BES'06

ANNUAL REPORT

Volume I

BANCO ESPIRITO SANTO

Photography occupies an outstanding position in the history of contemporary art, representing today a major form of artistic expression.

Photography offers a vast and rich universe of languages and resources that question and transform the traditional concepts of plastic expression to afford new insights, new visions and new ways of feeling.

By assuming an increasingly important role as Patron of Photography in Portugal, BES Group has given a key contribution to the development and assertion of this art form. This strategy reveals the commitment to the future and the option for modernity that distinguish the BES brand and the Group's corporate culture.

The illustrations included in this year's Annual Report depict some of the pieces of the BES art collection which the Bank has been building since 2004 with recent works from renowned international and Portuguese contemporary artists.

Some of the illustrations also show images of this year's advertising campaigns.

GRUPO BANCO ESPIRITO SANTO

BES art Colecção Banco Espírito Santo

BESart Collection • **Candida Höfer**
"Biblioteca Geral da Universidade de Coimbra III", 2006 • C-Print • 260x200 cm

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FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

MANY CONTRIBUTIONS,
TOWARDS COMMOM OBJECTIVE

BES’06

1.0 Consolidated Financial Statement and Notes to the Financial Statements

1.1 Consolidated Statement of Income

	Dec. 05 (eur '000)	Dec. 06 (eur '000)
Interest income	2,027,285	2,591,104
Interest expense	1,286,658	1761,583
Net interest income	**740,627**	**829,521**
Dividends from securities	38,868	41,553
Comissions and other similar income	486,048	548,264
Comissions and other similar expense	62,491	79,448
Gains and losses in financial assets as fair value	10,551	(1,204)
Gains and losses in financial assets available for sale	92,321	165,183
Gains and losses from sale of other assets	92,007	60,485
Gains and losses from foreign exchange revaluation	34,843	15,317
Other income from banking activity	97,255	114,396
Banking Income	**1,530,029**	**1,694,067**
Staff expenses	453,727	478,200
Other administrative expenses	327,168	344,128
Depreciation	80,279	69,019
Provisions net of reversals	75,005	51,039
Loan impairment net of reversals and recoveries	219,916	181,555
Other financial assets' impairment net of reversals and recoveries	25,252	7,097
Other assets' impairment net of reversals and recoveries	429	2,178
Negative diference from consolidation	-	-
Equity earnings of associated companies	7,695	10,770
Income before tax	**355,948**	**571,621**
Tax		
Current tax	76,791	85,942
Deferred tax	(10,920)	49,522
Income after tax and before minority interests	**29,077**	**436,157**
of whitch: income after of discontinued operations	-	-
Minority interests	9,596	15,443
Net Income	**280,481**	**420,714**

Chief Accountant

The Board of Directors

1.2 Consolidated Balance Sheet

	Dec. 05 (eur '000)	Dec. 06 (eur '000)
ASSETS		
Cash and deposits at Central Banks	1,005,008	1,084,927
Loans and advances to credit institutions repayable on dmand	655,180	672,976
Financial assets held for trading	2,995,743	4,192,458
Financial assets at fair value throught profit and loss	1,746,898	1,498,592
Financial assets held for trading	3,808,554	5,251,684
Loans and advances to banks	6,164,044	7,588,049
Loans and advances to customers	30,832,124	34,882,505
(Provisions)	(829,874)	(869,327)
Held to maturity investments	596,840	593,171
Financial assets with repurchase agreements	-	-
Hedging derivatives	124,505	178,653
Non Current assets held for sail	157,536	-
Investment property	-	-
Other intangible assets	363,092	382,929
Intangible assets	71,940	68,652
Investiments in associated companies	62,374	571,563
Current tax assets	13,089	14,094
Deferred tax assets	42,210	79,767
Other assets	1,582,704	2,078,786
TOTAL ASSETS	**50,221,841**	**59,138,806**
LIABILITIES		
Amounts owed to central banks	654,316	1,043,175
Financial liabilities held for trading	1,271,732	1,308,524
Financial assets at fair value throught profit and loss	-	-
Deposits from banks	6,264,892	6,827,386
Due to customers	20,753,083	21,993,671
Debt securities	14,402,291	19,030,469
Financial liabilities associated to transferred assets	-	-
Hedging derivatives	111,098	238,612
Non Current assets held for sail	112,428	-
Provisions	155,356	139,882
Current income tax liabilities	48,945	39,356
Deferred income tax liabilities	46,411	168,670
Instruments representing capital	-	-
Other subordinated loans	2,367,597	2,239,816
Other liabilities	1,004,080	1,286,794
TOTAL LIABILITIES	**47,192,229**	**54,316,355**
SHAREHOLDERS' EQUITY		
Share capital	1,500,000	2,500,000
Share premium	300,000	668,851
Other capital interests	-	-
Treasury stock	(96,247)	(63,732)
Preference shares	600,000	600,000
Fair value reserve	365,691	512,042
Other reserves and retained earnings	(26,065)	97,997
Profit for the period/year	280,481	420,714
Anticipated dividends	-	-
Minority interests	105,752	86,579
TOTAL SHAREHORLDERS' EQUITY	**3,029,612**	**4,822,451**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**50,221,841**	**59,138,806**

Chief Accountant

The Board of Directors

1.3 Notes to the Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(in thousands of euros)

	Notes	31.12.2006	31.12.2005
Interest and similar income	5	2,591,104	2,027,285
Interest expense and similar charges	5	1,761,583	1,286,658
Net interest income		**829,521**	**740,627**
Dividend income		41,553	38,868
Fee and commission income	6	548,264	486,048
Fee and commission expense	6	(79,448)	(62,491)
Net gains from financial assets at fair value through profit or loss	7	(1,204)	10,551
Net gains from available-for-sale financial assets	8	165,183	92,321
Net gains from foreign exchange differences	9	60,485	92,007
Net gains from sale of other financial assets		3,937	34,843
Other operating income and expense	10	114,396	97,255
Operating income		**1,682,687**	**1,530,029**
Staff costs	11	478,200	453,727
General and administrative expenses	13	344,128	327,168
Depreciation and amortisation	25 and 26	69,019	80,279
Provisions net of reversals	32	51,039	75,005
Loans impairment net of reversals	21	181,555	219,916
Impairment on other financial assets net of reversals	19, 20 and 22	7,097	25,252
Impairment on other assets net of reversals	28	2,178	429
Operating expenses		**1,133,216**	**1,181,776**
Gains on disposal of investments in subsidiaries and associates	1	11,380	-
Share of profit of associates	27	10,770	7,695
Profit before income tax		**571,621**	**355,948**
Income tax			
Current tax	33	85,942	76,791
Deferred tax	33	49,522	(10,920)
		135,464	65,871
Profit for the period		**436,157**	**290,077**
Attributable to equity holders of the Bank		**420,714**	**280,481**
Attributable to minority interest	37	**15,443**	**9,596**
		436,157	**290,077**
Earnings per share of profit attributable to the equity holders of the Bank			
Basic (in Euros)	14	1.02	0.96
Diluted (in Euros)	14	1.02	0.96

The following notes form an integral part of these financial statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006 AND 2005

(in thousands of euros)

	Notes	31.12.2006	31.12.2005
Assets			
Cash and deposits at central banks	15	1,084,927	1,005,008
Deposits with banks	16	672,976	655,180
Financial assets held for trading	17	4,192,458	2,995,743
Financial assets at fair value through profit or loss	18	1,498,592	1,746,898
Available-for-sale financial assets	19	5,251,684	3,808,554
Loans and advances to banks	20	7,588,049	6,164,044
Loans and advances to customers	21	34,882,505	30,832,124
Held to maturity investments	22	593,171	596,840
Hedging derivatives	23	178,653	124,505
Non-current assets held for sale	24	-	157,536
Property and equipment	25	382,929	363,092
Intangible assets	26	68,652	71,940
Investments in associates	27	571,563	62,374
Current income tax assets		14,094	13,089
Deferred income tax assets	33	79,767	42,210
Other assets	28	2,078,786	1,582,704
Total assets		**59,138,806**	**50,221,841**
Liabilities			
Deposits from central banks		1,043,175	654,316
Financial liabilities held for trading	17	1,308,524	1,271,732
Deposits from banks	29	6,827,386	6,264,892
Due to customers	30	21,993,671	20,753,083
Debt securities issued	31	19,030,469	14,402,291
Hedging derivatives	23	238,612	111,098
Non-current liabilities held for sale	24	-	112,428
Provisions	32	139,882	155,356
Current income tax liabilities		39,356	48,945
Deferred income tax liabilities	33	168,670	46,411
Subordinated debt	34	2,239,816	2,367,597
Other liabilities	35	1,286,794	1,004,080
Total liabilities		**54,316,355**	**47,192,229**
Equity			
Share capital	36	2,500,000	1,500,000
Share premium	36	668,851	300,000
Treasury stock	36	(63,732)	(96,247)
Preference shares	36	600,000	600,000
Fair value reserve	37	512,042	365,691
Other reserves and retained earnings	37	97,997	(26,065)
Profit for the period attributable to equity holders of the Bank		420,714	280,481
Total equity attributable to equity holders of the Bank		**4,735,872**	**2,923,860**
Minority interests	37	86,579	105,752
Total equity		**4,822,451**	**3,029,612**
Total equity and liabilities		**59,138,806**	**50,221,841**

The following notes form an integral part of these financial statements

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(in thousands of euros)

	Share capital	Share premium	Treasury stock	Preference shares	Fair value reserve	Legal reserves, other reserves and retained earnings	Profit for the period 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 2005	**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 (see Note 36)	-	-	3,927	-	-	-	-	3,927	-	3,927
Share based payment scheme (see Note 12)	-	-	-	-	-	2,060	-	2,060	-	2,060
Changes in minority interests (see Note 37)	-	-	-	-	-	-	-	-	27,189	27,189
Profit for the period	-	-	-	-	-	-	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**
Share capital increase										
Incorporation of share premium (50 million ordinary shares)	250,000	(250,000)	-	-	-	-	-	-	-	-
Issue of new shares (150 million ordinary shares)	750,000	630,000	-	-	-	-	-	1,380,000	-	1,380,000
Costs with the share capital increase, net of taxes	-	(11,149)	-	-	-	-	-	(11,149)	-	(11,149)
Changes in fair value, net of taxes	-	-	-	-	146,351	-	-	146,351	3,030	149,381
Exchange differences	-	-	-	-	-	(7,059)	-	(7,059)	(3,970)	(11,029)
Transfer to reserves	-	-	-	-	-	162,147	(162,147)	-	-	-
Dividends on ordinary shares(a)	-	-	-	-	-	-	(118,334)	(118,334)	-	(118,334)
Dividends on preference shares	-	-	-	-	-	(33,480)	-	(33,480)	-	(33,480)
Changes in treasury stock (see Note 36)	-	-	32,515	-	-	-	-	32,515	-	32,515
Share based payment scheme (see Note 12)	-	-	-	-	-	2,454	-	2,454	-	2,454
Changes in minority interests (see Note 37)	-	-	-	-	-	-	-	-	(33,676)	(33,676)
Profit for the period	-	-	-	-	-	-	420,714	420,714	15,443	436,157
Balance as at 31 December 2006	**2,500,000**	**668,851**	**(63,732)**	**600,000**	**512,042**	**97,997**	**420,714**	**4,735,872**	**86,579**	**4,822,451**

(a) Corresponds to a dividend per share of 0.40 euros and 0.37 euros paid to the shares outstading as at 31 December 2006 and 2005, respectively.

The following notes form an integral part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(in thousands of euros)

	Notes	31.12.2006	31.12.2005
Cash flows arising from operating activities			
Interest and similar income received		2,485,123	2,040,141
Interest expense and similar charges paid		(1,674 418)	(1,239,725)
Fee and commission income received		667,172	597,436
Fee and commission expense paid		(79,448)	(62,491)
Recoveries on loans previously written off		22,753	20,187
Cash payments to employees and suppliers		(604,497)	(954,893)
		816,685	**400,655**
Changes in operational assets and liabilities:			
Cash and deposits at central banks		17	(36,499)
Financial assets at fair value through profit or loss		(982,362)	(1,725,907)
Loans and advances to banks		(1,424,943)	(696,171)
Deposits from banks		941,134	671,582
Loans and advances to customers		(4,178,274)	(3,312,363)
Due to customers		1,221,766	305,409
Hedging derivatives		96,397	(35,627)
Other operational assets and liabilities		280,415	687,369
Net cash flow from operating activities before income taxes		**(3,229,165)**	**(3,741,552)**
Income taxes paid		(96,536)	(59,793)
		(3 325,701)	**(3,801,345)**
Cash flows arising from investing activities			
Acquisition of subsidiaries and associates		(498,120)	(3,859)
Disposal of subsidiaries and associates		17,843	5,645
Dividends received		41,553	38,868
Acquisition of available-for-sale financial assets		(5,692,177)	(8,531,907)
Sale of available-for-sale financial assets		4,601,417	8,001,646
Held to maturity investments		(67,482)	(87,143)
Acquisition of tangible and intangible assets		(90,565)	(95,686)
Sale of tangible and intangible assets		5,130	6,376
		(1,682,401)	**(666,060)**
Cash flows arising from financing activities			
Capital increase		1,368,851	-
Proceeds from issue of bonds		5,650,588	5,756,842
Reimbursement of bonds		(1,695,231)	(1,460,326)
Proceeds from issue of subordinated debt		-	290,983
Reimbursement of subordinated debt		(59,856)	(44,892)
Treasury stock		32,515	3,927
Dividends paid from ordinary shares		(118,334)	(108,044)
Dividends paid from preference shares		(33,480)	(33,480)
Net cash flow from financing activities		**5,145,053**	**4,405,010**
Effect of exchange rate changes on cash and cash equivalents		(39,308)	84,418
Net changes in cash and cash equivalents		**97,643**	**22,023**
Cash and cash equivalents at the beginning of the year		886,668	864,645
Cash and cash equivalents at the end of the period		984,311	886,668
		97,643	**22,023**
Cash and cash equivalents includes:			
Cash	15	311,335	231,488
Deposits with banks	16	672,976	655,180
Total		**984,311**	**886,668**

The following notes form an integral part of these financial statements

Banco Espírito Santo Group

Notes to the consolidated financial statements as at 31 December 2006

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

Note 1 – Activity and Group structure

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

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

BES is listed on the Euronext Lisbon. As at 31 December 2006, 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 669 branches throughout Portugal (31 December 2005: 639), international branches in London, New York, Nassau, Cayman Islands and Cape Verde, 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:

	Estabilished	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
HLC - Centrais de Cogeração, S.A.	1999	1999	Portugal	Services provider	24.5%	Equity method
Coporgest	2002	2005	Portugal	Holding company	20%	Equity method
Sonderweg Corporation, S.A.	2006	2006	Spain	Services provider	17.68%	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
Concordia - Espírito Santo Investment	2005	2005	Poland	Services provider	49%	Equity method
Espírito Santo Investments PLC	1996	1996	Irlanda	Brokerage	100%	Full consolidation
ESSI Investimentos SGPS, SA	1998	1998	Portugal	Holding company	100%	Full consolidation
Espirito Santo Investimentos, Ltda	1996	1996	Brazil	Holding company	100%	Full consolidation
Morumbi Capital Fund	2005	2005	Cayman Islands	Fund	100%	Full consolidation
BES Investimento do Brasil, SA	2000	2000	Brazil	Investment banking	80%	Full consolidation
BES Securities do Brasil, SA	2000	2000	Brazil	Brokerage	80%	Full consolidation
BES Activos Financeiros, Ltda	2004	2004	Brazil	Asset management	80%	Full consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment banking	80%	Full consolidation
BRB Internacional, S.A.	2001	2001	Spain	Entertainment	24.93%	Equity method
Prosport - Com. Desportivas, S.A.	2001	2001	Spain	Sporting good 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
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	38.69%	Equity method
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	92,5%	Full consolidation
Banco Espírito Santo dos Açores, SA (BAC)	2002	2002	Portugal	Commercial banking	57.53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Internet banking	66%	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, Inc. (ESBANK)	1963	2000	USA	Commercial banking	98,45%	Full consolidation
ES Financial Services, Inc.	2000	2000	USA	Brokerage	79.25%	Full consolidation
Tagide Properties, Inc.	1991	1991	USA	Real estate	98.45%	Full consolidation
Espírito Santo Representaciones	2003	2003	Uruguay	Representation office	98.45%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germam	Holding company	100%	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	99.99%	Full consolidation
BESleasing e Factoring - Instituição Financeira de Crédito, SA (BESLEASING)	1990	1990	Portugal	Leasing e factoring	89.36%	Full consolidation
ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF)	1992	1992	Portugal	Holding company	85%	Full consolidation
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

	Estabilished	Acquired	Headquartered	Activity	Economic interest	Consolidation method
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 Ventures - Sociedade de Capital de Risco, SA	2005	2005	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
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	60%	Full consolidation
Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC)	2000	2000	Portugal	Call center services	76.64%	Full consolidation
Espírito Santo Informática, ACE (ESINF)	2006	2006	Portugal	Computer services	84.9%	Full consolidation
Espírito Santo Data, S.G.P.S., SA (ESDATA)	1989	1995	Portugal	Computer services	49%	Full consolidation a)
OBLOG Consulting, SA	1993	1993	Portugal	Software development	32.67%	Equity method
Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2)	2006	2006	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, SGPS, SA (CÊNTIMO)	1988	1995	Portugal	Holding 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
Fundo de Capital de Risco - FIQ Ventures II	2006	2006	Portugal	Venture capital fund	95.24%	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	17.1%	Equity method b)
TLCI 2 - Soluções Integradas de Telecomunicações, SA	2006	2006	Portugal	Telecommunications	31.40%	Equity method b)
DECOMED, SGPS	2006	2006	Portugal	Holding company	12.15%	Equity method b)
SOPRATTUTTO CAFÉ, S.A	2006	2006	Portugal	Distribution company	25.59%	Equity method b)
SOPRATTUTTO CAFÉ 2, S.A	2006	2006	Portugal	Distribution company	25.59%	Equity method b)
ENKROTT SA	2006	2006	Portugal	water management and treatment	17.13%	Equity method b)
RODI 2, SA	2006	2006	Portugal	Industry	13.48%	Equity method b)
Europ Assistance - Comp. Portuguesa Seguros Assistência, SA (EURASS)	1993	1993	Portugal	Insurance	23%	Equity method
BES-Vida, Companhia de Seguros, SA (BES VIDA)	1993	2006	Portugal	Insurance	50%	Equity method
BES, Companhia de Seguros, SA (BES SEGUROS)	1996	1996	Portugal	Insurance	25%	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	24.9%	Equity method
Société Civile Immobilière du 45 Avenue Georges Mandel (SCI GM)	1995	1995	France	Real estate	22.5%	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) Althought the Group´s economic interest is less than 50%, these companies were fully consolidated, as the Group exercises control over them.
b) Althought the Group´s economic interest is less than 20%, these companies were accounted for following 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:

	Estabilished	Acquired	Headquartered	Activity	Economic interest	Consolidation method
Lusitano SME N.º 1	2006	2006	Ireland	Securitisation Entity	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	100%	Full consolidation
SB FINANCE LIMITED 2015	2003	2003	Cayman Islands	Special Purpose Entity	100%	Full consolidation
RAMPER INVESTMENTS LTD 2010	2003	2003	Jersey	Special Purpose Entity	100%	Full consolidation
EARLS 4 Limited Series 2011	2001	2001	Cayman Islands	Special Purpose Entity	100%	Full consolidation
SEALS FINANCE S.A 2013	2003	2003	Luxembourg	Special Purpose Entity	100%	Full consolidation
XENON 0 01/28/13	2003	2003	Ireland	Special Purpose Entity	100%	Full consolidation

The main changes in BES Group structure that occurred during 2006 are highlighted as follows:

- During March 2006, Espírito Santo Data, SGPS, S.A. sold its stake in ES Innovation, S.A. The new shareholders are BES (83%), Companhia de Seguros Tranquilidade, S.A. (14%), BEST (2%) and BAC (1%). During April 2006, the company ES Innovation, S.A. was transformed into a Shared Services Company, changing its name to Espírito Santo Informática, ACE;

- As at 30 May 2006 Crediflash was merged into BES;

- As at 1 June 2006 Espírito Santo Investment, S.A, S.V. was merged into BESI, being all the company's assets and liabilities transferred into BESI. Those assets and liabilities were assigned to a permanent office of BESI in Spain, denominated Banco Espírito Santo de Investimento, S.A., Sucursal em Espanha;

- During June 2006, o BESI sold its stake in Lontinium, S.A., having obtained a gain of approximately euro 2 million;

- During June 2006, BES acquired 50% of Companhia de Seguros Tranquilidade – Vida share capital for 475 million euros and sold 15% of Espírito Santo, Companhia de Seguros, S.A share capital (obtaining a consolidated gain, excluding taxes, of euro 9,1 million, maintaining a stake of 25%). Both insurance companies changed their names, respectively, to BES-Vida, Companhia de Seguros, S.A. (BES-Vida), and to BES, Companhia de Seguros, S.A. (BES-Seguros);

- During November 2006, Spainvest, S.A. was dissolved, followed by BES Overseas, Ltd and ES Research – Estudos Financeiros e de Mercados, S.A. during December 2006.

In the consolidated income statement for the year ended 31 December 2006, the amount of euro 11,380 thousand relating to the Gains on disposal of investments in subsidiaries and associates refers to the gain obtained from the sell of the following investments:

(in thousands of euros)

	31.12.2006	
	% of share capital sold	Amount
BES, Companhia de Seguros, SA	15.00%	9,101
Lontinium, SA	25.25%	1,963
ES Financial Services, Inc.	20.75%	316
		11,380

Note 2 – Summary of significant accounting principles

2.1 Basis of presentation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005 and Regulation no. 1/2005 from the Bank of Portugal, Banco Espírito Santo, S.A. (BES or the Bank) is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU since the year ended 31 December 2005.

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 2006, were prepared in accordance with the IFRS effective and adopted for use in the EU until 31 December 2006. The accounting policies used by the Group in the preparation of its consolidated financial statements as at 31 December 2006 are consistent with the ones used in the preparation of the consolidated financial statements as at 31 December 2005.

These consolidated financial statements are expressed in thousands of euros and have been prepared under the historical cost convention, except for the assets and liabilities accounted at fair value, namely, derivative contracts, financial assets at fair value through profit or loss, available-for--sale financial assets, and hedged assets and liabilities, in respect of the risk that is being 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 27 February 2007.

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 the Group companies, during all the periods covered by the consolidated financial statements.

Subsidiaries
Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than one half of the voting rights. Additionally, control may also exists when the Group has the influence, 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, these are recognised by the Group until the losses previously recognised have been recovered.

Associates

Associates are entities over which the Group has significant influence over the company's financial and operating policies but not its control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that significant influence ceases.

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, regardless 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 of 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 was offset against reserves, according to the option granted by IFRS 1, adopted by the Group on the date of transition to the IFRS.

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 equivalent to 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 cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the book value of the investment in the 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.

Acquisition of Minority interest

The Goodwill resulting from the acquisition of minority interest in a subsidiary represents the difference between the acquisition cost of the additional investment in the subsidiary and the book value, at acquisition date, of the net assets acquired, as recognised in the consolidated accounts.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates. The consolidated financial statements are prepared in euro, which is BES's functional and presentation currency.

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

- Assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions;
- The exchange differences resulting from the translation of the equity at the beginning of the year using the exchange rates at the beginning of the year and at the consolidated balance sheet date are accounted for against reserves. The exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and at the balance sheet date are accounted for against reserves. When the entity is sold such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses 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. The resulting exchange differences are accounted for in the income statement, except if related with equity instruments classified as available-for-sale, in which case are accounted for against reserves.

2.4 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses 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 use for derivative financial instruments designated as hedging instruments, provided the following criteria are met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;
(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
(iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
(iv) For cash flows hedges, the cash flows are highly probable of occurring.

• Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to the risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and the hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to the income statement over the period to maturity.

• Cash flow hedge

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.

2.5 Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, which are not intended to be sold in the short term. Loans and advances to customers are recognised when cash is advanced to borrowers.

Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive its cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less impairment losses.

Impairment

The Group assesses, at a regular basis, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement, being 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 its capability to trade successfully and to generate sufficient cash flow to service their debt obligations;
• the extent of other creditors' commitments ranking ahead of the Group;
• the existence, nature and estimated realisable value of collaterals;
• the exposure of the customer within the financial sector;
• the amount and timing of expected recoveries.

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract rules.

The changes in the recognised impairment losses attributable to the unwinding of discount are recognised as interest and similar income.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans and in the Group historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group with the purpose of reducing any differences between loss estimates and actual loss experience.

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

2.6 Other financial assets

Classification
The Group classifies its other financial assets at initial recognition in the following categories:

• Financial assets at fair value through profit or loss
This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term and (ii) financial assets that are designated at fair value through profit or loss at inception.

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:
• such financial assets are managed, and their performance evaluated on a fair value basis;
• such classification eliminates an accounting mismatch; or
• such financial assets contain an embedded derivative.

• 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 until its maturity and that are not classified, at inception, as at fair value through profit or loss or as available for sale.

• Available-for-sale investments
Available-for-sale investments are non-derivative financial assets that are (i) intended to be held for an indefinite period of time, (ii) designated as available-for-sale at initial recognition or (iii) 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 which 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 between categories, except in the rare cases in which reclassifications are allowed under this accounting standard.

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 rules. For held-to-maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.
If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity instruments, in which case the reversal is recognised in equity.

2.7 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) at a fixed price or at the sales price plus a lender's return are not derecognised. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest 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 deliver cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or to pay dividends.

The Group designates, at inception, certain financial liabilities as at fair value through profit or loss when:
- such classification eliminates an accounting mismatch; or
- such financial liabilities contain embedded derivatives.

The 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 and financial liabilities designated at fair value through profit and loss, which are subsequently measured at fair value.

The fair value of quoted financial liabilities is based on the current price. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

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

2.9 Equity instruments

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

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

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

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

2.10 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 less costs to sell and the carrying amount of the loans.

Subsequently, those assets are measured at the lower of their carrying amount and the corresponding fair values less costs to sell and are not depreciated. Any subsequent write-down of the acquired 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. At the transition date to IFRS, 1 January 2004, 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 the general 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 year in which they are incurred.
Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

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

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

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

2.13 Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred to acquire and bring to use the specific software. These costs are amortised on 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 when 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, were set up pension funds designed to cover retirement benefits on account of age, including widows and orphans benefits and disability 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 actual 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 that comprises (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 early amortisation of the respective actuarial gains and losses.

The effect of the early retirements corresponds to the increase in pension liabilities due to retirements before the normal age of retirement, which is 65 years.

The Group makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Health care benefits

The Group provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgeries, 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.

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 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

Bonus to employees, paid annually 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 also 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 at each jurisdiction.

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

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill, not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted.

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.

Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan and such restructuring either has commenced or has been announced publicly.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract..

2.18 Interest income and expense

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

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

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

For derivative financial instruments, except for (i) those classified as hedging instruments of interest rate risk and (ii) those used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, in order to eliminate an accounting mismatch, 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. The interest component of the changes in the fair value of hedging derivatives of interest rate risk and of derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, in order to eliminate an accounting mismatch, 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 a group of assets and operations engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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 (i) their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), (ii) the assets or disposal groups are available for immediate sale and (iii) 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. Subsequently, these assets or disposal groups are measured at the lower of their carrying amount or fair value less costs to sell, determined annually in accordance with the applicable IFRS.

2.24 Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

2.25 Standards and interpretations not yet adopted

In note 44 are included the recent standards and interpretations not yet adopted by the Group.

Note 3 – Critical accounting estimates, and judgements in applying accounting policies

IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies, and the underlying judgments and estimates, 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 are appropriate and that the financial statements present the Group's financial position and results fairly in all material respects.

3.1 Impairment of available for-sale investments

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. 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 different 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 fair values.

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

3.3 Impairment losses on loans and advances

The Group reviews its loan portfolio 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 factors, are considered in making this evaluation.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the income statement of the 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 a different fair value for this portfolio with the corresponding impact in the fair value reserve and in the Group's 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, is 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 4 – 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;
(v) Other – includes the remaining segments that individually represent less than 10% of total assets or profit for the year and that combined does not represent more that 25% of those items.

The primary segments reporting are presented as follows:

(in thousands of euros)

	31.12.2006											
	Domestic activity						Foreign activity				Intra-Group	TOTAL
	Corporate and Retail Banking	Investment Banking	Asset Management	Leasing & Factoring	Other	Total	Corporate and Retail Banking	Investment Banking	Asset Management	Total		
Interest and similar income	2,822,302	74,563	1,025	140,897	5,678	3,044,465	672,822	108,501	75	781,398	(1,234,759)	2,591,104
Interest expense and similar charges	2,161,849	48,916	9	100,744	8,471	2,319,989	570,395	105,957	1	676,353	(1,234,759)	1,761,583
Net interest income	**660,453**	**25,647**	**1,016**	**40,153**	**(2,793)**	**724,476**	**102,427**	**2,544**	**74**	**105,045**	**-**	**829,521**
Dividend income	39,172	1,845	-	-	490	41,507	15	31	-	46	-	41,553
Fee and commission income	355,710	25,957	57,104	15,563	230	454,564	79,154	28,292	14,328	121,774	(28,074)	548,264
Fee and commission expense	(51,912)	(3,987)	(25,451)	(1,325)	(323)	(82,998)	(16,510)	(5,368)	(2,192)	(24,070)	27,620	(79,448)
Net gains from financial assets at fair value through profit or loss	10,934	20,595	-	59	(9,544)	22,044	8,720	(31,968)	-	(23,248)	-	(1,204)
Net gains from available-for-sale financial assets	102,822	3,294	-	-	43,837	149,953	15,238	(8)	-	15,230	-	165,183
Net gains from foreign exchange differences	(7,179)	(2,978)	1	(15)	(2,658)	(12,829)	22,121	51,335	(142)	73,314	-	60,485
Net gains from the sale of other financial assets	563	1,130	1	7	15	1,716	2,644	(423)	-	2,221	-	3,937
Other operating income	154,498	26,029	(1,114)	3,257	7,534	190,204	(2,216)	19,162	16	16,962	(92,770)	114,396
Operating income	**1,265,061**	**97,532**	**31,557**	**57,699**	**36,788**	**1,488,637**	**211,593**	**63,597**	**12,084**	**287,274**	**(93,224)**	**1,682,687**
(Operating income from external customers)	1,131,780	108,597	54,370	101,513	39,544	1,435,804	171,202	63,597	12,084	246,883	-	1,682,687
(Inter-segments operating income)	(133,281)	11,065	22,813	43,814	2,756	(52,833)	(40,391)	-	-	(40,391)	93,224	-
Staff costs	353,515	22,605	7,391	5,766	7,402	396,679	58,582	23,897	-	82,479	(958)	478,200
General and administrative expenses	346,920	13,071	4,460	12,966	4,929	382,346	41,546	12,461	40	54,047	(92,265)	344,128
Depreciation and amortisation	56,089	1,154	283	1,192	759	59,477	8,439	1,103	-	9,542	-	69,019
Provisions net of reversals	46,968	(575)	734	467	(500)	47,094	3,945	-	-	3,945	-	51,039
Loans impairment net of reversals	147,474	2,029	-	12,770	-	162,273	15,279	4,003	-	19,282	-	181,555
Impairment on other financial assets net of reversals	5,850	1,431	-	-	93	7,374	(277)	-	-	(277)	-	7,097
Impairment on other assets net of reversals	1,841	-	4	246	-	2,091	87	-	-	87	-	2,178
Operating expenses	**958,657**	**39,715**	**12,872**	**33,407**	**12,683**	**1,057,334**	**127,601**	**41,464**	**40**	**169,105**	**(93,223)**	**1,133,216**
Gains on disposal of investments in subsidiaries and associates	9,101	1,963	-	-	-	11,064	316	-	-	316	-	11,380
Share of profit of associates	1,757	974	-	-	3,268	5,999	3,283	-	1,488	4,771	-	10,770
Profit before income tax	**317,262**	**60,754**	**18,685**	**24,292**	**27,373**	**448,366**	**87,591**	**22,133**	**13,532**	**123,256**	**(1)**	**571,621**
Income tax												
Current tax	15,697	31,604	6,291	9,032	7,714	70,338	6,638	5,986	2,980	15,604	-	85,942
Deferred tax	60,659	(16,909)	21	(1,269)	3,121	45,623	3,899	-	-	3,899	-	49,522
Profit after income tax and before minority interests	**240,906**	**46,059**	**12,373**	**16,529**	**16,538**	**332,405**	**77,054**	**16,147**	**10,552**	**103,753**	**(1)**	**436,157**
Minority interests	4,838	83	-	-	-	4,921	8,290	2,218	14	10,522	-	15,443
Profit for the period	**236,068**	**45,976**	**12,373**	**16,529**	**16,538**	**327,484**	**68,764**	**13,929**	**10,538**	**93,231**	**(1)**	**420,714**
Other Information												
Total assets	73,000,500	2,702,636	59,788	3,217,431	723,748	79,704,103	13,368,174	1,896,508	20,275	1,584,957	(35,850,254)	59,138,806
Investments in associates	4,977	32,076	-	-	500,119 (a)	537,172	34,391	-	-	34,391	-	571,563
Total liabilities	69,547,022	2,446,268	21,972	3,140,177	186,267	75,341,706	12,965,515	1,853,595	5,793	14,824,903	(35,850,254)	54,316,355
Capital expenditure (Property and equipment)	43,916	1,401	210	511	190	46,228	20,485	-	-	20,485	-	66,713
Capital expenditure (Intangible assets)	24,489	3,025	361	895	296	29,066	606	-	-	606	-	29,672

a) include the investment in BES-Vida in the amount of euros 490,729 thousands (see Note 27)

(in thousands of euros)

	31.12.2005											
	Domestic activity						Foreign activity				Intra-Group	TOTAL
	Corporate and Retail Banking	Investment Banking	Asset Management	Leasing & Factoring	Other	Total	Corporate and Retail Banking	Investment Banking	Asset Management	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 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 gains from available-for-sale financial assets	75,310	(123)	(4)	-	16,527	91,710	612	(1)	-	611	-	92,321
Net 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 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 costs	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	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 period	**94,229**	**38,877**	**14,721**	**23,745**	**22,812**	**194,384**	**65,860**	**14,630**	**5,607**	**86,097**	**-**	**280,481**
Other Information												
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

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

(in thousands of euros)

	31.12.2006									
	Portugal	Spain	France	UK	United States of America	Brazil	Angola	Cape Verde	Macao	Total
Profit for the year	327,483	11,630	13,820	39,077	980	5,812	20,287	50	1,575	420,714
Total assets	47,209,962	4,598,278	57,258	4,525,914	1,429,768	632,436	528,700	61,036	95,454.59	138,806
Capital expenditure (Property and equipment)	46,228	4,604	-	165	591	-	14,919	179	27	66,713
Capital expenditure (Intangible assets)	29,066	498	-	-	108	-	-	-	-	29,672

(in thousands 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

Note 5 – Net interest income

This caption is analysed follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Interest and similar income		
Interest from loans and advances	1,672,612	1,311,929
Interest from financial assets at fair value through profit or loss	460,062	307,128
Interest from deposits with banks	176,911	155,986
Interest from available-for-sale financial assets	117,195	118,440
Interest from derivatives for risk management purposes	104,355	88,062
Other interest and similar income	59,969	45,740
	2,591,104	2,027,285
Interest expense and similar charges		
Interest from debt securities	643,436	442,574
Interest from amounts due to customers	392,783	318,108
Interest from deposits from central banks and other banks	313,584	230,944
Interest from derivatives for risk management purposes	289,981	178,247
Interest from subordinated debt	121,799	114,761
Other interest expense and similar charges	-	2,024
	1,761,583	1,286,658
	829,521	740,627

Interest from loans and advances includes an amount of euro 10 861 thousand (31 December 2005: euro 11 180 thousand) related to the unwind of discount regarding the impairment losses of loans and advances to customers that are overdue (see Note 21).

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Note 2.18, interests from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policy described in Note 2.8.

Note 6 – Net fee and commission income

This caption is analysed follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Fee and commission income		
From banking services	345,544	306,524
From guarantees granted	61,123	55,608
From transactions with securities	47,125	31,162
From commitments assumed to third parties	13,056	7,591
Other fee and commission income	81,416	85,163
	548,264	**486,048**
Fee and commission expense		
From banking services rendered by third parties	51,354	36,373
From transactions with securities	4,360	5,135
From guarantees received	379	707
Other fee and commission expense	23,355	20,276
	79,448	**62,491**
	468,816	**423,557**

Note 7 – Net gains from financial assets at fair value through profit or loss

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	104,991	74,384	30,607	79,183	83,992	(4,809)
Issued by other entities	5,630	1,401	4,229	8,617	28,774	(20,157)
Shares	104,469	65,102	39,367	118,684	5,967	63,717
Other variable income securities	25,283	6,820	18,463	96,590	81,658	14,932
Derivative financial instruments	-					
Exchange rate contracts	574,619	585,982	(11,363)	606,484	736,223	(129,739)
Interest rate contracts	2,838,075	2,978,745	(140,670)	2,686,607	2,602,613	83,994
Equity/Index contracts	1,158,598	1,187,780	(29,182)	437,831	552,581	(114,750)
Credit default contracts	88,644	88,611	33	41,588	39,133	2,455
Other	1,289,914	1,153,136	136,778	870,852	813,008	57,844
	5,949,850	5,994,254	(44,404)	4,643,362	4,743,558	(100,196)
	6,190,223	6,141,961	48,262	4,946,436	4,992,949	(46,513)
Financial assets at fair value through profit or loss						
Bonds and other fixed income securities						
Issued by government and public entities	13,942	21,070	(7,128)	11,394	24,275	(12,881)
Issued by other entities	192,764	256,730	(63,966)	222,487	156,218	66,269
Shares	37,383	15,755	21,628	29,859	26,183	3,676
	244,089	293,555	(49,466)	263,740	206,676	57,064
	643, 312	6,435,516	(1,204)	5,210,176	5,199,625	10,551

As at 31 December 2006, this caption includes a negative effect of euro 2,026 thousands related to the change in fair value of financial liabilities designated at fair value through profit or loss attributable to the entity's credit risk component (see Note 31).

The caption derivative financial instruments (interest rate contracts) includes an amount of approximately euro 26.8 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 2006 (2005: euro 107 million).

Note 8 – Net gains from available-for-sale financial assets

This caption is analysed follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	1,494	1	1,493	189	400	(211)
Issued by other entities	99,356	13,016	86,340	49,604	20,574	29,030
Shares	78,717	3,582	75,135	138,244	76,299	61,945
Other variable income securities	2,215	-	2,215	1,557	-	1,557
	181,782	16,599	165,183	189,594	97,273	92,321

During 2006, the Group sold to the Groups' pension fund (i) 2 million shares of Bradesco, (ii) 3 million shares of Bradespar (Bradesco Group holding for non financial activities), (iii) 0.4 million shares of Banque Marocaine du Commerce Extérieur and (iv) part of the residual notes resulting from the securitisation of mortgage loans Lusitano no. 5, with a nominal value of euro 3,2 million. These operations generated gains in the amount of euro 35 million, euro 43,1 million, euro 17,9 million and euro 9,2 million, respectively.

During 2006, the Group sold the residual notes resulting from the securitisation of mortgage loans, Lusitano Mortgages no. 5, with a nominal value of euro 3,8 million, obtaining a gain of euro 10,5 million.

The major transactions made during 2005 were (i) selling of Portugal Telecom shares, resulting in a loss of euro 69,8 million, (ii) selling of 1.3% of Bradesco ordinary shares to the Groups' pension fund, generating a gain of euro 72,6 million, (iii) selling of 9.5 preference shares of Bradespar in the international market, generating a gain of euro 28 million (after this operation, BES Group holds 10.8% of voting rights in Bradespar, through its subsidiary GESPAR), (iv) selling of residual notes resulting from the securitisation of mortgage loans made in September 2005 (Lusitano Mortgages no. 4) originating a gain of euro 27,2 million, and (v) selling of part of the Group's stake in PT Multimedia, originating a gain of approximately euro 29,3 million (in this transaction, approximately 15,2 million of PT Multimedia 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 follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	958,942	898,457	60,485	747,802	655,795	92,007
	958,942	**898,457**	**60,485**	**747,802**	**655,795**	**92,007**

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 – Other operating income and expense

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Other operating income		
Investment banking services	52,276	39,192
Bank accounts management services	28,268	33,042
Technological services	6,137	6,892
Call center services	5,029	5,238
Other	83,139	82,099
	174,849	**166,463**
Other operating expense		
Direct and indirect taxes	11,692	14,200
Contributions to the Deposits Guarantee Fund	4,124	3,888
Donations	3,913	3,496
Other	40,724	47,624
	60,453	**69,208**
	114,396	**97,255**

Note 11 – Staff costs

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Wages and salaries	328,390	310,843
Remuneration	325,443	307,009
Long-service benefits (see Note 12)	2,947	3,834
Health-care benefits - SAMS	18,093	17,044
Other mandatory social charges	40,151	36,428
Pension costs (see Note 12)	71,413	71,262
Other costs	20,153	18,150
	478,200	**453,727**

The health-care benefits – SAMS include the amount of euro 9,773 thousand (31 December 2005: euro 8,322 thousand) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation (see Note 12).

Included in other costs is the amount of euro 2,454 thousand (31 December 2005: euro 2 060 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 12.

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

(in thousands of euros)

	31.12.2006	31.12.2005
Board of Directors		
Salaries and other short-term benefits	4,585	4,422
Pension costs and health-care benefits (SAMS)	316	297
Long service benefits	80	64
Bonus	5,206	4,684
	10,187	9,467
Fiscal Board	23	22
	10,210	**9,489**

As at 31 December 2006 and 2005, the loans granted by the Group to the Board of Directors of BES amounted to euro 8 620 thousand and euro 4 953 thousand euros, respectively.

As at 31 December 2006 and 2005, the number of employees of the Group is analysed as follows:

	31.12.2006	31.12.2005
BES emplyees	6,095	5,084
Financial sector subsidiary employees	1,701	2,507
Financial sector employees	**7,796**	**7,591**
Employed by other companies essencially providing services to customers outside the Group	1,008	933
	8,804	**8,524**

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

	31.12.2006	31.12.2005
Senior management	718	681
Management	1,208	1,197
Specific functions	3,240	3,066
Administrative functions	3,518	3,435
Auxiliary functions	120	145
	8,804	**8,524**

Note 12 – 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 the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force.

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. The pension funds in Portugal are managed by ESAF- Espírito Santo Fundo de Pensões, S.A.

The key actuarial assumptions used to calculate pension liabilities, are as follows:

	Assumptions		Actual	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Financial Assumptions				
Salaries increase rate	2.75%	2.75%	5.60%	5.32%
Pensions increase rate	1.75%	1.75%	1.48%	1.98%
Expected return of plan assets	4.75%	5.25%	12.58%	10.49%
Discount rate	4.75%	4.75%		
Demographic assumptions and Valuation methods				
Mortality table				
Men	TV 73/77 (adjusted)			
Women	TV 88/90			
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.

The contributions to SAMS are defined by that entity, as at 31 December 2006 and 2005, the contribution rate was 6.5% of total wages.

As at 31 December 2006 and 2005, the number of employees covered by the plan is a follows:

	31.12.2006	31.12.2005
Employees	6,048	5,999
Pensioners	4,638	4,448
Widows and other direct relatives	857	842
TOTAL	**11,543**	**11,289**

In accordance with IAS 19, the Group's liabilities, charges and contributions to the pension funds and respective coverage levels reported as at 31 December 2006 and 2005 are analysed as follows:

	31.12.2006			31.12.2005		
	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	(1,372,233)	(107,645)	(1,479,878)	(1,282,940)	(83,242)	(1,366,182)
Employees	(519,414)	(2,152)	(521,566)	(543,406)	(34,088)	(577,494)
	(1,891,647)	**(109,797)**	**(2,001,444)**	**(1,826,346)**	**(117,330)**	**(1,943,676)**
Fair value of plan assets as at 31 December	2,028,303	477	2,028,780	1,816,229	-	1,816,229
Excess / deficit of coverage	136,656	(109,320)	27,336	(10,117)	(117,330)	(127,447)
Unrecognised net actuarial losses as at 31 December	442,352	26,535	468,887	63,521	41,237	671,758
Asset / (liabilities) recognised in the balance sheet as at 31 December	**579,008**	**(82,785)**	**496,223**	**620,404**	**(76,093)**	**544,311**

The changes in the defined benefit obligation in 2006 and 2005 can be analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Liabilities as at 1 January	**1,826 346**	**117,330**	**1,943,676**	**1,552,833**	**95,849**	**1,648,682**
Service cost	29,478	2,079	31,557	20,045	1,445	21,490
Interest cost	84,143	5,444	89,587	79,155	4,883	84,038
Plan participants' contribution	3,072	-	3,072	2,837	-	2,837
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
- other actuarial (gains) / losses	3,460	(11,577)	(8,117)	39,592	6,548	46,140
Benefits paid by the Fund	(94,919)	-	(94,919)	(91,477)	-	(91,477)
Benefits paid by the Group	-	(5,464)	(5,464)	-	(5,761)	(5,761)
Curtailment losses related to early retirements	40,601	1,983	42,584	21,124	1,336	22,460
Other	(534)	2	(532)	1,787	-	1,787
Liabilities as at 31 December	**1,891,647**	**109,797**	**2,001,444**	**1,826,346**	**117,330**	**1,943,676**

From the total amount of curtailment losses related to early retirements occurred during 2006, the amounts of euro 37,039 thousand related to pensions and euro 1,851 thousand related to health-care benefits were recognised as a charge off of the restructuring provision (31 December 2005: euro 3,738 thousand and euro 205 thousand, respectively) (see Note 32).

As at 31 December 2006, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 16,9 millions (31 December 2005: euro 16,9 million) and an increase in costs (service cost and interest cost) of euro 1,1 million (31 December 2005: euro 1 million).

The change in fair value of the plan assets in 2006 and 2005 is analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Fair value of plan assets as at 1 January	**1,816,229**	**-**	**1,816 229**	**1,511,672**	**-**	**1,511,672**
Actual return on plan assets	222,666	-	222,666	144,617	-	144,617
Group contribution	82,121	477	82,598	248,652	-	248,652
Plan participants' contribution	3,072	-	3,072	2,837	-	2,837
Benefits paid by the Fund	(94,919)	-	(94,919)	(91,477)	-	(91,477)
Other	(866)	-	(866)	(72)	-	(72)
Fair value of plan assets as at 31 December	**2,028,303**	**477**	**2,028,780**	**1,816,229**	**-**	**1,816,229**

Pension Fund assets are analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Shares	965,431	681,062
Other variable income securities	598,214	613,511
Bonds	183,008	259,026
Real estate assets	179,126	122,904
Other	103,001	139,726
Total	**2,028,780**	**1,816,229**

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 thousands of euros)

	31.12.2006	31.12.2005
Shares	65,360	53,411
Bonds	254	2,237
Real estate assets	123,299	120,417
Total	**188,913**	**176,065**

The shares held by the pension fund, in 31 December 2006, are 4,7 million shares of BES and 60 thousand shares of Sotancro (31 December 2005: 3,7 million shares of BES and 60 thousand shares of Sotancro).

The bonds held by the pension fund as at in 31 December 2005, have been issued by BESI.

The transactions between the Group and the pension fund held during 2006 and 2005 are referred in Note 8.

The changes in the unrecognised net actuarial losses in 2006 and 2005 are analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unrecognised net actuarial losses as at 1 January	**630,521**	**41,237**	**671,758**	**490,049**	**22,536**	**512,585**
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
- other actuarial (gains) / losses	(137,530)	(11,577)	(149,107)	(30,117)	6,548	(23,569)
Amortisation of the year	(33,243)	(1,967)	(35,210)	(26,035)	(695)	(26,730)
Additional amortisation (curtailment)	(17,029)	(1,113)	(18,142)	(3,826)	(182)	(4,008)
Other	(367)	(45)	(412)	-	-	-
Unrecognised net actuarial losses as at 31 December	**442,352**	**26,535**	**468,887**	**630,521**	**41,237**	**671,758**
Of which:						
Within the corridor	202,437	10,980	213,417	182,289	11,733	194,022
Outside the corridor	239,915	15,555	255,470	448,232	29,504	477,736

From the amount of the additional amortisation (curtailment) resulting from early retirements occurred during 2006, the amounts of euro 14,366 thousand related to pensions and euro 961 thousand related to health-care benefits were recognised as a charge off of the restructuring provision (31 December 2005: euro 277 thousand and euro 13 thousand, respectively) (see Note 32).

The changes in unfunded liabilities are analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unfunded liabilities as at 1 January	**10,117**	**117,330**	**127,447**	**41,161**	**95,849**	**137,010**
Actuarial (gains) / losses of liabilities	3460	(11,577)	(8,117)	240,042	19,578	259,620
Actuarial (gains) / losses of plan assets	(140,990)	-	(140,990)	(69,709)	-	(69,709)
Charges for the year:	-	-				
- Service cost	29,478	2,079	31,557	20,045	1,445	21,490
- Interest cost	84,143	5,444	89,587	79,155	4,883	84,038
- Expected return on plan assets	(81,676)	-	(81,676)	(74,908)	-	(74,908)
- Curtailment losses related to early retirements	40,601	1,983	42,584	21,124	1,336	22,460
- Other	332	2	334	1,859	-	1,859
Contributions of the year and pensions paid by the Group	(82,121)	(5,941)	(88,062)	(248,652)	(5,761)	(254,413)
Unfunded liabilities as at 31 December	**(136,656)**	**109,320**	**(27,336)**	**10,117**	**117,330**	**127,447**

The net periodic benefit cost can be analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Service cost	29,478	2,079	31,557	20,045	1,445	21,490
Interest cost	84,143	5,444	89,587	79,155	4,883	84,038
Expected return on plan assets	(81,676)	-	(81,676)	(74,908)	-	(74,908)
Amortisation of the unrecognised net gain / (loss)	33,243	1,967	35,210	26,035	695	26,730
Curtailment losses related to early retirements	6,225	283	6,508	20,935	1,299	22,234
Net periodic benefit cost	**71,413**	**9,773**	**81,186**	**71,262**	**8,322**	**79,584**

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 thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
At 1 January	**620,404**	**(76,093)**	**544,311**	**448,888**	**(73,313)**	**375,575**
Net periodic benefit cost	(71,413)	(9,773)	(81,186)	(71,262)	(8,323)	(79,585)
Charge-off of provisions	(51,405)	(2,857)	(54,262)	(4,015)	(218)	(4,233)
Contributions of the year and pensions paid by the Group	82,121	5,941	88,062	248,652	5,761	254,413
Other	(699)	(3)	(702)	(1,859)	-	(1,859)
At 31 December	**579,008**	**(82,785)**	**496,223**	**620,404**	**(76,093)**	**544,311**

The net assets / (liabilities) recognised in the balance sheet are included in the captions Other assets and Other liabilities (see Note 28 and Note 35)

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 them 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 2006	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	Expired (May-06)	1,358,149	11,51	-	-
2nd block	May-07	3,169,016	11,51	495,941	100%
Plan 2002					
1st block	Apr-08	755,408	12,02	150,150	100%
2nd block	Apr-08	1,762,619	12,02	1,727,748	100%
Plan 2003					
1st block	May-09	480,576	14,00	107,601	100%
2nd block	May-09	1,121,343	14,00	1,142,183	100%
Plan 2004					
1st block	Dec-07	541,599	13,54	612,915	100%
2nd block	Dec-10	1,270,175	13,54	1,431,074	100%

The changes in the number of underlying shares to the outstanding plans during 2006 and 2005 were as follows:

	31.12.2006		31.12.2005	
	Number of shares	Average price (euros)	Number of shares	Average price (euros)
Opening balance	7,617,500	12,63	7,991,482	12,54
Shares attributed	-	-	1,811,774	13,54
Shares capital increase (1)	850,504	-	-	-
Shares sold (2)	(2,800,392)	11,61	(2,185,756)	13,17
Year-end balance	5,667,612	11,24	7,617,500	12,63

(1) Shares attributed under the incorporation of share premiums (see note 36)
(2) Includes shares sold in the market, after the exercise by the employees of the option of sell back to BES at acquisition cost and those that were paid by the employees at the maturity of the plans.

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

	Plan 2004	Plan 2003	Plan 2002	Plan 2001	Plan 2000
Maturity					
1st block	24 months	24 months	24 months	Expired	Expired
2nd block	60 months	60 months	60 months	60 months	Expired
Volatility	12%	12%	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 thousands of euros)

	31.12.2006	31.12.2005
Total costs of the plans (see Note 11)	2,454	2,060

The costs with the plans were recognised as Staff costs against Other reserves, in accordance with the accounting policy described in note 2.15.

Long-service benefits

As referred in Note 2.15, for employees that achieve certain years of service, the Bank pays long service premiums, calculated based on the effective monthly remuneration earned at the date the premiums are due. At the date of early retirement or disability, employees have the right to a premium proportional to that they would earn if they remained in service until the next payment date.

At 31 December 2006 and 2005, the Group's liability and costs incurred related to long-service benefits can be analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Liabilities as at 1 January	**22,553**	**20,453**
Costs of the year	2,947	3,834
Benefits paid	(1,873)	(1,734)
Liabilities as at 31 December	**23,627**	**22,553**

The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable).

As at 31 December 2006, the Group charged to staff costs the amount of euro 2,947 thousand (31 December 2005: euro 3,834 thousand) related to long-service benefits (see Note 11).

Note 13 – General and administrative expenses

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Rental costs	54,523	54,454
Advertising costs	43,548	37,892
Communication costs	34,387	36,077
Maintenance and related services	15,576	14,276
Travelling and representation costs	24,631	21,808
Transportation	5,968	5,556
Insurance costs	6,538	6,128
Specialised services		
IT services	42,453	43,181
Independent work	8,088	9,437
Temporary work	7,777	6,944
Electronic payment systems	12,447	14,323
Advisory services	11,645	7,802
Other specialised services	37,697	34,190
Water, energy and fuel	7,286	7,051
Consumables	6,418	5,608
Other costs	25,146	22,441
	344,128	**327,168**

The balance Other specialised services includes, among others, costs with security, information, data banks, judicial and legal services. The balance Other costs includes training costs and costs with external supplies.

Note 14 – 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 thousands of euros)

	31.12.2006	31.12.2005
Profit attributable to the equity holders of the Bank	**420,714**	**280,481**
Weighted average number of ordinary shares (thousands) (1)	417,222	300,000
Weighted average number of treasury shares (thousands)	6,373	7,413
Weighted average number of ordinary shares outstanding (thousands)	**410,849**	**292,587**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**1.02**	**0.96**

(1) Average number of ordinary shares weighted by the period after the capital increase in 30 May 2006 (see Note 36)

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, 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 12 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 2006 and 2005.

Note 15 – Cash and deposits at central banks

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Cash	311,335	231,488
Deposits at central banks		
Bank of Portugal	711,847	696,395
Other central banks	61,745	77,125
	773,592	**773,520**
	1,084,927	**1,005,008**

The deposits at Central Banks include 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 2006, these deposits have earned interest at an average rate of 2.79% (31 December 2005: 2.07%).

Note 16 – Deposits with banks

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Deposits with banks in Portugal		
Uncollected cheques	430,619	341,048
Repayable on demand	30,984	36,586
Other	37,134	48,876
	498,737	**426,510**
Deposits with banks abroad		
Repayable on demand	76,041	210,949
Uncollected cheques	4,019	5,490
Other	94,179	12,231
	174,239	**228,670**
	672,976	**655,180**

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

Note 17 – Financial assets and liabilities held for trading

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Trading financial assets		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1,538,485	980,929
Issued by other entities	157,882	100,130
Shares	267,868	156,198
Other variable income securities	991,793	572,797
	2,956,028	1,810,054
Derivatives		
Derivative financial instruments with positive fair value	1,236,430	1,185,689
	4,192,458	2,995,743
Trading financial liabilities		
Derivatives		
Derivative financial instruments with negative fair value	1,308,524	1,271,732

As at 31 December 2006, the acquisition cost of the securities held for trading amounted to euro 2,886,593 thousand (31 December 2005: euro 1,772,990 thousand).

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

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	358,504	131,155
3 to 12 months	610,918	506,460
1 to 5 years	459,480	357,251
More than 5 years	502,412	86,193
Undetermined	1 024,714	728,995
	2,956,028	**1,810,054**

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.

Regarding listed or unlisted securities, the balance financial assets held for trading, is as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	-	194,622	194,622	964,627	16,302	980,929
Issued by other entities	-	20,040	20,040	31,538	68,592	100,130
Shares	-	-	-	120,366	35,832	156,198
Other variable income securities	-	991,793	991,793	-	572,797	572,797
	-	**1,206,455**	**1,206,455**	**1,116,531**	**693,523**	**1,810,054**

As at 31 December 2006 and 2005, derivative financial instruments can be analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	15,181,980	164,353	206,550	23,713,318	253,052	230,236
- sell	15,274,654			23,670,475		
Currency Swaps						
- buy	1,670,645	12,482	15,119	675,865	1,207	3,224
- sell	1,707,949			676,852		
Currency Futures	-	-	-	10,239	-	-
Currency Interest Rate Swaps						
- buy	5,682,850	301,310	283,604	338,373	165,905	74,565
- sell	5,704,527			340,936		
Currency Options	3,785,013	9,283	21,968	2,092,305	17,367	33,980
	49,007,618	**487,428**	**527,241**	**51,518,363**	**437,531**	**342,005**
Interest rate contracts						
Forward Rate Agreements	255,930	112	126	491,750	12	191
Interest Rate Swaps	23,124,487	548,691	379,886	22,939,031	609,129	604,154
Swaption - Interest Rate Options	2,348,648	13,519	11,220	3,061,905	14,564	16,257
Interest Rate Caps & Floors	3,843,982	12,238	13,284	3,488,802	11,158	10,387
Interest Rate Futures	3,540,889	788	4,673	591,534	211	107
Bonds Options	84,686	161	-	132,532	2,960	60
Future Options	9,985,103	-	-	10,009,875	-	-
	43,183,725	**575,509**	**409,189**	**40,715,429**	**638,034**	**631,156**
Equity / index contracts						
Equity / Index Swaps	4,792,599	64,445	21,381	1,483,016	38,014	35,823
Equity / Index Options	4,479,305	92,968	335,813	4,914,805	61,160	250,706
Equity / Index Futures	1,331,085	-	-	964,690	-	-
	10,602,989	**157,413**	**357,194**	**7,362,511**	**99,174**	**286,529**
Credit default contracts						
Credit Default Swaps	1,417,632	16,080	14,900	1,591,833	10,950	12,042
	1,417,632	16,080	14,900	1,591,833	10,950	12,042
Total	**104,211,964**	**1,236,430**	**1,308,524**	**101,188,136**	**1,185,689**	**1,271,732**

As at 31 December 2006, the fair value or derivates under liabilities includes the amount of euro 5,303 thousand (31 December 2005: euro 39,355 thousands) related to the fair value of the embedded derivates, as described in Note 2.4.

As at 31 December 2006, the analysis of trading derivative by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	39,051,529	(50,995)	46,082,908	9,794
3 to 12 months	16,783,787	(33,213)	22,233,981	(46,661)
1 to 5 years	21,909,934	(27,624)	18,674,040	(22,621)
More than 5 years	26,466,714	39,738	14,197,207	(26,555)
	104,211,964	**(72,094)**	**101,188,136**	**(86,043)**

The trading derivatives portfolio includes instruments used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, as described in Note 2.8, but for which no hedge accounting was applied. These derivatives can be analysed as follows:

(in thousands of euros)

Derivative	Associated financial liability	Notional	Fair value of derivate	Carrying amount of financial liability (*)
Interest Rate Swap	Issue of bonds	702,074	(18,980)	682,750
Index Swap	Issue of bonds	217,238	12,434	215,452
Index Option	Issue of bonds	7,400	(708)	7,538
Index Swap	Due to customers	56,339	(435)	55,899
Currency Interest Rate Swap	Issue of bonds	75,949	5,110	81,578
FX Swaps	Deposits from banks	387,114	(519)	386,997
		1,446,114	**(3,098)**	**1,430,214**

(*) this amount is net of repurchases

As at 31 December 2006, the carrying amount of the financial liability includes a negative effect in the amount of euro 2,026 thousands, derived from the change in fair value attributable to the entity credit risk (see Note 31).

Note 18 – Financial assets at fair value through profit or loss

This balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Bonds and other fixed income securities		
Issued by government and public entities	-	144,122
Issued by other entities	1,322,698	1,416,127
Shares	175,894	186,649
Book value	**1,498,592**	**1,746,898**
(Acquisition cost)	*1,497,756*	*1,738,071*

In light of IAS 39, the Group designated these financial assets as at fair value through profit or loss, in accordance with the documented risk management and investment strategy, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

This caption includes securities in the amount of euro 575,621 thousand, which were sold by the Group but not derecognised, as the Group has retained substantially all risks and rewards of ownership through total return swaps.

As at 31 December 2006 and 2005, 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)

	31.12.2006	31.12.2005
Up to 3 months	228,802	6,578
3 to 12 months	192,144	438,285
1 to 5 years	569,385	374,661
More than 5 years	332,367	738,409
Undetermined	175,894	188,965
	1,498,592	1,746,898

Regarding listed or unlisted securities, the balance financial assets at fair value through profit or loss, is as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed income securities						
Issued by govermment and public entities	-	-	-	-	144,122	144,122
Issued by other entities	66,067	1,256,631	1,322,698	84,041	1,332,086	1,416,127
Shares	175,894	-	175,894	186,649	-	186,649
	241,961	1,256,631	1,498,592	270,690	1,476,208	1,746,898

Note 19 – Available-for-sale financial assets

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	Amortised Cost	Fair Value reseve		Impairment	Book Value
		Positive	Negative		
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 de December 2005	**3,346,961**	**529,226**	**(7,621)**	**(60,012)**	**3,808,554**
Bonds and other fixed income securities					
Issued by government and public entities	349,445	1,473	(1,275)	(594)	349,049
Issued by other entities	2,830,718	4,074	(4,006)	(9,093)	2,821,693
Shares	1,159,482	685,185	(2,754)	(43,419)	1,798,494
Other variable income securities	278,457	9,001	(618)	(4,392)	282,448
Balance as at 31 de December 2006	**4,618,102**	**699,733**	**(8,653)**	**(57,498)**	**5,251,684**

The changes occurred in impairment losses of available-for-sale financial assets are presented as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	60,012	164,426
Charge for the year	8,292	36,005
Charge off	(7,140)	(140,743)
Write back for the year	(1,288)	(6,405)
exchande differences and other	(2,378)	6,729
Balance at the end of the year	**57,498**	**60,012**

As at 31 December 2006 and 2005, the analysis of available-for-sale assets by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	288,524	152,656
3 to 12 months	248,114	183,884
1 to 5 years	1,171,860	786,474
More than 5 years	1,461,894	1,029,945
Undetermined	2,081,292	1,655,595
	5,251,684	**3,808,554**

The main contributions to the fair value reserve, as at 31December 2006, can be analysed as follows:

(in thousands of euros)

Descrição	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Banco Bradesco	202,057	496,097	-	-	698,154
Portugal Telecom	340,074	66,331	-	-	406,405
EDP	218,670	67,986	-	-	286,656
Banque Marocaine du Commerce Extérieur	2,480	2,774	-	(682)	4,572
Bradespar	3,577	8,345	-	-	11,922
	766,858	**641,533**	**-**	**(682)**	**1,407,709**

Note 20 – Loans and advances to banks

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Loans and advances to banks in Portugal		
Inter-bank money market	425,723	112,979
Deposits	52,659	30,501
Loans	52,143	34,948
Other loans and advances	1,429	523
	531,954	**178,951**
Loans and advances to banks abroad		
Deposits	3,145,408	2,752,359
Very short term deposits	2,026,383	1,343,555
Loans	1,880,656	1,890,366
Other loans and advances	6,002	1,371
	7,058,449	**5,987,651**
Impairment losses	(2,354)	(2,558)
	7,588,049	**6,164,044**

The main loans and advances to banks in Portugal, as at 31 December 2006, bore interest at an average annual interest rate of 3.46% (31 December 2005: 2.71%). Loans and advances to banks abroad bear interest at international market rates where the Group operates.

As at 31 December 2006 and 2005, the analysis of loans and advances to banks by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	6,987,458	5,088,590
3 to 12 months	410,257	392,888
1 to 5 years	112,106	280,951
More than 5 years	80,582	404,173
	7,590,403	6,166,602

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

(in thousands of euros)

	31.12.2006	31.12.2005
Uncollected cheques in Portugal and abroad were sent for collection		
during the first working days following the reference dates	2,558	3,834
Charge for the year	2,084	1,191
Write back for the year	(1,991)	(5,539)
Exchange differences and other	(297)	3,072
Balance at the end of the year	2,354	2,558

Note 21 – Loans and advances to customers

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Domestic loans		
Corporate		
Loans	7,515,911	5,292,895
Commercial lines of credits	6,551,451	6,844,987
Finance leases	2,254,375	1,881,648
Discounted bills	1,176,756	1,432,065
Factoring	977,934	915,526
Overdrafts	29,536	42,585
Other loans	238,960	314,716
Retail		
Mortgage loans	7,917,558	7,922,525
Consumer and other loans	2,001,327	1,518,394
	28,663,808	**26,165,341**
Foreign loans		
Corporate		
Loans	3,688,714	2,860,242
Commercial lines of credits	1,208,129	838,537
Finance leases	178,774	129,803
Discounted bills	113,075	175,128
Overdrafts	51,964	32,089
Other loans	620,928	321,725
Retail		
Mortgage loans	519,968	456,173
Consumer and other loans	233,952	194,885
	6,615,504	**5,008,582**
Overdue loans and interest		
Up to 90 days	74,160	66,004
More than 90 days	398,360	422,071
	472,520	**488,075**
	35,751,832	**31,661,998**
Provision for impaired loans and advances	(869,327)	(829,874)
	34,882,505	**30,832,124**

During September 2006, BES Group carried out a mortgage loans securitization transaction (Lusitano Mortgages No. 5) in the amount of euro 1,400 million (2005: euro 1,200 million – Lusitano Mortgages no.4) and during October 2006 carried out a securitization of loans granted to small and medium enterprises (Lusitano SME no. 1) in the amount of euro 863 million (see Note 41).

As at 31 December 2006, the balance loans and advances to customers includes an amount of euro 794,1 million (31 December 2005: euro 125,2 million) related to securitised loans following the consolidation of the securitisation vehicles (see Note 41), according to the accounting policy described in Note 2.2.

During 2006, the Group sold overdue mortgage loans in the amount of euro 36,1 million, with a related outstanding amount of euro 105,3 million (31 December 2005: approximately euro 71 million).

As at 31 December 2006 and 2005, the analysis of loans and advances to customers by the period to maturity is a follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	6,147,170	5,578,723
3 to 12 months	5,150,636	5,262,267
1 to 5 years	7,136,228	5,721,620
More than 5 years	16,845,278	14,611,313
Undetermined	472,520	488,075
	35,751,832	**31,661,998**

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

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 31 December	829,874	793,225
Charge for the year	232,547	281,974
Charge off	(133,935)	(181,148)
Write back for the year	(50,992)	(62,058)
Unwind of discount	(10,861)	(11,180)
Exchange differences and other	2,694	9,061
Balance at the end of the year	**869,327**	**829,874**

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.

The following table sets forth information about the Group's impaired loans:

(in thousands of euros)

	31.12.2006	31.12.2005
Overdue loans and remaining principle amount (not yet due) of loans accounted for as overdue loans	959,252	1,023,633
Impaired performing loans	2,235,303	2,331,317
Total impaired loans	**3,194,555**	**3,354,950**
Total non-impaired loans	**32,557,277**	**28,307,048**
	35,751,832	31,661,998
Provisions		
- specific impairment	511,451	595,527
- collective impairment	357,876	234,347
	869,327	**829,874**
Average balance of impaired loans during the year	**3,536,030**	**3,489,831**
Interest income on impaired loans	**175,988**	**150,580**

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 thousands of euros)

	31.12.2006	31.12.2005
Fixed interest rate	3,700,610	4,137,591
Variable interest rate	32,051,222	27,524,407
	35,751,832	**31,661,998**

The analysis of finance leases by the period to maturity is a follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Gross investment in finance leases, receivable		
Up to 1 year	503,693	896,482
From 1 to 5 years	1,252,844	1,991,898
More than 5 years	1,266,535	1,059,526
	3,023,072	3,947,906
Unearned future finance income on finance leases		
Up to 1 year	86,951	531,594
From 1 to 5 years	174,483	1,048,322
More than 5 years	328,489	356,539
	589,923	1,936,455
Net investment in finance leases		
Up to 1 year	416,742	364,888
From 1 to 5 years	1,078,361	943,576
More than 5 years	938,046	702,987
	2,433,149	**2,011,451**

Note 22 – Held to maturity investments

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Bonds and other fixed income securities		
Issued by government and public entities	589,354	588,457
Issued by other entities	3,817	8,396
	593,171	**596,853**
Impairment losses	-	(13)
	593,171	**596,840**

As at 31 December 2006 and 2005, the analysis of held to maturity investments by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	50,653	29,605
3 to 12 months	66,910	59,838
1 to 5 years	468,073	500,340
More than 5 years	7,535	7,070
	593,171	**596,853**

The fair value of held to maturity investments is presented in Note 42.

Note 23 – Hedging derivatives

As at 31 December 2006 and 2005, the balance hedging derivatives is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Hedging derivatives with positive fair value (assets)	178,653	124,505
Hedging derivatives with negative fair value (liabilities)	238,612	111,098
	(59,959)	**13,407**

As at 31 December 2006, the fair value hedge relationships present the following features:

(in thousands of euros)

31.12.2006							
Derivative	Hedge item	Hedged risk	Notional	Fair value of derivative (2)	Changes in the fair value of the derivative in the year	Hedged item fair value (1)	Changes in the fair value of the hedged item in the year (1)
Currency Interest Rate Swaps	Deposits	Interest rate and FX	429,596	2,248	1,060	448	(1,181)
Currency Interest Rate Swaps	Loans	Interest rate and FX	191,168	(8,053)	(33,657)	8,027	38,942
Currency Interest Rate Swaps	Bonds	Interest rate and FX	18,192	54	(376)	276	270
Currency Interest Rate Swaps	Bonds	Interest rate and FX	35,854	-	-	-	-
Interest Rate Swaps	Loans	Interest rate	245,884	(1,244)	3,778	428	(4,309)
Interest Rate Swaps	Deposits	Interest rate	150,019	11,659	3,355	(5,663)	(3,684)
Interest Rate Swaps	Loans	Interest rate	-	-	93	-	(107)
Interest Rate Swaps	Bonds	Interest rate	1,730,125	(64,623)	(50,026)	68,910	46,262
			2,800,838	**(59,959)**	**(75,773)**	**72,426**	**76,193**

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

As at 31 December 2005, the fair value hedge relationships present the following features:

(in thousands of euros)

31.12.2005							
Derivative	Hedged item	Hedged risk	Notional	Fair value of derivative (2)	Changes in the fair value of the derivative in the year	Hedged item fair value (1)	Changes in the fair value of the hedged item in the year (1)
Currency Interest Rate Swaps	Deposits	Interest rate and FX	648,511	32,847	27,608	(2,986)	(27,697)
Equity / Index Swaps	Bonds	Equity	117,276	7,447	7,552	(9,252)	(8,933)
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
Index Swap	Bonds	Equity	100,662	(180)	(1,786)	52	52
Interest Rate Swaps	Deposits	Interest rate	19,553	4,662	1,299	(2,629)	746
Interest Rate Swaps	Loans	Interest rate	77,821	(4,787)	672	4,858	637
Interest Rate Swaps	Bonds	Interest 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 net gains from financial assets at fair value through profit or loss.

As at 31 December 2006, the ineffectiveness of the fair value hedge operations amounted to euro 5,9 million (31 December 2005: euro 1,8 million) and was recognised in the income statement. BES Group evaluates on an ongoing basis the effectiveness of the hedges.

As at 31 December 2006 and 2005, the analysis of fair value hedge transactions by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Notional	Fair value	Notional	Fair value
Up to 3 months	361,913	6,014	153,314	352
3 to 12 months	466,722	(1,210)	180,224	5,826
1 to 5 years	1,158,769	(2,505)	1,678,804	19,398
More than 5 years	813,434	(62,258)	514,240	(12,169)
	2,800,838	**(59,959)**	**2,526,582**	**13,407**

Note 24 – Non-current assets and liabilities held for sale

In December 2005, BESI 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 (ROPSOH – Unidades de Saúde, S.A.) 80% owned by BESI and 20% owned by Espírito Santo Saúde.

As at 31 December 2005, in relation to the assets and liabilities of the referred company held for sale, the amount of euro 157,536 thousand and euro 112,428 thousand are recorded under non-current assets and liabilities held for sale, respectively. The Group did not recognize any gain or loss during the year related with this operation.

The shareholding acquired by BESI was sold to Espírito Santo Saúde, after the authorisation given by the Competition Authority, which occurred in February 2006. The cash settlement occurred in March 2006.

Note 25 – Property and equipment

As at 31 December 2006 and 2005 this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Property		
For own use	295,060	289,037
Improvements in leasehold property	184,298	180,995
Other	3,853	103
	483,211	**470,135**
Equipment		
Computer equipment	238,863	235,913
Fixtures	93,615	88,799
Furniture	86,415	79,942
Security equipment	20,808	16,833
Office equipment	31,111	32,151
Motor vehicles	3,872	3,869
Other	6,086	5,142
	480,770	**462,649**
Other	1,627	3,385
	965,608	**936,169**
Work in progress		
Improvements in leasehold property	11,886	5,156
Property for own use	7,646	12,825
Equipment	14,223	5,812
Other	573	1,223
	34,328	**25,016**
	999,936	**961,185**
Accumulated depreciation	(617,007)	(598,093)
	382,929	**363,092**

The movement in this balance was as follows:

(in thousands of euros)

	Property	Equipment	Other	Work in progress	Total
Acquisition cost					
Balance as at 1 January 2005	431,091	435,571	870	36,491	904,023
Acquisitions	6,090	19,198	15	35,554	60,857
Disposals	(1,471)	(6,368)	-	(401)	(8,240)
Transfers	33,804	13,078	(154)	(46,728)	-
Exchange differences	869	1,390	46	140	2,445
Other	(248)	(220)	2,608	(40)	2,100
Balance as at 31 December 2005	**470,135**	**462,649**	**3,385**	**25,016**	**961,185**
Acquisitions	10,507	22,833	112	33,261	66,713
Disposals	(5,252)	(19,121)	-	-	(24,373)
Transfers (a)	9,121	16,071	-	(24,104)	1,088
Exchange differences	(1,258)	(995)	(1,871)	443	(3,681)
Other	(42)	(667)	1	(288)	(996)
Balance as at 31 December 2006	**483,211**	**480,770**	**1,627**	**34,328**	**999,936**
Depreciation					
Balance as at 1 January 2005	195,358	366,412	195	-	561,965
Depreciation of the year	14,231	27,290	227	-	41,748
Disposals	(728)	(6,211)	-	-	(6,939)
Exchange differences	76	588	-	-	664
Other	142	(680)	1,193	-	655
Balance as at 31 December 2005	**209,079**	**387,399**	**1,615**	**-**	**598,093**
Depreciation of the year	15,964	24,087	181	-	40,232
Disposals	(4,707)	(18,149)	-	-	(22,856)
Transfers (a)	(1,090)	5,355	(1,383)	-	2,882
Exchange differences	(53)	(172)	6	-	(219)
Other	(143)	(834)	(148)	-	(1,125)
Balance as at 31 December 2006	**219,050**	**397,686**	**271**	**-**	**617,007**
Net balance as at 31 December 2006	**264,161**	**83,084**	**1,356**	**34,328**	**382,929**
Net balance as at 31 December 2005	**261,056**	**75,250**	**1,770**	**25,016**	**363,092**

(a) Includes the amount of euro 7,459 thousands related to the acquisition costs and euro 1 961 thousands of accumulated depreciations transferred to the balance Other Assets, referring to discontinued branches.

Note 26 – Intangible assets

As at 31 December 2006 and 2005 this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Goodwill	**3,282**	**2,874**
Internally developed		
Software	7,793	2,155
	7,793	2,155
Acquired to third parties		
Software	403,676	384,910
Other	30,393	35,571
	434,069	**420,481**
Work in progress	**19,429**	**19,892**
	464,573	**445,402**
Accumulated amortisation	(395,921)	(373,462)
	(395,921)	**(373,462)**
	68,652	**71,940**

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 thousands of euros)

	Goodwill	Software	Other	Total
Acquisitions cost				
Balance as at 1 January 2005	2,458	391,059	34,760	428,277
Acquisitions:				
Internally developed	-	5,128	-	5,128
Acquired from third parties	416	29,040	5,954	35,410
Disposals	-	(17,879)	(5,828)	(23,707)
Transfers	-	(629)	629	-
Exchange differences	-	35	56	91
Other	-	203	-	203
Balance as at 31 December 2005	**2,874**	**406,957**	**35,571**	**445,402**
Acquisitions:				
Internally developed	-	5,820	-	5,820
Acquired from third parties	731	21,316	1,805	23,852
Disposals	(16)	(996)	(1,344)	(2,356)
Transfers	-	-	(8,547)	(8,547)
Exchange differences	(307)	(109)	(48)	(464)
Other	-	(2,090)	2,956	866
Balance as at 31 December 2006	**3,282**	**430,898**	**30,393**	**464,573**
Amortisation				
Saldo a 1 de Janeiro de 2005	-	322,539	33,360	355,899
Amortisation of the year	-	36,700	1,831	38,531
Disposals	-	(13,740)	(5,762)	(19,502)
Transfers	-	(3,877)	3,877	-
Exchange differences	-	17	-	17
Other	-	-	(1,483)	(1,483)
Balance as at 31 December 2005	**-**	**341,639**	**31,823**	**373,462**
Amortisation of the year	-	28,226	561	28,787
Disposals	-	(664)	(1,219)	(1,883)
Transfers	-	693	(5,536)	(4,843)
Exchange differences	-	(94)	(31)	(125)
Other	-	447	76	523
Balance as at 31 December 2006	**-**	**370,247**	**25,674**	**395,921**
Net balance as at 31 December 2006	**3,282**	**60,651**	**4,719**	**68,652**
Net balance as at 31 December 2005	**2,874**	**65,318**	**3,748**	**71,940**

Note 27 – Investments in associates

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

(in thousands of euros)

	Assets		Liabilities		Equity		Income		Profit/(Loss) of the period		Acquisition cost	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
BES VIDA b)	6,842,137	-	6,512,852	-	329,285	-	879,725	-	115,048	-	474,997	-
BES VÉNÉTIE a)	1,216,063	1,247,066	1,132,469	1,169,303	83,594	77,763	72,111	68,090	8,208	10,861	22,000	22,000
LOCARENT	216,036	134,933	215,972	133,929	64	1,004	44,910	18,070	(940)	(2,381)	2,517	1,617
BES SEGUROS	88,919	79,103	64,784	57,066	24,135	22,037	60,455	59,605	4,425	4,324	3,749	6,000
ESEGUR	42,203	40,675	33,486	31,793	8,717	8,882	53,426	53,701	2,800	4,134	2,134	2,134
EUROP ASSISTANCE	29,164	23,892	20,168	15,693	8,996	8,199	24,631	21,636	1,082	1,060	1,147	1,147
FUNDO ES IBERIA	26,332	-	616	-	25,716	-	12	-	(766)	-	10,496	-
CARLUA	19,652	21,348	17,908	14,432	1,744	1,779	31,479	27,469	339	327	1,250	1,250
SCI GEORGES MANDEL	11,590	11,332	68	155	11,522	11,177	1,115	1,050	324	215	2,401	2,401
FOMENTINVEST	9,151	7,824	1,673	3,089	7,478	4,735	4,301	828	2,743	43	1,000	1,000
COMINVEST	7,275	7,316	430	537	6,845	6,779	459	388	191	92	2,089	2,089
BRB INTERNACIONAL	5,590	5,952	2,945	5,127	2,645	825	4,654	2,514	405	(230)	10,033	10,033
ESUMÉDICA	3,419	3,049	3,031	2,456	388	593	4,749	4,732	(191)	58	395	395
SGPICE	2,934	3,541	9,694	6,807	(6,760)	(3,266)	12,216	7,794	(1,245)	(2,472)	2,667	-
CONCORDIA	1,065	-	32	-	1,033	-	502	-	(355)	-	996	996
FIDUPRIVATE	962	865	100	121	862	744	507	777	130	157	31	31
APOLO FILMS	671	851	40	230	631	738	245	61	(165)	(53)	791	791
Others	-	-	-	-	-	-	-	-	-	-	15,653	7,328
											554,346	59,212

a) Associated sold in December 2005 by BES to ES Tech Ventures
b) Associated acquired in June 2006. The result generated in June was not included in BES Group consolidated accounts.

(in thousands of euros)

	% held		Book value		Share of profit of associates	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
BES VIDA	50.00%	-	490,566	-	3,676	-
BES VÉNÉTIE	40.00%	40.00%	34,391	31,105	3,284	4,345
LOCARENT	45.00%	45.00%	7	452	(445)	(1,071)
BES SEGUROS	25.00%	40.00%	6,426	8,815	1,499	1,730
ESEGUR	34.00%	34.00%	2,964	3,020	952	1,406
EUROP ASSISTANCE	23.00%	23.00%	2,069	1,886	249	244
FUNDO ES IBERIA	38.69%	-	10,027	-	(278)	-
CARLUA	18.34%	18.34%	560	546	(11)	105
SCI GEORGES MANDEL	22.50%	22.50%	2,592	2,515	73	48
FOMENTINVEST	20.00%	20.00%	1,496	947	549	-
COMINVEST	25.00%	25.00%	1,711	1,695	48	23
BRB INTERNACIONAL	24.93%	24.93%	661	206	205	(43)
ESUMÉDICA	24.90%	24.90%	96	148	(48)	14
SGPICE	33.33%	33.33%	-	-	-	-
CONCORDIA	49.00%	49.00%	506	1,008	(230)	-
FIDUPRIVATE	24.76%	24.76%	213	184	32	39
APOLO FILMS	25.00%	25.00%	157	186	(27)	(10)
Others	-	-	17,121	9,661	1,242	865
			571,563	62,374	10,770	7,695

The movement in this balance was as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	62,374	58,940
Disposals	(6,463)	(4,074)
Acquisitions	498,120	3,859
Share of profit of associates	10,770	7,695
Dividends received	(1,907)	(1,779)
Exchange diferences and other [(a)]	8,669	(2,267)
Balance as at 31 December	**571,563**	**62,374**

(a) - As at 31 December 2006, includes euro 11 890 thousands related to the change in the fair value reserve of BES Vida

As referred in Note 1, BES paid euro 475 million by 50% of the share capital of Companhia de Seguros Tranquilidade-Vida, whose denomination changed to BES-Vida, Companhia de Seguros, S.A. The remaining 50% were acquired by Crédit Agricole, assuming this entity the control over the company. As such, the investment is booked in BES consolidated accounts under the equity method.

As at 31 December 2006, the accounting of the acquisition of BES Vida in BES consolidated accounts was made on a provisional basis, in accordance with IFRS 3 Business Combinations, considering that the acquisition occurred during the year. The process of attributing the fair value to the assets, liabilities and contingent liabilities of BES-Vida is under way and should be concluded in a 12 month period, as permitted by IFRS 3.

The accounting of BES – Vida following the equity method can be analysed as follows:

(in thousands of euros)

	31.12.2006
Shareholders equity of BES Vida as at 31.12.2006	329,285
Attributable to BES (50%)	164,643
Goodwill	267,440
Value in Force [(a)]	
Fair value determined at acquisition date	60,955
Amortisation of the year	(2,472)
Net value	58,483
Amount recognised in the balance sheet, related to BES Vida	**490,566**

(a) Value in force corresponds to the estimated present value of the future cash flows of the existent insurance policies as at the acquisition date. In accordance with IFRS, this amount is accounted for as an intangible asset and is amortised during the period in which the related revenue is recognised.

Note 28 – Other assets

As at 31 December 2006 and 2005, the balance Other assets is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Debtors		
Deposits placed with options contracts	176,707	142,997
Debtors from transactions with securities	-	125,708
Deposits placed with futures contracts	103,646	98,580
Recoverable government subsidies on mortgage loans	46,897	39,934
Debtors for unrealised capital in subsidiaries	-	23,072
Collateral deposits placed	51,593	19,682
Loans to companies in which the Group has a minority interest	105,391	44,214
Public sector	40,148	14,407
Sundry debtors	144,935	157,653
	669,317	666,247
Impairment losses on debtors	(9,298)	(10,338)
	660,019	**655,909**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	36,055	52,851
Other assets	32,503	23,689
	68,558	**76,540**
Accrued income	75,300	42,552
Prepayments and deferred costs	**84,115**	**75,972**
Other sundry assets		
Foreign exchange transactions pending settlement	19,495	20,927
Stock exchange transactions pending settlement	398,672	-
Other transactions pending settlement	84,558	15,680
	502,725	**36,607**
Assets received as a recovery of non-performing loans	119,713	82,889
Impairment losses on these assets	(10,652)	(8,169)
	109,061	**74,720**
Assets recognised on pensions (see Note 12)	**579,008**	**620,404**
	2,078,786	**1,582,704**

As at 31 December 2006, the balance prepayments and deferred costs includes the amount of euro 54,024 thousand (31 December 2005: 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 at 2005 represent amounts from short-sales pending settlement.

Change in impairment losses are presented as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance at the begining of the year	18,507	27,416
Charge for the year	4,549	2,591
Charge off	(611)	(8,251)
Write back for the year	(2,371)	(2,162)
Exchange differences and other	(124)	(1,087)
Balance at the end of the year	**19,950**	**18,507**

Note 29 – Deposits from banks

The balance deposits from banks is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Domestic		
Loans	891,829	745,945
Inter-bank money market	120,915	68,421
Deposits	149,872	93,777
Very short term funds	13,702	17,805
Repurchase agreements	1,352	-
Other funds	23,581	3,019
	1,201,251	**928,967**
International		
Deposits	2,366,230	3,130,983
Loans	2,526,197	1,716,671
Very short term funds	88,923	71,229
Repurchase agreements	516,700	325,797
Other funds	128,085	91,245
	5,626,135	**5,335,925**
	6,827,386	**6,264,892**

As at 31 December 2006 and 2005, the analysis of deposits from banks by the period to maturity is a follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	2,783,657	2,861,933
3 to 12 months	2,181,269	660,850
1 to 5 years	1,630,655	1,717,258
More than 5 years	231,805	1,024,851
	6,827,386	**6,264,892**

Note 30 – Due to customers

The balance due to customers is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Repayable on demand		
Demand deposits	9,565,627	8,790,753
Time deposits		
Time deposits	7,807,665	7,523,978
Notice deposits	514	1,226
Other	1,868	3,205
	7,810,047	**7,528,409**
Savings accounts		
Pensioners	182,535	222,855
Emigrants	185	346
Other	1,956,739	2,008,586
	2,139,459	**2,231,787**
Other funds		
Repurchase agreements	1,452,259	1,486,553
Other	1,026,279	715,581
	2,478,538	**2,202,134**
	21,993,671	**20,753,083**

As at 31 December 2006 and 2005, the analysis of the amount due customers by the period to maturity is a follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Repayable on demand	9,565,627	8,790,753
With agreed maturity		
Up to 3 months	9,193,809	8,684,668
3 to 12 months	2,435,123	2,492,641
1 to 5 years	714,047	614,582
More than 5 years	85,065	170,439
	12,428,044	**11,962,330**
	21,993,671	**20,753,083**

This balance includes the amount of euro 55 899 thousands of deposits recognised in the balance sheet at fair value through profit or loss (see Note 17). The Group's option to designate these financial liabilities at fair value through profit or loss, under IAS 39, follows the Group's documented risk management strategy, in accordance with the accounting policy described is Note 2.8.

Note 31 – Debt securities issued

Outstanding debt securities is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Euro Medium Term Notes	8,980,124	7,291,038
Bonds	4,905,583	3,181,310
Certificates of deposit	4,737,685	3,553,193
Other	407,077	376,750
	19,030,469	**14,402,291**

During the year ended 31 December 2006, BES Group issued debt securities amounting to euro 5,650.6 million (31 December 2005: euro 5 756.8 million), and reimbursed euro 1,695.2 million (31 December 2005: euro 1,460.3 million).

As at 31 December 2006 and 2005, the analysis of debt securities outstanding by the period to maturity is a follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	3,735,843	3,592,332
3 to 12 months	3,293,593	1,491,581
1 to 5 years	8,267,290	6,225,207
More than 5 years	3,733,743	3,093,171
	19,030,469	**14,402,291**

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

(in thousands of euros)

			31.12.2006				
Issuer	Designation		Currency	Issue date	Book value	Maturity	Global yield/Interest rate
BES	Certificates of deposit		EUR	2006	1,315,802	2007	0.00% - 5.60%
BES	Certificates of deposit		USD	2004 - 2006	1,792,256	2007 - 2008	4.71% - 5.34%
BES	Certificates of deposit		GBP	2006	1,583,451	2007	2.65% - 5.63%
BES	BIC 99 - 3rd issue		EUR	1999	24,000	2008	Fixed rate - 2.80%
BES	Bonds BES Rendimento Mais – 1st Serie		EUR	2000	10,801	2008	Fixed rate - 5.80%
BES	Bonds BES Rendimento Mais – 2nd Serie		EUR	2000	4,947	2008	Fixed rate - 5.95%
BES	Bonds BES Rendimento Mais – 3rd Serie		EUR	2000	6,865	2008	Fixed rate - 5.98%
BES	Bonds BES Rendimento Mais – 4th Serie		EUR	2000	7,118	2008	Fixed rate - 2.76%
BES	Bonds BES Rendimento Mais – 5th Serie		EUR	2000	5,142	2008	Fixed rate - 5.96%
BES	Bonds BES EURO RENDA August 2001		EUR	2001	15,000	2009	Fixed rate - 2.75%
BES	Bonds BES Euro Renda		EUR	2002	22,306	2010	Fixed rate - 5.32%
BES	Bonds BES DJ Global Titans	a)	EUR	2002	14,665	2007	0.85% + index Eurostat MUICP
BES	Bonds BES Rendimento Private 2007	a)	EUR	2002	12,430	2007	3.90% + DJ Euro Stoxx 50
BES	Bonds BES Cabaz 2008	a)	EUR	2003	8,445	2008	International stock basket
BES	Bonds BES índices Mundiais - June 2003	a)	EUR	2003	1,001	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	Bonds BES índices Mundiais - February 2003	a)	EUR	2003	2,293	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	Bonds BES índices Mundiais - May 2003	a)	EUR	2003	2,940	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	Bonds BES Valor Seguro - April 2003	a)	EUR	2003	2 355	2008	DJ Eurostoxx 50 + HICP Ex-Tobacco
BES	Bonds BES IM - July 2004	a)	EUR	2004	1,441	2007	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	Bonds BES Investimento Global - March 2004	a)	EUR	2004	2,153	2007	c)
BES	Bonds BES Indice Sectoriais - January 2004	a)	EUR	2004	1,745	2007	DJ Index Basket
BES	Bonds BES Libor Invest - November 2004	a)	USD	2004	656	2008	US LIbor 6 months
BES	Bonds BES Set UP Global - June 2004	a)	EUR	2004	952	2007	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	Bonds BES Set UP Global - May 2004	a)	EUR	2004	661	2007	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	Bonds BES Target 14.5% - May 2004	a)	EUR	2004	4,804	2014	Euribor 12 months
BES	Bonds BES Target 14.5% - April 2004	a)	EUR	2004	4,636	2014	Euribor 12 months
BES	Bonds BES Libor Nov04	a)	USD	2004	1,051	2009	US LIbor 3 months
BES	Bonds BIC CAPITAL MAIS - March 2007	a)	EUR	2004	7,481	2007	DJ Eurostoxx 50 + DJ Industrials
BES	Bonds TOP BIC SELECÇÃO- July 2004	a)	EUR	2004	5,759	2007	Indexed to a fund basket
BES	BES TARGET 10%		EUR	2005	4,977	2013	Fixed rate - 5.00%
BES	BIC EURO 4%		EUR	2005	3,094	2007	Fixed rate - 4.00%
BES	BIC EURO VALOR		EUR	2005	34,330	2010	Fixed rate - 4.25%
BES	BIC SNOWBL APR05		EUR	2005	32,326	2012	Euribor 6 months
BES	BES 12/01/2009	a)	USD	2005	812	2009	US LIbor 6 months
BES	BES CHINA FEB05	a)	EUR	2005	7,966	2008	FSTE/Xinhua China 25 Index
BES	BES COMMODIT 7%	a)	EUR	2005	1,731	2014	Fixed rate - 7.00%
BES	BES ER 4% APR05	a)	EUR	2005	2,103	2013	Fixed rate 4.08% in 1º.2º e 8º year + CMS from 3º to 7º year.
BES	BES ER 4% APR05	a)	EUR	2005	1,561	2013	Fixed rate 4.14% in 1º.2º e 8º year + CMS from 3º to 7º year.
BES	BES ER 3.75%0805	a)	EUR	2005	2,166	2013	Fixed rate 3.85% in 1º.2º e 8º year + CMS from 3º to 7º year.
BES	BES-E.RENDA 4%	a)	EUR	2005	7,701	2013	Fixed rate 4.15% in 1º.2º e 8º year + CMS from 3º to 7º year.
BES	BIC E.RENDA 4%	a)	EUR	2005	2,695	2013	Fixed rate 4.15% in 1º.2º e 8º year + CMS from 3º to 7º year.
BES	BIC GLOBAL IND	a)	EUR	2005	7,537	2010	DJ Eurostoxx 50 + Nasdaq 100 + Nikkei 225
BES	BES FEB 2009		EUR	2006	6,500	2009	Fixed rate - 4.00%
BES	BES 4% DUAL	a)	EUR	2006	5,409	2008	4% (50%) + DJ Eurostoxx 50 (50%)
BES	BES BRIC MAR.06	a)	EUR	2006	5,063	2009	Nifty India + RDX Russia + HK Hang Seng + Bovespa
BES	BES CRESCIMENTO JAPÃO APRIL 2006	a)	EUR	2006	4,879	2009	Nikkei 225
BES	BES TARGET 9% - 1st SERIES	a)	EUR	2006	3,039	2010	Euribor 12 months
BES	BES TARGET 9% - 2nd SERIES	a)	EUR	2006	2,895	2010	Euribor 12 months
BES	BES-4,25% DUAL	a)	EUR	2006	2,870	2008	4.25% (50%) + DJ Eurostoxx 50 (50%)
BES (SFE)	Bonds BES-SFE 27/11/2008	a)	EUR	2003	44,617	2008	CMS 10 years EUR
BES (Cayman)	BES CAYMAN - Zero Coupon		EUR	2002	52,302	2027	Zero coupon - Effective rate 5.90%
BES (Cayman)	BES CAYMAN - Zero Coupon		EUR	2002	86,144	2027	Zero coupon - Effective rate 5.90%
BES (Cayman)	BES CAYMAN - Zero Coupon		EUR	2002	110,080	2027	Zero coupon - Effective rate 5.74%
BES (Cayman)	BES CAYMAN - Zero Coupon		EUR	2002	64,484	2028	Zero coupon - Effective rate 5.50%
BES (Cayman)	BES CAYMAN Step Up 07/15/13		USD	2003	56,948	2013	StepUp (1st coupon 1.25%)
BES (Cayman)	BES CAYMAN Step Up 07/25/13		USD	2003	56,948	2013	StepUp (1st coupon 1.50%)
BES (Cayman)	BES CAYMAN - Zero Coupon		EUR	2002	12,258	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 Step Up 10/07/13		EUR	2003	75,000	2013	StepUp (1st coupon 3.10%)
BES (Cayman)	BES CAYMAN - Zero Coupon		EUR	2002	74,906	2028	Zero coupon - Effective rate 5.81%
BES (Cayman)	BES CAYMAN - FIXED NOTE		EUR	2003	22,296	2013	Up-front coupon
BES (Cayman)	BES CAYMAN Step Up 02/02/17		USD	2004	37,965	2017	StepUp (1st coupon 1.87%)
BES (Cayman)	BES CAYMAN Step Up 02/11/19		USD	2004	37,965	2019	StepUp (1ºstcoupon 1.78%)
BES (Cayman)	BES CAYMAN - FIXED NOTE		EUR	2003	10,445	2014	Up-front coupon
BES (Cayman)	BES CAYMAN - FIXED NOTE		EUR	2003	25,770	2014	Up-front coupon
BES (Cayman)	BES CAYMAN - FIXED NOTE		EUR	2003	6,175	2014	Up-front coupon
BES (Cayman)	BES CAYMAN - FIXED NOTE		EUR	2003	5,146	2014	Up-front coupon
BES (Cayman)	BES CAYMAN Step Up 07/21/14		USD	2004	56,948	2014	StepUp (1st coupon 2.07%)
BES (Cayman)	BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	4,655	2009	Euribor 6 months
BES (Cayman)	BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	1,695	2009	Euribor 6 months
BES (Cayman)	BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	587	2009	Euribor 6 months
BES (Cayman)	BES CAYMAN - BES Libor 4%		USD	2005	719	2008	Euribor 6 months + 0.51%
BES (Cayman)	BES CAYMAN - BES Libor 4%		USD	2005	827	2008	Fixed rate - 4.00%
BES (Cayman)	BES CAYMAN Step Up 06/30/08		USD	2005	1,653	2008	StepUp (1st coupon 4.00%)
BES (Cayman)	BES CAYMAN Step Up 07/11/08		USD	2005	1,665	2008	StepUp (1st coupon 3.60%)
BES (Cayman)	BES CAYMAN Step Up 08/08/08		USD	2005	1,613	2008	StepUp (1st coupon 3.60%)
BES (Cayman)	BES CAYMAN Step Up 08/09/08		USD	2005	646	2008	StepUp (1st coupon 3.75%)
BES (Cayman)	BES CAYMAN Step Up 10/14/08		USD	2005	1,351	2008	StepUp (1st coupon 3.75%)
BES (Cayman)	BES CAYMAN Step Up 11/10/08		USD	2005	1,435	2008	StepUp (1st coupon 3.75%)

(in thousands of euros)

			31.12.2006				
Issuer	Designation		Currency	Issue date	Book value	Maturity	Global yield/Interest rate
BES (Cayman)	BES CAYMAN Step Up 12-15-08		USD	2005	1,576	2008	StepUp (1st coupon 4.25%)
BES (Cayman)	BIC CAYMAN 1 2001		EUR	2001	49,991	2008	Fixed rate - 5.48%
BES (Cayman)	BIC CAYMAN 2 2001		EUR	2001	49,978	2011	Fixed rate - 5.68%
BES (Cayman)	BIC CAYMAN 3 2001		EUR	2001	49,991	2008	Fixed rate - 5.40%
BES (Cayman)	BIC CAYMAN 4 2001		EUR	2001	49,991	2008	Fixed rate - 5.46%
BES (Cayman)	BIC CAYMAN 5 2001		EUR	2001	49,991	2008	Fixed rate - 5.48%
BES (Cayman)	BIC CAYMAN 6 2001		EUR	2001	49,985	2009	Fixed rate - 5.43%
BES (Cayman)	BIC CAYMAN 7 2001		EUR	2001	49,985	2009	Fixed rate - 5.41%
BES (Cayman)	BIC CAYMAN 8 2001		EUR	2001	49,985	2009	Fixed rate - 5.45%
BES (Cayman)	BIC CAYMAN 9 2001		EUR	2001	49,985	2009	Fixed rate - 5.42%
BES (Cayman)	BIC CAYMAN 10 2001		EUR	2001	49,980	2010	Fixed rate - 5.53%
BES (Cayman)	BIC CAYMAN 11 2001		EUR	2001	49,980	2010	Fixed rate - 5.57%
BES (Cayman)	BIC CAYMAN 12 2001		EUR	2001	49,980	2010	Fixed rate - 5.58%
BES (Cayman)	BIC CAYMAN 13 2001		EUR	2001	49,980	2010	Fixed rate - 5.73%
BES (Cayman)	BIC CAYMAN 14 2001		EUR	2001	49,976	2011	Fixed rate - 5.80%
BES (Cayman)	BIC CAYMAN 15 2001		EUR	2001	49,976	2011	Fixed rate - 5.79%
BES (Cayman)	BIC CAYMAN 16 2001		EUR	2001	49,976	2011	Fixed rate - 5.90%
BES (Cayman)	BIC CAYMAN 17 2001		EUR	2001	49,974	2012	Fixed rate - 5.89%
BES (Cayman)	BIC CAYMAN 18 2001		EUR	2001	49,974	2012	Fixed rate - 5.83%
BES (Cayman)	BIC CAYMAN 19 2001		EUR	2001	49,974	2012	Fixed rate - 5.96%
BES (Cayman)	BIC CAYMAN 20 2001		EUR	2001	49,974	2012	Fixed rate - 5.94%
BES (Cayman)	BIC CAYMAN 21 2001		EUR	2001	49,971	2013	Fixed rate - 6.03%
BES (Cayman)	BIC CAYMAN 22 2001		EUR	2001	74,957	2013	Fixed rate - 6.08%
BES (Cayman)	BIC CAYMAN 23 2001		EUR	2001	74,957	2013	Fixed rate - 6.03%
BES (Cayman)	BIC CAYMAN 24 2001		EUR	2001	74,953	2014	Fixed rate - 6.01%
BES (Cayman)	BIC CAYMAN 25 2001		EUR	2001	74,953	2014	Fixed rate - 6.02%
BES (Cayman)	BIC CAYMAN 26 2001		EUR	2001	74,951	2015	Fixed rate - 6.16%
BES (Cayman)	BIC CAYMAN 27 2001		EUR	2001	74,951	2015	Fixed rate - 6.09%
BES (Cayman)	BIC CAYMAN 29 2001		EUR	2001	49,999	2011	Fixed rate - 5.28%
BES (Cayman)	BIC CAYMAN 30 2001		EUR	2001	49,999	2011	Fixed rate - 5.42%
BES (Cayman)	BIC CAYMAN 1 2002		EUR	2002	69,998	2012	Fixed rate - 5.92%
BES (Cayman)	BIC CAYMAN 2 2002		EUR	2002	6,049	2012	Fixed rate - 4.65%
BES (Cayman)	BIC CAYMAN 3 2002		EUR	2002	30,000	2007	Fixed rate - 5.42%
BES (Cayman)	BIC CAYMAN 4 2002		EUR	2002	50,000	2007	Fixed rate - 5.32%
Besleasing e Factoring	BLI/99		EUR	1999	999	2009	Euribor 6 months + 0.70%
Besleasing e Factoring	BLI/2000		EUR	2000	1,667	2010	Euribor 6 months + 0.67%
Besleasing e Factoring	BEF 2004/2007		EUR	2004	150,000	2007	Euribor 3 months + 0.65%
Besleasing e Factoring	BEF 2004/2009		EUR	2004	100,000	2009	Euribor 3 months + 0.70%
Besleasing e Factoring	BEF 2004/2014		EUR	2004	100,000	2014	Euribor 6 months + 0.75%
Besleasing e Factoring	BEF 2005/2008		EUR	2005	150,000	2008	Euribor 3 months + 0.65%
Besleasing e Factoring	BEF 2005/2011		EUR	2005	82,876	2011	Euribor 3 months + 0.715%
Besleasing e Factoring	BEF 2005/2012		EUR	2005	86,513	2012	Euribor 3 months + 0.73%
Besleasing e Factoring	BEF 2005/2010		EUR	2005	50,000	2010	Euribor 6 months + 0.70%
Besleasing e Factoring	Commercial paper		EUR	1998	27,577	2010	3,70%
Besleasing e Factoring	Commercial paper		EUR	1998	19,862	2011	3,88%
BESNACC	Commercial paper		USD	1998	1,665	2007	Fixed rate - 5.30%
BES Finance	EMTN 19		EUR	2002	599,890	2007	Euribor 3 months + 0.20%
BES Finance	EMTN 21		EUR	2003	99,970	2010	Fixed rate - 4.00%
BES Finance	EMTN 23		CZK	2003	18,192	2008	Fixed rate - 3.75%
BES Finance	EMTN 24	a)	EUR	2003	295,812	2008	HICP Ex-Tobacco
BES Finance	EMTN 25	a)	EUR	2003	63,721	2008	HICP Ex-Tobacco
BES Finance	EMTN 27	a)	EUR	2003	122,332	2008	DJ Eurostoxx 50
BES Finance	EMTN 28		EUR	2004	50,000	2009	Fixed rate - 3.83%
BES Finance	EMTN 29		EUR	2004	599,366	2009	Euribor 3 months + 0.15%
BES Finance	EMTN 30		EUR	2004	299,499	2011	Euribor 3 months + 0.20%
BES Finance	EMTN 31		EUR	2004	150,000	2007	Euribor 3 months + 0.15%
BES Finance	EMTN 32		EUR	2004	150,000	2007	Euribor 3 months + 0.15%
BES Finance	EMTN 33		EUR	2004	299,917	2008	Euribor 3 months + 0.15%
BES Finance	EMTN 34		EUR	2004	18,950	2029	Zero coupon - Effective rate 5.43%
BES Finance	EMTN 35		EUR	2004	22,637	2019	d)
BES Finance	EMTN 36		EUR	2004	599,829	2009	Euribor 3 months + 0.19%
BES Finance	EMTN 37		EUR	2004	19,347	2029	Zero coupon - Effective rate 5.30%
BES Finance	EMTN 39		EUR	2005	100,000	2015	Euribor 3 months + 0.23%
BES Finance	EMTN 41		EUR	2005	499,913	2010	Euribor 3 months + 0.15%
BES Finance	EMTN 44		EUR	2005	299,803	2010	Euribor 3 months + 0.13%
BES Finance	EMTN 45		EUR	2005	199,982	2007	Euribor 3 months + 0.05%
BES Finance	EMTN 46		EUR	2005	299,881	2008	Euribor 3 months + 0.10%
BES Finance	EMTN 47		EUR	2005	499,999	2008	Euribor 3 months + 0.05%
BES Finance	EMTN 40	a)	EUR	2005	234,667	2035	e)
BES Finance	EMTN 48		EUR	2006	749,680	2011	Euribor 3 months + 0.12%
BES Finance	EMTN 49	a)	GBP	2006	81,166	2011	Libor 3 months + 0.072%
BES Finance	EMTN 50		EUR	2006	299,998	2009	Euribor 3 months + 0.11%
BES Finance	EMTN 51		CZK	2006	17,920	2011	Fixed rate - 3.65%
BES Finance	EMTN 52		EUR	2006	86,508	2007	Zero coupon - Effective rate 3.55%
BES Finance	EMTN 53		EUR	2006	499,824	2011	Euribor 3 months + 0.15%
BES Finance	EMTN 54		EUR	2006	749,583	2009	Euribor 3 months + 0.10%
BES Beteiligungs GmbH	BESIL STEP UP 08/27/13		EUR	2003	25,000	2013	Fixed rate - 4.75%
BES Beteiligungs GmbH	BESIL STEP UP 09/02/13		EUR	2003	25,000	2013	Fixed rate - 4.74%
BES Beteiligungs GmbH	BESIL STEP UP 09/16/13		EUR	2003	25,000	2013	Fixed rate - 4.84%
BES Beteiligungs GmbH	BESIL STEP UP 10/07/13		EUR	2003	25,000	2013	Fixed rate - 4.84%
BES Beteiligungs GmbH	BESIL STEP UP 02/02/17		USD	2004	18,983	2017	Fixed rate - 5.42%
BES Beteiligungs GmbH	BESIL STEP UP 02/11/19		USD	2004	18,983	2019	Fixed rate - 5.37%
BES Beteiligungs GmbH	BESIL STEP UP 07/21/14		USD	2004	18,983	2014	Fixed rate - 2.31%

(in thousands of euros)

Issuer	Designation		31.12.2006 Currency	Issue date	Book value	Maturity	Global yield/Interest rate
BES Beteiligungs GmbH	BESIL LTD 5.41% 21/07/14		USD	2004	75,930	2014	Fixed rate - 5.41%
BES Beteiligungs GmbH	BESIL LTD 5.7065% 11/02/19		USD	2004	56,947	2019	Fixed rate - 5.7065%
BES Beteiligungs GmbH	BESIL LTD 5.515% 02/02/17		USD	2004	56,947	2017	Fixed rate - 5.515%
BES Açores	BES Açores August 2004		EUR	2004	32,053	2007	Fixed rate - 2.52%
BES Açores	BES Açores October 2006		EUR	2006	24,625	2009	Euribor 6 months + 0.35%
Lusitano SME n.º 1	Class A asset backed floating rate notes		EUR	2006	759,525	2028	Euribor + 0.15%
Lusitano SME n.º 1	Class B asset backed guaranteed floating rate notes		EUR	2006	40,974	2028	Euribor + 0.05%
Lusitano SME n.º 1	Class C asset backed floating rate notes		EUR	2006	34,073	2028	Euribor + 2.20%
BESI	BESI CAIXA(BEST) TX F JUN08 PLUS		EUR	2004	3,299	2008	Snowball j)
BESI	BESI CAIXA (BEST) TX FIXA		EUR	2004	325	2008	Fixed rate increase
BESI	BESI RENDIM PLUSII TX VAR AUG08		EUR	2004	1,082	2008	Snowball j)
BESI	BESI RENDIM PLUS TX VAR OCT07		EUR	2004	1,924	2007	Snowball j)
BESI	BESI CAIXA BEST ACCOES EUROPA 4%	b)	EUR	2005	2,500	2010	k)
BESI	BESI MULTIESTRATEGIA MAR2010	b)	EUR	2005	2,620	2010	f)
BESI	BESI OBRIG RENDIMENT 20% MAY2015		EUR	2005	2,819	2015	Fixed rate - 5% + CMS
BESI	BESI OBRIG BULL&BEAR JUN10	b)	EUR	2005	1,422	2010	DJ Eurostoxx 50
BESI	BESI CX RANGE ACCR AND FX NOV11		EUR	2005	5,367	2011	Range accrual
BESI	BESI OBCX R.ACCRUAL TARN MAR2016		EUR	2006	3,440	2016	Fixed rate - 6% + Range accrual
BESI	BESI OB CX RENDIM STEP UP APR14		EUR	2006	3,323	2014	Fixed rate increase
BESI	BESI CAIXA 6.15% NIKKEI JAN2011	b)	EUR	2006	4,215	2011	Nikkei 225
BESI	BESI CERT CABAZ MUNDIAL AUG07	b)	EUR	2006	3,752	2007	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BESI	BESI CERTI BARRIER EUSTOXX SEP07	b)	EUR	2006	2,664	2007	DJ Eurostoxx 50
BESI	BESI CERT DUAL5%+SX5E JUN09	b)	EUR	2006	4,803	2009	Fixed rate - 5% + DJ Eurostoxx 50
BESI	BESI VMOP OREY JUN2009		EUR	2006	9,130	2009	Fixed rate - 14.75%
BESI	BESI CERT DUALREND+EUSTOXX AUG14		EUR	2006	3,037	2014	Fixed rate 6.67% + DJ Eurostoxx 50
ES Investment Plc	ESIP FEB2007 REV FLOATER EUR QTO		EUR	2002	9,963	2007	USD Libor 12 months (reverse floater)
ES Investment Plc	ESIP NOV03/JAN07 EQTYILK IBEX35	b)	EUR	2003	2,496	2007	IBEX 35
ES Investment Plc	ESIP NOV03/JAN07 EQTYILK STOXX50	b)	EUR	2003	1,447	2007	DJ Eurostoxx 50
ES Investment Plc	ESIP JAN07 STOCK BASKET LINKED	b)	EUR	2004	2,498	2007	k)
ES Investment Plc	ES INVESTPLC SEP09 EURIBOR CAPII		EUR	1999	2,563	2009	Euribor 6 months (Capped 8%)
ES Investment Plc	ESIP NOV02 OCT2017 CALLABLE STEP		EUR	2002	7,417	2017	Fixed rate 6% + CMS
ES Investment Plc	ESIP APR11 INDX BASQ LINQ 90%	b)	EUR	2003	4,305	2011	g)
ES Investment Plc	ESIP JUL03/JUL11 LINKED CMS	b)	EUR	2003	12,137	2011	Fixed rate - 5.10% + CMS + Credit linked
ES Investment Plc	ESIP NOV2011 CMS LINKED EUR 5M		EUR	2003	4,193	2011	Fixed rate - 4.75% + CMS
ES Investment Plc	ESIP DEC2011 CMS LINKED EUR 6.5M		EUR	2003	6,782	2011	Fixed rate - 4.95% + CMS
ES Investment Plc	ESIP JUL2012 CMS LINKED EUR 5.5M		EUR	2004	4,524	2012	Fixed rate - 4.95% + CMS
ES Investment Plc	ESIP OUT24 ESFP LINKED CMS NOTE		EUR	2004	11,756	2024	Fixed rate - 5.00% + CMS
ES Investment Plc	ESIP EURCRE CRDLINK NOV09	b)	EUR	2004	4,500	2009	Credit Linked
ES Investment Plc	ESIP CMS LINKED NOV2014		EUR	2004	4,480	2014	Fixed rate 6% + CMS
ES Investment Plc	ESIP EUR SNOWBALL FLOAT NOV2012		EUR	2004	6,148	2012	Fixed rate - 4.75% + Snowball j)
ES Investment Plc	ESIP NOV03/JAN07 EQILK DOW JON I	b)	USD	2003	1,893	2007	DJ Industrial Average
ES Investment Plc	ESIP JAN07 INDEX BASKET LINKED	b)	USD	2004	1,805	2007	h)
ES Investment Plc	ESIP JAN01/JAN11 CRDLKD US 11.85	b)	USD	2001	2,362	2011	Fixed rate - 5% + indexed to credit event
ES Investment Plc	ESIP NOV02 OCT2017 CALLABLE STEP.		EUR	2002	1,356	2010	Fixed rate - 2.32%
ES Investment Plc	ESIP EUR12M+14 BPS APR2008		EUR	2005	15,000	2008	Euribor 12 months
ES Investment Plc	ESIP AMORTIZING MAY2010 ESTOXX50	b)	EUR	2005	3,298	2010	DJ Eurostoxx 50
ES Investment Plc	ESIP ASIAN BASKET EURO MAY2008	b)	EUR	2005	501	2008	i)
ES Investment Plc	ESIP ASIAN BASKET USD MAY2008	b)	USD	2005	142	2008	i)
ES Investment Plc	ESIP CALL RANGE ACCRUAL MAY2015		EUR	2005	5,367	2015	Range accrual
ES Investment Plc	ESIP RANGE ACCRUAL JUN15		EUR	2005	167	2015	Range accrual
ES Investment Plc	ESIP RANGE ACCRUAL AUG2013		EUR	2005	4,620	2013	Fixed rate - 4.75% + Range accrual
ES Investment Plc	ESIP BESLEAS&INFLAT LINK MAY15	b)	EUR	2005	6,693	2015	HIPC Ex-Tobacco + Credit linked
ES Investment Plc	ESIP EURIBOR12M+13 BP MAY2008		EUR	2005	8,100	2008	Euribor 12 months
ES Investment Plc	ESIP EUR LEVERAGE SNOWBALL JUL15		EUR	2005	1,511	2015	Fixed rate - 7.06% + Snowball j)
ES Investment Plc	ESIP FEB2007 EQLK IBEX & ESTX50	b)	EUR	2005	2,696	2007	IBEX 35 + DJ Eurostoxx 50
ES Investment Plc	ESIP AGO05 AGO08 FTD USD 1M	b)	USD	2005	736	2008	Credit Linked
ES Investment Plc	ESIP AGO05 SEP35 CALLABLE INV FL		EUR	2005	10,797	2035	Euribor 12 months (reverse floater)
ES Investment Plc	ESIP SEP17 RANGE ACC TARN		EUR	2005	2,469	2017	Range accrual
ES Investment Plc	ESIP IBEX & SX5E LNQ MAR07	b)	EUR	2005	3,089	2007	IBEX 35 + DJ Eurostoxx 50
ES Investment Plc	ESIP EURBRL LNQ NOTE SEP13	b)	EUR	2005	2,666	2013	Fixed rate - 15% + indexed to exchange rate
ES Investment Plc	ESIP LEVERAGE SNOWBALL SEP2015		EUR	2005	5,177	2015	Fixed rate - 2.64% + Snowball j)
ES Investment Plc	ESIP SX5E E S&P500 00407	b)	EUR	2005	2,138	2007	DJ Eurostoxx 50 + S&P 500
ES Investment Plc	ESIP CALL RANGE ACCRUAL OCT2008		EUR	2005	7,187	2008	Range accrual
ES Investment Plc	ESIP CALL RANGE ACCRUAL NOV2017		EUR	2005	584	2017	Range accrual
ES Investment Plc	ESIP HYBRID (FX AND EUR6M) OCT09	b)	EUR	2005	3,422	2009	Indexed to exchange rate and interest rate
ES Investment Plc	ESIP 30CMS-2CMS LKD NOTE NOV2036		EUR	2005	5,727	2036	Fixed rate - 7.44% + CMS
ES Investment Plc	ESIP RANGE ACCRUAL AND FX NOV11		EUR	2005	273	2011	Indexed to exchange rate and interest rate
ES Investment Plc	ESIP ZERO COUPON DEC08		EUR	2005	1,922	2008	Zero coupon - Effective rate 3.10%
ES Investment Plc	ESIP RANGE ACCRUAL DEC08		EUR	2005	1,857	2008	Range accrual
ES Investment Plc	ESIP-ESP SANTO IN PLC 3.04% 2007		EUR	2005	3,959	2007	Fixed rate - 3.04%
ES Investment Plc	ESIP ZERO COUPON JAN07		EUR	2006	68,037	2007	Zero coupon - Effective rate 2.73%
ES Investment Plc	ESIP SHOOTING STARS FEB2010	b)	EUR	2006	2,143	2010	DJ Eurostoxx 50 + S&P 500 + Nikkei 225 + Hang Seng
ES Investment Plc	ESIP FEB2007 FIRST TO DEFAULT	b)	EUR	2006	4,999	2007	Credit Linked
ES Investment Plc	ESIP INDEX BASKET LINKED APR2008	b)	EUR	2006	7,468	2008	g)
ES Investment Plc	ESIP EUR12M+16 BP APR2016		EUR	2006	3,994	2016	Euribor 12 months
ES Investment Plc	ESIP 7.75% RANGE ACC MAY16		USD	2006	3,408	2016	Range accrual
ES Investment Plc	ESIP CALLABLE EUR SNOWBALL MAY10		EUR	2006	2,569	2010	Fixed rate 4.25% + Snowball j)
ES Investment Plc	ESIP CALLABLE EUR FLIPPER MAY11		EUR	2006	4,397	2011	Fixed rate 3.70% + Variable coupon
ES Investment Plc	ESIP IDX BSKT LINKED AUG2009 EUR		EUR	2006	3,989	2009	S&P 500 + Nikkei
ES Investment Plc	ESIP IDX BSKT LINKED AUG2009 USD		USD	2006	1,354	2009	S&P 500 + Nikkei
ES Investment Plc	ESIP PT INT CRD LINKED MAR2012	b)	EUR	2006	8,436	2012	Credit Linked
ES Investment Plc	ESIP ZERO COUPON NOTE FEB2007		EUR	2006	28,646	2007	Zero coupon
ES Investment Plc	ESIP 5% EUR6M DIGITAL SEP2011		EUR	2006	1,234	2011	Digital interest rate

(in thousands of euros)

		31.12.2006				
Issuer	Designation	Currency	Issue date	Book value	Maturity	Global yield/Interest rate
ES Investment Plc	ESIP INDEX BASKET LINKED SEP2011	EUR	2006	7,289	2011	DJ Eurostoxx 50 + S&P 500 + Nasdaq + Hang Seng + Topix
ES Investment Plc	ESIP FX BASKET LINKED MAR2008	USD	2006	1,328	2008	Indexed to exchange rate
ES Investment Plc	ESIP ZERO COUPON NOTE SEP2007	EUR	2006	32,751	2007	Zero coupon
ES Investment Plc	ESIP EURUSD LINKED OCT2007	EUR	2006	6,957	2007	Indexed to exchange rate
ES Investment Plc	ESIP EURUSD LINKED APR2007	EUR	2006	982	2007	Indexed to exchange rate
ES Investment Plc	ESIP 3.885% OCT2007	EUR	2006	122,300	2007	Fixed rate 3.89%
ES Investment Plc	ESIP EURUSD LINKED MAY2007	EUR	2006	1,653	2007	Indexed to exchange rate
ES Investment Plc	ESIP RANGE ACCRUAL NOV2007	EUR	2006	38,653	2007	Range accrual
ES Investment Plc	ESIP EURTRY LINKED NOV2009	EUR	2006	1,910	2009	Indexed to exchange rate
ES Investment Plc	ESIP 6M EURUSD LINKED MAY2007	EUR	2006	5,973	2007	Indexed to exchange rate
ES Investment Plc	ESIP NOV09 STOCK BASKET LKD USD	USD	2006	1,840	2009	k)
ES Investment Plc	ESIP RANGE ACCRUAL USD NOV2021	USD	2006	2,869	2021	Range accrual
ES Investment Plc	ESIP NOV07 TELEFONICA LINKED	EUR	2006	7,860	2007	Indexed to Telefónica market price
ES Investment Plc	ESIP USD RANGE ACCRUAL NOV2021	USD	2006	1,739	2021	Range accrual
ES Investment Plc	ESIP 4% MAY2008	EUR	2006	24,937	2008	Fixed rate - 4%
ES Investment Plc	ESIP 1Y EURUSD LINKED DEC2007	EUR	2006	2,114	2007	Indexed to exchange rate
ES Investment Plc	ESIP 3.899% NOV2007	EUR	2006	14,000	2007	Fixed rate - 3.889%
ES Investment Plc	ESIP JUN08 STOCK BASKET LKD	EUR	2006	5,861	2008	k)
ES Investment Plc	ESIP 3.758% JUN2007	EUR	2006	100,000	2007	Fixed rate - 3.76%
ES Investment Plc	ESIP 3.773% JUN2007	EUR	2006	10,000	2007	Fixed rate - 3.77%
ES Investment Plc	ESIP MAR07 USDBRL LINKED USD	USD	2006	1,436	2007	Indexed to exchange rate
ES Investment Plc	ESIP 3.891% DEC2007	EUR	2006	104,850	2007	Fixed rate - 3.89%
ES Investment Plc	ESIP 4.08% COMPOUND JUN2008	EUR	2006	14,979	2008	Fixed rate - 4.08%
				18,826,961		
	Accrued interest			203,508		
				19,030,469		

a) Designated liabilities at fair value through profit or loss
b) Debt issues with embedded derivatives attached
c) Indexed to a Basket composed by the indexes DJ Eurostoxx 50, Goldman Sachs CIER, Iboxx Euro Sovereign e USD/EUR
d) Indexed to fixed rate (6.60%) from the 1st to the 5th year; indexed to CMS after the 6th year
e) Indexed to fixed rate (6.00%) from the 1st to the 4th year; indexed to CMS after the 4th year
f) Indexed to a Basket composed by the indexes EUGATR, Eurostoxx 50, Short EUR/Long USD, Goldman Sachs Commodity Index Excess Return
g) Indexed to a Basket composed by the indexes DJ Eurostoxx 50; Standard & Poors 500 e Nasdaq 100
h) Indexed to a Basket composed by the indexes Dow Jones Eurostoxx 50 e Dow Jones Industrials
i) Indexed to a Basket composed by the indexes Nifty India Index; REX Russia Index e China HSCE Index
j) Indexed to previous coupon + spread - Euribor
k) Indexed to a Basket composed by the shares Altadis, Deutsche Bank, Deutsche Telecom, Inditex, Nokia, Banco Popular

This balance includes bonds and Euro Medium Term Notes recognised in the balance sheet at fair value through profit or loss, in the amount of approximately euro 140,879 thousands and euro 846,439 thousands, respectively (see Note 17).

The Group's option to designate these financial liabilities at fair value through profit or loss, under IAS 39, follows the Group's documented risk management strategy, in accordance with the accounting policy described is Note 2.8.

Note 32 – Provisions

As at 31 December 2006 and 2005, the balance of provisions presents the following movements:

(in thousands of euros)

	Restructuring provisions	Other provisions	Total
Balance as at 1 January 2005	**-**	**84,156**	**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	-	596	596
Balance as at 31 December 2005	**49,662**	**105,694**	**155,356**
Charge for the year	10,810	43,755	54,565
Charge off	(57,986)	(4,342)	(62,328)
Write back for the year	-	(3,526)	(3,526)
Transfers	(800)	(3,166)	(3,966)
Exchange differences and other	-	(219)	(219)
Balance as at 31 December 2006	**1,686**	**138,196**	**139,882**

As at 31 December 2005, the changes in consolidation scope relates to the acquisition of Banco Invérsion in Spain.

From the restructuring provision related to the merger of Banco Internacional de Crédito, S.A. in Banco Espírito Santo, S.A., set up in 2005 in the amount of euros 49,7 million, euro 49,6 million was charged off during the year ended 31 December 2006.

In May 2006 Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A. was merged into Banco Espírito Santo, S.A. and it was prepared and approved a restructuring plan, under which was set up a provision in the amount of euro 10.8 million to meet costs with the restructuring. During 2006 was charged off the amount of euro 9,2 million.

Other provisions in the amount of euro 130,270 thousand as at 31 December 2006 (31 December 2005: euro 98,261 thousand) are intended to cover certain contingencies related to the Group's activities.

Note 33 – Income Taxes

The Bank and its subsidiaries domiciled in Portugal are subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes. BES Group determined its current income tax liability for 2006 and 2005 on the basis of a nominal rate of 27.5%, in accordance with the Law No. 107-B/2003 from 31 December. The deferred tax for 2006 was determined based on the tax rate of 26.5% (2005: 27.5%), as this tax rate was substantively enacted by the balance sheet date, resulting from the homologation of local tax law, which changes the way the municipal income tax is calculated, as well as the applicable rate.

The Portuguese Tax Authorities are entitled to review the annual tax returns of the Bank and its Portuguese subsidiaries related to 2006 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 2006 and 2005 can be analysed as follows:

(in thousands of euros)

	Assets		Liabilities		Net	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Derivative financial instruments	34,404	51,046	(50,183)	(58,180)	(15,779)	(7,134)
Available-for-sale financial assets	2,975	15,601	(181,856)	(157,333)	(178,881)	(141,732)
Loans and advances to customers	62,800	48,511	-	-	62,800	48,511
Property and equipment	813	-	(9,692)	(10,740)	(8,879)	(10,740)
Intangible assets	1,051	5,097	-	-	1,051	5,097
Investments in subsidiaries and associates	-	6,448	(22,648)	(16,829)	(22,648)	(10,381)
Provisions	28,332	27,458	(72)	-	28,260	27,458
Pensions	1,210	1,407	(46,971)	(58,063)	(45,761)	(56,656)
Health care - SAMS	21,263	20,454	-	-	21,263	20,454
Long-service benefits	5,525	6,450	-	-	5,525	6,450
Other	1,672	1,522	(2,652)	(2,875)	(980)	(1,353)
Tax credits resulting from double tax treaties	19,958	18,712	-	-	19,958	18,712
Tax losses brought forward	45,168	97,113	-	-	45,168	97,113
Deferred tax asset / (liability)	**225,171**	**299,819**	**(314,074)**	**(304,020)**	**(88,903)**	**(4,201)**
Assets / liabilities compensation for deferred taxes	(145,404)	(257,609)	145,404	257,609	-	-
Deferred tax asset / (liability), net	**79,767**	**42,210**	**(168,670)**	**(46,411)**	**(88,903)**	**(4,201)**

The changes in deferred taxes during 2006 and 2005 were recognised against:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	(4,201)	91,855
Recognised in the income statement	(49,522)	10,920
Recognised in fair value reserve	(42,901)	(137,183)
Recognised in other reserves	5,343	30,207
Exchange differences and other	2,378	-
Balance as at 31 December (Assets/ (Liabilities))	**(88,903)**	**(4,201)**

The deferred tax recognised against profit or loss and reserves, during 2006 and 2005 was originated by:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Recognised in profit	Recognised in reserves	Recognised in profit	Recognised in reserves
Derivative financial instruments	8,850	-	8,899	-
Available-for-sale financial assets	(5,752)	42,901	28,977	137,183
Loans and advances to customers	(14,289)	-	(9,750)	-
Property and equipment	(1,861)	-	(279)	-
Intangible assets	4,046	-	6,791	-
Investments in subsidiaries and associates	12,267	-	24,585	-
Provisions	(802)	-	(19,476)	-
Pensions	(10,738)	(157)	32,471	(1,087)
Health care - SAMS	(809)	-	(674)	33
Long-service benefits	925	-	(966)	-
Other	7,105	(5,186)	2,849	-
Tax credits resulting from double tax treaties	(1,246)	-		
Tax losses brought forward	51,826	-	(84,347)	-
Transition adjustment at 1 January 2005	-	-	-	(29,153)
	49,522	**37,558**	**(10,920)**	**106,976**

The change in the tax rate occurred during 2006, from 27.5% to 26.5%, resulting from the homologation of local tax law, had a negative impact in results and a positive impact in reserves in the amount of euro 3,554 thousand and euro 7,639 thousand, respectively. These amounts are included in the table presented above.

The income tax recognised in profit for the years ended 31 December 2006 and 2005, is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Current tax	85,942	76,791
Deferred tax		
Temporary differences and reversals	(2,304)	73,427
Tax losses brought forward	51,826	(84,347)
	49,522	(10,920)
Total income tax recognised in results	**135,464**	**65,871**

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

(in thousands of euros)

	31.12.2006		31.12.2005	
	%	Amount	%	Amount
Profit before taxes and minority interests		**571,621**		**355,948**
Statutory tax rate	27.5		27.5	
Income tax calculated based on the statutory tax rate		157,196		97,886
Diferences on the subsidiaries statutory tax rates	(1.6)	(9,252)	1.7	6,119
Tax-exempt dividends	(1.1)	(6,215)	(0.8)	(2,869)
Tax-exempt profits (off shore)	(4.2)	(23,990)	(11.5)	(40,880)
Tax-exempt gains	(0.3)	(1,524)	(2.5)	(8,783)
Non deductible losses	0.5	2,651	-	-
Tax on capital gains obtained abroad	2.4	14,000	3.3	11,745
Changes in tax basis of assets and liabilities due to changes in tax laws	-	-	1.9	6,750
Changes in estimates	(1.2)	(7,089)	(3.5)	(12,482)
Changes in the statutory tax rate	0.6	3,554	-	-
Unrecognised deferred tax assets related to tax losses generated in the period	0.2	1,048	2.0	7,076
Tax losses used for which no deferred tax assets were recognised	-	-	(1.7)	(6,061)
Non deductible costs	0.8	4,555	1.8	6,364
Other	0.1	530	0.3	1,006
	23.7	**135,464**	**18.5**	**65,871**

Note 34 – Subordinated debt

The balance subordinated debt is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Bonds	1,002,230	1,081,237
Loans	183,202	247,026
Perpetual Bonds	1,054,384	1,039,334
	2,239,816	**2,367,597**

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

(in thousands of euros)

		31.12.2006				
Issuer	Designation	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity
BES	Subordinated bonds	1996	99,762	99,861	4.06%	2007
BES (Cayman)	Subordinated loans	2005	215,983	183,202	5.39%	2015
BES Finance	Subordinated bonds	1999	37,965	38,303	7.80%	2009
BES Finance	Subordinated bonds	2000	300,000	316,573	6.63%	2010
BES Finance	Subordinated bonds	2001	400,000	415,519	6.25%	2011
BES Finance	Subordinated perpetual bonds	2002	500,000	521,457	6.63%	2012 a)
BES Finance	Subordinated perpetual bonds	2004	500,000	517,902	4.50%	2015 a)
Besleasing e Factoring	Subordinated bonds	2001	7,000	7,056	4.95%	2011
Besleasing e Factoring	Subordinated bonds	2004	25,000	25,241	4.90%	2014
Besleasing e Factoring	Subordinated perpetual bonds	2005	15,000	15,025	5.96%	-
BESI	Subordinated bonds	1996	29,928	29,839	2.62%	2007
BESI	Subordinated bonds	2003	10,000	9,762	5.50%	2033
BESI	Subordinated bonds	2005	60,000	60,076	3.20%	2015
			2,200,638	**2,239,816**		

a) Call option date

During the year ended 31 December 2006, BES Group reimbursed euro 59,9 million (31 December 2005: euro 44,9 million). During the year ended 31 December 2005, BES Group issued subordinated debt securities in the amount of euro 291 million.

Note 35 – Other liabilities

As at 31 December 2006 and 2005, the balance Other liabilities is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Creditors		
Public sector	29,742	33,596
Creditors arising out from future contracts	28,334	18,576
Sundry creditors		
Creditors from health care benefits (see Note 12)	82,785	76,093
Creditors from transactions with securities	138,665	71,195
Suppliers	84,128	64,228
Creditors from factoring operations	7,425	4,479
Other sundry creditors	212,217	129,415
	583,296	**397,582**
Accrued expenses		
Long-service benefits (see Note 12)	23,627	22,553
Other accrued expenses	125,359	89,685
	148,986	**112,238**
Deferred income	**22,855**	**23,236**
Other sundry liabilities		
Stock exchange transactions pending settlement	377,675	279,816
Foreign exchange transactions pending settlement	22,288	202
Other transactions pending settlement	131,694	191,006
	531,657	**471,024**
	1,286,794	**1,004,080**

Note 36 – Share capital, share premium, treasury stock and preference shares

Ordinary shares

As at 31 December 2006, the Bank's share capital was represented by 500 million ordinary shares with a face value of 5 euros each, which were subscribed and fully paid by the following entities:

(in thousands of euros)

	% Share capital	
	31.12.2006	31.12.2005
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	40.00%	41.98%
Credit Agricole, S.A.	10.81%	8.81%
Companhia de Seguros Tranquilidade Vida, S.A.	-	6.46%
Bradport, SGPS, S.A. (1)	3.05%	3.05%
Hermes Pensions Management Ltd.	2.13%	-
Grupo Portugal Telecom	4.02%	4.02%
Previsão - Sociedade Gestora de Fundos de Pensões, S.A.	2.62%	2.62%
Portugal Telecom, SGPS, S.A.	1.40%	1.40%
Others	39.99%	35.68%
	100.00%	100.00%

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

During 2006, the Bank increased its share capital from euro 1,500 million to euro 2,500 million, with the issuance of 200 million new ordinary shares with a face value of euro 5 each, as follows:

- 50 million new shares through incorporation of share premium as a scrip issue in the proportion one new share per six held;
- 150 million new shares reserved to stockholders, in the proportion of one new share for two held, at the price of 9.2 euros each.

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 million 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 Bank of Portugal.

These preference shares pay an annual non cumulative preferred dividend , if and when declared by the Board of Directors of the issuer, of 5.58% p.a. on nominal value. The dividend is paid on 2 July of each year, beginning 2 July 2004 and ending 2 July 2014.

If the issuer does not redeem these preference shares on 2 July 2014, the dividend applicable rate will be the 3 months Euribor plus 2.65% p.a., with payments on 2 January, 2 April, 2 July and 2 October of each year, if declared by the Board of Directors of the issuer.

BES unconditionally guarantees dividends and principal repayment related to the above mentioned issue, until the limit of the dividends previously declared by the Board of Directors of the issuer.

As at 31 December 2006, the Group charged against reserves the amount of 33,480 thousands of euros related to the dividends declared by the Board of Directors of the issuer, as at 22 May 2006, which were paid as at 4 July 2006 (see Note 37).

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

During 2006, in connection with the share capital increase, share premium increased to euro 668 851 thousands. This increase is the result of a premium of 4.2 euros per the 150 million of new shares issued in 2006, deducted by the transaction costs related to this issue and by the share premium incorporated in the share capital (euro 250 million).

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 2006, 5,667 thousand shares of BES (1.13% of total share capital), are allocated (31 December 2005: 7 617 thousand of shares, 2.54% of total share capital), for an overall amount of euro 63,7 million (31 December 2005: euro 96,3 million). These shares are recognized as treasury stock, as described in Note 2.15.

The movement in treasury stocks is analysed as follows:

	31.12.2006		31.12.2005	
	Number of shares	Amount (euro'000)	Number of shares	Amount (euro'000)
Opening balance	7,617,500	96,247	7,991,482	100,174
Shares bought	-	-	1,811,774	24,544
Share capital increase	850,504	-	-	-
Shares sold	(2,800,392)	(32,515)	(2,185,756)	(28,471)
Year-end balance	5,667,612	63,732	7,617,500	96,247

Note 37 – 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, 31 December) 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 the year ended 31 December 2006 and the year ended 31 December 2005, 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	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 1 January 2005	**29,296**	**2,875**	**32,171**	**60,065**	**(12,786)**	**(111,609)**	**(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	-	(13,190)	43,599
Balance as at 31 December 2005	**499,999**	**(134,308)**	**365,691**	**116,854**	**13,300**	**(156,219)**	**(26,065)**
Share-based incentive plan (SIBA)	-	-	-	-	-	2,454	2,454
Dividends from preference shares	-	-	-	-	-	(33,480)	(33,480)
Changes in fair value	189,252	(42,901)	146,351	-	-	-	-
Exchange differences	-	-	-	-	(7,059)	-	(7,059)
Transfer to reserves [a]	-	-	-	24,056	-	138,091	162,147
Balance as at 31 December 2006	**689,251**	**(177,209)**	**512,042**	**140,910**	**6,241**	**(49,154)**	**97,997**

(a) includes euro 36,289 thousand related to the legal reserve of BIC which was incorporated into BES.

As at 31 December 2006 and 2005, the fair value reserve can be analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Amortised cost of available-for-sale financial assets	4,618,102	3,346,961
Accumulated impairment recognised	(57,498)	(60,012)
Amortised cost of available-for-sale financial assets, net of impairment	4,560,604	3,286,949
Fair value of amortised cost of available-for-sale financial assets	5,251,684	3,808,554
Net unrealised gains recognised in the fair value reserve	691,080	521,605
Deferred taxes	(177,209)	(134,308)
Net unrealised gains in associated companies recognised in the fair value reserve	11,890	-
Minority interests	(13,719)	(21,606)
	512,042	**365,691**

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

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	**365,691**	**32,171**
Changes in fair value	316,893	452,694
Disposals during the year	(133,074)	(18,193)
Impairment recognised during the year	5,433	36,202
Deferred taxes recognised in reserves during the year (See note 33)	(42,901)	(137,183)
Balance as at 31 December	**512,042**	**365,691**

Minority interests

Minority interests by subsidiary are analysed as follows:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Balance sheet	Income statement	Balance sheet	Income statement
ES CONCESSÕES	13,970	(592)	20,811	(702)
BES ANGOLA	13,566	6,802	6,611	6,020
ESAF	12,771	3,227	11,318	3,018
BES AÇORES	12,211	1,698	11,214	1,537
BESLEASING	8,323	1,388	8,063	1,305
BEST	7,362	(535)	7,164	(2,099)
BES Investimento do Brasil	5,036	1,318	4,360	(114)
BES Securities	1,368	(30)	1,109	-
FIQ VENTURES II	990	(10)	-	-
ES CONTACT CENTER	791	15	776	77
FUNDO IBERIA	-	-	16,511	-
ROPSOH - Unidades de Saúde, S.A.	-	-	11,045	-
OTHERS	10,191	2,162	6,770	554
	86,579	**15,443**	**105,752**	**9,596**

The changes in minority interests for the years ended 31 December 2006 and 2005 are analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Minority interests as at 1 January	**105,752**	**81,629**
Changes in the scope of consolidation	(29,704)	30,049
Increase in share capital of subsidiaries	1,780	2,040
Dividends paid	(5,752)	(4,900)
Changes in fair value reserve	3,030	(14,601)
Exchange differences and other	(3,970)	1,939
Profit for the year	15,443	9,596
Minority interests as at 31 December	**86,579**	**105,752**

Note 38 – Contingent liabilities and commitments

As at 31 December 2006 and 2005, this caption can be analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Contingent liabilities		
Guarantees and stand by letters of credit	4,782,409	4,818,084
Assets pleged as collateral	558,689	646,389
Open documentary credits	778,408	353,068
Other	123,356	94,343
	6,242,862	**5,911,884**
Commitments		
Revocable commitments	23,296,421	16,746,492
Irrevocable commitments	2,095,432	1,711,274
	25,391,853	**18,457,766**

Guarantees and standby letters of credit are banking operations that do 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 time frame, against the exhibition of the expedition documentation of the goods or services provided. The condition of irrevocable consists of the fact that the terms initially agreed can only be changed or cancelled with the agreement of all parties.

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 cash out-flows.

As at 31 December 2006, 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 156,584 thousands (31 December 2005: euro 158,490 thousands);
- Securities pledged as collateral to the Portuguese Securities Market Commission (CMVM) in the ambit of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 51,293 thousands (31 December 2005: euro 52,247 thousands);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 61,814 thousands (31 December 2005: euro 61,709 thousands);
- Securities pledged as collateral to the European Investment Bank in the amount of euro 287,000 thousands (31 December 2005: euro 284,500 thousands);

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

(in thousands of euros)

	31.12.2006	31.12.2005
Securities and other items held for safekeeping on behalf of customers	59,339,734	48,480,685
Assets for collection on behalf of clients	503,532	603,220
Securitised loans under management (servicing)	4,793,720	3,789,306
Other responsabilities related with banking services	3,587,209	2,174,518
	68,224,195	**55,047,729**

Note 39 – 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 2006 and 2005, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Securities investment funds	5,540,393	5,392,511
Real estate investment funds	1,468,761	1,462,708
	7,009,154	**6,855,219**

Note 40 – Related parties transactions

As at 31 December 2006 and 2005, the balances and transactions with related parties are presented as follows:

(in thousands of euros)

	31.12.2006					31.12.2005				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associated companies										
BES VIDA	144	445,065	8	847	1,196	140	318,094	8	-	-
BES VÉNÉTIE	300,574	601	-	-	4	511,327	128,146	-	65	11
LOCARENT	97,175	-	-	3,494	3,497	-	-	-	-	-
BES SEGUROS	3	11,374	-	66	75	-	6,629	-	51	16
ESUMÉDICA	1,546	56	-	22	35	1,094	80	-	17	18
EUROP ASSISTANCE	11	1,926	13	33	59	8	52,750	14	25	35
FIDUPRIVATE	9	475	-	-	-	-	306	-	-	-
ESEGUR	399	243	2,749	8	115	399	1,940	115	19	122
OTHERS	2,129	1,270	255	78	168	1,668	1,724	5,414	60	492
	401,990	**461,010**	**3,025**	**4,548**	**5,149**	**514,636**	**509,669**	**5,551**	**237**	**694**

As at 31 December 2006 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)

	31.12.2006							31.12.2005		
	Assets									
	Deposits	Loans	Securities	Other	Total	Guarantees	Liabilities	Assets	Guarantees	Liabilities
BES VÉNÉTIE	284,899	-	6,500	9,175	300,574	-	601	511,327	-	128,146
GRUPO ESPÍRITO SANTO INTERNATIONAL	-	237,411	-	7,268	244,679	15,301	12,471	196,099	42,521	14,520
ES BANK PANAMA	223,593	-	-	-	223,593	-	21,000	90,888	-	-
ESPÍRITO SANTO FINANCIÉRE, SA	-	137,593	-	-	137,593	-	35,765	197,993	-	2,063
ES SAUDE	-	93,500	15,810	4,000	113,310	1,652	2,312	35,994	-	644
LOCARENT	-	7,175	-	90,000	97,175	-	-	-	-	-
PARTRAN	-	70,000	-	-	70,000	-	176	70,176	-	78
ESF PORTUGAL	-	-	63,500	-	63,500	-	221	63,457	-	19,795
COMPAGNIE BANCAIRE ESPÍRITO SANTO, SA	23,815	-	-	-	23,815	1,298	203,446	45	338	421,915
TRANQUILIDADE	-	2,420	-	171	2,591	1,001	123,720	2,007	811	248,653
ES FINANCIAL GROUP	-	-	2,571	-	2,571	-	-	165	-	165
BES VIDA	-	73	2	69	144	8	445,065	140	8	318,094
BESPAR	-	-	-	-	-	-	4,252	651	-	2,083
EUROP ASSISTANCE	-	-	-	11	11	13	1,926	8	14	52,750
ESFG OVERSEAS	-	-	-	-	-	-	-	-	-	7
CENTUM	-	-	-	-	-	-	-	-	-	68
COMINVEST	-	-	-	-	-	-	-	-	-	7
FRAYBELL COMPANY	-	-	-	-	-	-	-	139,352	-	-
OTHERS	-	42,946	455	1,062	44,463	8,871	12,236	51,470	26	4,296
TOTAL	**532,307**	**591,118**	**88,838**	**111,756**	**1,324,019**	**28,144**	**863,191**	**1,359,772**	**43,718**	**1,213,284**

The transactions with the pensions fund are analysed in Note 12.

Note 41 – Securitisation transactions

As at 31 December 2006, the outstanding securitisation transactions performed by the Group 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	275,064	Domestic bonds and eurobonds
Lusitano Mortgages No.1 plc	December 2002	1,000,000	673,140	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	692,275	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	972,185	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	1,081,343	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1,400,000	1,374,777	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862,607	790,633	Loans to small and medium entities

During the year ended 31 December 2006, the Group exercised the clean up call related to the securitisation transaction Lusitano Finance no. 2 plc, which resulted in the acquisition of loans with a nominal value of euro 38,977 thousands. The repurchase of these loans had no impact in the Groups' financial statements, as the SPE was included in the consolidated financial statements as at 31 December 2005.

The main characteristics of these transactions, as at 31 December 2006, 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	Moody's	S&P
Lusitano Global CDO No.1 plc	Class A1	350,000	-	-	December 2015	-	-	-
	Class A2	623,800	131,386	105	December 2015	AAA	Aaa	AAA
	Class B	42,300	42,300	-	December 2015	AAA	Aa1	AA
	Class C	25,200	25,200	15,300	December 2015	AA	A1	A+
	Class D	103,000	103,000	14,000	December 2015	-	-	-
Lusitano Mortgages No.1 plc	Class A	915,000	585,629	196	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	647,821	-	December 2036	AAA	Aaa	AAA
	Class B	30,000	30,000	5,000	December 2046	AA	Aa3	AA
	Class C	28,000	28,000	-	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	938,166	82	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	-	December 2047	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	1,047,648	-	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	-	-	-
Lusitano Mortgages No.5 plc	Class A	1,323,000	1,323,000	-	December 2059	AAA	Aaa	AAA
	Class B	26,600	26,600	-	December 2059	AA	Aa2	AA
	Class C	22,400	22,400	-	December 2059	A+	A1	A+
	Class D	28,000	28,000	-	December 2059	BBB+	Baa1	BBB+
	Class E	11,900	11,900	-	December 2059	-	-	-
Lusitano SME No.1 plc	Class A	759,525	759,525	1,000	December 2028	AAA	-	AAA
	Class B	40,974	40,974	-	December 2028	AA	-	AA
	Class C	34,073	34,073	-	December 2028	A+	-	A+
	Class D	28,035	28,035	28,035	December 2028	BBB+	-	BBB+
	Class E	8,626	8,626	8,626	December 2028	-	-	-

As permitted by IFRS 1, the Group has applied the derecognition requirements of IAS 39 for the transactions entered into after 1 January 2004. Therefore, the assets derecognised until that date, in accordance with the previous accounting policies, were not restated in the balance sheet.

The assets sold in the securitisation transactions Lusitano Mortgages No.3, Lusitano Mortgages No.4 and Lusitano Mortgages No.5, performed after 1 January 2004, were derecognised considering that the Group has transferred substantially all the risks and rewards of ownership.

In accordance with SIC 12, the Group fully consolidates Lusitano SME No. 1, plc, as it retains the majority of the risks and rewards associated with the activity of this SPE. Therefore, assets and liabilities of Lusitano SME No. 1 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.

The consolidation of Lusitano SME No. 1 implies the recognition in the consolidated balance sheet of euro 863 million relating to loans and euro 871,2 million relating to debt securities. The impact in the consolidated shareholders equity and in results is approximately euro 7,5 million.

Note 42 – Fair value of assets and liabilities

The fair value of financial assets and liabilities, for the Group, is analysed as follows:

(in thousands of euros)

	Trading	Designated at fair value	Held to maturity	Loans and investments	Available-for-sale	Other at amortised cost	Carrying Value	Fair value
31 December 2006								
Cash and deposits at central banks	-	-	-	1,084,927	-	-	1,084,927	1,084,927
Deposits with banks	-	-	-	672,976			672,976	672,976
Financial assets held for tranding	4,192,458	-	-	-	-	-	4,192,458	4,192,458
Financial assets as at fair value through profit or loss	-	1,498,592	-	-	-	-	1,498,592	1,498,592
Financial assets available-for-sale	-	-	-	-	5,251,684	-	5,251,684	5,251,684
Loans and advances to banks	-	-	-	7,588,049	-	-	7,588,049	7,588,049
Loans and advances to customers	-	-	-	34,882,505	-	-	34,882,505	35,416,961
Held to maturity investments	-	-	593,171	-	-	-	593,171	595,035
Hedging derivatives (assets)	178,653	-	-	-	-	-	178,653	178,653
Financial assets	**4,371,111**	**1,498,592**	**593,171**	**44,228,457**	**5,251,684**	**-**	**55,943,015**	**56,479,335**
Deposits from central banks	-	-	-	-	-	1,043,175	1,043,175	1,043,175
Financial liabilities held for trading	1,308,524	-	-	-	-	-	1,308,524	1,308,524
Deposits from banks	-	-	-	-	-	6,827,386	6,827,386	6,827,386
Due to customers	-	-	-	-	-	21,993,671	21,993,671	21,993,671
Debt securities issued	-	-	-	-	-	19,030,469	19,030,469	19,216,170
Hedging derivatives (liabilities)	238,612	-	-	-	-	-	238,612	238,612
Subordinated debt	-	-	-	-	-	2,239,816	2,239,816	2,348,267
Financial liabilities	**1,547,136**	**-**	**-**	**-**	**-**	**51,134,517**	**52,681,653**	**52,975,805**
31 December 2005								
Cash and deposits at central banks	-	-	-	1,005,008	-	-	1,005,008	1,005,008
Deposits with banks	-	-	-	655,180			655,180	655,180
Financial assets held for tranding	2,995,743	-	-	-	-	-	2,995,743	2,995,743
Financial assets as at fair value through profit or loss	-	1,746,898	-	-	-	-	1,746,898	1,746,898
Financial assets available-for-sale	-	-	-	-	3,808,554	-	3,808,554	3,808,554
Loans and advances to banks	-	-	-	6,164,044	-	-	6,164,044	6,164,044
Loans and advances to customers	-	-	-	30,832,124	-	-	30,832,124	31,099,795
Held to maturity investments	-	-	596,840	-	-	-	596,840	597,345
Hedging derivatives (assets)	124,505	-	-	-	-	-	124,505	124,505
Financial assets	**3,120,248**	**1,746,898**	**596,840**	**38,656,356**	**3,808,554**	**-**	**47,928,896**	**48,197,072**
Deposits from central banks	-	-	-	-	-	654,316	654,316	654,316
Financial liabilities held for trading	1,271,732	-	-	-	-	-	1,271,732	1,271,732
Deposits from banks	-	-	-	-	-	6,264,892	6,264,892	6,264,892
Due to customers	-	-	-	-	-	20,753,083	20,753,083	20,753,083
Debt securities issued	-	-	-	-	-	14,402,291	14,402,291	14,436,378
Hedging derivatives (liabilities)	111,098	-	-	-	-	-	111,098	111,098
Subordinated debt	-	-	-	-	-	2,367,597	2,367,597	2,607,339
Financial liabilities	**1,382,830**	**-**	**-**	**-**	**-**	**44,442,179**	**45,825,009**	**46,098,838**

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 collectively. The discount rates used by the Group are current interest rates used in loans with similar characteristics.

Held-to-maturity investments
The fair values of these financial instruments are based on 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.

Note 43 – Risk management

The Group is exposed to the following risks arising on the use of financial instruments:

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

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

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the 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.

The analysis of the risk exposure by sector of activity, as at 31 December 2006 and 2005, can be analysed as follows:

(in thousands of euros)

	31.12.2006										
	Loans and advances to customers		Financial assets held for tranding		Financial assets as at fair value through profit or loss		Financial assets available-for-sale		Held to maturity investments		Guarantees granted
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	
Agriculture	366,285	(12,609)	-	-	-	-	4,065	-	-	-	46,121
Mining	146,818	(3,313)	9,689	-	1,246	-	110,035	-	-	-	8,445
Food, beverage na tobacco	357,610	(13,250)	883	-	6,259	-	28,507	(34)	-	-	101,684
Textiles	381,638	(21,664)	-	-	-	-	26,079	(3,422)	-	-	47,729
Shoes	76,670	(5,312)	-	-	-	-	499	(499)	-	-	5,080
Wood and cork	156,399	(11,531)	-	-	-	-	-	-	-	-	11,182
Priting and publishing	189,699	(6,723)	13,449	-	10,566	-	18,015	-	-	-	34,043
Refining and oil	75,077	(1,510)	3,147	-	-	-	-	-	-	-	252,134
Chemicals and rubber	470,693	(5,755)	-	-	-	-	5,555	(68)	-	-	45,003
Non-metalic minerals	228,129	(8,726)	727	-	-	-	14,401	(469)	-	-	43,698
Metalic products	400,796	(10,703)	116	-	-	-	5,926	(6)	762	-	41,789
Production of machinery, equipment and electric devices	193,596	(6,412)	-	-	5,256	-	20,055	(1,445)	-	-	118,290
Production of transport material	225,358	(3,557)	1,430	-	-	-	91,267	-	-	-	80,778
Other transforming industries	208,334	(7,658)	1,975	-	-	-	9,284	(72)	-	-	20,785
Electricity, gas and water	571,734	(6,714)	20,451	-	8,084	-	340,070	-	-	-	258,257
Construction	4,535,520	(106,257)	1,409	-	3,039	-	34,575	(1,691)	-	-	1,088,823
Wholesale and retail	2,730,327	(108,196)	200	-	-	-	128,220	(633)	777	-	461,562
Tourism	660,662	(15,837)	14	-	-	-	1,682	(171)	-	-	83,079
Transports and communications	1,816,692	(42,344)	54,788	-	76,717	-	798,393	(3)	-	-	607,548
Financial activities	912,594	(12,207)	1,216,643	-	1,080,392	-	2,060,713	(19,858)	2,278	-	117,518
Real estate activities	4,463,771	(82204)	101	-	-	-	1,502	(387)	-	-	400,053
Services provided to companies	2,635,909	(60,789)	20,321	-	175,894	-	902,104	(18,090)	-	-	580,318
Public services	903,756	(14047)	1,538,485	-	-	-	349,643	(594)	589,354	-	41,317
Non-profit organisations	1,391,864	(38,176)	6,968	-	131,139	-	331,179	(8,059)	-	-	131,866
Mortgage loans	8,499,855	(137,443)	-	-	-	-	-	-	-	-	-
Consumers loans	2,309,217	(104,552)	-	-	-	-	-	-	-	-	59,285
Other	842,829	(21,838)	65,232	-	-	-	27,413	(1,997)	-	-	96,022
TOTAL	**35,751,832**	**(869,327)**	**2,956,028**	**-**	**1,498,592**	**-**	**5,309,182**	**(57,498)**	**593,171**	**-**	**4,782,409**

(in thousands of euros)

	31.12.2005										
	Loans and advances to customers		Financial assets held for tranding		Financial assets as at fair value through profit or loss		Financial assets available-for-sale		Held to maturity investments		Guarantees granted
	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	
Agriculture	372,286	(13,221)	-	-	-	-	-	-	-	-	34,625
Mining	93,776	(2,542)	4	-	2,103	-	62	-	-	-	16,515
Food, beverage na 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
Priting 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 na 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)	-	-	-	-	-	-	-	-	-
Consumers 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**

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-tuning of the model and improving its predictive capabilities. As a complement to the VaR model, stress testing scenarios were also developed, which permits the assessment of the impact of higher potential losses than those considered using VaR valuation.

The following table present the average interest rates for the Group's major assets and liabilities categories, for the years ended 31 December 2006 and 2005, as well as the respective average balances and interests for the period.

(in thousands of euros)

	31.12.2006			31.12.2005		
	Average balance of the year	Interest of the year	Average interest rate	Average balance of the year	Interest of the year	Average interest rate
Monetary assets	5,663,364	214,766	3.79%	6,104,447	192,512	3.15%
Loans and advances to customers	33,354,454	1,672,612	5.01%	30,122,390	1,311,929	4.36%
Investment securities	6,359,335	413,745	6.51%	4,912,253	347,198	7.07%
Differential investments	-	-	-	671,668	-	-
Financial assets	**45,377,153**	**2,301,123**	**5.07%**	**41,810,758**	**1,851,639**	**4.46%**
Monetary funds	7,700,875	313,584	4.07%	7,082,348	230,944	3.26%
Deposits from banks	18,407,175	392,783	2.13%	18,549,503	318,108	1.71%
Other funds	18,482,007	765,235	4.14%	16,178,907	561,960	3.47%
Differential funds	787,096	-	-	-	-	-
Financial liabilities	**45,377,153**	**1 471,602**	**3.24%**	**41,810,758**	**1,111,012**	**2.66%**
Net interest income		**829,521**	**1.83%**		**740,627**	**1.80%**

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2006 and 2005, is analysed as follows:

(in thousands of euros)

	31.12.2006						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Assets							
Cash and deposits at central banks	988,131	90,844	3,457	18	901	1,576	1,084,927
Deposits with banks	606,996	27,698	2,560	30,725	1,456	3,541	672,976
Financial assets held for trading	2,930,438	484,614	112,886	19,508	627,120	17,892	4,192,458
Financial assets at fair value through profit or loss	1,077,087	404,231	17,274	-	-	-	1,498,592
Available-for-sale financial assets	3,664,113	650,736	-	-	907,793	24,303	5,246,945
Loans and advances to banks	3,353,252	3,188,426	630,665	61,252	22,519	331,935	7,588,049
Loans and advances to customers	32,254,014	1,465,011	1,123,700	9,743	-	30,037	34,882,505
Held to maturity investments	-	592,390	-	-	-	781	593,171
Hedging derivatives	33,151	8,465	65,551	63,997	-	7,489	178,653
Non-current assets held for sale	-	-	-	-	-	-	-
Investments in associates	573,848	-	-	-	-	-	573,848
Other non-financial assets	16,603	1,405,248	1,284,755	17,707	20,240	21,882	2,766,435
Total assets	**45,497,633**	**8,317,663**	**3,240,848**	**202,950**	**1,580,029**	**439,436**	**59,278,559**
Liabilities							
Deposits from central banks	125,891	811,657	104,745	-	-	882	1,043,175
Financial liabilities held for trading	885,450	288,272	85,496	4,424	10,011	34,871	1,308,524
Deposits from banks	2,939,604	2,712,160	763,802	83,207	219,344	109,269	6,827,386
Due to customers	19,095,555	1,764,139	714,586	43,325	317,952	58,114	21,993,671
Debt securities issued	14,952,257	2,146,824	1,894,446	-	-	36,942	19,030,469
Hedging derivatives	226,922	8,609	-	-	-	3,081	238,612
Subordinated debt	1,979,992	76,469	-	183,355	-	-	2,239,816
Other non-financial liabilities	1,114,761	429,387	93,638	(176,689)	34,131	374,773	1,870,001
Total liabilities	**41,320,432**	**8,237,517**	**3,656,713**	**137,622**	**581,438**	**617,932**	**54,551,654**
Equity	**4,177,201**	**66,626**	**-**	**-**	**505,310**	**70,460**	**4,819,597**
Net exposure	**-**	**13,520**	**(415,865)**	**65,328**	**493,281**	**(248,956)**	**(92,692)**
Operational exposure	**-**	**13,520**	**(415,865)**	**65,328**	**493,281**	**(248,956)**	**(92,692)**

(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	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**

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 in 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 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, it 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.

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, 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 1 998 million (31 December 2005: euro 1 959 million), being structured as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Financial assets at fair value through profit or loss	203	399
Available-for-sale financial assets	555	682
Loans and advances to banks	974	385
Loans and advances to customers	253	292
Other assets	13	201
	1,998	**1,959**
Deposits from central banks	610	441
Due to customers	1,289	1,325
Other liabilities	62	65
Own funds	37	128
	1,998	**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 2006 amounted to euro 15,128 million (31 December 2005: 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 2006 amounted to euro 295 million (31 December 2005: 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 44 – 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 as follows:

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 was approved by the European Commission on 8 September 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 and IFRS 2 therefore applies.

The IFRIC is mandatory and applicable for annual periods beginning on or after 1 May 2006.

The Group does not expect any material impact from the adoption of this interpretation.

IFRIC 9 – Reassessment of Embedded Derivatives

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 12 March 2006 an Interpretation—IFRIC 9 Reassessment of Embedded Derivatives, which was approved by the European Commission on 8 September 2006.

This interpretation clarifies that the reassessment of embedded derivatives should be performed whenever there are changes to the underlying contracts.

This IFRIC is mandatory and applicable for annual periods beginning on or after 1 June 2006.

The Group does not expect any material impact from the adoption of this interpretation.

IFRIC 10 – Interim Financial Reporting and Impairment

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 20 July 2006 an Interpretation—IFRIC 10 Interim Financial Reporting and Impairment, which should be approved by the European Commission during the second quarter of 2007.

The IFRIC prohibits the reversal of Impairment losses recognised in previous Interim Reporting period in respect of Goodwill, an Investment in an equity instrument or a financial asset carried at cost.

This IFRIC is mandatory and applicable for annual periods beginning on 2007 and its application will be prospective for the above-mentioned asset types, from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39, respectively.

The Group does not expect any material impact from the adoption of this interpretation.

IFRIC 11 – IFRS 2 – Changes in Contributions to Employee Share Purchase Plans

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 2 November 2006 an Interpretation, IFRIC 11 – IFRS 2 Changes in Contributions to Employee Share Purchase Plans, which should be approved by the European Commission during the second quarter of 2007. This interpretation addresses on two issues:

1\. a) Contracts where an entity grants to its employees rights to equity instrument of the entity, and either chooses or is required to buy equity instruments from another party, to satisfy its obligations to its employees; and
1\. b) Contracts where an entity's employees are granted rights to equity instruments of the entity, either by the entity itself, or by its shareholders, and the shareholders of the entity provides the equity instruments needed.

2) Contracts with share-based payments that involve two or more entities within the same Group.
This IFRIC is mandatory and applicable for periods beginning on or after 1 March 2007.
The Group does not expect any material impact from the adoption of this interpretation.

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.

This IFRS is mandatory and applicable for periods beginning on 1 January 2007.

The expected impacts as a consequence of the adoption of IFRS 7 are mainly related with additional disclosure requirements regarding financial instruments.

IFRS 8 – Operational segments

The International Accounting Standards Board (IASB) has issued on 30 November 2006 the IFRS 8 Operational segments, which should be approved by the European Commission during the second quarter of 2007.

The IFRS 8 – Operational segments sets out requirements for Disclosures of information about an entity's operating segments and also about the entity's products and services, the geographical areas where the entity operates and where its major clients are located. This standard specifies how an entity should disclose its information in the Annual financial statements and, as a consequential amendment to IAS 34 Interim Financial Reporting, regarding the information to be disclosed in the Interim financial reporting. Each entity should also provide a description of the segmental information disclosed namely Profit or loss and of Segment assets, as well as a brief description of how the segmental information is produced.

This IFRS is mandatory and applicable for periods beginning on 1 January 2009.

The Group is evaluating the impact of adopting this standard.

2.0 Individual Financial Statements and Notes to the Financial Statements

2.1 Individual Statement of Income of Banco Espírito Santo

	Dec 05 (eur '000)	Dec. 06 (eur '000)
Interest income	1,344,874	2,149,052
Interest expense	931,946	1,521,853
Net interest income	**412,928**	**627,199**
Dividends from securities	182,841	133,115
Comissions and other similar income	291,273	354,046
Comissions and other similar expense	37,560	50,403
Gains and losses in financial assets as fair value	(67,411)	(27,018)
Gains and losses in financial assets available for sale	74,625	76,577
Gains and losses from foreign exchange revaluation	(228)	(7,925)
Gains and losses from sale of other assets	77,183	10,255
Other income from banking activity	67,547	82,737
Banking Income	**1,001,198**	**1,198,583**
Staff expenses	242,858	307,903
Other administrative expenses	243,799	302,153
Depreciation	60,703	52,930
Provisions net of reversals	88,679	49,262
Loan impairment net of reversals and recoveries	117,033	133,016
Other financial assets' impairment net of reversals and recoveries	33,014	6,513
Other assets' impairment net of reversals and recoveries	(2,425)	10,694
Income before tax	**217,537**	**336,112**
Tax		
Current tax	22,851	16,299
Deferred tax	4,517	62,362
Income after tax and before minority interests	**190,169**	**257,451**
of whitch: income after of discontinued operations	-	-
Net Income	**190,169**	**257,451**

Chief Accountant

The Board of Directors

2.2 Individual Balance Sheet of Banco Espírito Santo

	Dec. 05 (eur '000)	Dec. 06 (eur '000)
ASSETS		
Cash and deposits at Central Banks	900,339	961,793
Loans and advances to credit institutions repayable on demand	582,704	532,333
Financial assets held for trading	2,249,710	3,211,240
Financial assets at fair value throught profit and loss	1,397,101	1,141,854
Financial assets held for trading	3,622,574	4,125,229
Loans and advances to banks	7,510,617	9,807,321
Loans and advances to customers	25,322,957	27,134,372
Held to maturity investments	555,823	567,747
Financial assets with repurchase agreements	-	
Hedging derivatives	88,909	166,211
Non current assets held for sale	-	
Investment property	-	
Other intangible assets	291,594	300,239
Intangible assets	49,787	51,353
Investiments in associated companies	577,562	1,055,918
Current tax assets	2,435	2,435
Deferred tax assets	145,514	136,817
Other assets	1,345,547	1,341,806
TOTAL ASSETS	**44,643,173**	**50,536,668**
LIABILITIES		
Amounts owed to central banks	591,142	1,043,175
Financial liabilities held for trading	953,199	954,926
Financial assets at fair value throught profit and loss	-	-
Deposits from banks	12,847,528	13,935,369
Due to customers	16,941,541	18,037,505
Debt securities	7,372,192	8,444,112
Financial liabilities associated to transferred assets	-	-
Hedging derivatives	87,827	196,732
Non Current assets liabilities held for sail	-	-
Provisions	432,478	485,881
Current income tax liabilities	9,579	8,002
Deferred income tax liabilities	223,089	311,104
Instruments representing capital	-	-
Other subordinated loans	2,212,838	2,607,483
Other liabilities	579,753	440,761
TOTAL LIABILITIES	**42,251,166**	**46,465,050**
SHAREHOLDERS' EQUITY		
Share capital	1,500,000	2,500,000
Share premium	300,000	666,327
Other capital interests	-	-
Treasury stock	(96,247)	(63,732)
Fair value reserve	326,223	482,062
Other reserves and retained earnings	171,862	229,510
Profit for the period/year	190,169	257,451
Anticipated dividends	-	-
TOTAL SHAREHORLDERS' EQUITY	**2,392,007**	**4,071,618**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**44,643,173**	**50,536,668**

Chief Accountant

The Board of Directors

2.3 Notes to the Individual Financial Statements

INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(in thousands of euros)

	Notes	31.12.2006	31.12.2005
Interest and similar income	4	2,149,052	1,344,874
Interest expense and similar charges	4	1,521,853	931,946
Net interest income		**627,199**	**412,928**
Dividend income	5	133,115	182,841
Fee and commission income	6	354,046	291,273
Fee and commission expense	6	(50,403)	(37,560)
Net gains from financial assets at fair value through profit or loss	7	(27,018)	(67,411)
Net gains from available-for-sale financial assets	8	76,577	74,625
Net gains from foreign exchange differences	9	(7,925)	(228)
Net gains from the sale of other financial assets		405	15,539
Other operating income	10	82,737	67,547
Operating income		**1,188,733**	**939,554**
Staff costs	11	307,903	242,858
General and administrative expenses	13	302,153	243,799
Depreciation and amortisation	24 and 25	52,930	60,703
Provisions net of reversals	31	49,262	88,679
Loans impairment net of reversals	20 and 21	133,016	117,033
Impairment on other financial assets net of reversals	19 and 22	6,513	33,014
Impairment on other assets net of reversals	26 and 27	10,694	(2,425)
Operating expenses		**862,471**	**783,661**
Gains on disposal of investments in subsidiaries and associates	26	9,850	61,644
Profit before income tax		**336,112**	**217,537**
Income tax			
Current tax	32	16,299	22,851
Deferred tax	32	62,362	4,517
Profit for the period		**257,451**	**190,169**
Basic (in Euros)	14	0.63	0.65
Diluted (in Euros)	14	0.63	0.65

The following notes form an integral part of these financial statements

BALANCE SHEET AS AT 31 DECEMBER 2006 AND 2005

(in thousands of euros)

	Notes	31.12.2006	31.12.2005
Assets			
Cash and deposits at central banks	15	961,793	900,339
Deposits with banks	16	532,333	582,704
Financial assets held for trading	17	3,211,240	2,249,710
Financial assets at fair value through profit or loss	18	1,141,854	1,397,101
Available-for-sale financial assets	19	4,125,229	3,622,574
Loans and advances to banks	20	9,807,321	7,510,617
Loans and advances to customers	21	27,134,372	25,322,957
Held to maturity investments	22	567,747	555,823
Hedging derivatives	23	166,211	88,909
Property and equipment	24	300,239	291,594
Intangible assets	25	51,353	49,787
Investments in associates	26	1,055,918	577,562
Current income tax assets		2,435	2,435
Deferred income tax assets	32	136,817	145,514
Other assets	27	1,341,806	1,345,547
Total assets		**50,536,668**	**44,643,173**
Liabilities			
Deposits from central banks		1,043,175	591,142
Financial liabilities held for trading	17	954,926	953,199
Deposits from banks	28	13,935,369	12,847,528
Due to customers	29	18,037,505	16,941,541
Debt securities issued	30	8,44,112	7,372,192
Hedging derivatives	23	196,732	87,827
Provisions	31	485,881	432,478
Current income tax liabilities		8,002	9,579
Deferred income tax liabilities	32	311,104	223,089
Subordinated debt	33	2,607,483	2,212,838
Other liabilities	34	440,761	579,753
Total liabilities		**46,465,050**	**42,251,166**
Equity			
Share capital	35	2,500,000	1,500,000
Share premium	35	666,327	300,000
Treasury stock	35	(63,732)	(96,247)
Fair value reserve	36	482,062	326,223
Other reserves and retained earnings	36	229,510	171,862
Profit for the period		257,451	190,169
Total equity		**4,071,618**	**2,392,007**
Total equity and liabilities		**50,536,668**	**44,643,173**

The following notes form an integral part of these financial statements

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(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 2005	**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	-	-	-	3,927
Share based payment scheme (see Note 12)	-	-	-	-	2,060	-	2,060
Effect of BIC's merger	-	-	-	1,047	203,403	-	204,450
Profit for the period	-	-	-	-	-	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**
Share capital increase´							
Incorporation of share premium (50 million ordinary shares)	250,000	(250,000)	-	-	-	-	-
Issue of new shares (150 million ordinary shares)	750,000	630,000	-	-	-	-	1,380,000
Costs with the share capital increase, net of taxes	-	(13,673)	-	-	-	-	(13,673)
Changes in fair value, net of taxes	-	-	-	155,839	-	-	155,839
Pensions (transitional rules)	-	-	-	-	(29,640)	-	(29,640)
Transfer to reserves	-	-	-	-	71,835	(71,835)	-
Dividends on ordinary shares[(a)]	-	-	-	-		(118,334)	(118,334)
Changes in treasury stock	-	-	32,515	-	-	-	32,515
Share based payment scheme (see Note 12)	-	-	-	-	2,454	-	2,454
Effect of Crediflash's merger	-	-	-	-	12,999	-	12,999
Profit for the period	-	-	-	-	-	257,451	257,451
Balance as at 31 December 2006	**2,500,000**	**666,327**	**(63,732)**	**482,062**	**229,510**	**257,451**	**4,071,618**

(a) Corresponds to a dividend per share of 0.40 euros and 0.37 euros paid to the shares outstading as at 31 December 2006 and 2005, respectively.

The following notes form an integral part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(in thousands of euros)

	Notes	31.12.2006	31.12.2005
Cash flows arising from operating activities			
Interest and similar income received		2,069,653	1,314,366
Interest expense and similar charges paid		(1,407,260)	(876,546)
Fee and commission income received		419,274	351,320
Fee and commission expense paid		(50,403)	(37,560)
Recoveries on loans previously written off		21,160	12,360
Cash payments to employees and suppliers		(597,168)	(684,725)
		455,256	**79,215**
Changes in operational assets and liabilities:			
Cash and deposits at central banks		440,099	(184,481)
Financial assets at fair value through profit or loss		(709,821)	257,799
Loans and advances to banks		(2,285,166)	(1,553,897)
Deposits from banks		1,439,857	1,716,163
Loans and advances to customers		(1,763,695)	(1,902,512)
Due to customers		1,066,494	441,074
Hedging derivatives		(48,994)	25,723
Other operational assets and liabilities		(192,782)	117,405
Net cash flow from operating activities before income taxes		**(1,598,752)**	**(1,003,511)**
Income taxes paid		(19,728)	(19,055)
		(1,618,480)	**(1,022,566)**
Cash flows arising from investing activities			
Acquisition of subsidiaries and associates		(577,045)	(19,860)
Disposal of subsidiaries and associates		99,581	108,415
Dividends received		133,115	182,841
Acquisition of available-for-sale financial assets		(3,908,323)	(8,038,509)
Disposal of available-for-sale financial assets		3,687,754	7,261,107
Held to maturity investments		(67,482)	(4,266)
Acquisition of tangible and intangible assets		(60,915)	(56,848)
Sale of tangible and intangible assets		1,268	131
		(692,047)	**(566,989)**
Cash flows arising from financing activities			
Capital increase		1,366,327	-
Proceeds from issue of bonds		1,193,158	1,667,209
Reimbursement of bonds		(88,060)	(185,242)
Proceeds from issue of subordinated debt		12,200	246,980
Reimbursement of subordinated debt		(59,856)	-
Treasury stock		32,515	3,927
Dividends paid from ordinary shares		(118,334)	(108,044)
Net cash flow from financing activities		**2,337,950**	**1,624,830**
Effect of exchange rate changes on cash and cash equivalents		(29,611)	14,888
Effect of Crediflash's merger on cash and cash equivalents		2,754	-
Effect of BIC's merger on cash and cash equivalents		-	89,909
Net changes in cash and cash equivalents		**566**	**140,072**
Cash and cash equivalents at the beginning of the year		788,935	648,863
Cash and cash equivalents at the end of the period		789,501	788,935
		566	140,072
Cash and cash equivalents includes:			
Cash	15	257,168	206,231
Deposits with banks	16	532,333	582,704
Total		**789,501**	**788,935**

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 2006

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

Note 1 – Activity

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

BES's foundation dates back to the last quarter of the 19th century. The Bank began operations as a commercial bank in 1937, following the merger of Banco Espírito Santo and Banco Comercial de Lisboa, from which resulted Banco Espírito Santo e Comercial de Lisboa. By public deed of 6 July 1999, the Bank changed its name to Banco Espírito Santo, S.A. During December 2005, Banco Internacional de Crédito, S.A. was merged in Banco Espírito Santo, S.A. During May 2006, Crediflash - Sociedade Financeira para Aquisições a 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 Luxembourg.

BES has a network of 605 branches throughout Portugal (31 December 2005: 584), international branches in London, New York, Nassau, Cayman Islands and Cape Verde a branch in the Madeira Free Zone, and twelve overseas representative offices.

Note 2 – Summary of significant accounting policies

2.1 Basis of presentation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005 and Regulation no. 1/2005 from the Bank of Portugal, Banco Espírito Santo, S.A. (BES or the Bank) is required to prepare its financial statements in accordance with Adjusted Accounting Standards (NCA), as established by the Bank of Portugal 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 2006 were prepared in accordance with Adjusted Accounting Standards (NCA), which includes the IFRS adopted for use in the EU until 31 December 2006.

These financial statements are expressed in thousand 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'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 27 February 2007.

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. The resulting exchange differences are accounted for in the income statement, except if related with equity instruments classified as available-for-sale, in which case are accounted for against reserves.

2.3 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses 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 use for derivative financial instruments designated as hedging instruments, provided the following criteria are met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;
(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
(iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
(iv) For cash flows hedges, the cash flows are highly probable of occurring.

• Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to the risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and the hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to the income statement over the period to maturity.

- Cash flow hedge

  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.

2.4 Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Bank, which are not intended to be sold in the short term. Loans and advances to customers are recognised when cash is advanced to borrowers.

Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive its 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, being subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for each loan. In this assessment the Bank uses the information that feeds the credit risk models implemented and takes in consideration the following factors:

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

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract rules.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Bank's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Bank historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank with the purpose of reducing any differences between loss estimates and actual loss experience.

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

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

2.5 Other financial assets

Classification

The Bank classifies its other financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss
  This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term and (ii) financial assets that are designated at fair value through profit or loss at inception.

The Bank classifies, at inception, certain financial assets at fair value through profit or loss when:

- such financial assets are managed, and their performance evaluated on a fair value basis;
- such classification eliminates an accounting mismatch; or
- such financial assets contain an embedded derivative.

- 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 until its maturity and that are not classified, at inception, as at fair value through profit or loss or as available for sale.

- Available-for-sale 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 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 which 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 between categories, except in the rare cases in which reclassifications are allowed under this accounting standard.

Impairment

In accordance with NCA, BES assesses periodically whether there is objective evidence that a financial asset or group of 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 rules. For held-to-maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity instruments, in which case the reversal is recognised in equity.

2.6 Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) at a fixed price or at the sales price plus a lender's return are not derecognised. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest 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 deliver cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales.

The Bank designates, at inception, certain financial liabilities as at fair value through profit or loss when:

- such classification eliminates an accounting mismatch; or
- such financial assets contain an embedded derivative.

The 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 and financial liabilities designated at fair value through profit or loss, which are subsequently measured at fair value.

The fair value of quoted financial liabilities is based on the current price. In the absence of a quoted price, the Bank establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

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

2.8 Equity instruments

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

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

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

2.9 Offsetting financial instruments

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

2.10 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 less costs to sell and the carrying amount of the loans.

Subsequently, those assets are measured at the lower of their carrying amount and the corresponding fair values less costs to sell and are not depreciated. Any subsequent write-down of the acquired 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. At the transition date to NCA, 1 January 2004, 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 the general price index. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

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

	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

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

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

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

2.13 Leases

The Bank classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases
Payments made under operating leases are charged to the income statement in the period to which they relate.

Finance leases

- As lessee
  Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

- 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, were set up pension funds designed to cover retirement benefits on account of age, including widows and orphans benefits and disability 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 actual 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 that comprises (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 early amortisation of the respective actuarial gains and losses.

The effect of the early retirements corresponds to the increase in pension liabilities due to retirements before the normal age of retirement, which is 65 years.

The Bank makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

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

Health care benefits

The Bank provides to its banking employees health care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides to its beneficiaries services and/or contribution on medical assistance expenses, diagnostics, medicines, hospital confinement and surgeries, 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 on a straight-line basis 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

Bonus to employees, paid annually 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 also 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 each jurisdiction.

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

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted.

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.

Restructuring provisions are recognised when the Bank has approved a detailed and formal restructuring plan and such restructuring either has commenced or has been announced publicly.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable costs of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract.

2.17 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 financial assets, using the effective interest method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

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

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

For derivative financial instruments, except for (i) those classified as hedging instruments of interest rate risk and (ii) those used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, in order to eliminate an accounting mismatch, 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. The interest component of the changes in the fair value of hedging derivatives of interest rate risk and of derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, in order to eliminate an accounting mismatch, 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 a group of assets and operations 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 inception date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with central banks.

2.23 Standards and interpretations not yet adopted

In note 42 are included the recent standards and interpretations not yet adopted by the Group.

Note 3 – Critical accounting estimates, and judgements in applying accounting policies

NCA set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies, and the underlying judgments and estimates, 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 are appropriate and that the financial statements present the Bank's financial position and results fairly in all material respects.

3.1 Impairment of available for-sale investments

The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. 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 different level of impairment losses recognised with a consequent impact in the income statement of the Bank.

3.2 Fair value of derivatives

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

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

3.3 Impairment losses on loans and advances

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

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

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

3.4 Held-to-maturity investments

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

In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for 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 a different fair value for this portfolio with the corresponding impact 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' determination of its annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank is confident that there will be no material tax assessments within the context of the financial statements.

3.6 Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

Note 4 – Net interest income

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Interest and similar income		
Interest from loans and advances	1,338,265	805,888
Interest from financial assets at fair value through profit or loss	376,428	209,240
Interest from deposits with banks	221,304	187,415
Interest from available-for-sale financial assets	81,793	52,342
Interest from derivatives for risk management purposes	80,735	56,036
Other interest and similar income	50,527	33,953
	2,149,052	**1,344,874**
Interest expense and similar charges		
Interest from deposits from central banks and other banks	506,261	363,863
Interest from debt securities	356,125	169,870
Interest from amounts due to customers	261,489	138,992
Interest from derivatives for risk management purposes	261,372	154,531
Interest from subordinated debt	134,612	104,435
Other interest expense and similar charges	1,994	255
	1,521,853	931,946
	627,199	**412,928**

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

Note 5 – Dividend income

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Dividends from subsidiaries and associates	92,244	145,026
Dividends from available-for-sale financial assets	40,871	37,815
	133,115	**182,841**

Note 6 – Net fee and commission income

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Fee and commission income		
From banking services	229,434	172,949
From guarantees granted	55,877	47,320
From transactions with securities	8,434	6,742
From commitments assumed to third parties	8,290	4,347
Other fee and commission income	52,011	59,915
	354,046	**291,273**
Fee and commission expense		
From banking services rendered by third parties	32,192	24,271
From transactions with securities	2,896	3,400
From guarantees received	241	514
Other fee and commission expense	15,074	9,375
	50,403	**37,560**
	303,643	**253,713**

Note 7 – Net gains from financial assets at fair value through profit or loss

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by government and public entities	34,830	39,687	(4,857)	70,573	74,130	(3,557)
Issued by other entities	-	36	(36)	-	106	(106)
Shares	-	-	-	6,867	3,764	3,103
Other variable income securities	25,283	6,820	18,463	94,639	80,299	14,340
Derivative financial instruments						
Exchange rate contracts	545,144	541,346	3,798	456,934	538,452	(81,518)
Interest rate contracts	2,199,997	2,230,618	(30,621)	1,907,420	1,922,137	(14,717)
Equity/Index contracts	423,878	421,646	2,232	322,629	353,897	(31,268)
Credit default contracts	86,532	80,820	5,712	35,944	36,518	(574)
Other	791,423	762,672	28,751	224,386	210,403	13,983
	4,107,087	**4,083,645**	**23,442**	**3,119,392**	**3,219,706**	**(100,314)**
Financial assets at fair value through profit or loss						
Bonds and other fixed income securities						
Issued by government and public entities	13,942	21,070	(7,128)	11,394	24,274	(12,880)
Issued by other entities	168,532	233,492	(64,960)	143,467	101,360	42,107
Shares	37,383	15,755	21,628	29,859	26,183	3,676
	219,857	**270,317**	**(50,460)**	**184,720**	**151,817**	**32,903**
	4,326,944	**4,353,962**	**(27,018)**	**3,304,112**	**3,371,523**	**(67,411)**

Note 8 – Net gains from available-for-sale financial assets

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	1,494	-	1,494	180	393	(213)
Issued by other entities	5,317	4,716	601	29,534	18,096	11,438
Shares	75,792	3,525	72,267	138,077	76,245	61,832
Other variable income securities	2,215	-	2,215	1,568	-	1,568
	84,818	**8,241**	**76,577**	**169,359**	**94,734**	**74,625**

During 2006, the Bank sold to the Banks' pension fund (i) 2 million shares of Bradesco, (ii) 0.4 million shares of Banque Marocaine du Commerce Extérieur and (iii) part of the residual notes resulting from the securitisation of mortgage loans Lusitano no. 5, with a nominal value of euro 3.2 million. These operations generated gains in the amount of euro 35 million, euro 17.9 million and euro 9.2 million, respectively.

The major transactions made during 2005 were (i) selling of Portugal Telecom shares, resulting in a loss of euro 69.8 million, (ii) selling of 1.3% of Bradesco ordinary shares to the Groups' pension fund, generating a gain of euro 72.6 million, (iii) selling of residual notes resulting from the securitisation of mortgage loans made in September 2005 (Lusitano Mortgages no. 4) originating a gain of euro 27.2 million, and (iv) selling of part of the Group's stake in PT Multimedia, originating a gain of approximately euro 29.3 million (in this transaction, approximately 15.2 million of PT Multimedia 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)

	31.12.2006			31.12.2005		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	460,090	468,015	(7,925)	340,398	340,626	(228)
	460,090	468,015	(7,925)	340,398	340,626	(228)

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 – Other operating income

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Other operating income		
Bank accounts management services	27,465	28,966
Other services	37,763	31,081
Other	51,496	82,995
	116,724	**143,042**
Outros custos de exploração		
Direct and indirect taxes	2,422	1,752
Contributions to the Deposits Guarantee Fund	3,145	2,487
Donations	3,084	2,443
Other	25,336	68,813
	33,987	**75,495**
	82,737	**67,547**

Note 11 – Staff costs

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Wages and salaries	198,865	152,081
Remuneration	196,286	149,184
Long-service benefits (see Note 12)	2,579	2,897
Health-care benefits - SAMS	17,397	14,116
Other mandatory social charges	21,941	14,605
Pension costs (see Note 12)	62,502	56,613
Other costs	7,198	5,443
	307,903	**242,858**

The health-care benefits – SAMS include the amount of euro 9,113 thousand (31 December 2005: euro 7,124 thousand) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation (see Note12).

Included in other costs is the amount of euro 2,454 thousand (31 December 2005: euro 2,060 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 12.

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)

	31.12.2006	31.12.2005
Board of Directors		
Salaries and other short-term benefits	4,091	4,014
Pension costs and health-care benefits (SAMS)	316	297
Long service benefits	80	64
Bonus	4,597	4,086
	9,084	8,461
Fiscal Board	23	22
	9,107	**8,483**

As at 31 December 2006 and 2005, the loans granted by the bank to the Board of Directors amounted to euro 8,323 thousand and euro 4,670 thousand, respectively.

As at 31 December 2006, the number of employees of the Bank is 6,095 (31 December 2005: 5,084).

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

(in thousands of euros)

	31.12.2006	31.12.2005
Senior management	385	326
Management	874	798
Specific functions	1,942	1,717
Administrative functions	2,811	2,221
Auxiliary functions	83	22
	6,095	**5,084**

Note 12 – 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 the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force.

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.

The pension funds in Portugal are managed by ESAF- Espírito Santo Fundo de Pensões, S.A.

The key actuarial assumptions used to calculate pension liabilities, are as follows:

	Assumptions		Actual	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Financial assumptions				
Salaries increase rate	2.75%	2.75%	5.60%	5.32%
Pensions increase rate	1.75%	1.75%	1.48%	1.98%
Expected return of plan assets	4.75%	5.25%	2.78%	10.49%
Discount rate	4.75%	4.75%		
Demographic assumptions and Valuation methods				
Mortality table				
Men	TV 73/77 (adjusted)			
Women	TV 88/90			
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.

The contributions to SAMS are defined by that entity, as at 31 December 2006 and 31 December 2005, the contribution rate was 6.50% of total wages.

As at 31 December 2006 and 31 December 2005, the number of employees covered by the plan is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Employees	5,616	5,634
Pensioners	4,572	4,430
Widows and other direct relatives	854	841
TOTAL	**11,042**	**10,905**

In accordance with IAS 19, the Bank's liabilities, charges and contributions to the pension funds and respective coverage levels reported as at 31 December 2006 and 31 December 2005 are analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	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	(1,353,503)	(106,589)	(1,460,092)	(1,264,806)	(82,212)	(1,347,018)
Employees	(480,097)	-	(480,097)	(507,590)	(32,161)	(539,751)
	(1,833,600)	(106,589)	(1,940,189)	(1,772,396)	(114,373)	(1,886,769)
Fair value of plan assets as at 31 December	**1,970,591**	**-**	**1,970,591**	**1,766,187**	**-**	**1,766,187**
Excess / deficit of coverage	136,991	(106,589)	30,402	(6,209)	(114,373)	(120,582)
Unrecognised net actuarial losses as at 31 December	436,695	26,082	462,777	618,376	40,364	658,740
Transitional rules	88,806	50,863	139,669	118,410	61,037	179,447
Asset / (liabilities) recognised in the balance sheet as at 31 December	**662,492**	**(29,644)**	**632,848**	**730,577**	**(12,972)**	**717,605**

The liabilities arising from the pension and healthcare benefits increased in 2006 and 2005, as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Liabilities as at 1 January	**1,772,396**	**114,373**	**1,886,769**	**1,393,000**	**86,280**	**1,479,280**
Service cost	27,078	1,924	29,002	13,785	1,026	14,811
Interest cost	82,010	5,304	87,314	70,885	4,385	75,270
Plan participants' contribution	2,911	-	2,911	2,386	-	2,386
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
- other actuarial (gains) / losses	2,916	(11,568)	(8,652)	28,899	5,418	34,317
Benefits paid by the Fund	(93,797)	-	(93,797)	(87,122)	-	(87,122)
Benefits paid by the Bank	-	(5,427)	(5,427)	-	(5,523)	(5,523)
Curtailment losses related to early retirements	40,086	1,983	42,069	14,308	930	15,238
Integration of BIC's liabilities	-	-	-	164,489	10,692	175,181
Liabilities as at 31 December	**1,833,600**	**106,589**	**1,940,189**	**1,772,396**	**114,373**	**1,886,769**

From the total amount of curtailment losses related to early retirements occurred during 2006, the amounts of euro 37,039 thousand related to pensions and euro 1,851 thousand related to health-care benefits were recognised through the utilisation of the restructuring provision (31 December 2005: euro 3,165 thousand and euro 205 thousand, respectively) (see Note 31).

As at 31 December 2006, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 16,4 millions (31 December 2005: euro 16,4 million) and an increase in costs (service cost and interest cost) of euro 1,1 million (31 December 2005: euro 1 million).

The change in the fair value of the plan assets in 2006 and 2005 is analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Fair value of plan assets as at 1 January	**1,766,187**	**-**	**1,766,187**	**1,354,289**	**-**	**1354,289**
Actual return on plan assets	219,863	-	219,863	132,013	-	132,013
Bank contribution	75,427	-	75,427	200,132	-	200,132
Plan participants' contribution	2,911	-	2,911	2,386	-	2,386
Benefits paid by the Fund	(93,797)	-	(93,797)	(87,122)	-	(87,122)
Other	-	-	-	164,489	-	164,489
Fair value of plan assets as at 31 December	**1,970,591**	**-**	**1,970,591**	**1,766,187**	**-**	**1,766,187**

The Pension Fund assets can be analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Shares	960,354	676,803
Other variable income securities	571,018	591,670
Bonds	164,821	244,050
Real estate assets	179,126	122,918
Other	95,272	130,746
Total	**1,970,591**	**1,766,187**

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

(in thousands of euros)

	31.12.2006	31.12.2005
Shares	64,175	51,011
Real estate assets	123,299	120,417
Total	**187,474**	**171,428**

As at 31 December 2006, the shares held by the pension fund are 4,7 million shares of BES (31 December 2005: 3,7 million shares of BES).

The transactions between the Bank and the pension fund held during 2006 and 2005 are referred in Note 8.

The change in the unrecognised net actuarial losses in 2006 and 2005 is analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unrecognised net actuarial losses as at 1 January	**618,376**	**40,364**	**658,740**	**441,016**	**20,043**	**461,059**
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
- other actuarial (gains) / losses	(137,343)	(11,568)	(148,911)	(35,888)	5,418	(30,470)
Amortisation of the period	(27,307)	(1,601)	(28,908)	(23,563)	(761)	(24,324)
Additional amortisation (curtailment)	(17,031)	(1,113)	(18,144)	(3,826)	(182)	(4,008)
Integration of BIC's net actuarial losses	-	-	-	68,871	4,681	73,552
Unrecognised net actuarial losses as at 31 December	**436,695**	**26,082**	**462,777**	**618,376**	**40,364**	**658,740**
Of which:						
Within the corridor	197,547	10,659	208,206	177,240	11,438	188,678
Within the adjusted corridor	71,824	4,669	76,493	75,604	4,914	80,518
Outside the corridor	167,324	10,754	178,078	365,532	24,012	389,544

From the amount of the additional amortisation (curtailment) resulting from early retirements occurred during 2006, the amounts of euro 14,366 thousand related to pensions and euro 961 thousand related to health-care benefits were recognised as a charge off of the restructuring provision (31 December 2005: euro 277 thousand and euro 13 thousand, respectively) (see Note 31).

This change in the transitional rules in 2006 is analysed as follows:

	Pension plans	Health-care plans	Total
Balance as at 1 January	118,410	61,037	179,447
Amortisation through reserves	(29,605)	(10,174)	(39,779)
Balance as at 31 December	**88,805**	**50,863**	**139,668**

The change in unfunded liabilities, is analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
(Assets)/ Liabilities as at 1 January	**6,208**	**114,373**	**120,581**	**38,711**	**86,280**	**124,991**
Actuarial (gains) / losses of liabilities	2,916	(11,568)	(8,652)	200,665	16,583	217,248
Actuarial (gains) / losses of plan assets	(140,259)	-	(140,259)	(64,787)	-	(64,787)
Charges for the year:						
- Service cost	27,078	1,924	29,002	13,785	1,026	14,811
- Interest cost	82,010	5,304	87,314	70,885	4,385	75,270
- Expected return on plan assets	(79,603)	-	(79,603)	(67,226)	-	(67,226)
- Curtailment losses related to early retirements	40,086	1,983	42,069	14,308	930	15,238
- Other	-	-	-	(1)	-	(1)
Contributions of the year and pensions paid by the Bank	(75,427)	(5,427)	(80,854)	(200,132)	(5,523)	(205,655)
Integration of BIC's unfunded liabilities	-	-	-	-	10,692	10,692
(Assets)/ Liabilities as at 31 December	**(136,991)**	**106,589**	**(30,402)**	**6,208**	**114,373**	**120,581**

The net periodic benefit cost can be analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Service cost	27,078	1,924	29,002	13,785	1,026	14,811
Interest cost	82,010	5,304	87,314	70,885	4,385	75,270
Expected return on plan assets	(79,603)	-	(79,603)	(67,226)	-	(67,226)
Amortisation of the unrecognised net gain / (loss)	27,307	1,601	28,908	23,563	761	24,324
Curtailment losses related to early retirements	5,710	284	5,994	15,606	952	16,558
Net periodic benefit cost	**62,502**	**9,113**	**71,615**	**56,613**	**7,124**	**63,737**

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 thousands of euros)

	31.12.2006			31.12.2005		
	Pension plans	Health-care plans	Total	Pension plans	Health-care de saúde	Total
At 1 January	**730,577**	**(12,972)**	**717,605**	**549,557**	**-**	**549,557**
Net periodic benefit cost	(62,502)	(9,113)	(71,615)	(56,613)	(7,124)	(63,737)
Charge-off of provisions	(51,405)	(2,812)	(54,217)	(2,528)	(159)	(2,687)
Contributions of the year and pensions paid by the Bank	75,427	5,427	80,854	200,132	5,521	205,653
Integration of BIC's net assets/(liabilities)	-	-	-	69,479	(1,748)	67,731
Amortisation of transitional rules (reserves)	(29,605)	(10,174)	(39,779)	(29,450)	(9,462)	(38,912)
At 31 December	**662,492**	**(29,644)**	**632,848**	**730,577**	**(12,972)**	**717,605**

The net assets recognised in the balance sheet are included under other assets (see Note 27).

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 them 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 2006	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	Expired (May-06)	1,358,149	11.51	-	-
2nd block	May-07	3,169,016	11.51	495,941	100%
Plan 2002					
1st block	Apr-08	755,408	12.02	150,150	100%
2nd block	Apr-08	1,762,619	12.02	1,727,748	100%
Plan 2003					
1st block	May-09	480,576	14.00	107,601	100%
2nd block	May-09	1,121,343	14.00	1,142,183	100%
Plan 2004					
1st block	Dec-07	541,599	13.54	612,915	100%
2nd block	Dec-10	1,270,175	13.54	1,431,074	100%

The changes in the number of underlying shares to the outstanding plans during 2006 and 2005 were as follows:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Number of shares	Average price (Euros)	Number of shares	Average price (Euros)
Opening balance	7,617,500	12.63	7,991,482	12.54
Shares attributed(1)	-	-	1,811,774	13.54
Share capital increase	850,504	-	-	-
Shares sold(2)	(2,800,392)	11.61	(2,185,756)	13.17
Year-end balance	5,667,612	11.24	7,617,500	12.63

(1) Shares attributed under the incorporation of share premiums (see Note 35)
(2) Includes shares sold in the market, after the exercise by the employees of the option of sell back to BES at acquisition cost and those that were paid by the employees at the maturity of the plans.

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

(in thousands of euros)

	Plan 2004	Plan 2003	Plan 2002	Plan 2001	Plan 2000
Maturity					
1st block	24 months	24 months	24 months	Expired	Expired
2nd block	60 months	60 months	60 months	60 months	Expired
Volatility	12%	12%	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 thousands of euros)

	31.12.2006	31.12.2005
Total costs of the plans (see Note 11)	2,454	2,060

The costs with the plans were recognised as Staff costs against Other reserves, in accordance with the accounting policy described in Note 2.14.

Long-service benefits

As referred in Note 2.14, for employees that achieve certain years of service, the Bank pays long service premiums, calculated based on the effective monthly remuneration earned at the date the premiums are paid. At the date of early retirement or disability, employees have the right to a premium proportional to that they would earn if they remained in service until the next payment date.

At 31 December 2006 and 2005, the Bank's liability and costs incurred related to long-service benefits can be analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Liabilities as at 1 January	**16,316**	**14,736**
Costs of the year		
normal	2,579	2,088
changes in mortality table and discount rates	-	809
Benefits paid	(1,820)	(1,317)
Liabilities as at 31 December	**17,075**	**16,316**

The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable).

As at 31 December 2006, BES charged to staff costs the amount of euro 2 579 thousand (31 December 2005: euro 2,897 thousand) related to long-service benefits (see Note 11).

Note 13 – General and administrative expenses

This caption is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Rental costs	40,084	36,814
Advertising costs	35,872	26,924
Communication costs	25,013	22,124
Maintenance and related services	12,140	9,850
Travelling and representation costs	14,076	10,245
Water, energy and fuel	5,954	4,861
Transportation	5,134	4,502
Consumables	4,602	3,353
Specialised services		
IT services	43,731	41,922
Temporary work	4,421	3,345
Independent work	5,438	2,823
Electronic payment systems	11,088	11,269
Advisory services	11,502	6,834
Security and surveillance	3,015	2,243
Information services	897	1,962
Other specialised services	72,391	40,727
Other costs	6,795	14,001
	302,153	**243,799**

The balance Other specialised services includes, among others, data banks, judicial and legal services. The balance Other costs includes training costs and costs with external supplies.

Note 14 – 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 year.

(in thousands of euro)

	31.12.2006	31.12.2005
Profit attributable to the equity holders of the Bank	**257,051**	**190,169**
Weighted average number of ordinary shares (thousands)	417,222	300,000
Weighted average number of treasury shares (thousands)	6,373	7,413
Weighted average number of ordinary shares outstanding (thousands)	**410,849**	**292,587**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**0.63**	**0.65**

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, the outstanding plans of the stock based incentive scheme (SIBA) as described in Note 12 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 2006 and 2005.

Note 15 – Cash and deposits at central banks

Esta rubrica a 31 de Dezembro de 2006 e 2005 é analisada como segue:

(in thousands of euros)

	31.12.2006	31.12.2005
Cash	257,168	206,231
Deposits at central banks		
Bank of Portugal	704,549	693,901
Other central banks	76	207
	704,625	**694,108**
	961,793	**900,339**

The deposits at Central Banks – Bank of Portugal include mandatory deposits 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 2006, these deposits have earned interest at an average rate of 2.79% (31 December 2005: 2.07%).

Note 16 – Deposits with banks

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Deposits with banks in Portugal		
Uncollected cheques	428,301	338,116
Repayable on demand	11,679	16,899
Other	36,743	48,649
	476,723	**403,664**
Deposits with banks abroad		
Repayable on demand	55,505	177,856
Uncollected cheques	105	1,184
	55,610	**179,040**
	532,333	**582,704**

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

Note 17 – Financial assets and liabilities held for trading

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Trading financial assets		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1,141,614	656,997
Issued by other entities	943	742
Other variable income securities	991,793	572,795
	2,134,350	1,230,534
Derivatives		
Derivative financial instruments with positive fair value	1,076,890	1,019,176
	3,211,240	**2,249,710**
Trading financial liabilities		
Derivatives		
Derivative financial instruments with negative fair value	**954,926**	**953,199**

As at 31 December 2006, the acquisition cost of the securities held for trading amounted to euro 2,130,382 thousand (31 December 2005: euro 1,230,688 thousand).

As at 31 December 2006 and 2005, the analysis of the securities held for trading by the period to maturity, is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	345,971	127,964
3 to 12 months	604,102	479,909
1 to 5 years	324,996	26,200
More than 5 years	111,797	23,666
Undetermined	747,484	572,795
	2,134,350	**1,230,534**

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.

Regarding listed or unlisted securities, the balance financial assets held for trading, is as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed income securities						
Issued by govermment and public entities	946,992	194,622	1 141,614	640,695	16,302	656,997
Issued by other entities	839	104	943	656	86	742
Other variable income securities	-	991,793	991,793	-	572,795	572,795
	947,831	**1,186,519**	**2,134,350**	**641,351**	**589,183**	**1,230,534**

As at 31 December 2006 and 2005, derivative financial instruments can be analysed as follows:

(in thousands of euros)

	31.12.2006			31.12.2005		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	15,210,301	120,506	160,855	23,678,715	252,680	229,005
- sell	15,238,164			23,629,752		
Currency Swaps						
- buy	1,684,499	12,535	15,144	725,307	1,387	3,068
- sell	1,683,582			723,995		
Currency Interest Rate Swaps						
- buy	363,129	244,916	220,411	131,138	119,838	115,880
- sell	368,375			135,356		
Currency Options	2,271,360	9,489	21,053	1,932,863	14,712	29,360
	36 819,410	**387,446**	**417,463**	**50,957,126**	**388,617**	**377,313**
Interest rate contracts						
Forward Rate Agreements	255,930	112	126	491,750	-	192
Interest Rate Swaps	25,890,692	559,181	448,231	21,057,012	538,298	480,834
Swaption - Interest Rate Options	2,348,648	13,519	11,220	3,002,897	13,684	15,377
Interest Rate Caps & Floors	1,620,352	3,851	4,046	1,107,860	3,543	2,763
Interest Rate Futures	50,000	-	-	-	-	-
Bonds Options	84,686	-	-	132,532	2,960	60
Future Options	9,985,103	-	-	10,009,875	-	-
	40,235,411	**576,663**	**463,623**	**35,801,926**	**558,485**	**499,226**
Equity / index contracts						
Equity / Index Swaps	1,289,641	45,879	23,681	1,337,597	33,867	28,411
Equity / Index Options	2,115,790	52,919	40,989	1,610,258	32,381	39,419
	3,405,431	98,798	64,670	2,947,855	66,248	67,830
Credit default contracts						
Credit Default Swaps	1,085,192	13,983	9,170	1,155,342	5,826	8,830
	1,085,192	**13,983**	**9,170**	**1,155,342**	**5,826**	**8,830**
Total	**81,545,444**	**1,076,890**	**954,926**	**90,862,249**	**1,019,176**	**953,199**

As at 31 December 2006, the fair value of derivates under liabilities includes the amount of euro 7,491 thousand (31 December 2005: euros 6,788 thousand) related to the fair value of the embedded derivates, as described in Note 2.3.

As at 31 December 2006 and 2005, the analysis of trading derivates by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	37,365,588	(39,342)	44,006,623	15,031
3 to 12 months	15,533,887	16,059	22,219,049	(25,555)
1 to 5 years	15,366,015	156,594	13,757,440	82,761
More than 5 years	13,279,954	(11,347)	10,879,137	(6,260)
	81,545,444	**121,964**	**90,862,249**	**65,977**

The trading derivatives portfolio includes instruments used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, as described in Note 2.5 but for which no hedge accounting was applied. These derivatives can be analysed as follows:

(in thousands of euros)

Derivative	Associated financial liability	Notional	Fair value of derivate	Carrying amount of financial liability(*)
Interest Rate Swap	Issue of bonds	94,732	(4,125)	85,867
Index Swap	Issue of bonds	99,962	7,591	92,238
Index Option	Issue of bonds	7,400	(708)	7,538
FX Swaps	Deposits from banks	387,114	(519)	386,997
		589,208	**2,239**	**572,640**

(*) o valor de balanço dos passivos financeiros apresenta-se líquido de recompras.

Note 18 – Financial assets at fair value through profit or loss

This balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Bonds and other fixed income securities		
Issued by government and public entities	-	144,122
Issued by other entities	965,960	1,066,330
Shares	175,894	186,649
Book value	1,141,854	1,397,101
(Acquisition cost)	*1,139,095*	*1,389,228*

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.

This caption includes securities in the amount of euro 575 621 thousand which were sold by the Bank but not derecognised, as the Bank has retained substantially all risks and rewards of ownership through total return swaps.

As at 31 December 2006 and 2005, 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)

	31.12.2006	31.12.2005
Up to 3 months	210,269	18,737
3 to 12 months	146,339	436,284
1 to 5 years	438,432	258,521
More than 5 years	170,920	496,910
Undetermined	175,894	186,649
	1,141,854	**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)

	31.12.2006			31.12.2005		
	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	66,067	899,893	965,960	72,836	993,494	1,066,330
Shares	175,894	-	175,894	186,649	-	186,649
Book value	241,961	899,893	1 141,854	259,485	1,137,616	1,397,101

Nota 19 – Available-for-sale financial assets

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

		Fair value reserve			
	Amortised cost	Positive	Negative	Impairment	Book value
Bonds and other fixed income securities					
Issued by government and public entities	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**
Bonds and other fixed income securities					
Issued by government and public entities	141,667	1,455	(323)	-	142,799
Issued by other entities	2,082,827	1,997	(2,841)	(8,726)	2,073,257
Shares	1,018,133	650,626	(2,975)	(33,176)	1,632,608
Other variable income securities	275,264	9,058	(619)	(7,138)	276,565
Balance as at 31 December 2006	**3,517,891**	**663,136**	**(6,758)**	**(49,040)**	**4,125,229**

The changes occurred in impairment losses of available-for-sale financial assets are presented as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	**51,764**	**132,837**
Charge for the year	7,513	34,193
Charge off	(7,101)	(122,647)
Write back for the year	(1,000)	(1,179)
Exchange differences and other[a]	(2,136)	8,560
Balance as at 31 December	**49,040**	**51,764**

a) As at 31 December 2005, includes euros 3 406 thousands from BIC's merger

As at 31 December 2006 and 2005, the analysis of available-for-sale financial assets by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	232,698	45,452
3 to 12 months	166,053	107,485
1 to 5 years	834,981	985,402
More than 5 years	981,970	1,030,016
Undetermined	1,909,527	1,454,219
	4,125,229	**3,622,574**

The main contributions to the fair value reserve, as at 31 December 2006, can be analysed as follows:

(in thousands of euros)

		Fair value reserve			
	Acquisition cost	Positive	Negative	Impairment	Book value
Banco Bradesco	202,057	496,097	-	-	698,154
Portugal Telecom	340,074	66,331	-	-	406,405
EDP	218,670	67,986	-	-	286,656
Banque Marocaine du Commerce Extérieur	2,480	2,774	-	(682)	4,572
	763,281	**633,188**	**-**	**(682)**	**1,395,787**

Note 20 – Loans and advances to banks

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Loans and advances to banks in Portugal		
Inter-bank money market	1,034,082	805,696
Loans	748,031	527,936
Deposits	271,307	154,278
Short term deposits	56,046	33,916
Other loans and advances	43	523
	2,109,509	1,522,349
Loans and advances to banks abroad		
Deposits	5,273,111	3,774,565
Short term deposits	2,166,380	1,859,806
Loans	253,681	355,086
Other loans and advances	6,235	1,373
	7,699,407	5,990,830
Impairment losses	(1,595)	(2,562)
	9,807,321	7,510,617

The main loans and advances to banks in Portugal, as at 31 December 2006, bore interest at an average annual interest rate of 3.64% (31 December 2005: 2.71%). Loans and advances to banks abroad bear interest at international market rates where the Bank operates.

As at 31 December 2006 and 2005, the analysis of loans and advances to banks by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	8,448,940	6,197,111
3 to 12 months	1,105,147	645,246
1 to 5 years	150,440	256,649
More than 5 years	104,389	414,173
	9,808,916	7,513,179

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

(in thousands of euros)

	31.12.2006	31.12.2005
Balance at the begining of the year	2,562	4,082
Charge for the year	1,300	1,050
Write back for the year	(1,990)	(3,138)
Exchange differences and other	(277)	568
Balance at the end of the year	**1,595**	**2,562**

Note 21 – Loans and advances to customers

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Domestic loans		
Corporate		
Commercial lines of credits	6,514,609	6,881,977
Loans	6,181,671	5,024,146
Discounted bills	1,168,988	1,417,206
Factoring	141,598	67,185
Overdrafts	27,654	41,926
Finance leases	1,987	2,099
Other loans	142,070	276,616
Retail		
Mortgage loans	7,774,554	7,805,305
Consumer and other loans	1,943,165	1,288,003
	23,896,296	**22,804,463**
Foreign loans		
Corporate		
Loans	2,254,834	1,757,105
Commercial lines of credits	421,476	368,728
Overdrafts	20,292	27,740
Discounted bills	41	88,597
Other loans	501,531	277,773
Retail		
Consumer and other loans	7,552	796
	3,205,726	**2,520,739**
Overdue loans and interest		
Up to 90 days	41,815	33,825
More than 90 days	359,901	378,387
	401,716	**412,212**
	27,503,738	**25,737,414**
Impairment losses	(369,366)	(414,457)
	27,134,372	**25,322,957**

During September 2006, BES carried out a mortgage loans securitization transaction (Lusitano Mortgages No. 5) in the amount of euro 1,400 million (2005: euro 1,200 million – Lusitano Mortgages no.4) and during October 2006 carried out a securitization of loans granted to small and medium enterprises (Lusitano SME No. 1) in the amount of euro 863 million (see Note 39).

During 2006, the Bank sold overdue mortgage loans in the amount of euro 36,1 million, with a related outstanding amount of euro 105,3 million (31 December 2005: approximately euro 71 million).

As at 31 December 2006 and 2005, the analysis of loans and advances to customers by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	5,170,622	4,822,775
3 to 12 months	3,699,002	4,050,370
1 to 5 years	5,050,056	4,363,399
More than 5 years	13,182,342	12,088,658
Undetermined	401,716	412,212
	27,503,738	**25,737,414**

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

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	414,457	286,036
Charge for the year	135,257	161,252
Charge off	(182,076)	(134,078)
Write back for the year	(1,551)	(42,131)
Exchange differences and other	3,279[(a)]	143,378[(b)]
Balance at the end of the year	**369,366**	**414,457**

(a) Includes euros 3,050 thousands from Crediflash's merger
(b) Includes euros 143,201 thousands from BIC's merger

Additionally, as at 31 December 2006, the Bank has a provision for general banking risks in the amount of euro 385,536 thousands (31 December 2005: euro 321,791 thousands), which in accordance to NCA is presented as a liability (see Note 31).

Loans and advances to customers by interest rate type is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Fixed interest rate	2,987,371	3,756,003
Variable interest rate	24,516,367	21,981,411
	27,503,738	**25,737,414**

Note 22 – Held to maturity investments

As at 31 December 2006 and 2005, this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Bonds and other fixed income securities		
Issued by government and public entities	567,747	555,480
Issued by other entities	-	356
	567,747	555,836
Impairment losses	-	(13)
	567,747	**555,823**

As at 31 December 2006 and 2005, the analysis of held to maturity investments by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	38,106	27,354
3 to 12 months	60,146	44,194
1 to 5 years	462,826	478,123
More than 5 years	6,669	6,152
	567,747	**555,823**

Note 23 – Hedging derivatives

As at 31 December 2006 and 2005, the balance hedging derivatives is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Hedging derivatives with positive fair value (assets)	166,211	88,909
Hedging derivatives with negative fair value (liabilities)	196,732	87,827
	(30,521)	**1,082**

As at 31 December 2006 and 2005, the fair value hedge relationships present the following features:

(in thousands of euros)

31.12.2006							
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	Interest rate and FX	429,596	2,248	1,060	448	(1,181)
Currency Interest Rate Swaps	Loans	Interest rate and FX	191,168	(8,053)	(33,657)	8,027	38,942
Currency Interest Rate Swaps	Bonds	Interest rate	35,854	-	-	-	-
Interest Rate Swaps	Loans	Interest rate	245,884	(1,244)	3,778	428	(4,309)
Interest Rate Swaps	Deposits	Interest rate	300,373	7,597	3,984	(5,130)	(4,088)
Interest Rate Swaps	Loans	Interest rate	-	-	93	-	(107)
Interest Rate Swaps	Bonds	Interest rate	167,723	(31,069)	(5,476)	29,502	3,034
			1,370,598	**(30,521)**	**(30,218)**	**33,275**	**32,291**

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

(in thousands of euros)

31.12.2005							
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	Interest rate and FX	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 ,12,765	**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 net gains from financial assets at fair value through profit or loss.

As at 31 December 2006, the ineffectiveness of the fair value hedge operations amounted to euro 5 million (31 December 2005: euro 3.5 million) and was recognised in the income statement. BES evaluates on an ongoing basis the effectiveness of the hedges.

As at 31 December 2006 and 2005, the analysis of fair value hedge transactions by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Notional	Fair value	Notional	Fair value
Up to 3 months	158,000	2,862	131,487	119
3 to 12 months	57,805	98	69,224	(648)
1 to 5 years	693,134	(1,897)	558,867	(1,908)
More than 5 years	461,659	(31,584)	453,187	3,519
	1,370,598	**(30,521)**	**1,212,765**	**1,082**

Note 24 – Property and equipment

As at 31 December 2006 and 2005 this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Property		
For own use	257,460	260,226
Improvements in leasehold property	169,893	167,264
Other	13	14
	427,366	**427,504**
Equipment		
Computer equipment	214,560	211,169
Fixtures	86,114	82,428
Furniture	57,743	62,456
Security equipment	18,551	15,838
Office equipment	28,875	29,723
Motor vehicles	1,787	1,625
Other	338	437
	407,968	**403,676**
Work in progress		
Improvements in leasehold property	11,726	4,926
Equipment	13,408	5,575
Property for own use	3,713	1,215
Other	574	1,125
	29,421	**12,841**
	864,755	**844,021**
Accumulated depreciation	(564,516)	(552,427)
	300,239	**291,594**

The movement in this balance was as follows:

(in thousands of euros)

	Property	Equipment	Work in progress	Total
Acquisitions cost				
Balance as at 1 January 2005	314,402	324,882	27,768	667,052
Acquisitions	635	10,627	25,593	36,855
Disposals	(53)	(500)	-	(553)
Transfers	31,001	10,314	(41,315)	-
Exchange differences	-	256	-	256
Other[(a)]	81,519	58,097	795	140,411
Balance as at 31 December 2005	**427,504**	**403,676**	**12,841**	**844,021**
Acquisitions	697	10,444	32,307	43,448
Disposals	(4,302)	(14,977)	-	(19,279)
Transfers[(b)]	983	7,284	(15,726)	(7,459)
Exchange differences	-	(115)	(1)	(116)
Other[(c)]	2,484	1,656	-	4,140
Balance as at 31 December 2006	**427,366**	**407,968**	**29,421**	**864,755**
Depreciation				
Balance as at 1 January 2005	172,884	278,390	-	451,274
Depreciation of the year	11,087	19,831	-	30,918
Disposals	(17)	(478)	-	(495)
Other[(d)]	17,490	53,240	-	70,730
Balance as at 31 December 2005	**201,444**	**350,983**	**-**	**552,427**
Depreciation of the year	12,958	17,770	-	30,728
Disposals	(4,125)	(14,375)	-	(18,500)
Transfers[(b)]	(1,090)	(871)	-	(1,961)
Exchange differences	(73)	(289)	-	(362)
Other[(e)]	528	1 656	-	2,184
Balance as at 31 December 2006	**209,642**	**354,874**	**-**	**564,516**
Net balance as at 31 December 2006	**217,724**	**53,094**	**29,421**	**300,239**
Net balance as at 31 December 2005	**226,060**	**52,693**	**12,841**	**291,594**

(a) BIC's merger: euro 81,519 thousand of Property and euro 58,097 thousand of Equipment
(b) Reclassifications to Other Assets, referring to discontinued branches.
(c) Crediflash's merger: euro 2,484 thousand of Property and euro 1,656 thousand of Equipment
(d) BIC's merger: euro 17,489 thousand of Property and euro 53,029 thousand of Equipment
(e) Crediflash's merger: euro 528 thousand of Property and euro 1,656 thousand the Equipment

Note 25 – Intangible assets

As at 31 December 2006 and 2005 this balance is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2006
Internally developed		
Software	6,532	1,045
Acquired to third parties		
Software	364,522	341,192
Other	18,082	17,962
	382,604	**359,154**
Work in progress	18,378	18,790
	407,514	**378,989**
Accumulated amortisation	**(356,161)**	**(329,202)**
	51,353	**49,787**

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
Acquisitions cost			
Balance as at 1 January 2005	**335,182**	**13,250**	**348,432**
Acquisitions:			
Internally developed[a]	4,999	-	4,999
Acquired from third parties	19,993	-	19,993
Other	853	4,712	5,565
Balance as at 31 December 2005	361,027	17,962	378,989
Acquisitions:			
Internally developed	5,665	-	5,665
Acquired from third parties	17,467	-	17,467
Exchange differences	(9)	-	(9)
Other[b]	5,282	120	5,402
Balance as at 31 December 2006	**389,432**	**18,082**	**407,514**
Amortisation			
Saldo a 1 de Janeiro de 2005	**281,678**	**13,017**	**294,695**
Amortisation of the year	29,600	185	29,785
Other	12	4,710	4,722
Balance as at 31 December 2005	311,290	17,912	329,202
Amortisation of the year	22,154	48	22,202
Exchange differences	(9)	-	(9)
Other[b]	4,644	122	4,766
Balance as at 31 December 2006	**338,079**	**18,082**	**356,161**
Net balance as at 31 December 2006	**51,353**	**-**	**51,353**
Net balance as at 31 December 2005	**49,737**	**50**	**49,787**

a) Refers to work in progress
b) Values related to Crediflash's merger

Note 26 – Investments in associates

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

(in thousands of euros)

	31.12.2006				31.12.2005			
	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	2,013,103	57.52%	5.00	9,652	2,035,459	58.16%	5.00	9,760
BES AÇORES	2,013,103	57.52%	5.00	9,652	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%	94.80	21,341	199,500	99.75%	106.13	21,341
BES ANGOLA	799,600	79.96%	7.59	9,102	799,600	79.96%	8.47	9,102
BES-VIDA[a]	24,999,700	50.00%	5.00	474,994	-	-	-	-
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
BESLEASING E FACTORING	8,777,241	89.36%	5.00	45,934	8,777,241	89.36%	5.00	45,934
BESNAC	1,000	100.00%	0.75	36	1,000	100.00%	0.84	36
BESOL[b]	-	-	-	-	1,000	100.00%	0.84	1
BESSA	10,825,000	100.00%	8.00	108,976	9,700,000	89.61%	8.00	93,484
BEST	20,181,680	32.03%	1.00	20,182	18,861,680	30.92%	1.00	18,862
BIC INTERNATIONAL BANK	10,000,000	100.00%	1.00	24,197	10,000,000	100.00%	1	24,197
CÊNTIMO	500,000	100.00%	1.00	925	2	95.00%	124,700.00	509
CREDIFLASH[c]	-	-	-	-	1,349,997	90.00%	5.00	6,594
E.S. BANK	6,377,050	98.45%	3.78	71,027	6,377,050	98.45%	4.23	71,027
E.S. PLC	29,996	99.99%	5.00	38	29,994	99.98%	5.00	38
BES SEGUROS	749,800	24.99%	5.00	3,749	1,200,000	40.00%	5.00	6,000
ES RESEARCH[b]	-	-	-	-	10,000	100.00%	5.00	50
E.S. TECH VENTURES	65,000,000	100.00%	1.00	65,000	65,000,000	100.00%	1.00	65,000
ESAF SGPS	1,645,000	70.00%	5.00	8,205	1,645,000	70.00%	5.00	8,205
ESCLINC	100	100.00%	6,162.45	787	100	100.00%	6,879.67	787
ES CONCESSÕES[d]	390,000	60.00%	5.00	19,793	20,000	20.00%	5.00	100
ESDATA	686,000	49.00%	5.00	4,114	686,000	49.00%	5.00	4,114
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[b]	-	-	-	-	1,000	100.00%	0.85	1
E.S. CONTACT CENTER[c]	1,045,900	35.00%	1.00	1,260	1,155,000	32.08%	1.00	1,155
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%	0.35	39	49,995	99.99%	0.36	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
LOCARENT	472,500	45.00%	5.00	2,518	472,500	45.00%	5.00	2,518
QUINTA DOS CÓNEGOS	487,400	65.86%	5.00	3,960	487,400	65.86%	5.00	3,960
PARSUNI	1	100.00%	5,000.00	5	1	100.00%	5,000.00	5
SCI GEORGES MANDEL	15,750	22.50%	152.45	2,401	15,750	22.50%	152.00	2,401
SPAINVEST[b]	-	-	-	-	1,849,999	100.00%	10.00	21,977
BES BETEILIGUNGS GMBH	1	100.00%	25,000.00	65,025	-	0.00%	0.00	-
				1,130,426				649,706
Impairment losses				(74,508)				(72,144)
				1,055,918				**577,562**

(a) In June 2006 BES adquired 50% of BES-VIDA
(b) Companies dissolved in November and December 2006
(c) Derived from Crediflash's merger
(d) Acquisition of 40% in June 2006 and increase i share capital in November 2006

During the year ended 31 December 2006 the main changes in investment in associates are analysed as follows:

- In March 2006, BES acquired to Espírito Santo Data, SGPS, S.A. 8 300 shares of ES Innovation, S.A. During April 2006, ES Innovation, S.A. change its legal form to a shared services provider, and changed its denomination to Espírito Santo Informática, ACE;

- As at 30 May 2006, Crediflash was merged in BES;

- During June 2006, BES acquired 50% of the share capital of Companhia de Seguros Tranquilidade-Vida, and sold 15% of the share capital of Espírito Santo, Companhia de Seguros, S.A. (actually maintains 25% of its share capital). Both companies changed denomination, to BES-Vida, Companhia de Seguros, S.A. (BES-Vida), and to BES, Companhia de Seguros, S.A. (BES-Seguros), respectively.

- During November 2006 was constituted BES Beteiligungs GmbH, headquartered in Germany, with a share capital in the amount of euro 25 thousand, entirely held by BES. BES also made loan to the company in the amount of euro 65,000 thousand, which were employed to acquire BESIL to BES, by euro 65,000 thousand.

- During November 2006, Spainvest, S.A. was dissolved, followed by BES Overseas, Ltd and ES Research – Estudos Financeiros e de Mercados, S.A. during December 2006.

Changes in impairment losses are presented as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	72,144	66,036
Charge for the year	12,103	6,894
Charge off	(6,487)	-
Write back for the year	(3,252)	(1,290)
Exchange differences and other[(a)]	-	504
Balance as at 31 December	**74,508**	**72,144**

(a) As at 31 December 2005, includes the amount of euro 503 thousands related to BIC's merger

As at 31 December 2006 and 2005, gains on disposal of investments in subsidiaries and associates are analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
BES SEGUROS	9,754	-
JAMPUR - Trading Internacional, Lda	-	36,052
Espirito Santo Capital - Sociedade de Capital de Risco, S.A.	-	17,660
Banque Espirito Santo et de la Vénétie, S.A.	-	7,862
ES INTERACTION - Sistemas de Informação Interactiva, S.A.	-	70
Other	96	-
	9,850	**61,644**

Note 27 – Other assets

As at 31 December 2006 and 2005, the balance Other assets is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Debtors		
Debtors from transactions with securities	-	125,708
Deposits placed with futures contracts	32,835	20,607
Recoverable government subsidies on mortgage loans	46,779	39,729
Collateral deposits placed	51,593	19,682
Loans to subsidiaries and associates	150,024	106,160
Public sector	641	580
Sundry debtors	55,562	71,758
	337,434	384,224
Impairment losses on debtors	(4,112)	(4,112)
	333,322	**380,112**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	29,445	47,791
Other assets	99,975	11,400
	129,420	59,191
Accrued income	**67,174**	**40,533**
Prepayments and deferred costs	**205,486**	**244,817**
Other sundry assets		
Foreign exchange transactions pending settlement	15,941	20,429
Other transactions pending settlement	25,189	-
	41,130	**20,429**
Assets received as a recovery of non-performing loans	**81,071**	**69,252**
Impairment losses on these assets	**(8,976)**	**(6,946)**
	72,095	**62,306**
Assets recognised on pensions (see Note 12)	**493,179**	**538,159**
	1,341,806	**1,345,547**

As at 31 December 2006, the balance prepayments and deferred costs include (i) the amount of euro 53,815 thousand (31 December 2005: 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 remaining maturity of the loan granted, and the estimated remaining service life of the employee and (ii) the amount of euro 139,668 thousand related to pensions transitional rules and health-care plans (31 December 2005: euro 179,446 thousand) – see Note 12.

Debtors from transactions with securities, in 2005, represent amounts from short-sales pending settlement.

Changes in impairment losses are presented as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance at begining of the year	11,058	17,294
Charge for the year	3,384	431
Charge off	(612)	(1,409)
Write back for the year	(1,541)	(8,460)
Transfers	799	-
Exchange differences and other[a]	-	3,202
Balance at the end of the year	**13,088**	**11,058**

(a) As at 31 December 2005, this amount is related to BIC's merger

Note 28 – Deposits from banks

The balance deposits from banks is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Domestic		
Deposits	251,747	136,854
Inter-bank money market	68,880	38,395
Very short term funds	31,393	32,807
Repurchase agreements	1,340	-
Other funds	2,968	1,523
	356,328	**209,579**
International		
Deposits	10,665,191	10,312,125
Loans	2,596,237	1,863,503
Very short term funds	105,436	63,087
Repurchase agreements	151,100	243,241
Other funds	61,077	155,993
	13,579,041	**12,637,949**
	13,935,369	**12,847,528**

As at 31 December 2006 and 2005, the analysis of deposits from banks by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	2,557,476	3,508,248
3 to 12 months	2,812,886	1,098,651
1 to 5 years	7,291,550	6,043,089
More than 5 years	1,273,457	2,197,540
	13,935,369	**12,847,528**

Note 29 – Due to customers

The balance due to customers is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Repayable on demand		
Demand deposits	8,600,858	7,969,914
Time deposits		
Time deposits	6,363,420	6,079,433
Notice deposits	514	1,226
Other	2,609	3,277
	6,366,543	6,083,936
Savings accounts		
Other	1,931,805	1,989,290
Pensioners	178,736	218,537
Emigrants	184	346
	2,110,725	**2,208,173**
Other funds	**959,379**	**679,518**
	18,037,505	**16,941,541**

As at 31 December 2006 and 2005, the analysis of the amount due to customers by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Repayable on demand	**8,600,858**	**7,969,914**
With agreed maturity		
Up to 3 months	7,037,201	6,530,158
3 to 12 months	1,845,019	1,869,678
1 to 5 years	485,087	429,751
More than 5 years	69,340	142,040
	9,436,647	**8,971,627**
	18,037,505	**16,941,541**

Note 30 – Debt securities issued

Outstanding debt securities is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Certificates of deposit	4,738,245	3,526,683
Bonds	3,653,510	3,792,674
Euro Medium Term Notes	44,764	45,551
Other	7,593	7,284
	8,444,112	**7,372,192**

During the year ended 2006, BES issued debt securities amounting to euro 1,193,1 million (31 December 2005: euro 1,676,2 million), and reimbursed euro 88,1 million (31 December 2005: euro 260,8 million).

As at 31 December 2006 and 2005, the analysis of debt securities outstanding by the period to maturity is as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Up to 3 months	3,540,168	3,036,534
3 to 12 months	1,462,630	652,205
1 to 5 years	1,299,458	1,107,486
More than 5 years	2,141,856	2,575,967
	8,444,112	**7,372,192**

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

(in thousands of euros)

		31.12.2006				
Designation		Currency	Issue date	Book value	Maturity	Global yield / interest rate
Certificates of deposit		EUR	2006	316,360	2007	0.00% - 5.60%
Certificates of deposit		USD	2004 - 2006	1,792,256	2007 - 2008	4.71% - 5.34%
Certificates of deposit		GBP	2006	1,583,451	2007	2.65% - 5.63%
BIC 99 - 3rd issue		EUR	1999	24,000	2008	Fixed rate - 2.80%
Bonds BES Rendimento Mais – 1st Serie		EUR	2000	10,801	2008	Fixed rate - 5.80%
Bonds BES Rendimento Mais – 2nd Serie		EUR	2000	4,947	2008	Fixed rate - 5.95%
Bonds BES Rendimento Mais – 3rd Serie		EUR	2000	6,865	2008	Fixed rate - 5.98%
Bonds BES Rendimento Mais – 4th Serie		EUR	2000	7,118	2008	Fixed rate - 2.76%
Bonds BES Rendimento Mais – 5th Serie		EUR	2000	5,142	2008	Fixed rate - 5.96%
Bonds BES EURO RENDA August 2001		EUR	2001	15,000	2009	Fixed rate - 2.75%
Bonds BES Euro Renda		EUR	2002	22,306	2010	Fixed rate - 5.32%
BES TARGET 10%		EUR	2005	4,977	2013	Fixed rate - 5.00%
BIC EURO 4%		EUR	2005	3,094	2007	Fixed rate - 4.00%
BIC EURO VALOR		EUR	2005	34,330	2010	Fixed rate - 4.25%
BIC SNOWBL APR0		EUR	2005	32,326	2012	Indexed to Euribor 6 months
BES 12/01/2009	a)	USD	2005	812	2005	US LIbor 6 months
BES 4% DUAL	a)	EUR	2005	5,409	2005	4% (50%) + DJ Eurostoxx 50 (50%)
BES BRIC MAR.06	a)	EUR	2005	5,063	2005	Nifty India + RDX Russia + HK Hang Seng + Bovespa
BES CHINA FEB05	a)	EUR	2005	7,966	2005	FSTE/Xinhua China 25 Index
BES COMMODIT 7%	a)	EUR	2005	1,731	2005	Fixed rate - 7.00%
BES CR.JAPAN PL	a)	EUR	2005	4,879	2005	Nikkei 225
BES ER 4% APR05	a)	EUR	2005	2,103	2005	Fixed rate 4.08% in 1º.2º and 8º year + CMS from 3º to 7º year.
BES ER 4% APR05	a)	EUR	2005	1,561	2005	Fixed rate 4.14% in 1º.2º and 8º year + CMS from 3º to 7º year.
BES ER3.75%0805	a)	EUR	2005	2,166	2005	Fixed rate 3.85% in 1º.2º and 8º year + CMS from 3º to 7º year.
BES TARGET 9%	a)	EUR	2005	3,039	2005	Euribor 12 months
BES TARGET 9% 2	a)	EUR	2005	2,895	2005	Euribor 12 months
BES-4.25% DUAL	a)	EUR	2005	2,870	2005	4.25% (50%) + DJ Eurostoxx 50 (50%)
BES-CABAZ 2008	a)	EUR	2005	8,445	2005	International stock basket
BES-E.RENDA 4%	a)	EUR	2005	7,701	2005	Fixed rate 4.15% in 1º.2º and 8º year + CMS from 3º to 7º year.
BES-GL.TITANS	a)	EUR	2005	14,665	2005	0.85% + index Eurostat MUICP
BES-IM JUL.2004	a)	EUR	2005	1,441	2005	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES-IN.GL.MAR04	a)	EUR	2005	2,153	2005	DJ Eurostoxx 50 + Goldman Sachs CIER + Iboxx Euro Sovereign + USD/EUR
BES-IND.JUN.03	a)	EUR	2005	1,001	2005	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES-IND.M.FEB03	a)	EUR	2005	2,293	2005	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES-IND.MAY 03	a)	EUR	2005	2,940	2005	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES-IND.S.JAN04	a)	EUR	2005	1,745	2005	DJ Index Basket

(in thousands of euros)

Designation		31.12.2006				
		Currency	Issue date	Book value	Maturity	Global yield / interest rate
BES-LIBOR NOV04	a)	USD	2005	656	2005	US LIbor 6 months
BES-R.PRV. 2007	a)	EUR	2005	12,430	2005	3.90% + DJ Euro Stoxx 50
BES-SETUP JUN04	a)	EUR	2005	952	2005	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES-SETUP MAY04	a)	EUR	2005	661	2005	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES-T.14.5%MAY	a)	EUR	2005	4,804	2005	Euribor 12 months
BES-TARG.14.5%A	a)	EUR	2005	4,636	2005	Euribor 12 months
BES-V.SEG.APR03	a)	EUR	2005	2,355	2005	DJ Eurostoxx 50 + HICP Ex-Tobacco
BES.LIBOR INV04	a)	USD	2005	1,051	2005	US LIbor 3 months
BIC CAP.MAIS 07	a)	EUR	2005	7,481	2005	DJ Eurostoxx 50 + DJ Industrials
BIC E.RENDA 4%	a)	EUR	2005	2,695	2005	Fixed rate 4.15% in 1º.2º and 8º year + CMS from 3º to 7º year.
BIC GLOBAL IND	a)	EUR	2005	7,537	2005	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
TOP BIC SEL.JUL	a)	EUR	2005	5,759	2005	Funds basket
BES FEB 2009		EUR	2006	6,500	2009	Fixed rate - 4.00%
BES-SFE 27/11/2008	a)	EUR	2003	44,617	2008	CMS 10 anos EUR
BES CAYMAN 5.22%		USD	2001	37,965	2011	Fixed rate - 5.22%
BES CAYMAN 5.22%		USD	2001	37,965	2011	Fixed rate - 5.22%
BIC CAYMAN 1 2001		EUR	2001	49,991	2008	Fixed rate - 5.48%
BIC CAYMAN 2 2001		EUR	2001	49,978	2011	Fixed rate - 5.68%
BIC CAYMAN 3 2001		EUR	2001	49,991	2008	Fixed rate - 5.40%
BIC CAYMAN 4 2001		EUR	2001	49,991	2008	Fixed rate - 5.46%
BIC CAYMAN 5 2001		EUR	2001	49,991	2008	Fixed rate - 5.48%
BIC CAYMAN 6 2001		EUR	2001	49,985	2009	Fixed rate - 5.43%
BIC CAYMAN 7 2001		EUR	2001	49,985	2009	Fixed rate - 5.41%
BIC CAYMAN 8 2001		EUR	2001	49,985	2009	Fixed rate - 5.45%
BIC CAYMAN 9 2001		EUR	2001	49,985	2009	Fixed rate - 5.42%
BIC CAYMAN 10 2001		EUR	2001	49,980	2010	Fixed rate - 5.53%
BIC CAYMAN 11 2001		EUR	2001	49,980	2010	Fixed rate - 5.57%
BIC CAYMAN 12 2001		EUR	2001	49,980	2010	Fixed rate - 5.58%
BIC CAYMAN 13 2001		EUR	2001	49,980	2010	Fixed rate - 5.73%
BIC CAYMAN 14 2001		EUR	2001	49,976	2011	Fixed rate - 5.80%
BIC CAYMAN 15 2001		EUR	2001	49,976	2011	Fixed rate - 5.79%
BIC CAYMAN 16 2001		EUR	2001	49,976	2011	Fixed rate - 5.90%
BIC CAYMAN 17 2001		EUR	2001	49,974	2012	Fixed rate - 5.89%
BIC CAYMAN 18 2001		EUR	2001	49,974	2012	Fixed rate - 5.83%
BIC CAYMAN 19 2001		EUR	2001	49,974	2012	Fixed rate - 5.96%
BIC CAYMAN 20 2001		EUR	2001	49,974	2012	Fixed rate - 5.94%
BIC CAYMAN 21 2001		EUR	2001	49,971	2013	Fixed rate - 6.03%
BIC CAYMAN 22 2001		EUR	2001	74,957	2013	Fixed rate - 6.08%
BIC CAYMAN 23 2001		EUR	2001	74,957	2013	Fixed rate - 6.03%
BIC CAYMAN 24 2001		EUR	2001	74,953	2014	Fixed rate - 6.01%
BIC CAYMAN 25 2001		EUR	2001	74,953	2014	Fixed rate - 6.02%
BIC CAYMAN 26 2001		EUR	2001	74,951	2015	Fixed rate - 6.16%
BIC CAYMAN 27 2001		EUR	2001	74,951	2015	Fixed rate - 6.09%
BIC CAYMAN 29 2001		EUR	2001	49,999	2011	Fixed rate - 5.28%
BIC CAYMAN 30 2001		EUR	2001	49,999	2011	Fixed rate - 5.42%
BES CAYMAN - Zero coupon		EUR	2002	52,302	2027	Zero coupon - effective rate 5.90%
BES CAYMAN - Zero coupon		EUR	2002	86,144	2027	Zero coupon - effective rate 5.90%
BES CAYMAN - Zero coupon		EUR	2002	110,080	2027	Zero coupon - effective rate 5.74%
BIC CAYMAN 1 2002		EUR	2002	69,998	2012	Fixed rate - 5.92%
BIC CAYMAN 2 2002		EUR	2002	6,049	2012	Fixed rate - 4.65%
BIC CAYMAN 3 2002		EUR	2002	30,000	2007	Fixed rate - 5.42%
BIC CAYMAN 4 2002		EUR	2002	50,000	2007	Fixed rate - 5.32%
BIC CAYMAN 5 2002		EUR	2002	50,000	2007	Fixed rate - 5.23%

(in thousands of euros)

Designation		Currency	Issue date	Book value	Maturity	Global yield / interest rate
		31.12.2006				
BES CAYMAN 4.82% 01/28/13		USD	2003	56,948	2013	Fixed rate - 4.82%
BES CAYMAN 4.83% 02/05/13		USD	2003	56,948	2013	Fixed rate - 4.83%
BES CAYMAN 5.06% 02/11/15		USD	2003	56,948	2015	Fixed rate - 5.06%
BES CAYMAN - Zero coupon		EUR	2003	64,484	2028	Zero coupon - effective rate 5.50%
BES CAYMAN 5.01% 02/18/15		USD	2003	56,948	2015	Fixed rate - 5.01%
BES CAYMAN 5.37% 03/12/18		USD	2003	56,948	2018	Fixed rate - 5.37%
BES CAYMAN Step Up 07/15/13		USD	2003	56,948	2013	StepUp (1st coupon 1.25%)
BES CAYMAN Step Up 07/25/13		USD	2003	56,948	2013	StepUp (1st coupon 1.50%)
BES CAYMAN Step Up 07/28/10		USD	2003	56,948	2010	StepUp (1st coupon 3.50%)
BES CAYMAN - Zero coupon		EUR	2003	12,258	2028	Zero coupon - effective rate 5.75%
BES CAYMAN Step Up 08/27/13		EUR	2003	75,000	2013	StepUp (1st coupon 3.00%)
BES CAYMAN Step Up 09/02/13		EUR	2003	75,000	2013	StepUp (1st coupon 3.00%)
BES CAYMAN Step Up 09/16/13		EUR	2003	75,000	2013	StepUp (1st coupon 2.90%)
BES CAYMAN Step Up 10/07/13		EUR	2003	75,000	2013	(1st coupon 3.10%)
BES CAYMAN - Zero coupon		EUR	2003	74,906	2028	Zero coupon - effective rate 5.81%
BES CAYMAN - FIXED NOTE		EUR	2003	22,296	2013	Up-front coupon
BES CAYMAN Step Up 02/02/17		USD	2004	37,965	2017	StepUp (1st coupon 1.87%)
BES CAYMAN Step Up 02/11/19		USD	2004	37,965	2019	StepUp (1st coupon 1.78%)
BES CAYMAN - FIXED NOTE		EUR	2004	10,445	2014	Up-front coupon
BES CAYMAN - FIXED NOTE		EUR	2004	25,770	2014	Up-front coupon
BES CAYMAN - FIXED NOTE		EUR	2004	6,175	2014	Up-front coupon
BES CAYMAN - FIXED NOTE		EUR	2004	5,146	2014	Up-front coupon
BES CAYMAN Step Up 07/21/14		USD	2004	56,948	2014	StepUp (1st coupon 2.07%)
BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	4,655	2009	Indexed to Euribor 6 months
BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	1,695	2009	Indexed to Euribor 6 months
BES CAYMAN - 4% Mais R.E.	a)	EUR	2004	587	2009	Indexed to Euribor 6 months
BES CAYMAN - BES Libor 4%		USD	2005	718	2008	Euribor 6 months + 0.51%
BES CAYMAN - BES Libor 4%		USD	2005	827	2008	Fixed rate - 4.00%
BES CAYMAN Step Up 06/30/08		USD	2005	1,653	2008	StepUp (1st coupon 4.00%)
BES CAYMAN Step Up 07/11/08		USD	2005	1,665	2008	StepUp (1st coupon 3.60%)
BES CAYMAN Step Up 08/08/08		USD	2005	1,613	2008	StepUp (1st coupon 3.60%)
BES CAYMAN Step Up 08/09/08		USD	2005	647	2008	StepUp (1st coupon 3.75%)
BES CAYMAN Step Up 10/14/08		USD	2005	1,351	2008	StepUp (1st coupon 3.75%)
BES CAYMAN Step Up 11/10/08		USD	2005	1,435	2008	StepUp (1st coupon 3.75%)
BES CAYMAN Step Up 12-15-08		USD	2005	1,576	2008	StepUp (1st coupon 4.25%)
Sub-total				**8,306,169**		
Accrued interest				137,943		
				8,444,112		

a) Liabilities designated at fair value through profit or loss

This balance includes bonds and Euro Medium Term Notes recognised in the balance sheet at fair value through profit or loss, in the amount of approximately euro 140,879 thousand and euro 44,764 thousand respectively (see Note 17).

The Bank's option to designate these financial liabilities at fair value through profit or loss, under IAS 39, follows the Bank's documented risk management strategy, in accordance with the accounting policy described is Note 2.5.

Note 31 – Provisions

As at 31 December 2006 and 2005, the balance Provisions presents the following movements:

(in thousands of euros)

	General banking risk provision	Restructuring provision	Other provisions	Total
Balance as at 1 January 2005	**264,920**	**-**	**32,619**	**297,539**
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**
Charge for the year	98,672	10,810	36,451	145,933
Charge off	-	(57,986)	(297)	(58,283)
Write back for the year	(36,424)	-	(526)	(36,950)
Transfers	13	(800)	-	(787)
Exchange differences and other(b)	1,484	-	2,006	3,490
Balance as at 31 December 2006	**385,536**	**1,686**	**98,659**	**485,881**

(a) Inclui 42,815 milhares de euros e 11,053 milhares de euros relativos à fusão do BIC
(b) Inclui 2,271 milhares de euros e 2,497 milhares de euros relativos à fusão da Crediflash

From the restructuring provision related to the merger of Banco Internacional de Crédito, S.A. in Banco Espírito Santo, S.A., set up in 2005 in the amount of euro 49,7 million, euro 48,9 million was charged off during the year ended 31 December 2006.

In May 2006 Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A. was merged into Banco Espírito Santo, S.A. having been prepared and approved a restructuring plan. It was set up a rovision in the amount of euro 10,8 million to meet costs with the restructuring. During 2006 was charged of an amount of euro 9,2 million

Other provisions in the amount of euro 98,659 thousand (31 December 2005: euro 61,025 thousand) are intended to cover certain contingencies related to the Bank's activities.

Note 32 – Income Taxes

The Bank is subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes. BES determined its current income tax liability for 2006 and 2005 on the basis of a nominal rate of 27.5% in accordance with the Law No. 107-B/2003 from 31 December.

The deferred tax for 2006 was determined based on the tax rate of 26.5% (2005: 27.5%), as this tax rate was substantively enacted by the balance sheet date, resulting from the homologation of local tax law, which changes the way the municipal income tax is calculated , as well as the applicable rate.

The Portuguese Tax Authorities are entitled to review the annual tax returns of the Bank related to 2006 and the following years for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank is confident that there will be no further material tax assessments within the context of the financial statements.

The deferred tax assets and liabilities recognised in the balance sheet in 2006 and 2005 can be analysed as follows:

(in thousands of euros)

	Assets		Liabilities		Net	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Derivative financial instruments	-	-	(44,633)	(22,361)	(44,633)	(22,361)
Available-for-sale financial assets	1,623	15,505	(181,583)	(146,839)	(179,960)	(131,334)
Loans and advances to customers	50,277	33,788	-	-	50,277	33,788
Property and equipment	-	-	(9,087)	(9,595)	(9,087)	(9,595)
Intangible assets	1,040	4,947	-	-	1,040	4,947
Investments in subsidiaries and associates	-	-	(9,873)	(10,043)	(9,873)	(10,043)
Provisions	10,836	24,322	-	-	10,836	24,322
Pensions	235	-	(65,470)	(81,764)	(65,235)	81,764)
Health care - SAMS	7,468	3,445	-	-	7,468	3,445
Long-service benefits	5,525	5,979	-	-	5,525	5,979
Other	271	1	(458)	-	(187)	1
Tax credits resulting from double tax treaties	18,711	18,712	-	-	18,711	18,712
Tax losses brought forward	40,831	86,328	-	-	40,831	86,328
Deferred tax asset / (liability)	**136,817**	**193,027**	**(311,104)**	**(270,602)**	**(174,287)**	**(77,575)**
Assets / liabilities compensation for deferred taxes	-	(47,513)	-	47,513	-	-
Deferred tax asset / (liability)	**136,817**	**145,514**	**(311,104)**	**(223,089)**	**(174,287)**	**(77,575)**

The changes in deferred taxes during 2006 and 2005 were recognised against:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	(77,575)	17,036
Recognised in the income statement	(62,362)	(4,517)
Recognised in fair-value reserve	(50,210)	(126,590)
Recognised in other reserves	15,329	36,496
Exchange difference and other	531	-
Balance as at 31 December (Asset/(liability))	**(174,287)**	**(77,575)**

The deferred tax recognised against profit or loss and reserves, during 2006 and 2005 was originated by:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Recognised in profit	Recognised in reserve	Recognised in profit	Recognised in reserve
Available-for-sale financial assets	1,584	(50,210)	(29,741)	(126,590)
Investments in subsidiaries and associates	170	-	(17,510)	-
Loans and advances to customers	16,489	-	4,478	-
Property and equipment	508	-	270	-
Intangible assets	(3,907)	-	(6,283)	-
Derivative financial instruments	(22,272)	-	(19,159)	-
Pensions	6,389	10,140	(29,562)	6,534
Health care - SAMS	4,023	-	408	2,602
Provisions	(13,486)	-	20,508	-
Long-service benefits	(454)	-	796	-
Other	(5,908)	5,189	(2,284)	-
Tax credits resulting from double tax treaties	(45,498)	-	73,562	-
BIC's integration	-	-	-	(59,938)
Transition adjustment at 1 January 2005	-	-	-	87,298
	(62,362)	(34,881)	(4,517)	(90,094)

The change in the tax rate occurred during 2006, from 27.5% to 26.5%, resulting from the homologation of local tax law, had a negative impact in results and a positive impact in reserves in the amount of euro 1,132 thousand and euro 7,610 thousand, respectively. These amounts are included in the table presented above.

The income tax recognised in profit for the years ended 31 December 2006 and 2005, is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Current tax	16,299	22,851
Deferred tax		
Temporary differences and reversals	16,864	78,079
Tax losses brought forward	45,498	(73,562)
	62,362	4,517
Total income tax recognised in profit	**78,661**	**27,368**

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

(in thousands of euros)

	31.12.2006		31.12.2005	
	%	Amount	%	Amount
Profit before minority interests and taxes		**336,112**		**217,537**
Statutory tax rate	27.5		27.5	
Income tax calculated based on the statutory tax rate		92,431		59,823
Tax-exempt dividends	(9.4)	(31,572)	(19.4)	(42,121)
Tax-exempt profits (off shore)	(1.4)	(4,631)	-	-
Tax-exempt gains	(0.5)	(1,524)	(4.1)	(8,977)
Non deductible losses	0.8	2,651	-	-
Tax on capital gains obtained abroad	4.2	14,000	5.4	11,745
Tax paid by branches	0.6	2,095	1.7	3,625
Changes in statutory tax rate	0.6	2,008	-	-
Non deductible costs	2.7	9,087	1.3	2,854
Changes in tax basis of assets and liabilities due to changes in tax laws	-	-	3.1	6,751
Changes in estimates	(2.3)	(7,852)	(4.0)	(8,780)
Other	0.6	1,968	1.1	2,448
	23.4	**78,661**	**12.6**	**27,368**

Note 33 – Subordinated debt

The balance subordinated debt is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Bonds	99,861	159,925
Loans	2,507,622	2,052,913
	2,607,483	**2,212,838**

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

(in thousands of euros)

	31.12.2006					
Designation	Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity
Subordinated Bonds	EUR	1997	99,762	99,861	4.06%	2007
Subordinated loans	USD	2000	37,965	38,320	7.90%	2009
Subordinated loans	EUR	2000	300,000	316,230	6.63%	2010
Subordinated loans	EUR	2002	400,000	413,566	6.25%	2011
Subordinated loans	EUR	2002	500,000	517,710	6.63%	2012
Subordinated loans	EUR	2003	310,000	315,265	5.59%	2014
Subordinated loans	EUR	2004	100,000	100,989	5.39%	2014
Subordinated loans	EUR	2004	100,000	100,989	5.39%	2014
Subordinated loans	EUR	2006	12,200	12,528	5.39%	2014
Subordinated loans	EUR	2004	500,000	508,823	4.51%	-
Subordinated loans	JPY	2005	191,168	183,202	5.39%	2015
			2,551,095	2,607,483		

During the year ended 31 December 2006, BES issued subordinated debt securities in the amount of euro 12,2 million (31 December 2005: euro 247 million), and reimbursed euro 59,9 million (31 December 2005: euro 24,9 million).

Note 34 – Other liabilities

As at 31 December 2006 and 2005, the balance Other liabilities is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Creditors		
Public sector	22,529	20,107
Creditors arising out from future contracts	28,335	18,577
Sundry creditors		
Suppliers	38,565	28,456
Creditors from transactions with securities	49,076	25,397
Other sundry creditors	137,965	60,919
	276,470	153,456
Accrued expenses		
Long-service benefits (see Note 12)	17,075	16,316
Other accrued expenses	87,591	61,786
	104,666	78,102
Deferred income	4,561	461
Other sundry liabilities		
Stock exchange transactions pending settlement	55,064	265,393
Other transactions pending settlement	-	82,341
	55,064	347,734
	440,761	579,753

As at 31 December 2006 and 2005, 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 27).

Note 35 – Share capital, share premium and treasury stock

Ordinary shares

As at 31 December 2006, the Bank's share capital was represented by 500 million ordinary shares with a face value of 5 euros each, which were subscribed and fully paid by the following entities:

(in thousands of euros)

	% Share capital	
	31.12.2006	31.12.2005
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	40.00%	41.98%
Credit Agricole, S.A.	10.81%	8.81%
Companhia de Seguros Tranquilidade Vida, S.A.	-	6.46%
Bradeport-SGPS, S.A.(1)	3.05%	3.05%
Hermes Pensions Management Limited	2.13%	-
Grupo Portugal Telecom		
Previsão - Sociedade Gestora de Fundos de Pensões, S.A.	2.62%	2.62%
Portugal Telecom, S.A.	1.40%	1.40%
Other	39.99%	35.68%
	100.00%	100.00%

(1) Portuguese company fully owned by Banco Bradesco, S.A.(Brazil)

During the first of 2006, the Bank increased its share capital from euro 1,500 million to euro 2,500 million, with the issuance of 200 million new ordinary shares with a face value of euro 5 each, as follows:

- 50 million new shares through incorporation of share premium as a scrip issue in the proportion one new share per six held;
- 150 million new shares reserved to stockholders, in the proportion of one new share for two held, at the price of 9.2 euros each.

Share premium

Until 31 December 2005, share premium in the amount of 300 000 thousands of euros relates to the capital increase that occurred during the first half of 2002.

During 2006, in connection with the share capital increase, share premium increased to euro 666,327 thousands. This increase is the result of a premium of 4.2 euros per the 150 million of new shares issued in 2006, deducted by the transaction costs related to this issue and by the share premium incorporated in the share capital (euro 250 million).

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 2006, 5 667 thousand shares of BES (1.13% of total share capital), are allocated (31 December 2005: 7,617 thousand of shares, 2.54% of total share capital), for an overall amount of euro 63,7 million (31 December 2005: euro 96,3 million). These shares are recognized as treasury stock, as described in Note 2.14.

The movement in treasury stocks is analysed as follows:

(in thousands of euros)

	31.12.2006		31.12.2005	
	Number of shares	Amount (euro'000)	Number of shares	Amount (euro'000)
Saldo no início do ano	7,617,500	96,247	7,991,482	100,174
Aquisições	-	-	1,811,774	24,544
Aumento de capital	850,504	-	-	-
Alienações	(2,800,392)	(32,515)	(2,185,756)	(28,471)
Saldo no final do ano	5,667,612	63,732	7,617,500	96,247

Note 36 – Fair value reserve, other reserves and retained earnings

Legal reserve

The legal reserve can only be used to absorb accumulated losses or to increase the amount of the share capital. Portuguese legislation applicable to the banking sector (Article 97 of Decree-Law no. 298/92, December 31) requires that 10% of the profit for the year must be transferred to the legal reserve until it is equal to the share capital.

Fair value reserve

The fair value reserve represents the amount of the unrealised gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years. The amount of this reserve is shown net of deferred taxes.

During 2006 and 2005, 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 2005	**(10,509)**	**2,890**	**(7,619)**	**60,065**	**(159,751)**	**(99,686)**
Share-based incentive plan (SIBA)	-	-	-	-	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**
Share-based incentive plan (SIBA)	-	-	-	-	2,454	2,454
Changes in fair value	206,049	(50,210)	155,839	-	-	-
Transfer to reserves	-	-	-	24,056	47,779	71,835
Pensions - Transitional rules	-	-	-	-	(29,640)	(29,640)
Effect of Crediflash's merger	-	-	-	-	12,999	12,999
Balance as at 31 December 2006	**656,378**	**(174,316)**	**482,062**	**140,910**	**88,600**	**229,510**

As at 31 December 2006, the fair value reserve can be analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Amortised cost of available-for-sale financial assets	3,517,891	3,224,009
Accumulated impairment recognised	(49,040)	(51,764)
Amortised cost of available-for-sale financial assets, net of impairment	3,468,851	3,172,245
Fair value of amortised cost of available-for-sale financial assets	4,125,229	3,622,574
Net unrealised gains recognised in the fair value reserve	656,378	450,329
Deferred taxes	(174,316)	(124,106)
	482,062	**326,223**

The movement in the fair value reserve, net of deferred taxes, in the year ended 31 December 2006 is analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Balance as at 1 January	**326,223**	**(7,619)**
Changes in fair value	409,623	420,574
Disposals during the year	(84,901)	3,181
Impairment recognised during the year	5,433	34,193
Deferred taxes recognised in reserves during the year (See note 32)	(174,316)	(124,106)
Balance as at 31 December	**482,062**	**326,223**

Note 37 – Contingent liabilities and commitments

As at 31 December 2006 and 2005, this caption can be analysed as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Contingent liabilities		
Guarantees and stand by letters of credit	15,828,170	13,868,432
Assets pleged as collateral	529,242	527,926
Open documentary credits	582,361	292,512
Other	120,729	94,343
	17,060,502	**14,783,213**
Commitments		
Revocable commitments	21,521,268	14,634,088
Irrevocable commitments	827,952	658,951
	22,349,220	**15,293,039**

Guarantees and standby letters of credit are banking operations that do 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 time frame, against the exhibition documentation of the goods or service provided. The condition of irrevocable consists of the fact that the terms initially agreed can only be changed or cancelled with the agreement of all parties.

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 cash out-flows.

As at 31 December 2006, 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 130,130 thousand (31 December 2005: euro 132,105 thousand);

- Securities pledged as collateral to the Portuguese Securities Market Commission (CMVM) in the ambit of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 51,112 thousand (31 December 2005: 50,212 thousands);

- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 61,000 thousand (31 December 2005: euro 61,109 thousand).

- Securities pledged as collateral to European Investment Bank in the amount of euro 287,000 thousand (31 December 2005: euro 284,500 thousand).

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

(in thousands of euros)

	31.12.2006	31.12.2005
Securities and other items held for safekeeping on behalf of customers	48,282,082	40,813,947
Assets for collection on behalf of clients	170,507	262,099
Securitised loans under management (servicing)	5,584,353	3,832,591
Other responsabilities related with banking services	-	266
	54,036,942	**44,908,903**

Nota 38 – Related parties transactions

As at 31 December 2006 and 2005, the balances and transactions with related parties are presented as follows:

(in thousands of euros)

	31.12.2006					31.12.2005				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Subsidiary companies										
BESLEASING E FACTORING	1,244,416	390	-	42,128	-	1,684,503	-	-	40,438	-
ES COBRANÇAS	-	3,811	-	-	7,535	-	6,465	-	-	4,599
ES CONCESSÕES	59,773	-	-	1,677	-	40,926	-	-	-	-
ES ACE	-	-	-	12,943	37,660	-	3,847	-	11,339	33,576
ES ACE 2	-	-	-	-	532	-	-	-	-	-
ESAF SGPS	-	49,581	-	23,832	992	-	41,075	-	19,493	77
BESSA	1,614,197	260,704	1,158,751	29,383	13,882	727,543	278,095	472,009	11,298	10,262
ESGEST	-	257	-	-	1,052	-	255	-	-	1,068
ESDATA	-	2,417	-	-	11	-	3,972	-	-	4,510
ESINF	-	-	-	-	7,173	-	-	-	-	-
BESNAC	-	1,656	-	-	85	-	1,853	-	-	188
CREDIFLASH	-	-	-	3,063	1,507	25,635	4,794	-	6,485	2,311
CÊNTIMO	4,922	2,865	-	-	-	-	69	-	-	5
BESOL	-	-	-	-	-	-	24	-	-	-
BESI	461,985	55,094	-	15,544	5,454	311,857	16,487	30,000	12,362	375
BES GMBH	-	-	-	20,001	1,277	599,415	57	-	14,367	-
BES ORIENTE	-	62	-	-	-	-	368	-	-	-
BES FINANCE	-	10,288,431	10,380,574	5,452	371,155	-	8,810,664	8,911,032	1,266	280,434
ESOL	-	-	-	-	5	-	323	-	-	6
ES PLC	395,305	37,889	-	2,127	177	174,844	877	-	50	36
ES BANK	-	276	-	-	-	29,128	635	-	-	-
ES TECH VENTURES	97,293	12,310	-	6,749	36	144,723	6,099	-	27	94
ES REPRESENTAÇÕES	-	-	-	-	928	-	-	-	-	-
ES CONTACT CENTER	-	1,291	-	-	3,981	-	1,167	-	-	3,532
ESCLINC	-	-	-	-	1,026	-	-	-	-	1,091
ES RESEARCH	-	-	-	-	-	-	37	-	-	-
BEST	50,000	47,693	-	1,583	95	50,000	13,365	-	1,460	-
BES AÇORES	40,772	63,998	-	695	123	29,184	28,774	-	220	53
INTERACTION	-	-	-	-	-	-	-	-	-	732
BES SPEs	-	-	-	-	-	4,013	-	-	-	-
BES ANGOLA	25,887	74,137	22,779	-	4,798	28,922	43,298	25,430	-	1,669
ES FIN. CONSULTANTS	105	-	-	-	-	90	-	-	-	-
QUINTA DOS CONEGOS	1,209	-	-	-	-	1,174	-	-	-	176
JAMPUR	-	-	-	-	-	-	-	-	2,586	-
BIBL	504,123	120,068	-	11,345	3,886	156,466	-	2,874	-	-
	4,499,987	**11,022,930**	**11,562,104**	**176,522**	**463,370**	**4,008,423**	**9,262,600**	**9,438,471**	**124,265**	**344,794**
Associated companies										
BES VIDA	-	434,357	8	2	480	-	312,499	8	-	-
BES VÉNÉTIE	293,977	576	-	-	4	504,614	128,101	-	-	11
LOCARENT	97,175	-	-	3,494	3,214	-	-	-	-	-
BES SEGUROS	-	5,635	-	-	75	-	1,537	-	-	16
EUROP ASSISTANCE	-	1,926	13	-	59	-	2,373	14	-	35
ESUMÉDICA	1,546	54	-	22	-	1,094	80	-	17	1
FIDUPRIVATE	-	475	-	-	-	-	306	-	-	-
ESEGUR	399	243	2,749	8	18	399	1,940	115	19	12
Other	2,129	1,270	255	78	3	1,668	1,724	5,414	60	2
	395,226	**444,536**	**3,025**	**3,604**	**3,853**	**507,775**	**448,560**	**5,551**	**96**	**77**

As at 31 December 2006 and 2005, the total amount of assets and liabilities of BES with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euros)

	31.12.2006							31.12.2005		
	Assets									
	Deposits	Loans	Securities	Other	Total	Guarantees	Liabilities	Assets	Guarantees	Liabilities
BES VÉNÉTIE	284,829	-	-	9,148	293,977	-	576	504,614	-	128,101
GRUPO ESPÍRITO SANTO INTERNATIONAL	-	236,839	-	7,268	244,107	12,819	12,400	176,615	9,885	14,453
ESPÍRITO SANTO FINANCIÉRE, SA	-	130,000	-	-	130,000	-	35,765	189,516	-	2,063
ES SAUDE	-	93,500	15,810	4,000	113,310	1,652	2,312	35,400	-	374
LOCARENT	-	7,175	-	90,000	97,175	-	-	-	-	-
PARTRAN	-	70,000	-	-	70,000	-	175	70,176	-	77
BES VIDA	-	-	-	-	-	8	434,357	-	8	312,499
COMPAGNIE BANCAIRE ESPÍRITO SANTO, SA	23,797	-	-	-	23,797	1,298	203,446	16	338	394,258
TRANQUILIDADE	-	2	-	-	2	1,001	117,810	304	811	242,478
ES BANK PANAMA	-	-	-	-	-	-	21,000	90,888	-	-
BESPAR	-	-	-	-	-	-	4,252	651	-	2,083
EUROP ASSISTANCE	-	-	-	-	-	13	1,926	-	14	2,373
ESF PORTUGAL	-	-	-	-	-	-	221	-	-	19,795
FRAYBELL COMPANY	-	-	-	-	-	-	-	139,352	-	-
Other	-	42,282	455	1,062	43,799	8,871	12,236	50,903	26	4,312
TOTAL	**308,626**	**579,798**	**16,265**	**111,478**	**1,016,167**	**25,662**	**846,476**	**1,258,435**	**11,082**	**1,122,866**

During the year ended 31 December 2006, 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 12.

Note 39 – Securitisation transactions

As at 31 December 2006, the outstanding securitisation 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	275,064	Domestic bonds and eurobonds
Lusitano Mortgages No.1 plc	December 2002	1,000,000	673,140	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	692,275	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	972,185	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	1,081,343	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1,400,000	1,374,777	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862,607	790,633	Loans to small and medium entities

During the year ended 31 December 2006, the Bank exercised the clean up call related to the securitisation transaction Lusitano Finance no. 2 plc, which resulted in the acquisition of loans with a nominal value of euro 13,935 thousands.

The main characteristics of these transactions, as at 31 December 2006, 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	Moody´s	S&P
Lusitano Global CDO No.1 plc	Class A1	350,000	-	-	December 2015	-	-	-
	Class A2	623,800	131,386	105	December 2015	AAA	Aaa	AAA
	Class B	42,300	42,300	-	December 2015	AAA	Aa1	AA
	Class C	25,200	25,200	15,300	December 2015	AA	A1	A+
	Class D	103,000	103,000	14,000	December 2015	-	-	-
Lusitano Mortgages No.1 plc	Class A	915,000	585,629	196	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	647,821	-	December 2036	AAA	Aaa	AAA
	Class B	30,000	30,000	5,000	December 2046	AA	Aa3	AA
	Class C	28,000	28,000	-	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	938,166	82	December 2047	AAA	Aaa	AAA
	Class B	27,000	27,000	-	December 2047	AA	Aa2	AA
	Class C	18,600	18.60	-	December 2047	A	A2	A
	Class D	14,400	14,400	-	December 2047	BBB	Baa2	BBB
	Class E	10,800	10,800	-	December 2047	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	1 ,047.48	-	December 2048	AAA	Aaa	AAA
	Class B	22,800	22.00	-	December 2048	AA	Aa2	AA
	Class C	19,200	19.00	-	December 2048	A+	A1	A+
	Class D	24,000	24.00	-	December 2048	BBB+	Baa1	BBB+
	Class E	10,200	10.00	-	December 2048	-	-	-
Lusitano Mortgages No.5 plc	Class A	1,323,000	1,323,000	-	December 2059	AAA	Aaa	AAA
	Class B	26,600	26,600	-	December 2059	AA	Aa2	AA
	Class C	22,400	22,400	-	December 2059	A+	A1	A+
	Class D	28,000	28,000	-	December 2059	BBB+	Baa1	BBB+
	Class E	11,900	11,900	-	December 2059	-	-	-
Lusitano SME No.1 plc	Class A	759,525	759,525	1,000	December 2028	AAA	-	AAA
	Class B	40,974	40,974	-	December 2028	AA	-	AA
	Class C	34,073	34,073	-	December 2028	A+	-	A+
	Class D	28,035	28,035	28,035	December 2028	BBB+	-	BBB+
	Class E	8,626	8,626	8,626	December 2028	-	-	-

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 the date, in accordance with the previous accounting policies, were not restated in the balance sheet.

The assets sold in the securitisation transactions Lusitano Mortgages No.3, Lusitano Mortgages No.4, Lusitano Mortgages No.5 and Lusitano SME No. 1, performed after 1 January 2004, were derecognised considering that the Bank has transferred substantially all the risks and rewards of ownership.

Note 40 – Fair value of financial assets and liabilities

The fair value of financial assets and liabilities is analysed as follows:

(in thousands of euros)

	Trading	Fair value designated	Held to maturity	Loans and applications	Available for-sale	Other at amortised cost	Carrying Value	Fair value
31 December 2006								
Cash and deposits at Central Banks	-	-	-	961,793	-	-	961,793	961,793
Deposits with banks	-	-	-	532,333	-	-	532,333	532,333
Financial assets held for tranding	3,211,240	-	-	-	-	-	3,211,240	3,211,240
Financial assets as at fair value through profit or loss	-	1,141,854	-	-	-	-	1,141,854	1,141,854
Financial assets available-for-sale	-	-	-	-	4,125,229	-	4,125,229	4,125,229
Loans and advances to banks	-	-	-	9,807,321	-	-	9,807,321	9,807,321
Loans and advances to customers	-	-	-	27,134,372	-	-	27,134,372	27,668,828
Held to maturity investments	-	-	567,747	-	-	-	567,747	567,907
Hedging derivatives (Assets)	166,211	-	-	-	-	-	166,211	166,211
Financial assets	**3,377,451**	**1,141 854**	**567,747**	**38,435,819**	**4,125,229**	**-**	**47,648,100**	**48,182,716**
Deposits from central banks	-	-	-	-	-	1,043,175	1,043,175	1,043,175
Financial liabilities held for trading	954,926	-	-	-	-	-	954,926	954,926
Deposits from banks	-	-	-	-	-	13,935,369	13,935,369	13,935,369
Due to customers	-	-	-	-	-	18,037,505	18,037,505	18,037,505
Debt securities issued	-	-	-	-	-	8,444,112	8,444,112	8,607,101
Hedging derivatives (Liabilities)	196,732	-	-	-	-	-	196,732	196,732
Subordinated debt	-	-	-	-	-	2,607,483	2,607,483	2,747,735
Financial liabilities	**1,151,658**	**-**	**-**	**-**	**-**	**44,067,644**	**45,219,302**	**45,522,543**
31 December 2005								
Cash and deposits at Central Banks	-	-	-	900,339	-	-	900,339	900,339
Deposits with banks	-	-	-	582,704	-	-	582,704	582,704
Financial assets held for tranding	2,249,710	-	-	-	-	-	2,249,710	2,249,710
Financial assets as at fair value through profit or loss	-	1,397,101	-	-	-	-	1,397,101	1,397,101
Loans and advances to banks	-	-	-	7,510,617	-	-	7,510,617	7,510,617
Loans and advances to customers	-	-	-	25,322,957	-	-	25,322,957	25,572,445
Held to maturity investments	-	-	555,823	-	-	-	555,823	556,328
Hedging derivatives (Assets)	88,909	-	-	-	-	-	88,909	88,909
Financial assets	**2,338,619**	**1,397,101**	**555,823**	**34,316,617**	**-**	**-**	**38,608,160**	**38,858,153**
Deposits from central banks	-	-	-	-	-	591,142	591,142	591,142
Financial liabilities held for trading	953,199	-	-	-	-	-	953,199	953,199
Deposits from banks	-	-	-	-	-	12,847,528	12,847,528	12,847,528
Due to customers	-	-	-	-	-	16,941,541	16,941,541	16,941,541
Debt securities issued	-	-	-	-	-	7,372,192	7,372,192	7,422,610
Hedging derivatives (Liabilities)	87,827	-	-	-	-	-	87,827	87,827
Subordinated debt	-	-	-	-	-	2,212,838	2,212,838	2,452,122
Financial liabilities	**1,041,026**	**-**	**-**	**-**	**-**	**39,965,241**	**41,006,267**	**41,295,969**

The mayor methods and assumptions used in estimating the fair value of financial assets and liabilities accounted at amortised cost are analysed as follows:

Cash and deposits at central banks, Deposits with banks and Loans and advances to banks Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Loans and advances to customers

The fair value of Loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined. The expected future cash flows of loans with similar credit risk characteristics are estimated collectively. The discount rates used by the Bank are current interest rates used in loans with similar characteristics.

Held-to-maturity investments

The fair values of these financial instruments are based on market prices, when available. For unlisted securities the fair value is estimated by discounting the expected future cash-flows.

Deposits from central banks and Deposits from banks Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Due to customers

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined. The discount rates used by the Bank are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, 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.

Note 41 – Risk management

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

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

Credit risk

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

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the 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.

The analysis of the risk exposure by sector of activity, as at 31 December 2006 and 2005, can be analysed as follows:

(in thousands of euros)

	31.12.2006										
	Loans and advances to customers		Financial assets held for tranding		Financial assets as at fair value through profit or loss		Financial assets available-detidos para venda		Held to maturity investment		Guarantees granted
	Gross amount	Impairment [a]	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	
Agriculture	253,513	(9,268)	-	-	-	-	4,065	-	-	-	32,557
Mining	76,349	(2,348)	-	-	-	-	110,035	-	-	-	7,746
Food, beverage na tobacco	289,460	(10,840)	-	-	3,133	-	19,853	(34)	-	-	95,796
Textiles	311,637	(19,545)	-	-	-	-	24,523	(1,988)	-	-	47,729
Shoes	61,965	(4,922)	-	-	-	-	499	(499)	-	-	5,080
Wood and cork	127,465	(10,940)	-	-	-	-	-	-	-	-	11,057
Priting and publishing	87,035	(5,342)	-	-	10,566	-	12,221	-	-	-	34,043
Refining and oil	53,782	(1,189)	-	-	-	-	-	-	-	-	252,134
Chemicals and rubber	378,927	(4,596)	-	-	-	-	5,555	(68)	-	-	42,479
Non-metalic minerals	170,275	(7,906)	-	-	-	-	13,006	(469)	-	-	43,663
Metalic products	190,803	(8,021)	-	-	-	-	2,008	(6)	-	-	33,148
Prod. of machinery, equipment and electric devices	148,963	(5,813)	-	-	5,256	-	17,672	(596)	-	-	118,266
Production of transport material	191,412	(3,217)	-	-	-	-	83,007	-	-	-	63,506
Other transforming industries	85,268	(5,715)	825	-	-	-	1,146	-	-	-	16,767
Electricity, gas and water	389,928	(4,914)	-	-	-	-	340,022	-	-	-	256,926
Construction	3,276,870	(96,146)	-	-	-	-	34,575	(1,691)	-	-	949,507
Wholesale na retail	1,865,211	(96,408)	-	-	-	-	86,832	(633)	-	-	434,007
Tourism	432,980	(12,891)	-	-	-	-	992	(171)	-	-	79,272
Transports and communications	1,231,069	(26,937)	-	-	23,743	-	658,405	(3)	-	-	595,662
Financial activities	958,692	(15,320)	979,107	-	848,914	-	1,512,314	(21,408)	-	-	11,602,704
Real estates activities	3,086,527	(64,461)	-	-	-	-	1,499	(387)	-	-	306,069
Services provided to companies	2,078,170	(54,233)	10	-	175,894	-	830,100	(11,104)	-	-	561,290
Public services	709,069	(11,389)	1,141,614	-	-	-	142,799	-	567,747	-	29,908
Non-profit organisations	917,571	(33,085)	93	-	74,348	-	250,953	(7,984)	-	-	104,384
Mortgage loans	7,835,181	(130,249)	-	-	-	-	-	-	-	-	-
Consumers loans	2,021,417	(96,767)	-	-	-	-	-	-	-	-	58,692
Other	262,599	(12,438)	12,701	-	-	-	22,188	(1,999)	-	-	45,778
TOTAL	**27,492,138**	**(754,900)**	**2,134,350**	**-**	**1,141,854**	**-**	**4,174,269**	**(49,040)**	**567,747**	**-**	**15,828,170**

(a) includes the amount of euros 369,366 thousands related to provision for impaired loans (see note 21) and provisions for general banking risks in th amount of euros 385,536 thousands (see note 31).

(in thousands of euros)

	31.12.2005										
	Loans and advances to customers		Financial assets held for tranding		Financial assets as at fair value through profit or loss		Financial assets available-detidos para venda		Held to maturity investment		Guarantees granted
	Gross amount	Impairment [a]	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	
Agriculture	303,289	(9,835)	-	-	-	-	-	-	-	-	36,364
Mining	69,154	(2,207)	-	-	-	-	-	-	-	-	9,288
Food, beverage na 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
Priting 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
Prod. 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 na 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 estates 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)	-	-	-	-	-	-	-	-	-
Consumers 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 21) and provisions for general banking risks in th amount of euros 321,791 thousands (see Note 31).

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-tuning of the model and improving its predictive capabilities. As a complement to the VaR model, stress testing were also developed, which permits the assessment of the impact of higher potential losses than those considered using VaR valuation.

The following table present the average interest rates for the Group's major assets and liabilities categories, for the years ended 31 December 2006 and 2005, as well as the respective average balances and interests for the period.

(in thousands of euros)

	31.12.2006			31.12.2005		
	Average balance of the year	Interest of the year	Average interest rate	Average balance of the year	Interest of the year	Average interest rate
Monetary assets	6,820,966	305,703	4.48%	7,240,048	235,340	3.25%
Loans and advances to customers	27,008,013	1,338,265	4.96%	18,604,280	805,888	4.33%
Investment securities	3,641,665	243,709	6.69%	3,234,157	149,105	4.61%
Differential investments	676,373	-	-	708,754	-	-
Financial assets	**38,147,017**	**1,887,677**	**4.95%**	**29,787,239**	**1,190,333**	**4.00%**
Monetary funds	14,194,750	506,261	3.57%	12,536,364	363,863	2.90%
Deposits from banks	13,569,886	261,489	1.93%	12,206,286	138,992	1.14%
Other funds	10,382,381	492,728	4.75%	5,044,589	274,550	5.44%
Differential funds	-	-	-	-	-	-
Financial liabilities	**38,147,017**	**1,260,478**	**3.30%**	**29,787,239**	**777,405**	**2.61%**
Net interest income		**627,199**	**1.64%**		**412,928**	**1.39%**

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2006 and 2005 is analysed as follows:

(in thousands of euros)

	31.12.2006						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Assets							
Cash and deposits at central banks	952,176	3,817	3,402	18	900	1,480	961,793
Deposits with banks	491,496	6,137	2,056	30,152	288	2,204	532,333
Financial assets held for trading	2,697,029	421,864	55,388	19,067	-	17,892	3,211,240
Financial assets at fair value through profit or loss	835,379	289,201	17,274	-	-	-	1,141,854
Available-for-sale financial assets	2,980,535	233,197	-	-	887,194	24,303	4,125,229
Loans and advances to banks	4,965,745	3,738,939	726,820	61,252	-	314,565	9,807,321
Loans and advances to customers	25,190,543	867,233	1,039,663	9,715	-	27,218	27,134,372
Held to maturity investments	-	567,747	-	-	-	-	567,747
Hedging derivatives	31,759	496	65,551	63,997	-	4,408	166,211
Non-current assets held for sale	-	-	-	-	-	-	-
Investments in associates	972,102	64,998	-	-	18	18,800	1,055,918
Other non-financial assets	(875,715)	1,337,902	1,284,681	17,707	1,625	22,099	1,788 299
Total assets	**38,241,049**	**7,531,531**	**3,194,835**	**201,908**	**890,025**	**432,969**	**50,492,317**
Liabilities							
Deposits from central banks	125,891	811,657	104,745	-	-	882	1,043,175
Financial liabilities held for trading	630,445	239,443	45,743	424	-	34,871	954,926
Deposits from banks	10,240,047	2,722,797	777,283	83,207	-	112,035	13,935,369
Due to customers	16,230,349	1,000,010	709,996	43,224	-	53,926	18,037,505
Debt securities issued	4,331,974	2,298,863	1,813,275	-	-	-	8,444,112
Hedging derivatives	193,323	328	-	-	-	3,081	196,732
Subordinated debt	2,385,961	38,167	-	183,355	-	-	2 ,07,483
Other non-financial liabilities	551,568	409,070	92,714	(177,122)	-	369,518	1,245,748
Total liabilities	**34,689,558**	**7,520,335**	**3,543,756**	**137,088**	**-**	**574,313**	**46,465,050**
Equity	**3,551,491**	**12,057**	**-**	**-**	**505,306**	**2,764**	**4,07,618**
Net exposure	-	(861)	(348,921)	64,820	384,719	(144,108)	(44,351)
Investment exchange position	-	64,998	-	-	18	18,800	83,816
Operational exposure	**-**	**(65,859)**	**(348,921)**	**64,820**	**384,701**	**(162,908)**	**(128,167)**

(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	-	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**

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.

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 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.

Financial branches' activities (off-shores)

BES 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 2006 and 2005, the total net assets of Madeira Free Zone Branch were structured as follows:

(in thousands of euros)

	31.12.2006	31.12.2005
Financial assets at fair value through profit or loss	203	399
Available-for-sale financial assets	555	682
Loans and advances to banks	974	385
Loans and advances to customers	253	292
Other assets	13	201
	1,998	1,959
Deposits from central banks	610	441
Due to customers	1,289	1,325
Other liabilities	62	65
Own funds	37	128
	1,998	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 90% of the total assets of the branch, which as at 31 December 2006 amounted to euro 15,128 million (31 December 2005: 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 295 million (31 December 2005: 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 – 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 as follows:

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 was approved by the European Commission on 8 September 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 and IFRS 2 therefore applies.

The IFRIC is mandatory and applicable for annual periods beginning on or after 1 May 2006.

The Bank does not expect any material impact from the adoption of this interpretation.

IFRIC 9 – Reassessment of Embedded Derivatives

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 12 March 2006 an Interpretation—IFRIC 9 Reassessment of Embedded Derivatives, which was approved by the European Commission on 8 September 2006.

This interpretation clarifies that the reassessment of embedded derivatives should be performed whenever there are changes to the underlying contracts.

This IFRIC is mandatory and applicable for annual periods beginning on or after 1 June 2006.

The Bank does not expect any material impact from the adoption of this interpretation.

IFRIC 10 – Interim Financial Reporting and Impairment

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 20 July 2006 an Interpretation—IFRIC 10 Interim Financial Reporting and Impairment, which should be approved by the European Commission during the second quarter of 2007.

The IFRIC prohibits the reversal of Impairment losses recognised in previous Interim Reporting period in respect of Goodwill, an Investment in an equity instrument or a financial asset carried at cost.

This IFRIC is mandatory and applicable for annual periods beginning on 2007 and its application will be prospective for the above-mentioned asset types, from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39, respectively.

The Bank does not expect any material impact from the adoption of this interpretation.

IFRIC 11 – IFRS 2 – Changes in Contributions to Employee Share Purchase Plans

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 2 November 2006 an Interpretation—IFRIC 11 – IFRS 2 Changes in Contributions to Employee Share Purchase Plans, which should be approved by the European Commission during the second quarter of 2007.This interpretation addresses on two issues:

1.a) Contracts where an entity grants to its employees rights to equity instrument of the entity, and either chooses or is required to buy equity instruments from another party, to satisfy its obligations to its employees; and
1.b) Contracts where an entity's employees are granted rights to equity instruments of the entity, either by the entity itself, or by its shareholders, and the shareholders of the entity provides the equity instruments needed.
2. Contracts with share-based payments that involve two or more entities within the same Group.

This IFRIC is mandatory and applicable for periods beginning on or after 1 January 2007.

The Bank does not expect any material impact from the adoption of this interpretation.

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.

This IFRS is mandatory and applicable for periods beginning on 1 January 2007.

The expected impacts as a consequence of the adoption of IFRS 7 are mainly related with additional disclosure requirements regarding financial instruments.

IFRS 8 – Operational segments

The International Accounting Standards Board (IASB) has issued on 30 November 2006 the IFRS 8 Operational segments, which should be approved by the European Commission during the second quarter of 2007.

The IFRS 8 – Operational segments sets out requirements for Disclosures of information about an entity's operating segments and also about the entity's products and services, the geographical areas where the entity operates and where its major clients are located. This standard specifies how an entity should disclose its information in the Annual financial statements and, as a consequential amendment to IAS 34 Interim Financial Reporting, regarding the information to be disclosed in the Interim financial reporting. Each entity should also provide a description of the segmental information disclosed namely Profit or loss and of Segment assets, as well as a brief description of how the segmental information is produced.

This IFRS is mandatory and applicable for periods beginning on 1 January 2009.

The Bank is evaluating the impact of adopting this standard.

Note 43 – Merger of Crediflash

As at 30 May 2006 Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A. (Crediflash) was merged into Banco Espírito Santo, S.A.

Being Crediflash'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 Crediflash's equity was recognised as a merger reserve and added to BES equity.

Crediflash's balance sheet as at the merger date is analysed as follows:

(in thousands of euros)

	30.05.2006
Assets	
Cash and deposits at central banks	2,754
Loans and advances to costumers	154,723
Propertary and equipment	2,127
Intangible assets	677
Investments in subsidiaries and associates	105
Deferred income tax assets	1,424
Other assets	2,276
Total Assets	**164,086**
Liabilities	
Deposit from banks	131,032
Provisions	4,768
Current income tax liabilities	1,852
Other liabilities	6,088
total Liabilities	**143,740**
Equity	
Share Capital	7,500
Fair value reserve	1,719
Other reserves and retained earings	7,516
Profit for the year	3,611
Total Equity	**20,346**
Total Equity and Liabilities	**164,086**

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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 Report of the Board of Directors and in the accompanying consolidated financial statements for the year ended 31 December 2006, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2006 (showing total consolidated assets of Euros 59,138,806 thousand and total equity attributable to the equity holders of the Bank of Euros 4,735,872 thousand, including a profit for the year attributable to the equity holders of the Bank of Euros 420,714 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, the consolidated financial position of the Bank, the consolidated results of its operations and its consolidated cash flows;

b) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the 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 & Associados - Sociedade de Revisores Oficiais de Contas, S.A., a portuguese company is a member firm of KPMG International, a swiss cooperative.

KPMG & Associados - SROC, S.A.
Capital Social: 511.700 Euros
Pessoa Colectiva Nº PT 502 161 078
Inscrito na O.R.O.C. Nº 189
Inscrito na C.M.V.M. Nº 9093

Matriculada na Conservatória do registo Comercial de Lisboa sob o nº 715, fls. 178 do Livro C - 2/3

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 applicable circumstances;
- 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 work also included the verification that the consolidated financial information contained in the 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 2006, 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, 28 February 2007

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 Report of the Board of Directors and in the accompanying financial statements for the year ended 31 December 2006, of **Banco Espírito Santo, S.A.,** which comprise the balance sheet as at 31 December 2006 (showing total assets of Euros 50,536,668 thousand and total equity of Euros 4,071,618 thousand, including a profit for the year of Euros 257,451 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, which 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, that present fairly, in all material respects, the financial position of the Bank, the 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, its financial position or results.

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

Scope

4. 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 applicable circumstances;
   - 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 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 work, 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 2006, 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, 28 February 2007

KPMG & Associados, SROC, S.A.
Represented by
Inês Maria Bastos Viegas Clare Neves Girão de Almeida
(ROC nº 967)

BANCO ESPIRITO SANTO

REPORT OF THE AUDIT COMMITTEE
FOR THE YEAR 2006

To the Shareholders of
Banco Espírito Santo, S.A.,

On 18 December 2006 the General Meeting of Shareholders has approved a proposal presented by the Board of Directors to change the company's bylaws of **Banco Espirito Santo, SA,** namely, as regards the bank's corporate governance structure.

In accordance with the approved proposal, since that date the supervision of the bank is carried out by an Audit Committee which has replaced the Supervisory Board. The Audit Committee comprises three non-executive directors.

In the circumstances, as required by law we present our report which covers both the activity performed by the former Supervisory Board until 18 December 2006 and our own activity as from that date 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 2006, as well as on the related Management proposal for the appropriation of the unconsolidated profit for the financial year 2006.

In compliance with the applicable legal and statutory responsibilities, during 2006 the Supervisory Board/ Audit Committee of **Banco Espírito Santo, S.A.** have been informed of Management decisions and also of the deliberations of the Board of Directors regarding the business of the bank, and have also assessed the efficiency of the systems of risk management, internal control, and internal audit adopted by the bank.

As part of our functions, we have also overlooked the audit of the unconsolidated and consolidated financial statements of the bank, including the verification of the accounting records and related supporting documents, as well as the appropriateness of the accounting policies and procedures underlying the abovementioned financial statements. The audit has been performed by KPMG, the Official Auditors' Firm which had been appointed by the General Meeting of Shareholders as the bank's Official Auditors.

Furthermore, we have reviewed the Official Auditors' Reports on the accompanying unconsolidated and consolidated financial statements for the year ended 31 December 2006, which have been both issued on 28 February 2007 without any qualification and with which we concur.

We have also 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, and was prepared in conformity with the applicable legal and statutory requirements.

BANCO ESPIRITO SANTO

All considered, we are of the opinion that the Annual General Meeting of Shareholders 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 2006;

b) The Board of Directors' proposal for the appropriation of the unconsolidated profit for the financial year 2006, amounting to 257 451 170, 52 euros.

Lisbon, 13 March 2007

The Audit Committee

Mário Martins Adegas (Chairman)

José Manuel Ruivo da Pena

Luis Daun e Lorena

General Information

BES Shares

On 31 December 2006 Banco Espírito Santo had a Share Capital of 500,000,000 shares with a nominal value of EUR 5 each, listed on the Euronext Lisbon Stock Exchange. BES was part of 28 Stock Indices, among which we highlight the following: PSI 20, Euronext 100, Dow Jones Eurostoxx, Dow Jones Stoxx 600 Banks, FTSE All World Developed. Furthermore, BES Group has 600,000 preferred shares with no voting rights, with EUR 1,000 nominal value, issued by BES Finance, Ltd. and listed on the Luxembourg Stock Exchange.

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
Phone / Fax: (351) 21 359 7390 • (351) 21 359 7309
http://www.bes.pt/ir
E-mail: investor.relations@bes.pt

ISIN Code: PTBESOAM0007
Reuters Ticker – BES.LS
Bloomberg Ticker – BESNN PL

Anual reports, press releases and other information are available on the website of BES:
http://www.bes.pt/investidor.

Calendar of Corporate Events 2007

Date	Event
1 February 2007	2006 Results Release
29 March 2007	General Shareholder's Meeting
13 Abril 2007	Dividends Payment
26 Abril 2007	1st Quarter 2007 Results Release
Up to 11 May 2007	Publication of 2006 Annual Report
18 May 2007	Strategy Day
25 July 2007	1st Half 2007 Results Release
Up to 28 September 2007	2006 Interim Report
24 October 2007	3rd Quarter 2007 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 2, 500,000,000.00.

Excerpt from the minutes no. 69 of the Annual General Shareholders' Meeting of Banco Espírito Santo, S.A. held on March 29th, 2007

At ten hours and thirty minutes on March twenty ninth, in the year two thousand and seven, 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:

1- To deliberate on the management report, accounts, and remaining individual reporting documents for the financial year of 2006;
2- To deliberate on the consolidated management report, consolidated accounts, and remaining consolidated reporting documents for the financial year of 2006;
3- To deliberate on the distribution of earnings;
4- To make a general assessment of the Bank's administration and supervision;
5- To deliberate on a proposal to acquire and subsequently sell Banco Espírito Santo, S.A.'s own shares by BES or by companies controlled by it;
6- To consider the statement issued by the Remuneration Committee on the remuneration policy of the corporate bodies;
7- To deliberate on the filling of a vacancy in the Remuneration Committee;
8- To deliberate on the election of Mr. Jean Yves Hocher as a member of the Board of Directors until the end of the current mandate (2004/2007), replacing in that position Mr. Michel Victor François Villatte, who has renounced his mandate.

The Board of the General Meeting consisted of its elected Chairman, Vice-chairmen, and Secretary, respectively Messrs. Paulo de Pitta e Cunha, Fernão de Carvalho Fernandes Thomaz, Nuno Miguel Matos Silva Pires Pombo and Eugénio Fernando de Jesus Quintais Lopes, the latter in the capacity as Company Secretary. Also present in the meeting were the majority of the members of the Board of Directors and all the members of the Audit Committee.

The Chairman of the General Meeting declared the session opened, after ascertaining that there was a quorum of shareholders present or represented owning 332.465,304 shares, corresponding to 66.49% of the share capital and to 3,324,594 votes, that the General Meeting had been regularly called as per notices published on the DGRN-Publicações website of the Ministry of Justice, on February 19th, 2007, as well as on the website of the Portuguese Securities Market Commission (CMVM), on the same date, and on the website of 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", "Público" and "Diário Económico" newspapers of March 23rd, 2007.

The Chairman of the General Meeting asked the meeting to consider the following three items in the Agenda: To deliberate on the management report, accounts, and remaining individual reporting documents for the financial year of 2006 - the Chairman of the General Meeting put the motion (...) to the vote, which was approved by the majority of the votes, with 38,839 abstentions and no dissenting votes; 2- To deliberate on the consolidated management report, consolidated accounts, and remaining consolidated reporting documents for the financial year of 2006; the Chairman of the General Meeting put the motion (...) to the vote, which was approved by the majority of the votes, with 38,839 abstentions and no dissenting votes; and 3- To deliberate on the distribution of earnings (...) – upon discussion (...) the proposal submitted by the Board of Directors, as transcribed below, was unanimously approved.

“The Board of Directors of BANCO ESPÍRITO SANTO, S.A. proposes that:
Pursuant to paragraph b) of Article 376 of the Companies Code, and in accordance with the Management Report, the company’s net earnings for the year, amounting to Euro 257,451,170.52 euros, be allocated as follows:

	Euros
TO THE LEGAL RESERVE:	26,000,000,00
FOR DISTRIBUTION TO SHAREHOLDERS:	200,000,000,00
TO OTHER RESERVES:	31,451,170,52
	257,451,170,52

(...) Going into item 8 in the Agenda - To deliberate on the election of Mr. Jean Yves Hocher as a member of the Board of Directors until the end of the current mandate (2004/2007), replacing in that position Mr. Michel Victor François Villatte, who has renounced his mandate. (...) After declaring the motion open for discussion, and as no one wished to take the floor, the Chairman of the General Meeting put the motion to the vote, and it was approved by the majority of the votes, with 1,423 dissenting votes and 3,330 abstentions.
(...)
There being no further matters to discuss, the Chairman of the General Meeting declared the meeting closed at thirteen hours and thirty 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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BES'06

ANNUAL REPORT

Photographs:
Banco Espírito Santo Collection

BES art Colecção Banco Espírito Santo

Design and development:
Linha 21 Marketing e Publicidade

BES'06

ANNUAL REPORT

BANCO ESPIRITO SANTO

BANCO ESPÍRITO SANTO, S.A.
Registered Office - Av. da Liberdade, 195 • 1250 - 142 Lisbon - Portugal
Registered Share Capital: euro 2 500 000 000 euros • Registered with the Lisbon Registrar of Companies under nº 1607 • Corporate Registration no. 500852367