retirement schemes that may be granted under any other social security system.

In any case, retirement pensions or complementary pension benefits shall never exceed the pensionable salary of the board member in question, although they may be of a lower amount. The pensionable salary corresponds to one hundred per cent of the last annual gross remuneration paid to the board member in question.

The table below shows remuneration paid to the members of BES' Board of Directors in 2005:

(euro thousand)

	2005
Executive Committee	8,156
Fixed component	3,506
Variable component(*)	4,650
Audit Committee	652
Others	984
Board of Directors	**9,792**

(*) Variable remunerations refer to those which were payed in 2005, related to 2004.

Remuneration for members of BES' Board of Directors includes the amounts earned for functions exercised on the board of directors of other BES Group companies. The total amount paid by other BES Group companies to members of BES' Board of Directors was euro 1,159 thousand.

The remuneration of executive board members represented 83% of the overall remuneration paid to all members of the Board of Directors. The variable remuneration paid to executive board members, on the other hand, corresponded to 57% of the total remuneration paid to these Board members and to 47% of the overall remuneration paid to all the members of the Board of Directors.

Within the scope of stock-based incentive system (SIBA) 155,588 shares were allocated to members of the Executive Committee in 2005.

5.8
Remuneration Committee

The Company's Remuneration Committee, elected at the General Shareholders' Meeting held on December 2002, is made up by the following Shareholders [1]:

António Maria Pereira was born in Lisbon. He has been a lawyer since 1948 and was the founder and is honorary president of the Law Firm of A.M. Pereira, Sáragga Leal, Oliveira Martins, Júdice e Associados. He was a member of Parliament in the 1979/1980 and 1987/1995 terms, and has participated in numerous international missions to the UN, UNESCO, OSCE, OMPI, the European Commission, the European Council and the Parliaments of many countries. He has published several works on political and legal issues.

Carlos Fernando Olavo Corrêa de Azevedo is also Chairman of the Board at the bank's General Shareholders' Meeting. A brief résumé can be found in section 4.2 of this report.

(1) As of December 31st, 2005 the Remuneration Committee only included two members, due to the resignation of José Luís Sapateiro in 2005. The Committee's third member will be elected by the General Meeting of March 30th, 2006, in accordance with Article 23 number 2 of BES's by-laws.

06.
Organisational Structure of the Company

6.1
Organisational Chart of BES Group and BES

Board of Directors

Executive Committee

Monitoring Committees

Business Units:
- Corporate/Wholesale/Investment Banking
- International
- Private
- Retail (Individuals and Businesses)

Other Committees:
- ALCO (Assets and Liabilities)
- Financial and Credit Committee
- Information Systems, Operations, Quality and Costs (CIOQC)
- Risk

Support Offices

- Legal Assistance
- Basel II
- Compliance
- Cost Control
- Safety Coordination
- Subsidiaries Office
- Iberian Relations
- Investor Relations
- General Secretary of the Executive Committee

BES

Segmented Distribution Units

- Commercial-North
- Commercial-South
- Company Monitoring and Credit Recovery
- Corporate International
- Corporate North
- Corporate South
- Large Companies
- Municipalities and Institutionals
- Private Banking
- Residents Abroad
- Transactional Banking and International Business
- Universities Office
- Virtual Banking

Product Units

- BES 360º Marketing
- Business Marketing
- Corporate and Institutionals Marketing
- Financial, Markets and Studies
- Personal Credit and Auto Solutions
- Retail Marketing
- Savings Management

Shared Services Units

- Internal Audit
- Corporate Communication
- Global Risk
- Human Resources
- Legal
- Management Information
- Organisation
- Planning and Accounts
- Service Quality
- Strategic Marketing

Subsidiaries

Segmented Distribution Units:
- BES Açores
- BEST
- BESI
- BESIL
- BESI Brazil
- BES Spain
- BES Angola
- BES Oriente
- BIBL
- ES Bank

Product Units:
- Crediflash(*)
- Besleasing and Factoring
- ES Capital
- ES Tech Ventures
- ESAF
- Locarent

Shared Services Units:
- ES Contact Center
- ES Data
- ES Innovation
- ES Interaction
- ES ACE – Direct and Self Banking
- ES ACE – ES Research
- ES ACE – Mortgage
- ES ACE – Operations
- ES ACE – Purchases and Property
- ES ACE – Real Estate

(*) On February 20th, 2006, following BES's acquisition of the entire share capital of Crediflash, SFAC, S.A., the Boards of Directors of both companies approved a merger by incorporation of Crediflash into BES, subject to authorisation of the Bank of Portugal.

6.2
Code of Conduct and other internal regulations

The Company has a Code of Conduct that may be requested by any shareholder from the company Secretary.

The Code of Conduct:

a) Imposes a set of ethical obligations and duties on all employees (equal treatment of all BES clients, professionalism, diligence, the duty to act in good faith, neutrality, integrity, the principle that the interests of BES clients prevail over the interests of BES' employees and board members, the obligation to observe secrecy and cooperate with all the supervision authorities, internal conduct obligations, and the duty to defend the efficiency and transparency of the market);

b) Includes detailed regulations on matters of conflict of interests;

c) Regulates personal transactions of securities made by Group employees so as to prevent the misuse of information or trading based on privileged information (insider trading);

d) Regulates the situation of employees who carry out research;

e) Establishes general principles on the prevention of money laundering;

f) Regulates the treatment to be given to customer complaints in the area of financial intermediation;

g) Regulates the manner in which detected irregularities should be reported;

h) Expressly establishes that any failure to comply with the provisions of the Code of Conduct shall be considered: a disciplinary offence, when committed by a BES employee; a breach of contract, when committed by a permanent service provider; or an omission of contractual obligations, when committed by a member of the Board of Directors or Audit Committee.

BES' Compliance Officer is in charge of monitoring the application of the Code of Conduct and will also clarify any doubts or questions related to its interpretation.

BES has internal regulations in place for its different areas of activity. There are regulations governing the powers and procedures required for granting credit, extending guarantees, financial intermediation, and also on the internal control system and the prevention of money laundering.

6.3
Whistle blowing procedures

The Code of Conduct establishes that it is a duty of conduct of BES employees to "immediately notify the Compliance Officer, the Audit Committee of the Board of Directors, or, alternatively, the Executive Committee, of any actual or impending violation of laws, regulations or the provisions of this Code, any act of retaliation against the employees who made such notification being expressly forbidden".

Pursuant to this provision of the Code of Conduct, BES has adopted an irregularities reporting policy whose broad guidelines are given below.

a) Complementary nature: the reporting of irregularities by BES employees shall only take place when the institutional mechanisms (audits and inspections) do not function or do not function in a timely manner.

b) Categories of employees subject to the obligation to inform: all BES employees.

c) Anonymous reporting: anonymous communications shall not be admitted or taken into account, however absolute confidentiality is guaranteed with regard to the identity of the reporting employee, providing he/she so requests.

d) Non retaliation: no measures whatsoever shall be taken against employees who report irregular behaviour. However, they should bear in mind that when reporting such practices, specific behaviour and the alleged cause of irregularity must be indicated, no vague allegations against people shall be admitted.

e) Entity that collects the notifications: the Compliance Officer, the Audit Committee, or, alternatively, the Executive Committee. The employee making the notification is free to choose among these entities.

f) Entity that investigates the notifications: depending on the matter in hand, the investigation process will be conducted by the Audit Committee, the Bank's Internal Audit Department, or directly by the Compliance Officer.

g) Notifications file: when the notifications clearly lack credibility, they are immediately destroyed. When an internal investigation processes occurs, they are filed and remain confidential until the respective processes are concluded. When the investigations do not lead to further proceedings, whether disciplinary or legal, the notifications are destroyed within 3 months from the date on which they were sent.

6.4.
Human Resources

BES' Human Resources policy has a strong focus on the continuous qualification and development of its staff. To this end, various measures taken over the last few years intended to streamline and rejuvenate the bank's workforce, while investing in their continuous training. The result was a significant increase in productivity and efficiency.

The BES Group's management model for Human Resources is based on decentralised management, following group-wide strategic principles which are adopted and implemented in each of its subsidiaries according to their respective specificities and geographical location.

To ensure the homogeneity of these principles and at the same time their independent implementation, the Group has a Human Resources Committee which is chaired by BES' HR Manager and includes the heads of human resources of the Group's various subsidiaries.

Employee representation takes two forms:

• Workers Committee – composed of eleven workers' representatives who meet on a monthly basis with the Human Resources Division and the Executive Committee to discuss social and labour related matters.

• European Works Council – composed of eleven members representing the banking sector's trade unions, this body is responsible for aligning Human Resources practices in the countries where the Group is present and has more than 150 employees – e.g. BES in Spain.

	2003	2004	2005
BES employees	4,146	4,115	5,084
Total BES Group employees	**8,114**	**8,241**	**8,524**

BES has two incentive systems for its employees in place, which apply regardless of the post or professional category occupied. These are the Objectives and Incentives System (SOI) and the Stock-based Incentive System (SIBA). However, neither of these systems constitutes a stock option plan.

The SOI scheme allows employees to share in BES' profits and takes into account individual performance. This is assessed in both qualitative terms (through a professional rating given by the superior officer) and quantitative terms (commercial objectives, cost-to-income or service levels, depending on the department where the employee in question works).

The SIBA system is one of the main tools used to implement the BES Group's human resources policy. Its aim is to foster loyalty in employees and encourage a commitment to permanently improving the Group's business and results. This incentive scheme entails selling to employees of one or more blocks of BES shares with deferred settlement.

On December 31st, 2005, the number of shares held by employees within the scope of the SIBA programme totaled 7,617,500, corresponding to 2.54% of the bank's share capital.

	2003	2004	2005
No. of shares sold within the scope of the SIBA, per year (in thousand)	8,359	7,991	7,617
% of share capital	2.79%	2.66%	2.54%

07.
Company Supervision

7.1
Internal Supervision

7.1.1
Fiscal Board

The Fiscal Board is composed of three executive members and two substitute members. BES' Fiscal Board, elected at the General Shareholders' Meeting held on March 30th, 2004 for the 2004-2007 mandate is composed of the following members:

Joaquim de Jesus Taveira dos Santos (Chairman)

José Queirós Lopes Raimundo (Member)

Auditors KPMG & Associados, Sociedade de Revisores Oficiais de Contas, represented by Inês Maria Bastos Viegas Clare Neves Girão de Almeida

Jean-Éric Gaign (Deputy Statutory auditor)

José Manuel Macedo Pereira (Substitute)

Requirements for the Fiscal Board:

a) One of the executive members and one of the substitute members must be a statutory auditor or statutory auditing firms and neither may be a shareholder.

b) The other members may or may not be shareholders but must either be persons with full legal capacity or law firms or statutory auditing firms.

The following can not be elected or appointed members of the Company's Fiscal Board:

a) Beneficiaries of private advantages in the company;

b) Persons who occupy or have occupied in the last three years positions on the Company's board of directors;

c) Members of the board of directors of companies with a parent-subsidiary or group relationship with the company being supervised;

d) Partners in companies with a control relationship with the company being supervised;

e) Anyone providing paid services of a permanent nature to the company being supervised or to a company under a control or group relationship with it;

f) Persons occupying a position in a company with activities that compete with the Company's activity;

g) Spouses, family and kin in direct lineage up to and including the third degree of the persons impeded from occupying this position by virtue of paragraphs a), b), c), d) and f) above as well as the spouses of the persons covered by the provisions of paragraph e);

h) Persons exercising management or fiscal positions in five companies other than in law firms, statutory auditing firms and statutory auditors, to whom the provisions of article 9 of Decree-Law 519L2/79, of 29 December apply.

i) Statutory auditors presenting other incompatibilities as provided for in applicable legislation;

j) Interdict, incapacitated, insolvent, and bankrupt persons and persons who have received a sentence prohibiting them, even if on a temporary basis, from of exercising public functions.

Members of the Fiscal Board and substitute members are elected at the General Shareholders' Meeting for the period established in the Company's By-Laws, which shall not exceed four years. Re-election of the members of the Fiscal Board is permitted.

Main responsibilities of the Fiscal Board:

a) To supervise the management of the company;

b) To ensure compliance with the law and the company's By-Laws;

c) To verify the regularity of accounting books and records as well as of supporting documents;

d) To verify the exactness of the balance sheet and income statement;

e) To verify if the accounting criteria adopted by the company lead to a correct evaluation of assets and results;

f) To prepare an annual report on its supervising activity and to give an opinion on the report and accounts and the proposals submitted by the board of directors.

In addition to these responsibilities, the Fiscal Board also has a duty of vigilance. It is the duty of the statutory auditor to immediately inform the Chairman of the Board of Directors, by registered letter, any facts that may come to his knowledge which he considers are revealing of serious difficulties in pursuing the company's corporate object, namely repeated failures to pay suppliers, protested bills, issue of uncovered cheques, or failure to pay social security contributions or taxes.

Every member of the Fiscal Board should immediately notify the statutory auditor, by registered letter, of any fact of which he may be aware that reveals difficulties in pursuing the company's object under normal conditions.

The Fiscal Board should meet at least quarterly. The decisions of the Fiscal Board are taken by a majority of the votes, and any member who does not agree with the decision taken should state the reasons for this disagreement and ensure they are included in the minutes of the meeting. In the case of a tie, the statutory auditor or statutory auditing firm have the casting vote.

The chart below shows remuneration paid to members of BES' Fiscal Board in the last three years:

(amounts in thousand of euros)

	2003	2004	2005
Remuneration	11	22	22

7.1.2
Audit Committee

The Audit Committee was created within BES' Board of Directors by resolution of the same board of October 26th, 2001, anticipating measures subsequently taken by the North-American supervision authority (the Securities and Exchange Commission), to which the Company is also indirectly subject by virtue of its largest shareholder's shares being listed in the New York Stock Exchange.

The Committee currently comprises three independent non-executive members of the Board of Directors (Mário Martins Adegas, Luís António Burnay Pinto de Carvalho Daun e Lorena and José Manuel Ruivo da Pena).

Mário Martins Adegas

Born on October 25th, 1935. In 1959 he graduated in Economics from the Porto University School of Economics.

Luís António Burnay Pinto de Carvalho Daun e Lorena

Born on October 11th, 1944. He studied Law at Lisbon University.

José Manuel Ruivo da Pena

Born on November 5th, 1940. Graduate in Company Organisation and Management from the Instituto Superior das Ciências do Trabalho e da Empresa (ISCTE), subsequently attending the International Advanced Executive Program (IAEP) of the JL Kellog Graduate School of Management, Northwestern University, Chicago, USA. He is a Statutory Auditor (voluntarily suspended since 2003).

The Audit Committee's main task is to assist the Board of Directors in carrying out its supervising functions with regard to (i) the process of preparing regular financial and account rendering reports, at both statutory and consolidated level, (ii) internal and external audit processes, (iii) the appointment of External Auditors, establishment of the respective remuneration, assessment of their performance, and verification of their professional qualifications and degree of independence, (iv) the system adopted by the bank to verify compliance with the laws and regulations that are applicable to it as well as to the companies where it has equity holdings and which are included in the bank's sphere of consolidation (hereinafter jointly designated "BES Group" or "associated companies"), and also the compliance of all board members, managers and remaining employees with the Codes of Conduct established for BES and its associated companies.

The Audit Committee is also responsible for previously authorising any relevant services that BES' External Auditors or any other entity, national or foreign, included in the same professional network as the External Auditors and/or corporate entities under a control or group relationship with those External Auditors propose to provide the bank or any of its associated companies, whenever the nature of such services is not auditing services.

The Audit Committee's functions are essentially of a supervisory nature. The Committee has full powers to conduct, contract or authorise investigations within the sphere of its responsibilities. Among others, the Committee has the power to:

a) obtain from any employee of BES Group companies all the information it may deem necessary to carry out its functions, all employees being authorised and obliged to provide such information without any restrictions whatsoever;

b) meet with board members, managers, external or internal auditors and/or members of the audit boards of BES Group companies whenever and in so far as it so deems necessary to carry out its functions;

c) obtain independent opinions and contract specialised advisory services or external consultancy services, as it may deem necessary to carry out its functions.

7.1.3
Compliance

The Compliance Officer's mission to ensure that the bank and its employees comply with all applicable legal, statutory, regulatory, ethical and conduct rules and regulations, and to provide clarification on any matters related with its activity.

The Compliance Officer's main tasks include:

- Analysing legislative acts and regulations issued by Portuguese or foreign regulatory and supervision authorities, assessing their impact and applicability and issuing recommendations regarding their adoption or implementation;
- Ensuring compliance with regulations applying to the financial intermediation activities which the bank is authorised to carry out;
- Monitoring compliance with the Code of Conduct and identifying possible areas of conflict of interest.
- Reviewing practices related to Anti Money Laundering and Know Your Customer (KYC) processes.

In 2005 two new Internal Control Units were brought into the Compliance Department: the Internal Control System Management Unit and the Money Laundering Prevention and Detection Unit (see section 8.2 of this report).

7.1.4
Risk committee

The Risk Committee is responsible for all matters related to the BES Group's overall risk, specifically for monitoring the evolution of the Group's integrated risk profile, specifically risk in each of its main client segments and product categories. It submits to the Executive Committee's for approval methodologies, policies, procedures and instruments to evaluate and decide on all types of risk incurred by the Group, namely credit, operational and market risk. The Committee also oversees special risk projects, specifically the Basel II project.

7.1.5
Credit risk monitoring committee

Within the scope of its credit risk monitoring and control powers, the Committee focuses on a group of clients that were pre-selected using the warning signals system. These are the Committee's main objectives:

• To analyse and assess clients whose creditworthiness shows signs of deteriorating, based on the following:
- the Clients' economic and financial profile;
- type of credit exposure;
- nature and value of the guarantees received, paying attention to the dates when the assets provided as security were evaluated and the entities which carried out these evaluations;
- warning signals detected in the behavioural profile of Clients in their relations with the bank and with the financial system in general.

• To formulate strategic options regarding the commercial relations and levels of active vigilance required for and better adjusted to the profile and specific circumstances of each of the entities/groups under analysis;

• To analyse and validate the credit impairment levels established for the group of entities in question, in accordance with predetermined objective criteria.

The Committee is headed by a risk officer and composed of one member of each of the Commercial, Internal Audit and Credit Recovery Divisions.

7.1.6

Control and disclosure of information to the market

The control and disclosure of information to the market system pursues two fundamental objectives:

a) to link the internal reporting of information to the structures responsible for disclosing said information to the market and external reporting of the information;

b) to link the reporting of periodic financial information to the market to the remaining information.

The financial reporting team is responsible for guaranteeing the efficiency of the entire process of collecting and processing information and periodically disclosing it to the market.

For this purpose, it monitors the preparation of periodic financial information, in particular the process leading to the creation of the Company's account rendering documents.

This team is formed by officers from the investor relations, risk, auditing, financial, strategic marketing and accounting areas.
In addition to the financial reporting team, there is another team that collects and reports ad hoc information. This team is responsible for guaranteeing the efficiency of the entire process through which BES discloses material information to the market (to all the markets where securities issued by BES are listed).

The main task of this team is to help determine which facts need to be informed to the market.

This team is composed of the Representative for market relations and relations with the Portuguese Securities Market Commission (CMVM), and officers from the areas of investor relations, risk, legal assistance to the Board of Directors and accounting.

7.1.7

Audit Department

Audit Department assesses and contributes to the fine-tuning of risk management, internal control and governance processes and through a systematic and disciplined approach assesses the internal control system with a view to reducing general risk conditions.

The scope of its powers encompasses:

- supervising and assessing compliance with the bank's internal regulations;
- ensuring the adequate means to test and validate operating procedures are in place, and safeguard money, recording and documentary assets that are the property of the BES Group or were entrusted to the bank for safeguarding;
- ensuring and promoting the relations with Legal, Police and Supervision authorities in all matters/actions pertaining to control, safety, banking secrecy and money laundering;
- participating in the definition and preparation of an internal regulatory framework, both through the issue of specific regulations and by taking part in consultations carried out in the field of control and safety principles applicable to banking procedures.

7.2
External Supervision

7.2.1
External auditor

KPMG & Associados SROC, S.A. is the Auditor responsible for the Audit Report issued by the statutory auditor and the Auditors' Reports to the Individual and Consolidated Accounts for each fiscal year starting in 2002 as well as for the Limited Review Report on Individual and Consolidated Financial Information for the first half of each fiscal year starting in 2003.

In 2005, several audit and consultancy services were rendered to the BES Group by its Auditors and also by other entities belonging to the same professional network. The expenses incurred in these services totalled euro 3,848,577 in 2005.

Audit and Consultancy Services provided by the External Auditor (euro)

	Total		National		International	
Tipo de Serviço	Amount	%	Amount	%	Amount	%
Audit Services / Statutory	**1,968,450**	**51**	127,145	47	697,000	60
Other Realiability Assurance Services	**68,250**	**2**	44,750	2	23,500	2
Fiscal / Tax Consultancy Services	**704,887**	**18**	510,189	19	194,698	17
Other Non-audit / Statutory Audit Services	**1,106,990**	**29**	854,770	32	252,220	22
Total	**3,848,577**	**100**	2,681,159	100	1,167,418	100

Fiscal consultancy services and other non-audit/ services provided to the BES Group either by the Auditors or by other entities belonging to the same professional network, assume that both the BES Group and Auditors have the adequate means to safeguard the professional independence of the External Auditors. These means may be summarized as follows:

i) At BES Group level

Within the scope of compliance with the rules on independence established for external auditors, the Audit Committee defined the criteria which should be used in the approval of non-audit services to be provided by the external auditor.

In this context, all proposals concerning the provision of fiscal consultancy or other non-audit services must be subject to the analysis and prior approval of the Audit Committee with a view to safeguarding the professional independence of the External Auditors.

For practical reasons, the Audit Committee has defined a set of non-audit services which, on account of their nature, do not require prior analysis and approval providing that the remuneration paid for such services falls below a specified pre-established amount. However, the Audit Committee has also determined not only that it must be informed of these automatically approved proposals, for ratification, on a quarterly basis, but also that all the proposals submitted by the External Auditors concerning the provision of non-audit services whose remuneration exceeds the specified limit and/or which by their very nature are not liable to automatic approval be subject to prior analysis and approval by that Committee.

ii) At the level of BES Group's Auditors

BES Group's Auditors have prepared specific internal instructions concerning the procedures that must be followed by all the entities included in their professional network whenever they propose to provide services to any entity of the BES Group.

In addition, the international network to which the Auditors belong has implemented an intranet service (called "Sentinel") under which no service can be provided by any entity of that network to any client with listed securities without the previous authorization of the Global Lead Partner responsible for that client. This procedure obliges any partner of the Auditors, or of any other entity belonging to the same professional network, who proposes to provide a service to an audit client, to previously request the respective Global Lead Partner's authorisation to provide that service. In that request for authorisation, the partner of the Auditor responsible for submitting the proposal to the client is obliged to justify the reasons why it considers that not only the service to be provided to the audit client does not jeopardize the independence of the Auditor in relation to that client, but also that it complies with applicable rules on professional risk management.

On the other hand, before authorising any proposal to provide services to be submitted to the BES Group, the Global Lead Partner of the Auditors, in charge of the professional relations between the Auditors and BES Group is responsible for verifying if the services to be proposed fall within the scope of the pre-approval requirement for non-audit services, and, should that be the case, for taking the necessary steps with the BES Group entity to which the proposal is addressed in order to obtain assurance that applicable independence rules are strictly complied with. In case of doubt, the Global Lead Partner should also consult with its Risk Management Partner.

Finally, it should also be noted that all these procedures are subject to compliance tests within the scope of the internal Quality Control process carried out on an annual basis by BES Group Auditors.

7.2.2

Supervision Authorities[1]

The Bank of Portugal supervises credit institutions and financial companies so as to guarantee the stability and strength of the financial system, its efficient operation, the safety of deposits and depositors and the protection of the consumers of financial services.

According to the Legal Framework for Credit Institutions and Financial Companies, it shall be incumbent on the Bank of Portugal to authorise the setting up of credit institutions and financial companies in such cases when the decision is taken only on grounds of technical and prudential criteria, to monitor the activity of the institutions subject to supervision, to oversee compliance with the rules governing the activity of those institutions, to issue recommendations to put an end to any irregularities detected, impose penalties on infractions and take extraordinary reorganisation measures.

The **Portuguese Securities Market Commission**, known by its initials "CMVM", is the authority in charge of supervising and regulating securities and other financial instruments markets, as well as the activity of all those who operate within said markets and all matters pertaining to the securities markets.

The CMVM supervises and regulates offers launched on securities and, whether it is from a prudential standpoint or a behavioural stance, market management entities and collective investment institutions (real estate and investment funds).

(1) Sources: Bank of Portugal website (www.bportugal.pt) and website of the CMVM (Portuguese Securities Committee) (www.cmvm.pt).

08.
Risk Control and Internal Control System

8.1
Risk Control System

Efficient risk management and control has played a fundamental role in the balanced and sustained growth of the BES Group. The harmonisation of regulatory vision with the economic outlook implied in the new regulatory framework proposed by the Basel Committee - whose principles corroborate the Group's rationale and practices – creates new opportunities and is a stimulus to the effort being made in the risk area.

It is the responsibility of the Executive Committee to define the objective risk profile, for which it establishes global and specific limits. Its responsibility also includes establishing the general principles of risk management and control, and ensuring that the BES Group has the necessary competences and resources for the purpose.

At a more specialised level, the Risk Committee is responsible for monitoring the Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk. The Risk Committee holds monthly meetings, which are attended by the Chairman of the Executive Committee.

The Risk Function of the BES Group, at both domestic and international level, is centralised at the Global Risk Department (GRD) and covers various types of risk, namely, credit, market, liquidity, interest rate, balance sheet and operational risk.

The main responsibilities of the Global Risk Department are:
- To identify, assess and control the different types of risk assumed, thus managing the Group's overall exposure;
- To implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Group's units;
- To contribute towards the achievement of the BES Group's value creation objectives, by fine-tuning tools to support the structuring and pricing of operations, as well as the respective decision-taking process, and by developing internal techniques for performance assessment and optimising core capital.

8.2
Internal Control System

An Internal Control System Management Unit was set up in 2005 within the Compliance Office. This unit's main responsibilities are:
- To guarantee full compliance with the regulations applicable to BES in the area of Internal Control;
- To provide the BES Group with a monitoring and permanent revision framework of the internal control system;
- To prepare a plan designed for reinforcing the internal control system.

Prevention and Detection of Money Laundering

Also in 2005, BES' Executive Committee decided to launch a project specifically addressed to Anti Money Laundering (AML) and Know Your Customer (KYC) policies and procedures, for which it had the support of specialised external consultants. This project was deployed in several main stages:

- Diagnosis of the present situation and identification of areas where procedures can be improved;
- Design a model for future implementation, aligned with both the BES Group's specific characteristics and the applicable legislative and regulatory framework
- Implementation of this model

To deal with these issues, a Money Laundering Prevention and Detection Unit was set up at the end of the year within the Compliance Office.

This Unit centralises all the functions related to Money Laundering prevention and detection (Know Your Customer, Know Your Transaction and Know Your Processes), ensuring that counterparties are identified and approved in accordance with respective risk, monitoring suspect transactions, establishing policies and procedures and mapping out and implementing AML training and communication measures across the whole BES Group.

09.
Businesses with related parties and with entities of BES Group

All the businesses and transactions carried out by the Company with members of its Board of Directors and Fiscal Board, with holders of qualified stakes or with companies under a parent-subsidiary or group relationship are cumulatively undertaken under normal market conditions for similar operations and are part of the Bank's day-to-day activity.

10.
Conflicts of Interest

There are several legal provisions that regulate and seek to prevent situations of conflict of interest. The Bank's Code of Conduct endeavours to establish rules governing the execution of these legal provisions.

10.1
Rules that apply to BES as a credit institution (a Bank)

Members of the board of directors, managers and other employees, advisers and representatives of credit institutions shall not intervene in the appraisal and taking of decisions on operations in which they, their spouses, relatives by consanguinity, or persons related to them by affinity in the first degree, as well as companies or other collective bodies directly or indirectly controlled by any of these persons or bodies, are, directly or indirectly, the parties concerned.

In principle, credit institutions shall not grant credit, in any form or type, including the provision of guarantees, either directly or indirectly, to members of their management or fiscal boards, nor to companies or other collective bodies directly or indirectly controlled by them. Credit institutions are also not allowed to take holdings in companies or other collective bodies directly or indirectly controlled by members of their management or supervision boards.

These prohibitions do not apply to transactions of a social nature or purpose, or arising out of the human resources policy, nor to non-executive members of the board of credit institutions and to companies or other collective bodies controlled by them.

Members of the management or fiscal boards of a credit institution shall not participate in the appraisal and decision about whether or not to grant credit to companies and other collective bodies of which they are managers or in which they have a qualifying holding.

As a rule in all the situations where it is possible to grant credit to members of the management or fiscal boards, the approval by at least two thirds of the remaining members of the management board as well as the favourable opinion of the fiscal board shall be required.

10.2
Rules that apply to BES as a limited liability company (*"Sociedade Anónima"*)

Contracts between the company and the members of its board of directors, whether directly or through a third party, shall not be valid if not previously authorised by a resolution of the Board of Directors in which the interested party is not allowed to vote, with the favourable opinion of the Fiscal Board.

This rule extends to acts or contracts with companies under a control or group relationship with the company where the contracting person is a member of the Board of Directors.

In the annual report, the board of directors must state the authorisations it has granted and the report of the Fiscal Board must refer the opinions given on those authorisations.

The only exception to the above rule concerns situations where the acts in question are part of the company's business itself and no special advantage is granted to the contracting board member. In these situations the company and each board member are free to make contracts.

During the period for which they were appointed, board members shall not exercise, in the company or in companies in which it has a controlling or group relationship, any temporary or permanent functions under subordinated or autonomous employment contracts, or sign any such contracts for providing services after their functions as board members have terminated.

Members of the Board of Directors shall not, without the General Meeting's authorisation, exercise, either for own account or for the account of others, activities that compete with the Company's activity.

The members of the Board of Directors and Fiscal Board must inform the company about the number of shares and bonds they hold in the company, as well as about all acquisitions, encumbrances or disposals of shares and bonds held by them in the company and in companies under a control or group relationship with it. This obligation extends to the shares and bonds held by their spouses not legally separated, regardless of the matrimonial regime, descendants under age, persons holding those shares on account, and also companies having a certain relationship with the members of the Board of Directors and Fiscal Board.

10.3
Rules that apply to BES as a listed company

Any acquisitions or disposals of shares admitted to trading in a regulated market made by the entities listed below must be communicated to the CMVM.

a) Members of the management board of the company issuing those shares.
b) Members of the management board of a company controlling the company issuing those shares.
c) Companies controlled by one of the persons referred in a) and b).
d) Persons acting on behalf of the persons referred in a), b) and c).

10.4
Rules of BES' Code of Conduct

The interests of customers shall take precedence both over the interests of BES and those of companies with which the Bank has a controlling or group relationship, and over the interests of any of the addressees of the Code of Conduct.

In the event of conflict, customers shall at all times be ensured fair and transparent treatment.

BES employees (members of the Board of Directors and Fiscal Board, employees, proxies and other persons providing services of a permanent nature) shall endeavour to avoid the conflicts of interest between the Bank's clients, acting with impartiality and at all times ensuring compliance with the principle of equal treatment.

Internal conduct obligations for BES employees:

a) To promptly communicate to the person immediately above them in the Company's hierarchy, to BES' Compliance Officer or to the Audit Committee of the Board of Directors any conflict of interests or of obligations in which they may incur or which may have come to their knowledge;

b) To abstain from unduly taking advantage or using business opportunities or corporate assets;

c) To abstain from soliciting or accepting gifts of any kind or favours from third parties liable of jeopardising their impartiality or loyalty to BES;

d) To abstain from using their position in BES' hierarchy or organisation to obtain any advantage for themselves, their family or for any party.

Should an employee incur in a conflict of interests arising from any cause related to the employee or his/her assets, and which may be liable of disturbing or preventing the adequate defence of the interests of BES, the market or BES clients, that employee shall immediately report this to his/her senior officer, who shall take all adequate measures to resolve the conflict.

BES' senior officers shall inform BES of any acquisitions or disposals of BES or ESFG shares in writing within a maximum of five business days from the date of these acquisitions or disposals.

In addition to the above, BES keeps an up to date record of the transactions made by the employees who engage in financial analysis. These employees are not permitted, either directly or through another party, to trade in the securities issued by the company in question on a date close to that in which the financial analysis report is concluded and disclosed.

Annex 1

CMVM Recommendations on the Governance of Listed Companies

1. Each listed company is required to ensure the appointment of a permanent representative for liaison with the market, respecting the principle of equality among Shareholders and preventing uneven access to information on the part of investors. The creation of a department designed to assist investors is therefore recommended.

2. The active exercise of the right to vote, either directly, namely by post, or by representation, should not be restricted. A restriction on the active exercise of the right to vote is deemed for these purposes as: a) the imposition of a period of more then 5 working days between the deposit or blocking of shares and permission to participate in the general meeting; b) any restriction in the company's by-laws on postal voting; c) the imposition of a requirement that postal votes be received more than 5 days in advance d) the non-availability of ballot papers allowing Shareholders to exercise their voting rights.

3. It is recommended that companies establish an internal control system, for the efficient detection of risks linked to their activity, as a means of safeguarding their assets and enhancing the transparency of their corporate governance practices.

4. Measures adopted to prevent the success of takeover bids should respect the interests of the company and its shareholders. Measures considered contrary to these interests include defensive clauses intended to cause an automatic erosion of company assets in the event of the transfer of control, or of changes to the composition of the board which prove detrimental to the free transferability of shares and the free assessment by shareholders of the performance of members of the board.

5. The Board should be composed of a number of members who provide managers with effective guidance for the Management of the Company.

5.A. The board of directors should include a sufficient number of non-executive directors, whose role it is to continuously monitor and assess the management of the company by the executive members of the board. Members of other corporate bodies may exercise ancillary roles or, at the very most, substitute board members, if the supervisory powers involved are equivalent and exercised in fact.

6. The non-executive members of the board of directors must include a sufficient number of independent members. When there is only one non-executive director, he/she must also be independent. Independent members of other corporate bodies may exercise ancillary roles or, at the very most, substitute board members, if the supervisory powers involved are equivalent and exercised in fact.

7. The board of directors should create internal audit committees, with the power to assess the corporate structure and its governance.

8. The remuneration of members of the board of directors should be structured in such a way as to permit the interests of board members to be in line with those of the company, and should be disclosed annually in individual terms.

8.A. A declaration on the policy for remunerating members of a company's corporate bodies should be submitted to the attention of shareholders at the annual general meeting.

9. The members of the remuneration or equivalent committee should be independent in relation to the members of the Board.

10. A proposal should be submitted to the general meeting with regard to the approval of plans for the allotment of shares, and/or options to purchase shares or based on variations in share prices, to members of the board of directors and/or employees. Said proposal should contain all information necessary to ensure that the plan is correctly assessed. The proposal should be accompanied by the rules of procedure for the plan, or, if these have not yet been drafted, by the general conditions for the plan.

10.A. The company should adopt a policy whereby alleged irregularities occurring within the company are reported, containing the following information: the method through which the irregular practices are reported internally, including the persons permitted to receive such information, the manner in which such reports are to be dealt with, including confidential treatment of the information, if such is the wish of the person making the declaration. The general direction of this policy should be disclosed in the corporate governance report.

11. Institutional investors should take into consideration their responsibility to contribute to the diligent, efficient and critical use of the rights conferred on them by the securities they hold or whose management has been entrusted to them, particularly with regard to information and voting rights.

Annex 2

Corporate Positions Held by Members of the Board of Directors of Banco Espírito Santo

António Luís Roquette Ricciardi

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo et de la Vénétie, S.A. (Honorary President)

Quinta dos Cónegos - Sociedade Imobiliária, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors

Higher Council of Espírito Santo Group (Chairman)

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

Compagnie Bancaire Espírito Santo, S.A. (Member)

E. S. Control Holding, S.A. (Chairman)

Espírito Santo International, S.A. (Chairman)

Espírito Santo Financial Group, S.A. (Member)

Espírito Santo Resources Limited (Chairman)

Espírito Santo Services, S.A. (Member)

Espírito Santo Tourism (Portugal) – Consultoria de Gestão Empresarial, S.A. (Chairman)

Partran - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

General Meeting

Espírito Santo Golfes, S.A. (Chairman)

Espírito Santo Property Holding (Portugal), S.A. (Chairman)

Espírito Santo Resources (Portugal), S.A. (Chairman)

Espírito Santo Tourism (Portugal) - Consultoria de Gestão Empresarial, S.A. (Chairman)

Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Gestres - Gestão Estratégica Espírito Santo, S.A. (Chairman)

Ricardo Espírito Santo Silva Salgado

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Chairman)

Banco Espírito Santo, S.A. (Spain) (Member)

Banque Espírito Santo et de la Vénétie (Member)

BES Finance, Ltd. (Member)

BES Overseas, Ltd. (Member)
BEST - Banco Electrónico de Serviço Total, S.A. (Chairman)
ES Tech Ventures - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
ESAF - Espírito Santo Activos Financeiros - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Bank (Vice-Chairman)
Espírito Santo Empresa de Prestação de Serviços, ACE (Chairman)
Espírito Santo Overseas, Ltd. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors

Banco Bradesco, S.A. (Member)
Bespar - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Cariges, S.A. (Member)
Casa dos Pórticos - Sociedade de Administração de Bens, S.A. (Chairman)
Compagnie Bancaire Espírito Santo, S.A. (Member)
E.S. Control (BVI), S.A. (Member)
E.S. Control Holding, S.A. (Member)
E.S. Holding Administração e Participações, S.A. (Vice-Chairman)
Espírito Santo BP Invest, S.A. (Member)
Espírito Santo BVI Participation Limited (Member)
Espírito Santo Financial (BVI), S.A. (Chairman)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Financial Group, S.A. (Chairman)
Espírito Santo Financial Services, Inc (Director)
Espírito Santo Industrial (BVI), S.A. (Member)
Espírito Santo International (BVI), S.A. (Member)
E.S. International, S.A. (Member)
Espírito Santo Property (BVI), S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Saúde - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Gespetro - Sociedade Gestora de Participações Sociais, S.A. (Member)
Novagest Assets Management, Ltd. (Member)
Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade de Administração de Bens Pedra da Nau, S.A. (Chairman)

Fiscal Board

Euronext NV - Sociedade Gestora de Mercados Regulamentados, S.A. (Member)
IIEB - Institut International d'Études Bancaires (Chairman)

Jean Gaston Pierre Marie Victor Laurent

Corporate positions held outside BES Group

Board of Directors

Calyon (Chairman)

Danone Group (Member; Member of the Appointments and Remuneration Committee)

Supervisory/Fiscal Board

Eurazeo (Member and Member of the Financial Committee)

M6 Television (Member)

Mário Mosqueira do Amaral

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo, S.A. (Spain) (Member)

Banco Espírito Santo et de la Vénétie, S.A. (Member)

BES Finance, Limited (Member)

Espírito Santo Overseas, Ltd. (Member)

Espírito Santo Empresa de Prestação de Serviços, ACE (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Amaral & Pinto - Empreendimentos Imobiliários, S.A. (Chairman)

Banque Marrocaine du Commerce Extérieur (Member)

E.S. International, S.A. (Vice-Chairman)

Banco Espírito Santo North American Capital Corporation (Chairman)

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

Compagnie Bancaire Espírito Santo, S.A. (Member)

E.S. Control Holding, S.A. (Vice-Chairman)

Espírito Santo Financial Group, S.A. (Member)

Espírito Santo Investment Management (Member)

Espírito Santo Resources Limited (Member)

E.S. Services, S.A. (Member)

Gespetro - Sociedade Gestora de Participações Sociais, S.A. (Member)

Partran - Sociedade Gestora de Participações Sociais, S.A. (Member)

General Meeting

Gesfimo - Espírito Santo, Irmãos - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A. (Chairman)

Telepri - Telecomunicações Privadas, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

José Manuel Pinheiro Espírito Santo Silva

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Member)

Banco Espírito Santo et de la Vénétie, S.A. (Member)

Banco Espírito Santo, S.A. (Spain) (Chairman)

ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)

Espírito Santo Bank (Member)

Europ Assistance - Companhia Portuguesa Seguros Assistência, S.A. (Member)

Fiduprivate - Sociedade de Serviços, Consultoria, Administração de Empresas, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

Compagnie Bancaire Espírito Santo, S.A. (Chairman)

E.S. Control Holding, S.A. (Member)

ESFG Overseas Limited (Vice-Chairman)

Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

Espírito Santo Financial Group, S.A. (Vice-Chairman)

Espírito Santo International, S.A. (Member)

Espírito Santo Resources Limited (Member)

Espírito Santo Services, S.A. (Member)

Sociedade Imobiliária e Turística da Quinta do Perú, S.A. (Chairman)

António José Baptista do Souto

A. Corporate positions held in BES Group companies

Board of Directors

Besleasing & Factoring, IFIC, S.A. (Chairman)

Espírito Santo - Companhia de Seguros, S.A. (Member)

Espírito Santo Data - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Espírito Santo Empresa de Prestação de Serviços, ACE (Member)

Espírito Santo Overseas, Ltd. (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Angra Moura - Sociedade de Administração de Bens, S.A. (Chairman)

Companhia de Seguros Tranquilidade, S.A. (Member)

Companhia de Seguros Tranquilidade-Vida, S.A. (Member)

SIBS - Sociedade Interbancária de Serviços, S.A. (Member)

Jorge Alberto Carvalho Martins

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo, S.A. (Spain) (Member)

Crediflash - Sociedade Financeira para Aquisições a Crédito, S.A. (Chairman)

Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors

Credibom - IFIC, S.A. (Member)

Hospor, Hospitais Portugueses, S.A. (Chairman)

Ropsoh, Unidades de Saúde, S.A. (Chairman)

General Meeting

Leica, Aparelhos Ópticos de Precisão, S.A. (Chairman)

Supervisory / Fiscal Board

Agência de Desenvolvimento Regional de Entre-o-Douro e Tâmega (Chairman)

Higher Council

Primus, Promoção e Desenvolvimento Regional, S.A. (Member)

Aníbal da Costa Reis de Oliveira

Corporate positions held in companies outside BES Group

Board of Directors

ACRO, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Diliva - Sociedade de Investimentos Imobiliários, S.A. (Chairman)

Espírito Santo Financial (Portugal), Sociedade Gestora de Participações Sociais, S.A. (Member)

Espírito Santo International, S.A. (Member)

Olinveste, Sociedade Gestora de Participações Sociais, Lda. (Manager)

Saramagos – Sociedade Produtora de Energia, S.A. (Chairman)

Texarte Têxteis, S.A. (Chairman)

General Meeting

Olifil Têxteis, S.A (Chairman)

José Manuel Ferreira Neto

A. Corporate positions held in BES Group companies

Board of Directors

ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)

Espírito Santo Empresa de Prestação de Serviços, ACE (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Sogesis – Gestão de Investimentos e Serviços, S.A. (Member)

Supervisory / Fiscal Board

Fundação Cultursintra (Chairman)

General Meeting

Santa Casa da Misericórdia de Sintra (Chairman)

Manuel de Magalhães Villas-Boas

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Member)

BES Finance Limited (Member)

BES Overseas Limited (Member)

Espírito Santo Overseas Limited (Vice-Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors

ESFG Overseas Limited (Member)

Espírito Santo Financial Group, S.A. (Member)

Espírito Santo Investment Management (Member)

Manuel Fernando Moniz Galvão Espírito Santo Silva

A. Corporate positions held in BES Group companies

Board of Directors

Espírito Santo Bank (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Academia de Música de Santa Cecília (Chairman)

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

E.S.Control Holding, S.A. (Member)

Espírito Santo Financial Group, S.A. (Member)

Espírito Santo Golfes, S.A. (Chairman)

Espírito Santo Health & SPA, S.A. (Chairman)

Espírito Santo Hoteis, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Espírito Santo Industrial S.A. (Chairman)

Espírito Santo Resources, Limited (Chairman of the Executive Committee)

Espírito Santo Services, S.A. (Member)

Espírito Santo Tourism (Europe) (Chairman)

Espírito Santo Tourism (Portugal) - Consultoria de Gestão Empresarial, S.A. (Vice-Chairman)

Euroamerican Finance Corporation, Inc. (Chairman)

Herdade da Comporta – Actividades Agro Silvícolas e Turísticas, S.A. (Chairman)

Partran - Sociedade Gestora de Participações Sociais, S.A. (Member)

PT Multimédia, Serviços de Telecomunicações e Multimédia, Sociedade Gestora de Participações Sociais, S.A. (Member)

Santogal - Sociedade Gestora de Participações Sociais, S.A. (Member)

Sociedade de Investimentos Imobiliários Sodim, S.A. (Member)

Telepri - Telecomunicações Privadas, Sociedade Gestora de Participações Sociais, S.A. (Member)

General Meeting

Espart - Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Quinta Patino - Sociedade de Investimentos Turísticos e Imobiliários, S.A. (Chairman)

Sociedade Imobiliária e Turística da Quinta do Peru, S.A. (Chairman)

José Maria Espírito Santo Silva Ricciardi

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Vice-Chairman and Chairman of the Executive Committee)

BES Investimento do Brasil, S.A. (Chairman)

ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

Espírito Santo Capital – Sociedade de Capital de Risco, S.A. (Member)

Espírito Santo Cobranças, S.A. (Member)

Espírito Santo de Investimentos, S.A. (Chairman)

Espírito Santo Investment S.A.U., S.V. (Chairman)

ESSI – Comunicações - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

ESSI – Investimentos - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

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

Jampur – Trading Internacional, Lda. (Manager)

B. Corporate positions held in companies outside BES Group

Board of Directors

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

Coporgest – Companhia Portuguesa de Gestão e Desenvolvimento Imobiliário, S.A. (Member)

Espírito Santo Financial Group S.A. (Member)

Espírito Santo Financial (Portugal) – Sociedade Gestora de Participações Sociais, S.A. (Member)

Fomentinvest - Sociedade Gestora de Participações Sociais, S.A. (Member)

Multiger - Sociedade de Compra, Venda e Administração de Propriedades, S.A. (Chairman)

Supervisory / Fiscal Board

Sporting Clube de Portugal (Vice-Chairman)

General Meeting

Controlled Sport (Portugal) Turismo Cinegética e Agricultura, S.A. (Chairman)

Espart - Espírito Santo Participações Financeiras - Sociedade Gestora de Participações Sociais, S.A. (Secretary)

PT Meios – Serviço de Publicidade e Marketing, S.A. (Chairman)

Jean-Luc Louis Marie Guinoiseau

A. Corporate positions held in BES Group companies

Board of Directors

Besleasing e Factoring, IFIC, S.A. (Member)

Crediflash - Sociedade Financeira para Aquisições a Crédito, S.A. (Member)

Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Member)

Espírito Santo Empresa de Prestação de Serviços, ACE (Member)

B. Corporate positions held in companies outside BES Group

General Meeting

Companhia de Seguros Tranquilidade-Vida, S.A. (Secretary)

Rui Manuel Duarte Sousa da Silveira

A. Corporate positions held in BES Group companies

General Meeting

Banco Espírito Santo dos Açores, S.A. (Chairman)

BEST - Banco Electrónico de Serviço Total, S.A. (Chairman)

Crediflash - Sociedade Financeira Para Aquisições a Crédito, S.A. (Chairman)

ES Capital - Sociedade de Capital de Risco, S.A. (Chairman)

ES Interaction - Sistemas de Informática Interactivos, S.A. (Chairman)

ES Tech Ventures – Desenvolvimento Empresarial e Serviços de Gestão, S.A. (Chairman)

ESAF - Espírito Santo Fundos de Investimento Imobiliário, S.A. (Chairman)

ESAF - Espírito Santo Fundos de Investimento Mobiliário, S.A. (Chairman)

ESAF - Espírito Santo Fundos de Pensões, S.A. (Chairman)

ESAF - Espírito Santo Participações Internacionais, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

ES Tech Ventures – SGPS, S.A. (Chairman)

ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

ESEGUR - Empresa de Segurança, S.A. (Vice-Chairman)

Espírito Santo - Companhia de Seguros, S.A. (Chairman)

Espírito Santo Cobranças, S.A. (Chairman)

Espírito Santo Data - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Espírito Santo Empresa de Prestação de Serviços, ACE (Chairman)

Espírito Santo Innovation – Tecnologias de Informação, S.A. (Chairman)

Europ Assistance - Companhia Portuguesa de Seguros de Assistência, S.A. (Vice-Chairman)

B. Corporate positions held in companies outside BES Group

Board of Directors

Espírito Santo - Unidades de Saúde e de Apoio à Terceira Idade, S.A. (Member)

Sociedade de Administração de Bens, Casa de Bons Ares, S.A. (Member)

Cimianto – Gestão de Participações, S.A. (Member)

General Meeting

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Capital Mais - Assessoria Financeira, S.A. (Chairman)

Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Secretary)

Companhia de Seguros Tranquilidade, S.A. (Vice-Chairman)

Espírito Santo Gestão de Patrimónios, S.A. (Chairman)

Espírito Santo Equipamentos de Segurança, S.A. (Chairman)

Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

Espírito Santo Saúde - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Fundo de Turismo - Capital de Risco, S.A. (Chairman)

Fundo de Turismo - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A. (Chairman)

Oblog Consulting, S.A. (Chairman)

Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Supervisory / Fiscal Board

Instituto Português de Direito Bancário

Joaquim Aníbal Brito Freixial de Goes

A. Corporate positions held in BES Group companies

Board of Directors

BEST - Banco Electrónico de Serviço Total, S.A. (Member)

E.S.Interaction - Sistemas de Informação Interactivos, S.A. (Chairman)

Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Member)

ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A. (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Companhia de Seguros Tranquilidade-Vida, S.A. (Member)

Portugal Telecom, Sociedade Gestora de Participações Sociais, S.A. (Member)

PT Multimédia, Serviços de Telecomunicações e Multimédia, Sociedade Gestora de Participações Sociais, S.A. (Member)

Supervisory / Fiscal Board

Centro Social e Paroquial de Nossa Senhora da Ajuda (Chairman).

Fundação da Universidade Católica Portuguesa (Chairman)

Pedro José de Sousa Fernandes Homem

A. Corporate positions held in BES Group companies

Board of Directors

Empresa de Servicios de Inversion Hiscapital, A.V., S.A. (Member)

ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)

Espírito Santo Financial Consultants, Gestão de Patrimónios, S.A. (Member)

B. Corporate positions held in companies outside BES Group

Supervisory/Fiscal Board

Spinnaker Global Opportunity Fund Ltd. (Member)

Herman Agneessens

Corporate positions held in companies outside BES Group

Board of Directors

Fin. Force, Brussels (Chairman)

KBC Bank NV (Director)

KBC Group (Director)

KBC Insurance (Director)

TAI Frankfurt (Board Member)

Patrick Gérard Daniel Coudène

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo (Spain), S.A. (Member)

Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)

Espírito Santo Companhia de Seguros, S.A. (Vice-Chairman)

ESAF – Espírito Santo Activos Financeiros - Sociedade Gestora de Participações Sociais, S.A. (Member)

ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A.

B. Corporate positions held in companies outside BES Group

Board of Directors

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

Companhia de Seguros Tranquilidade-Vida, S.A. (Member)

Credibom, IFIC, S.A. (Member)

Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)

Soparcer – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Michel Victor François Villatte

Corporate positions held in companies outside BES Group

Board of Directors

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)

École Nationale d'Assurances (ENASS) (Chairman)

Emporiki Life Insurance Company (Greece) (Vice-Chairman)

FFSA (Member)

FFSAM (Vice-Chairman)

Fondation du Crédit Agricole (Member)

Gecina S.A. (Member)

Groupemement Français de Bancassureurs (Chairman)

Ifcam (Member)

La Medicale de France, S.A. (Chairman)

Pacifica, S.A. (Member)

Partran, Sociedade Gestora de Participações Sociais, S.A. (Member)

Predi Retraites (General Manager)

Predica, S.A. (General Manager)

Predicai-Europe (Luxembourg) (Chairman)

Sal Bancassurance (Lebanon) (Member)

Siparex (Permanent Representative of Predica)

Suren, S.A. (Member)

Unimo, S.A. (Permanent Representative of Predica, Member)

Supervisory/Fiscal Board

Unipierre Assurance (Chairman)

CA Grands Crus SAS (Permanent Representative of Predica, Member)

Mário Martins Adegas

Corporate positions held in companies outside BES Group

Supervisory / Fiscal Board

E Tempus, SGPS   Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Luís António Burnay Pinto de Carvalho Daun e Lorena

Corporate positions held in companies outside BES Group

Board of Directors

Campeque, Lda (Manager)

Lázaro de Mello Brandão

Corporate positions held in companies outside BES Group

Board of Directors

Banco Bradesco S.A. (Chairman)

Banco Bradesco Luxembourg, S.A. (Chairman)

Bradesco Leasing - Arrendamento Mercantil S.A. (Chairman)

Bradespar S.A. (Chairman)

Bradesplan Participações S.A. (Chairman)

Bradport – Sociedade Gestora de Participações Sociais, Sociedade Unipessoal, Lda.

Cidade de Deus - Companhia Comercial de Participações (Chairman and CEO)

Elo Participações S.A. (Chairman and CEO)

Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (Chairman and CEO)

Governing Board

Fundação Bradesco (Chairman and CEO)

Top Management ("*Directoria*")

NCF Participações S.A. (CEO)

Nova Cidade de Deus Participações S.A. (CEO)

Top Clube Bradesco, Segurança, Educação e Assistência Social (CEO)

Advisory Board

VBC Participações S.A. (Member)

Executive Board

Caixa Beneficente dos Funcionários do Bradesco (Chairman)

Ricardo Abecassis Espírito Santo Silva

A. Corporate positions held in BES Group companies

Board of Directors

Banco Espírito Santo de Angola (Chairman)

Banco Espírito Santo de Investimento, S.A. (Member)

BES Finance, Limited (Member)

BES Investimento do Brasil, S.A. (Member)

Espírito Santo Investimentos, S.A. (Brazil) (Member)

Espírito Santo Bank (Vice-Chairman)

Supervisory / Fiscal Board

Banco Espírito Santo do Oriente, S.A. (Chairman)

Top Management ("*Directoria*")

BES Investimento do Brasil, S.A. (Chairman)

Espírito Santo Investimentos, S.A (Brazil) (Chairman)

Europ Assistance (Brazil) (Director)

GESPAR S/C Ltda. (Brazil) (Director)

B. Corporate positions held in companies outside BES Group

Board of Directors

Agribahia, S.A. (Brazil) (Substitute Member)

Bradespar, S.A. (Brazil) (Member)

E.S. Control Holding, S.A. (Member)

E.S. Holding (Brazil) (Member)

ESPART - Administração e Participações, S.A. (Member)

Espírito Santo Financial (Portugal) (Member)

Espírito Santo International (Member)

Espírito Santo Resources Limited (Bahamas) (Member)

Euroamerican Finance Corporation, Inc. (Member)

Monteiro Aranha, S.A. (Brazil) (Member)

Novagest Assets Management, Ltd. (Member)

Seicor - Comércio Administração e Participações S.A. (Brazil) (Member)

USHUAIA - Gestão e Trading International, Ltd. (Member)

Top Management ("*Directoria*")

Associação Espírito Santo Cultura (Director)

E.S. Holding (Brazil) (Chairman)

ESAI - Espírito Santo Ativos Imobiliários Ltda. (Brazil) (Managing Director)

ESCAE - Administração e Participações Ltda. (Brazil) (Director)

InterAtlântico S.A. (Brazil) (Chairman)

Seicor - Comércio Adm. e Part. S.A. (Brazil) (Chairman)

Câmara Portuguesa de Comércio no Brasil (Director)

Joá Imobiliária Ltda. (Member)

ESAP Brasil Agro-Pecuária (Member)

ES Consultoria (Member)

Supervisory / Fiscal Board

Banco Bradesco, S.A. (Member)

Advisory Board

Portugal Telecom - Brazil (Member)

Bernard Henri Georges De Wit

Corporate positions held in companies outside BES Group

Board of Directors

Banco Bisel, S.A. (Argentina) (Member)

Banco del Desarrollo (Chile) (Member)

Banco Suquia, S.A. (Argentina) (Member)

Belgium CA S.A.S. (Member of Managing Committee)

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)

Crédit Agricole (Belgium), S.A. (Member)

Crédit Uruguay Banco, S.A. (Uruguay) (Vice-President)

Deveurope, S.A. (France) (Member of Managing Committee)

Emporiki Bank (Member)

Europabank, N.V. (Member)

Inversora del Dusuia, S.A. (Member)

Keytrade Bank, S.A. (Member)

SICSA (Argentina) (Board Member)

José Manuel Ruivo da Pena

Holds no position in other companies.

Jean-Fréderic de Leusse

Corporate positions held in companies outside BES Group

Board of Directors

Banca Intesa, S.P.A. (Administrateur)

Banque Libano Française (Administrateur)

Banque Saudi Fransi (Administrateur)

CAI Egypt (Administrateur)

Crédit Agricole, S.A. (Membre Comex, Directeur)

Crédit Lyonnais Private Equity Holding (Président Directeur Général)

IDIA Participations (Président)

Sofipar (Président)

Sofiproteol (Administrateur)

Unigrains (Administrateur)

UI (Président Directeur Général)

Unipar (Président)

Supervisory / Fiscal Board

Crédit Lyonnais Private Equity (Président)

Lukas Bank, S.A. (Wroclav, Polónia) – (Président)

Amílcar Carlos Ferreira de Morais Pires

A. Corporate positions held in BES Group companies

Board of Directors

Bank Espírito Santo International Limited (Chairman)

Banco Espírito Santo de Investimento, S.A. (Member)

Banco Espírito Santo do Oriente, S.A. (Member)

BES Finance Limited (Member)

BES Overseas Limited (Member)

ESAF - Espírito Santo Activos Financeiros - Sociedade Gestora de Participações Sociais, S.A. (Member)

Espírito Santo, Plc (Member)

B. Corporate positions held in companies outside BES Group

Board of Directors

Companhia de Seguros Tranquilidade-Vida (Member)

MTS Portugal – Sociedade Gestora do Mercado Especial de Dívida Pública – SGMR, S.A. (Member)

Other positions

Member of the Disciplinary Committee of the International Securities Markets Association

Bernard Delas

Corporate positions held in companies outside BES Group

Board of Directors

Corelyon (Non-Executive Member)

Crédit Agricole, S.A. (Executive Director)

Gimar (Non-Executive Member)

Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)

Miguel António Igrejas Horta e Costa

Corporate positions held in companies outside BES Group

Board of Directors

Associação Industrial Portuguesa (Vice-Chairman)

Fundação Luso-Brasileira (Vice-Chairman)

Portugália, S.A. (Non-Executive Member)

Portugal Telecom – Sociedade Gestora de Participações Sociais, S.A. (Executive Chairman)

Portugal Telecom Brasil, S.A. (Chairman)

PT Comunicações, S.A. (Chairman)

PT Compras, S.A. (Chairman)

PT Corporate, S.A. (Chairman)

PT Investimentos Internacionais, S.A. (Chairman)

PT Prime - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

PT Móveis (Chairman)

PT Multimédia - Sociedade Gestora de Participações Sociais, S.A. (Chairman)

PT Ventures (Chairman)

PT Sistemas de Informação (Chairman)

Telefónica, S.A. (Non-Executive Member)

TMN (Chairman)

_ We set the pace for the future by promoting knowledge and innovation.

Jeff Wall
"A Woman with a Covered Tray", 2003 | 72 x 89-5/8 x 10-1/4" | 182.8 x 227.6 x 26 cm | T*ransparency in aluminum light box* | *Courtesy of* Marian Goodman Gallery, New York

04. GENERAL INFORMATION

01.
BES Share

On December 31st, 2005 the share capital of Banco Espírito Santo was represented by 300 million shares with the nominal value of euro 5 each. BES shares are listed on the Euronext Lisbon Stock Exchange and are part of 31 indices, namely the PSI 20, Euronext 100, Dow Jones Eurostoxx, Dow Jones Stoxx 600 Banks and FTSE All World Developed.

ISIN Code: PTBESOAM0007
Reuters Ticker - BES.LS
Bloomberg Ticker - BESNN PL

BES Group also has 600,000 non voting preference shares nominal value euro 1,000 each issued by its subsidiary BES Finance, Ltd. listed on the Luxembourg Stock Exchange.

Banco Espírito Santo won the overall prize of the 2005 Investor Relations Awards, organised by Deloitte, with 8 prizes in all the categories for which it had been nominated. These awards are a clear demonstration that the market recognises the Bank's commitment to providing transparent and rigorous information.

02.
Information

Shareholders, investors or analysts should address their queries or information requests to:

Banco Espírito Santo
Investor Relations
Avenida da Liberdade, 195 - 11.º
1250-142 Lisbon
Portugal
Phone / Fax: (351) 21 359 7390 / (351) 21 359 7309
http://www.bes.pt/ir
E-mail: investor.relations@bes.pt

Annual Reports, press releases and other information are available on the website of BES - http://www.bes.pt/investidor.

Calendar of Corporate Events 2006

Date	Event
2 February 2006 (Thursday)	2005 Results Release
17 April 2006 (Monday)	General Shareholders' Meeting
03 May 2006 (Tuesday)	Dividends Payment
24 April 2006 (Monday)	1st Quarter 2006 Results Release
Up to 17 May 2006	Publication of 2005 Annual Report
25 July 2006 (Tuesday)	1st Half 2006 Results Release
Up to 29 September 2006	2006 Interim Report
24 October 2006 (Tuesday)	3rd Quarter 2006 Results Release

BANCO ESPÍRITO SANTO, S.A..
Public Traded Company
Corporate Registration no. 500 852 367
Registered Office: Avenida da Liberdade, nº 195
1250-142 Lisbon
Registered with the Lisbon Registrar of Companies under no. 1607
Registered Share Capital: euro 1,500,000,000.00

03.
Excerpt from the minutes no. 67 of the General Shareholders' Meeting

At ten hours on April seventeenth, in the year two thousand and six, the Annual General Meeting of the Shareholders of Banco Espírito Santo, S.A. was held at the Hotel Ritz – Salão Nobre, at number eighty eight, Rua Rodrigo da Fonseca, in Lisbon, with the following Agenda:

1º - to deliberate on the Management Report, Balance Sheet, and remaining reporting documents of Banco Espírito Santo, S.A. for the financial year of 2005;

2º - to deliberate on the Consolidated Management Report, Consolidated Balance Sheet and remaining consolidated reporting documents for the financial year of 2005;

3º - to deliberate on a proposal concerning the variable remuneration of the executive members of the Board of Directors, a bonus for the employees and also the proposed distribution of earnings;

4º - to make a general assessment of the Bank's administration and supervision;

5º - to deliberate on a proposal submitted by the Board of Directors to increase the share capital of Banco Espírito Santo, S.A. from euro 1,500,000,000to up to euro 2,500,000,000through the issue of up to 200,000,000new shares of euro 5 nominal value each, of which 50,000,000through incorporation of reserves available for the purpose, with a ratio of 1bonus share for each 6,shares held, and up to 150,000,000through a rights issue, to be subscribed by current shareholders, at a price to be established by the Board of Directors in accordance with market conditions. The Board of Directors shall also decide on the subscription rights to be attributed to each shareholder according to the number of shares held. The premium that will result from the capital increase will correspond to the difference between the shares' nominal value and the determined subscription value;

6º - As per the resolution taken regarding the proposal to increase the share capital, to deliberate on the amendment of the articles of association of Banco Espírito Santo, S.A., specifically of article five thereof (Capital);

7º - to consider the statement issued by the Remuneration Committee on the remuneration policy of the corporate bodies of Banco Espírito Santo, S.A.;

8º - to deliberate on whether or not to maintain the group relation with the companies whose share capital is fully held by the Bank, under the terms and for the purposes of paragraph c), no. 2, article 489 of the Companies Code;

9º - to deliberate on the proposal to acquire and subsequently sell Banco Espírito Santo, S.A.'s own shares by BES or by companies controlled by it;

10º - to ratify the designation, by cooptation, of Mr. Nuno Maria Monteiro Godinho de Matos and Mr. Alberto de Oliveira Pinto, to fill two vacancies in the Board of Directors, decided on February 20th, 2006;

11º - to deliberate on the filling of a vacancy in the Remuneration Committee;

The Board of the General Meeting consisted of its Chairman and elected Vice-chairmen, respectively Messrs. Carlos Fernando Olavo Corrêa de Azevedo and Eugénio Fernando de Jesus Quintais Lopes, the latter also acting in his capacity as Company Secretary. In the absence of the Secretary of the Board of the General Meeting, Mr. José Jácome da Costa Marques Henriques, he was replaced by the Vice-Chairman, at the invitation of the Chairman.

Also present in the meeting were the majority of the members of the Board of Directors and Fiscal Board.

The Chairman of the General Meeting declared the session opened, after ascertaining that there was a quorum of shareholders present or represented owning 209,370,487 shares, corresponding to 69.79 % of the share capital and to 2,093,653 votes, that the General Meeting had been regularly called as per notices published on the DGRN-Publicações website of the Ministry of Justice, on March 13th, 2006, as well as on the "Diário de Notícias", "Jornal de Negócios" and "Diário Económico" newspapers, all on March 15th, 2006, and also on the websites of the Portuguese Securities Market Commission (CMVM), Euronext Lisbon and BES, the list of shareholders whose individual holdings exceed 2% of the Bank's share capital having also been published on the "Diário de Notícias" and "Público" newspapers of April 12th, 2006.

The Chairman of the General Meeting then asked the meeting to consider the following three items in the Agenda:

"1º- to deliberate on the Management Report, Balance Sheet, and remaining reporting documents of Banco Espírito Santo, S.A. for the financial year of 2005;"

"2º- to deliberate on the Consolidated Management Report, Consolidated Balance Sheet and remaining consolidated reporting documents for the financial year of 2005;" and

"3º - to deliberate on a proposal concerning the variable remuneration of the executive members of the Board of Directors, a bonus for the employees and also the proposed distribution of earnings;"

The Chairman of the Board of Directors, Mr. António Luís Roquette Ricciardi was invited to address the meeting, having reported on the following:

(...)

Starting with item 1in the Agenda - to deliberate on the Management Report, Balance Sheet, and remaining reporting documents of Banco Espírito Santo, S.A. for the financial year of 2005 - the Chairman of the General Meeting put the respective motion (...) to the vote, which was approved by the majority of the votes, with 105 dissenting votes and 101abstentions (...)

(...)

Going on to item two - to deliberate on the Consolidated Management Report, Consolidated Balance Sheet and remaining consolidated reporting documents for the financial year of 2005 – the Chairman of the General Meeting put the respective motion (...) to the vote, which was approved by the majority of the votes, with 105 dissenting votes and 101abstentions (...)

(...)

The meeting then proceeded to analyse item 3 in the agenda - to deliberate on a proposal concerning the variable remuneration of the executive members of the Board of Directors, a bonus for the employees and also the proposed distribution of earnings;

(...)

Upon discussion (...), the proposal submitted by the Board of Directors, as transcribed below, was approved by the majority of the votes, with 1,633 dissenting votes and 252 abstentions.

"The Board of Directors of Banco Espírito Santo, S.A. proposes that:

A) Under the terms and for the purposes of article 376,(b) of the Companies Code, and in compliance with its Management Report, the net earnings of the Company, in the amount of euro 190,168,989.00, have the following application:

	euros
For legal reserve:	19,100,000,00
For distriution to shareholders:	120,000,000,00
For other reserves:	51,068,989,00
	190,168,989,00

B) Under the terms and for the purposes of article 23 (3) and article 30(1-c)) of the Company's Memorandum of Association, the amount of euro 4,086,000.00, already booked as costs under the new accounting regulations (IFRS*) and deducted for purposes of determining the year's net earnings, be appropriated for the variable remuneration of the executive Board members; and that the amount of euro 19,554,000.00be allocated for distribution to the employees. Lisbon, March 9th, 2006.

(...)

*International Accounting Standard 19:

Employee Benefits"

(...)

The meeting went on to analyse item 5 in the Agenda "– to deliberate on a proposal submitted by the Board of Directors to increase the share capital of Banco Espírito Santo, S.A. from euro 1,500,000,000to up to euro 2,500,000,000through the issue of up to 200,000,000new shares of euro 5 nominal value each, of which 50,000,000through incorporation of reserves available for the purpose, with a ratio of 1bonus share for each 6,shares held, and up to 150,000,000through a rights issue, to be subscribed by current shareholders, at a price to be established by the Board of Directors in accordance with market conditions. The Board of Directors shall also decide on the subscription rights to be attributed to each shareholder according to the number of shares held. The premium that will result from the capital increase will correspond to the difference between the shares' nominal value and the determined subscription value."

The "Proposal" and the "Addendum to the Proposal" relative to this item in the Agenda, both of which are transcribed below, were then put to the consideration of the Shareholders:

"PROPOSAL (Refers to Item Five in the Agenda of the Annual General Meeting of April 17th, 2006)

The Board of Directors of "BANCO ESPÍRITO SANTO, S.A." hereby submits to the Shareholders gathered in this General Meeting a proposal to increase the Bank's registered share capital from euro 1,500,000,000to up to euro 2.500,000,000through the issue of up to 200,000,000new shares of euro 5 nominal value (the "New Shares"), under the following terms and conditions

A) Form of the share capital increase:

(i) incorporation of free reserves (share issuance premiums) in the amount of euro 250,000,000, through the issuance of 50,000,000New Shares to be distributed to current Shareholders;

(ii) cash contributions in the amount of up to euro 750,000,000, through the issuance of 150,000,000New Shares to be preferentially subscribed by the Shareholders;

B) Amount of the share capital increase: up to euro 1,000,000,000;

C) Nominal value of the new shares: each New Share will have the nominal value of euro 5;

D) Nature of the new contributions: the capital increase will be paid up in cash and through the incorporation of reserves, and the shares resulting from the capital increase hereby proposed will be identical in nature to the existing shares, and confer the same rights, namely to the dividend that may be approved for distribution in fiscal year 2006;

E) The subscription of the 200,000,000New Shares will be carried out under the following terms and conditions:

(i) 50,000,000New Shares will correspond to the part of the share capital increase made through the incorporation of reserves available for the purpose, being distributed to current Shareholders with a ratio of 1new share for each 6,shares held;

(ii) 150,000,000New Shares will be subscribed by current Shareholders at a price payable in cash to be established by the Board of Directors in accordance with market conditions; the Board of Directors shall also decide on the subscription rights to be attributed to each shareholder according to the number of shares held;

F) The share premium that will result from the capital increase will correspond to the difference between the shares' nominal value and the subscription value that may be determined under the above terms and conditions.

G) The New Shares which are not subscribed within the period established for subscription will be allocated pro-rata to Shareholders who declared their intent of subscribing a number of shares exceeding that to which they were entitled, such pro-rata allocation being made under the terms of article 458 of the Companies Code.

H) Term of payment of the contributions:

Contributions shall be made upon subscription, which will take place at "Banco Espírito Santo, S.A." on a date to be announced in due time.

I) Participants in the share capital increase:

• The shareholders of "Banco Espírito Santo, S.A.".

J) The share capital increase hereby proposed will be limited – in the part payable in cash – to the subscriptions received. Lisbon, March 9th, 2006" and

“**ADDENDUM TO THE PROPOSAL** (With reference to Item 5 of the Agenda of the Annual General Meeting to be held on April 17th, 2006)

Whereas:

1) a proposal to increase the share capital of “BANCO ESPÍRITO SANTO, S.A.” was approved by the Board of Directors on March 9th, 2006,and made available to the Shareholders with reference to Item 5 of the Agenda of the Annual General Meeting to be held on April 17th, 2006;
2) pursuant to section (ii) of paragraph E) of the referred proposal, the subscription in cash of the 150,000,000New Shares will be made at a price to be established by the Board of Directors in accordance with market conditions, the Board of Directors also resolving on the subscription rights to be attributed to each Shareholder according to the number of shares held;
3) in light of the market evolution occurred meanwhile, the Board of Directors is, at this moment, in a position to establish and propose to the Annual General Meeting the price range within which the price of the New Shares to be subscribed for in cash shall be determined;
4) unless approved at the Annual General Meeting itself, the price of the New Shares to be subscribed for in cash will be determined by the Board of Directors within the price range established in this addendum, in accordance with market conditions existing nearer to the offer, including the market price of the Banco Espírito Santo, S.A. shares;
5) the above mentioned proposal should therefore be supplemented accordingly and the other terms and conditions maintained unless otherwise provided for herein;

the Board of Directors of “Banco Espírito Santo, S.A.” proposes to the Shareholders, in supplement to the proposal of March 9th, 2006, of which this addendum is an integral part, composing a single proposal, that the share capital increase be approved under the terms and conditions described in the referred proposal as supplemented through this addendum, section (ii) of paragraph E) being replaced by the following:

“150,000,000New Shares shall be subscribed in a public offer of subscription with respect for the pre-emption rights of the current Shareholders, one new share being attributed for each two shares held, rounded down, the subscription price in cash, unless determined at the Annual General Meeting itself, being determined by the Board of Directors within the price range of between a minimum limit of ?8.50and a maximum limit of ?10.50in accordance with market conditions, including the market price of the Banco Espírito Santo, S.A. shares .”

The Board of Directors further proposes that the additional terms and conditions of the share capital increase included in the proposal approved on March 9th, 2006,and of the admission to trading at Eurolist by Euronext Lisbon of the new shares to be issued thereunder, including the definition of the price of the New Shares to be subscribed for in cash, within the above referred price range, unless determined at the Annual General Meeting itself, as well as the procedural terms of the share capital increase, be determined by the Board of Directors, including the definition of additional conditions required or convenient, including for the approval of the operation by the competent authorities, the negotiation, approval and execution of the terms, conditions and final versions of the documents related to the share capital increase and all acts required or convenient to the full execution of the operation approved herein be carried out by the Board. Lisbon, March 31st, 2006.

Upon reading of these proposals, the Chairman of the General meeting pointed out that, as previously referred by the Chairman of the Executive Committee, the Board of Directors proposed that the price for subscription of the new shares by the shareholders be set at nine euros and twenty cents per share, this proposal supplementing the other two and being submitted to discussion and vote. At this time the Shareholder “Companhia de Seguros Tranquilidade Vida, SA” asked to speak on this item and took the floor to submit a proposal, which was read and is transcribed below, being admitted by the Board of the General meeting for discussion and voting: “PROPOSAL (With reference to Item Five of the Agenda of the Annual General Meeting of April 17th, 2006)

Whereas:

1. a proposal to increase the share capital of “BANCO ESPÍRITO SANTO, S.A.” was approved by the Board of Directors on February 20th, 2006,and made available to the Shareholders with reference to Item 5 of the Agenda of this Annual General Meeting, as supplemented by an addendum to the same proposal approved by the Board of Directors on March 31st, 2006,and made public on the same date,
2. as announced to the market, Companhia de Seguros Tranquilidade Vida, S.A. will, as a result of the restructuring of the bancassurance business, dispose of its stake in BES, as a result of which BES and Crédit Agricole will hold stakes of 50% each in the share capital of Companhia de Seguros Tranquilidade Vida, S.A.,
3. it would be in the interest of the Company as well as of the respective shareholders, including Companhia de Seguros Tranquilidade Vida, S.A., that, viewing the full subscription of the capital increase, the Company entered one or more agreements with the financial institutions identified in due time - Banco Espírito Santo de Investimento, S.A. and Morgan Stanley, as Global Joint Coordinators and Joint Book Runners, and Calyon, Deutsche Bank and JP Morgan, also as Joint Book Runners - in order to ensure, even if partially, the placement of any shares not subscribed by the shareholders exercising their pre-emptive rights under the law.

It is proposed that:

1. the Board of Directors be mandated to enter one or more agreements (namely underwriting agreements under English law) with all or any of the institutions in due time appointed within the scope of this capital increase operation - Banco Espírito Santo de Investimento, S.A. and Morgan Stanley, as Global Joint Coordinators and Joint Book Runners, and Calyon, Deutsche Bank and JP Morgan, also as Joint Book Runners - in order to ensure, even if partially, the placement of any shares not subscribed by the shareholders exercising their pre-emptive rights under the law in the part of the capital increase to be subscribed for in cash;
2. the Board of Directors be given the necessary powers to agree on the terms and conditions of the referred agreement or agreements, and to define all other conditions required or convenient for the purposes herein proposed, including all acts required for the full execution of the resolution taken.
3. the Shareholders approve this proposal independently, which proposal should supplement the proposal of the Board of Directors referred in paragraph 1above, providing the same is approved and the Board of Directors does not oppose it. Lisbon, April 17th, 2006, Companhia de Seguros Tranquilidade Vida, S.A.”
   All the proposals were subject to discussion (...)

All the proposals were submitted to vote separately, i.e., first the initial proposal of March 9th, 2006,and the respective addendum of March 31st, 2006, which were jointly put to the vote, secondly, the proposal submitted by the Board of Directors to fix the actual price of subscription at euro 9.20per share, and finally the proposal of execution put forward by Companhia de Seguros Tranquilidade Vida, SA.. And, having been put to the vote as indicated, all the referred proposals were approved, as follows: a) the "Proposal" and "Addendum to the Proposal", which are again transcribed: "PROPOSAL (Refers to Item Five in the Agenda of the Annual General Meeting to be held on April 17th, 2006) The Board of Directors of "BANCO ESPÍRITO SANTO, S.A." hereby submits to the Shareholders gathered in this General Meeting a proposal to increase the Bank's registered share capital from euro 1,500,000,000to up to euro 2.500,000,000through the issue of up to 200,000,000new shares of euro 5 nominal value (the "New Shares"), under the following terms and conditions:

A) Form of the share capital increase:

(i) incorporation of free reserves (share issuance premiums) in the amount of euro 250,000,000, through the issuance of 50,000,000New Shares to be distributed to current Shareholders;

(ii)cash contributions in the amount of up to euro 750,000,000, through the issuance of 150,000,000New Shares to be preferentially subscribed by the Shareholders;

B) Amount of the share capital increase: up to euro 1,000,000,000;

C) Nominal value of the new shares: each New Share will have the nominal value of euro 5;

D) Nature of the new contributions: the capital increase will be paid up in cash and through the incorporation of reserves, and the shares resulting from the capital increase hereby proposed will be identical in nature to the existing shares, and confer the same rights, namely to the dividend that may be approved for distribution in fiscal year 2006;

E) The subscription of the 200,000,000New Shares will be carried out under the following terms and conditions:

(i) 50,000,000New Shares will correspond to the part of the share capital increase made through the incorporation of reserves available for the purpose, being distributed to current Shareholders with a ratio of 1new share for each 6,shares held;

(ii)150,000,000New Shares will be subscribed by current Shareholders at a price payable in cash to be established by the Board of Directors in accordance with market conditions; the Board of Directors shall also decide on the subscription rights to be attributed to each shareholder according to the number of shares held;

F) The share premium that will result from the capital increase will correspond to the difference between the shares' nominal value and the subscription value that may be determined under the above terms and conditions.

G) The New Shares which are not subscribed within the period established for subscription will be allocated pro-rata to Shareholders who declared their intent of subscribing a number of shares exceeding that to which they were entitled, such pro-rata allocation being made under the terms of article 458 of the Companies Code.

H) Term of payment of the contributions:

Contributions shall be made upon subscription, which will take place at "Banco Espírito Santo, S.A." on a date to be announced in due time.

I) Participants in the share capital increase:

• The shareholders of "Banco Espírito Santo, S.A.".

J) The share capital increase hereby proposed will be limited – in the part payable in cash – to the subscriptions received. Lisbon, March 9th, 2006";

"ADDENDUM TO THE PROPOSAL (With reference to Item 5 of the Agenda of the Annual General Meeting to be held on April 17th, 2006)

Whereas:

1) a proposal to increase the share capital of "BANCO ESPÍRITO SANTO, S.A." was approved by the Board of Directors on March 9th, 2006,and made available to the Shareholders with reference to Item 5 of the Agenda of the Annual General Meeting to be held on April 17th, 2006;
2) pursuant to section (ii) of paragraph E) of the referred proposal, the subscription in cash of the 150,000,000New Shares will be made at a price to be established by the Board of Directors in accordance with market conditions, the Board of Directors also resolving on the subscription rights to be attributed to each Shareholder according to the number of shares held;
3) in light of the market evolution occurred meanwhile, the Board of Directors is, at this moment, in a position to establish and propose to the Annual General Meeting the price range within which the price of the New Shares to be subscribed for in cash shall be determined;
4) unless approved at the Annual General Meeting itself, the price of the New Shares to be subscribed for in cash will be determined by the Board of Directors within the price range established in this addendum, in accordance with market conditions existing nearer to the offer, including the market price of the Banco Espírito Santo, S.A. shares;
5) the above mentioned proposal should therefore be supplemented accordingly and the other terms and conditions maintained unless otherwise provided for herein;

The Board of Directors of "Banco Espírito Santo, S.A." proposes to the Shareholders, in supplement to the proposal of March 9th, 2006, of which this addendum is an integral part, composing a single proposal, that the share capital increase be approved under the terms and conditions described in the referred proposal as supplemented through this addendum, section (ii) of paragraph E) being replaced by the following:

"150,000,000New Shares shall be subscribed in a public offer of subscription with respect for the pre-emption rights of the current Shareholders, one new share being attributed for each two shares held, rounded down, the subscription price in cash, unless determined at the Annual General Meeting itself, being determined by the Board of Directors within the price range of between a minimum limit of ?8.50and a maximum limit of ?10.50in accordance with market conditions, including the market price of the Banco Espírito Santo, S.A. shares ."

The Board of Directors further proposes that the additional terms and conditions of the share capital increase included in the proposal approved on March 9th, 2006,and of the admission to trading at Eurolist by Euronext Lisbon of the new shares to be issued thereunder, including the definition of the price of the New Shares to be subscribed for in cash, within the above referred price range, unless determined at the Annual General Meeting itself, as well as the procedural terms of the share capital increase, be determined by the Board of Directors, including the definition of additional conditions required or convenient, including for the approval of the operation by the competent authorities, the negotiation, approval and execution of the terms, conditions and final versions of the documents related to the share capital increase and all acts required or convenient to the full execution of the operation approved herein be carried out by the Board. Lisbon, March 31st, 2006", which were unanimously approved; b) the proposal submitted to the General Meeting by the Board of Directors to fix the actual price of subscription at euro 9.20per share was approved by the majority of the votes, with thirty seven votes against; c) the proposal of execution put forward by Companhia de Seguros Tranquilidade Vida, SA., which is again transcribed herein: "**PROPOSAL** (With reference to Item Five of the Agenda of the Annual General Meeting of April 17th, 2006)

Whereas:

1. a proposal to increase the share capital of "BANCO ESPÍRITO SANTO, S.A." was approved by the Board of Directors on February 20th, 2006,and made available to the Shareholders with reference to Item 5 of the Agenda of this Annual General Meeting, as supplemented by an addendum to the same proposal approved by the Board of Directors on March 31st, 2006,and made public on the same date,
2. as announced to the market, Companhia de Seguros Tranquilidade Vida, S.A. will, as a result of the restructuring of the bancassurance business, dispose of its stake in BES, as a result of which BES and Crédit Agricole will hold stakes of 50% each in the share capital of Companhia de Seguros Tranquilidade Vida, S.A.,
3. it would be in the interest of the Company as well as of the respective shareholders, including Companhia de Seguros Tranquilidade Vida, S.A., that, viewing the full subscription of the capital increase, the Company entered one or more agreements with the financial institutions identified in due time - Banco Espírito Santo de Investimento, S.A. and Morgan Stanley, as Global Joint Coordinators and Joint Book Runners, and Calyon, Deutsche Bank and JP Morgan, also as Joint Book Runners - in order to ensure, even if partially, the placement of any shares not subscribed by the shareholders exercising their pre-emptive rights under the law.

It is proposed that:

1. the Board of Directors be mandated to enter one or more agreements (namely underwriting agreements under English law) with all or any of the institutions in due time appointed within the scope of this capital increase operation - Banco Espírito Santo de Investimento, S.A. and Morgan Stanley, as Global Joint Coordinators and Joint Book Runners, and Calyon, Deutsche Bank and JP Morgan, also as Joint Book Runners - in order to ensure, even if partially, the placement of any shares not subscribed by the shareholders exercising their pre-emptive rights under the law in the part of the capital increase to be subscribed for in cash;
2. the Board of Directors be given the necessary powers to agree on the terms and conditions of the referred agreement or agreements, and to define all other conditions required or convenient for the purposes herein proposed, including all acts required for the full execution of the resolution taken;
3. the Shareholders approve this proposal independently, which proposal should supplement the proposal of the Board of Directors referred in paragraph 1above, providing the same is approved and the Board of Directors does not oppose it. Lisbon, April 17th, 2006, Companhia de Seguros Tranquilidade Vida, S.A.", which was unanimously approved.

(...)

The meeting proceed to item ten of the Agenda - To ratify the designation, by cooptation, of Mr. Nuno Maria Monteiro Godinho de Matos and Mr. Alberto de Oliveira Pinto, to fill two vacancies in the Board of Directors, decided on February 20th, 2006- the Chairman of the General Meeting informing that the Bank's Board of Directors had submitted a proposal on this item, which was read and is transcribed below:

"By letters received in the Bank respectively on March 10th, 2005 and December 19th, 2005, Mr. Manuel António Gomes de Almeida Pinho and Mr. Ilídio da Costa Leite de Pinho have handed in their resignation to the positions held on the Board of Directors of Banco Espírito Santo, S.A..

In order to fill the positions left vacant, the Board of Directors of "Banco Espírito Santo, S.A." resolved to coopt Mr. Nuno Maria Monteiro Godinho de Matos and Mr. Alberto de Oliveira Pinto until the end of the term of the mandate of the outgoing Board members (December 31st, 2007). The cooptation became effective on February 20th, 2006.

In view of the above, and taking into account the provisions of Article 393 (2) of the Companies Code, the Board of Directors hereby submits these cooptations to the General Meeting, for ratification. Lisbon, March 9th, 2006."

This proposal having been submitted to discussion and no one having taken the floor, the Chairman of the General Meeting submitted it to vote, and it was approved by the majority of the votes, with 3,260dissenting votes; the referred cooptations of Mr. Nuno Maria Monteiro Godinho de Matos and Mr. Alberto de Oliveira Pinto to replace the outgoing members of the Board of Directors of "Banco Espírito Santo, S.A." until the end of the term of the respective mandates were therefore ratified.

Finally, the meeting considered the last item in the Agenda – to deliberate on the filling of a vacancy in the Remuneration Committee – the shareholder BESPAR – Sociedade Gestora de Participações Sociais S.A. having submitted a proposal that was read and is now transcribed: "Considering that there is a vacancy in the Remuneration Committee as a result of Mr. José Luís Sapateiro having handed in his resignation, for personal reasons, on May 11th, 2005, the shareholder "BESPAR – Sociedade Gestora de Participações Sociais, S.A.", with registered office at Rua de São Bernardo, nº 62, in Lisbon, with share capital of euro 683.062.035, registered with the Lisbon Registrar of Companies under no. 2.127, corporate registration no. 502 554 754, proposes that the shareholder Mr. Filinto Elísio Monteiro Gomes be elected to fill the referred vacancy in the Remuneration Committee until the end of the current mandate for the period of 2004-2007. Lisbon, March 9th, 2006". This proposal was submitted to discussion, and, no one having taken the floor, the Chairman of the General Meeting submitted it to vote, and it was approved by the majority of the votes, with 1,630dissenting votes and 252 abstentions.

There being no further matters to discuss, the Chairman of the General Meeting declared the meeting closed at thirteen hours and forty five minutes, in record whereof these minutes have been drawn up and will be signed by the Members of the Board of the General Meeting and by the Company Secretary.

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 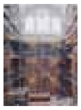 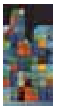 

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