01
Consolidated Financial Statements and Notes to the Financial Statements

1.1 // Consolidated Income Statement for the years ended 31 December 2007 and 2006

(in thousands of euros)

	Dec 06 (eur '000)	Dec 07 (eur '000)
Interest income	2,591,104	3,370,232
Interest expense	1,761,583	2,416,506
Net interest income	**829,521**	**953,726**
Dividends from securities	41,553	49,959
Comissions and other similar income	639,653	716,311
Comissions and other similar expense	79,448	104,434
Gains and losses in financial assets as fair value	(1,204)	65,864
Gains and losses in financial assets available for sail	165,183	231,524
Gains and losses from sale of other assets	60,485	27,872
Gains and losses from foreign exchange revaluation	15,317	4,388
Other income from banking activity	23,007	24,095
Banking Income	**1,694,067**	**1,969,305**
Staff expenses	478,200	502,143
Other administrative expenses	344,128	378,831
Depreciation	69,019	69,755
Provions net of reversals	51,039	25,408
Loan impairment net of reversals and recoveries	181,555	213,184
Other financial assets' impairment net of reversal and recoveries	7,097	18,187
Other assets' impairment net of reversals and recoveries	2,178	6,085
Negative diference from consolidation	-	-
Equity earnings of associated companies	10,770	31,907
Income before tax	**571,621**	**787,619**
Tax		
Current tax	85,942	86,916
Deferred tax	49,522	65,630
Income after tax and before minority interests	**436,157**	**635,073**
of which: income after of discontinued operations	-	116
Minority interests	15,443	28,004
Net Income	**420,714**	**607,069**

Chief Account

The Board of Directors

1.2 // Consolidated Balance Sheet at 31 of December 2007

	Dec 06 (eur '000)	Dec 07 (eur '000)
Assets		
Cash and Deposits at central banks	1,084,927	1,361,218
Loans and advances to credit institutions repayable on demand	672,976	720,442
Financial assets held for trading	4,171,407	3,847,233
Financial assets at fair value through profit or loss	1,498,592	1,426,704
Financial assets held for trading	5,251,684	6,238,889
Loans and advances to banks	7,588,049	8,210,331
Loans and advances to customers	34,882,505	42,170,263
(Provisions)	(869,327)	(990,395)
Held to maturity investments	593,171	407,842
Financial assets with repurchase agreements	-	-
Hedging derivatives	199,704	211,890
Non current assets held for sail	-	279,408
Investment proprety	-	-
Other intangible assets	382,929	537,768
Intangible assets	68,652	91,171
Investments in associated companies	571,563	573,700
Current tax assets	14,094	19,708
Deferred tax assets	79,767	23,946
Other assets	2,078,786	2,234,200
Total Assets	**59,138,806**	**68,354,713**
Liabilities		
Amounts owed to central banks	1,043,175	1,887,622
Fianancial liabilities held for trading	1,284,376	1,257,201
Financial assets at fair value through profit and loss	-	-
Deposits from banks	6,827,386	7,096,649
Due to costumers	21,993,671	23,775,030
Debt securities	19,030,469	24,313,591
Financial liabilities associated to transferred assets	-	-
Hedging derivatives	262 760	286,940
Non current liabilities held for sial	-	233,189
Provisions	139,882	143,950
Current income tax liabilities	39,356	71,136
Deferred income tax liabilities	168,670	255,903
Instruments representing capital	-	-
Other subordinated loans	2,239,816	2,094,815
Other liabilities	1,286,794	1,524,980
Total Liabilities	**54,316,355**	**62,941,006**
Shareholders' Equity		
Shares capital	2,500,000	2,500,000
Share premium	668,851	668,851
Other capital interests	-	-
Treasury stock	(63,732)	(41,437)
Preference shares	600,000	600,000
Fair value reserve	512,042	646,701
Other reserves and retained earnings	97,997	291,392
Profit for the period/year	420,714	607,069
Anticipated dividends	-	-
Minority interests	86,579	141,131
Total Shareholders' Equity	**4,822,451**	**5 413,707**
Total Liabilities and Shareholders' Equity	**59,138,806**	**68,354,713**

Chief Account

The Board of Directors

1.3 // Consolidated Financial Statements and Notes to the Financial Statements

Consolidated Income Statement for the Years Ended 31 December 2007 and 2006

(in thousands of euros)

	Notes	31.12.2007	31.12.2006
Interest and similar income	5	3,370,232	2,591,104
Interest expense and similar charges	5	2,416,506	1,761,583
Net interest income		**953,726**	**829,521**
Dividend income		49,959	41,553
Fee and commission income	6	716,311	639,653
Fee and commission expense	6	(104,434)	(79,448)
Net gains from financial assets at fair value through profit or loss	7	65,864	(1,204)
Net gains from available-for-sale financial assets	8	231,524	165,183
Net gains from foreign exchange differences	9	27,872	60,485
Net gains from sale of other financial assets		2,815	3,937
Other operating income and expense	10	24,095	23,007
Operating income		**1,967,732**	**1,682,687**
Staff costs	11	502,143	478,200
General and administrative expenses	13	378,831	344,128
Depreciation and amortisation	25 and 26	69,755	69,019
Provisions net of reversals	32	25,408	51,039
Loans impairment net of reversals	21	213,184	181,555
Impairment on other financial assets net of reversals	19 and 20	18,187	7,097
Impairment on other assets net of reversals	24 and 28	6,085	2,178
Operating expenses		**1,213,593**	**1,133,216**
Gains on disposal of investments in subsidiaries and associates	1	1,573	11,380
Share of profit of associates	27	31,907	10,770
Profit before income tax		**787,619**	**571,621**
Income tax			
Current tax	33	86,916	85,942
Deferred tax	33	65,630	49,522
		152,546	**135,464**
Profit for the period		**635,073**	**436,157**
Attributable to equity holders of the Bank		**607,069**	**420,714**
Attributable to minority interest	**37**	**28,004**	**15,443**
		635,073	**436,157**
Earnings per share of profit attributable to the equity holders of the Bank			
Basic (in Euros)	14	1.22	1.02
Diluted (in Euros)	14	1.22	1.02

The following notes form an integral part of these financial statements

Consolidated Balance Sheet as at 31 December 2007 and 2006

(in thousands of euros)

	Notas	31.12.2007	31.12.2006
Assets			
Cash and deposits at central banks	15	1,361,218	1,084,927
Deposits with banks	16	720,442	672,976
Financial assets held for trading	17	3,847,233	4,171,407
Financial assets at fair value through profit or loss	18	1,426,704	1,498,592
Available-for-sale financial assets	19	6,238,889	5,251,684
Loans and advances to banks	20	8,210,331	7,588,049
Loans and advances to customers	21	42,170,263	34,882,505
Held to maturity investments	22	407,842	593,171
Derivatives for risk management purposes	23	211,890	199,704
Non-current assets held for sale	24	279,408	-
Property and equipment	25	537,768	382,929
Intangible assets	26	91,171	68,652
Investments in associates	27	573,700	571,563
Current income tax assets		19,708	14,094
Deferred income tax assets	33	23,946	79,767
Other assets	28	2,234,200	2,078,786
Total assets		**68,354,713**	**59,138,806**
Liabilities			
Deposits from central banks		1,887,622	1,043,175
Financial liabilities held for trading	17	1,257,201	1,284,376
Deposits from banks	29	7,096,649	6,827,386
Due to customers	30	23,775,030	21,993,671
Debt securities issued	31	24,313,591	19,030,469
Derivatives for risk management purposes	23	286,940	262,760
Non-current liabilities held for sale	24	233,189	-
Provisions	32	143,950	139,882
Current income tax liabilities		71,136	39,356
Deferred income tax liabilities	33	255,903	168,670
Subordinated debt	34	2,094,815	2,239,816
Other liabilities	35	1,524,980	1,286,794
Total liabilities		**62,941,006**	**54,316,355**
Equity			
Share capital	36	2,500,000	2,500,000
Share premium	36	668,851	668,851
Treasury stock	36	(41,437)	(63,732)
Preference shares	36	600,000	600,000
Fair value reserve	37	646,701	512,042
Other reserves and retained earnings	37	291,392	97,997
Profit for the period attributable to equity holders of the Bank		607,069	420,714
Total equity attributable to equity holders of the Bank		**5,272,576**	**4,735,872**
Minority interests	37	141,131	86,579
Total equity		**5,413,707**	**4,822,451**
Total equity and liabilities		**68,354,713**	**59,138,806**

The following notes form an integral part of these financial statements

Statement of Changes in Consolidated Equity for the Years Ended 31 December 2007 and 2006

(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 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
Other movements recognised directly in Equity										
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)
Share based payment scheme, net of taxes (see Note 12)	-	-	-	-	-	2,454	-	2,454	-	2,454
Profit for the period	-	-	-	-	-	-	420,714	420,714	15,443	436,157
Total gains and losses recognised in the period	-	-	-	-	146,351	(4,605)	420,714	562,460	14,503	576,963
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)
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
Changes in minority interests (see Note 37)	-	-	-	-	-	-	-	-	(33,676)	(33,676)
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
Other movements recognised directly in Equity:										
Changes in fair value , net of taxes	-	-	-	-	134,659	-	-	134,659	18,685	153,344
Exchaneg differences	-	-	-	-	-	3,455	-	3,455	(2,106)	1,349
Share based payment scheme, net of taxes (see Note 12)	-	-	-	-	-	1,030	-	1,030	-	1,030
Profit for the period	-	-	-	-	-	-	607,069	607,069	28,004	635,073
Total gains and losses recognised in the period	-	-	-	-	134,659	4,485	607,069	746,213	44,583	790,796
Transfer to reserves	-	-	-	-	-	222,390	(222,390)	-	-	-
Dividends on ordinary shares[(a)]	-	-	-	-	-	-	(198,324)	(198,324)	-	(198,324)
Dividends on preferences shares	-	-	-	-	-	(33,480)	-	(33,480)	-	(33,480)
Changes in treasury stock (see Note 36)	-	-	22,295	-	-	-	-	22,295	-	22,295
Changes in minority interests (see Note 37)	-	-	-	-	-	-	-	-	9,969	9,969
Balance as at 31 December 2007	2,500,000	668,851	(41,437)	600,000	646,701	291,392	607,069	5,272,576	141,131	5,413,707

(a) Corresponds to dividend per share of 0,40 euros and 0,40 euros paid to the shares outstanding as at 31 December 2007 and 2006, respectively.

The following notes form an integral part of these financial statements

Consolidated Cash Flow Statement for the Years ended 31 December 2007 and 2006

(in thousands of euros)

	Notes	31.12.2007	31.12.2006
Cash flows arising from operating activities			
Interest and similar income received		3,258,653	2,485,123
Interest expense and similar charges paid		(2,306,283)	(1,674,418)
Fee and commission income received		747,787	667,172
Fee and commission expense paid		(112,987)	(79,448)
Recoveries on loans previously written off		34,857	22,753
Cash payments to employees and suppliers		(845,061)	(604,497)
		776,966	**816,685**
Changes in operational assets and liabilities: :			
Cash and deposits at central banks		(310,042)	17
Financial assets at fair value through profit or loss		634,547	(982,362)
Loans and advances to banks		(614,065)	(1,424,943)
Deposits from banks		1,100,195	941,134
Loans and advances to customers		(7,410,850)	(4,178,274)
Due to customers		1,776,876	1,221,766
Derivatives for risk management purposes		(11,968)	96,397
Other operational assets and liabilities		(709,327)	280,415
Net cash flow from operating activities before income taxes		**(4,767,668)**	**(3,229,165)**
Income taxes paid		(60,750)	(96,536)
		(4,828,418)	**(3,325,701)**
Cash flows arising from investing activities			
Acquisition of subsidiaries and associates		(43,140)	(498,120)
Disposal of subsidiaries and associates		12,107	17,843
Dividends received		83,208	41,553
Acquisition of available-for-sale financial assets		(13,782,478)	(5,692,177)
Sale of available-for-sale financial assets		12,823,589	4,601,417
Held to maturity investments		119,434	(67,482)
Acquisition of tangible and intangible assets		(307,536)	(90,565)
Sale of tangible and intangible assets		3,367	5,130
		(1,091,449)	**(1,682,401)**
Cash flows arising from financing activities			
Capital increase		-	1,368,851
Proceeds from issue of bonds		9,467,710	5,650,588
Reimbursement of bonds		(3,202,094)	(1,695,231)
Proceeds from issue of subordinated debt		21,134	-
Reimbursement of subordinated debt		(129,690)	(59,856)
Treasury stock		22,295	32,515
Dividends paid from ordinary shares		(198,324)	(118,334)
Dividends paid from preference shares		(33,480)	(33,480)
Net cash flow from financing activities		**5,947,551**	**5,145,053**
Net changes in cash and cash equivalents		**27,684**	**136,951**
Cash and cash equivalents at the beginning of the year		**984,311**	**886,668**
Effect of exchange rate changes on cash and cash equivalents		(14,293)	(39,308)
Net changes in cash and cash equivalents		27,684	136,951
Cash and cash equivalents at the end of the period		**997,702**	**984,311**
Cash and cash equivalents includes:			
Cash	15	277,260	311,335
Deposits with banks	16	720,442	672,976
Total		**997,702**	**984,311**

The following notes form an integral part of these financial statements

Banco Espírito Santo Group
Note to the consolidated financial statements as at 31 December 2007
(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 2007, 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 757 branches throughout Portugal (31 December 2006: 669), international branches in London, Madrid, 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.

a) Subsidiaries consolidated directly into the Bank:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
BANCO ESPÍRITO SANTO, SA (BES)	**1937**	**-**	**Portugal**	**Commercial banking**		
Banco Espírito Santo de Investimento, SA (BESI)	1993	1997	Portugal	Investment banking	100%	Full consolidation
Espírito Santo 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	Macao	Commercial banking	99.75%	Full consolidation
Espírito Santo Bank, Inc. (ESBANK)	1963	2000	United States	Commercial banking	98.45%	Full consolidation
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding company	100%	Full consolidation
BIC International Bank Ltd. (BIBL)	2000	2000	Cayman	Commercial banking	100%	Full consolidation
Parsuni - Sociedade Unipessoal, SGPS	2004	2005	Portugal	Holding company	100%	Full consolidation
Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS)	1990	2007	Portugal	Real estate	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
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding company	100%	Full consolidation
Banco Espirito Santo North American Capital Limited Liability Co. (BESNAC)	1990	1990	United States	Financing vehicle	100%	Full consolidation
BES Finance, Ltd. (BESFINANCE)	1997	1997	Cayman	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	100%	Full consolidation
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	United States	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	58.79%	Full consolidation
Fundo FCR PME / BES	1997	1997	Portugal	Venture capital fund	57.09%	Full consolidation
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	44%	Equity method
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	1991	2003	Portugal	Renting	45%	Equity method

b) Sub-groups:

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
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
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 a)
Synergy Industry and Technology, S.A.	2006	2007	Spain	Holding company	15%	Equity method a)
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
Fundo Espírito Santo Infrastructure I	2007	2007	Portugal	Investment fund	50%	Full consolidation
Espírito Santo Investments PLC	1996	1996	Ireland	Brokerage	100%	Full consolidation
Morumbi Capital Fund	2005	2005	Cayman	Fund	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	2005	2005	Brazil	Holding company	100%	Equity method
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	49%	Full consolidation
Kutaya	1999	1999	Portugal	Support services	100%	Full consolidation
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	38.69%	Equity method
Fin Solutia - Consultoria de Gestão de Créditos, SA	2007	2007	Portugal	Debt collection	100%	Equity method
BES Beteiligungs, GmbH (BES GMBH)	2006	2006	Germany	Holding company	100%	Full consolidation
Bank Espírito Santo International, Ltd. (BESIL)	1983	2002	Cayman	Commercial banking	100%	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 - investment funds	85%	Full consolidation
Espírito Santo International Management, SA	1995	1995	Luxembourg	Asset management - investment 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
Espírito Santo International Asset Management, Ltd.	1998	1998	Virgin Islands	Advisory services	41.65%	Equity method
Espírito Santo Gestão de Patrimónios, SA	1987	1987	Portugal	Portfolio Managemet	85%	Full consolidation
ESAF - Espírito Santo Participações Internacionais, SGPS, SA	1996	1996	Portugal	Holding company	85%	Full consolidation
ESAF - International Distributors Associates, Ltd	2001	2001	Virgin Islands	Distribution company	85%	Full consolidation
ESAF - Alternative Asset Management, Ltd	2007	2007	United Kingdom	Asset management	85%	Full consolidation
Espírito Santo Data, S.G.P.S., SA (ESDATA)	1989	1995	Portugal	Computer services	100%	Full consolidation
OBLOG Consulting, SA	1993	1993	Portugal	Software development	66.67%	Equity method
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	Venture capital	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

	Established	Acquired	Headquartered	Activity	% economic interest	Consolidation method
Fundo de Capital de Risco - FIQ Ventures II	2006	2006	Portugal	Venture capital fund	58.79%	Full consolidation
Atlantic Ventures Corporation	2006	2006	EUA	Holding company	58.79%	Full consolidation
Prepaid Capital	2006	2006	EUA	Services provider	11.76%	Equity method
Inovamais - Serv. Cons. Inovação Tecnológica, SA	2006	2006	Portugal	Services provider	11.76%	Equity method a)
Invent, SAS	2007	2007	France	Services provider	11.76%	Equity method a)
Inova Europe SPA	2006	2006	Luxembourg	Services provider	11.76%	Equity method a)
Sousacamp, SGPS, SA	2007	2007	Portugal	Holding company	22,99%	Equity method
Global Active - SGPS, SA	2006	2006	Portugal	Holding company	14,69%	Equity method a)
Outsystems, SA	2007	2007	Portugal	IT Services	16,04%	Equity method a)
Coreworks - Proj. Circuito Sist. Elect., SA	2006	2006	Portugal	IT Services	23,53%	Equity method
Bio-Generis	2007	2007	Brazil	Holding company	19,99%	Equity method
Fundo FCR PME / BES	1997	1997	Portugal	Venture capital fund	57.09%	Full consolidation
TLCI 2 - Soluções Integradas de Telecomunicações, SA	2006	2006	Portugal	Telecommunications	31.40%	Full consolidation
Carlua, SGPS, SA	2004	2004	Portugal	Venture capital fund	18.34%	Equity method a)
Decomed, SGPS	2006	2006	Portugal	Holding company	12.15%	Equity method a)
Soprattutto Café, S.A	2006	2006	Portugal	Distribution company	25.59%	Equity method
Enkrott SA	2006	2006	Portugal	Water management and treatment	17.13%	Equity method a)
Rodi 2, SA	2006	2006	Portugal	Industry	13.48%	Equity method a)
Espírito Santo Activos Financieros, SA	2000	2000	Spain	Asset management	92.5%	Full consolidation
Espírito Santo Gestion, SA, SGIIC	2001	2001	Spain	Asset management	92.5%	Full consolidation
Espírito Santo Pensiones, S.G.F.P., SA	2001	2001	Spain	Asset management - pension funds	92.5%	Full consolidation
Espírito Santo Bank, Inc. (ESBANK)	1963	2000	United States	Commercial banking	98.45%	Full consolidation
ES Financial Services, Inc.	2000	2000	United States	Brokerage	79.25%	Full consolidation
Tagide Properties, Inc.	1991	1991	United States	Real estate	98.45%	Full consolidation
Espírito Santo Representaciones	2003	2003	Uruguai	Representation office	98.45%	Full consolidation

a) Although 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, the Group consolidates special purpose entities, established within the scope of securitisation transactions which are referred to in Note 41.
The main changes in BES Group structure occurred during 2007 are highlighted as follows:

- Subsidiaries companies
  - On 1 April 2007, Banco Espírito Santo, S.A (Spain) was merged into BES and subsequently became the Spanish Branch of the Bank. No impact on the financial statements of the Group occurred from this merger.
  - In May 2007, BES acquired an additional 51% of ES Data thus gaining full control over this entity. As at 31 December 2007, total assets and net income of this company amounted to Euro 8.6 million and 0.2 million negative, respectively.
  - In May 2007, BESI acquired an additional 10% of the share capital of Cominvest, SGII, S.A., thus increasing its participation in this entity to 49%. As at 31 December 2007, total assets and the net income of the company amounted to Euro 7.7 million and 0.7 million, respectively.
  - In November 2007, BES acquired 100% of the share capital of Praça do Marquês – Serviços Auxiliares, S.A.. As at 31 December 2007, total assets of this company amounted to Euro 74.1 million and refer mainly to a building for the Bank's own use. The building is classified under Property and equipment in the consolidated financial statements of the Group.

- Associates
  - In March 2007, BES acquired an additional 10% of share capital of ESEGUR, thus increasing its participation in this entity to 44%. The net income of this entity attributable to the Group amounts approximately to Euro 1.5 million.
  - In June 2007, BESI acquired 15% of share capital of Synergy Industry and Technology, S.A.. The net income of this entity attributable to the Group amounts approximately to Euro 1.3 million.
  - In August 2007, BESI sold its stake in Sotancro, S.A.;
  - In September 2007, Fundo FCR sold its stake in Água Mais;
  - In November 2007, Fundo FCR sold its stake in Sopratutto Cafés 2.

In the consolidated income statements for the years ended 31 December 2007 and 2006, the amount of euro 1,573 thousand (31 December 2006: euro 11,380 thousand) refers to the gains on disposal of investments in subsidiaries and associates as follows:

(in thousands of euros)

	31.12.2007		31.12.2006	
	% of share capital sold	Amount	% of share capital sold	Amount
Sopratutto Café 2, S.A.	49.00%	1,013	-	-
Sotrancro, S.A.	44.83%	346	-	-
Água Mais	29.95%	214	-	-
Bes, Companhia de Seguros, S.A.	-	-	15.00%	9,101
Lontinium, S.A.	-	-	25.25%	1,963
ES Financial Services, Inc.	-	-	20.75%	316
		1,573		11,380

Note 2 // Summary of significant accounting principles

2.1. Basis of preparation and statement of compliance

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.

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 2007, were prepared in accordance with the IFRS effective and adopted for use in the EU until 31 December 2007. The accounting policies used by the Group in the preparation of its consolidated financial statements as at 31 December 2007 are consistent with the ones used in the preparation of the consolidated financial statements as at 31 December 2006.

In the preparation of the consolidated financial statements as at 31 December 2007, the Group adopted IFRS 7 Financial Instruments – Disclosures and IAS 1 (revised) Presentation of Financial Statements – Capital Disclosures. These standards, which are mandatory from 1 January 2007, impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or on the financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information.

Additionally, the Group adopted in 2007 the IFRIC 8 Scope of IFRS 2, IFRIC 9 Reassessment of Embedded Derivatives and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these interpretations had no impact in the consolidated financial statements of the Group.

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

The preparation of financial statements in conformity with 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 judgment 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 26 February 2008.

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 associates.

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 also exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary attributable to minority interests, which exceed the equity of the subsidiary attributable to the minority interest, is attributed to the Group and is taken to the income statement when incurred. If the subsidiary subsequently reports profits, such profits are recognised by the Group until the losses attributable to the minority interests, 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, independently of the percentage of the equity held.

The evaluation of the existence of control is made based on the criteria established by SIC 12 – Consolidation 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 is 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 associates. The cost of acquisition is measured at the fair value, determined at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of identifiable net assets acquired.

In accordance with IFRS 3 – Business Combinations, goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associates is included in the book value of the investment in those associates, 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 provide 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 to equity instruments classified as available-for-sale, which are accounted for in equity.

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 on re-mesurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

Fair values are obtained from quoted market prices, in active markets, if available or are determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

• Classification criteria
Hedge accounting is used for derivative financial instruments designated as hedging instrument, provided the following criteria are met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the 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 will affect the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

During the 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 their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

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

In accordance with the documented strategy for risk management, the Group contracts derivative financial instruments to manage certain risks of a portion of the loan portfolio, without applying, however, the provisions of hedge accounting as mentioned in Note 2.4. These loans are measured at fair value through profit or loss, in order to eliminate a measurement inconsistency resulting from measuring loans and derivatives for risk management purposes on different basis (accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss, as described in note 2.6.

Impairment

The Group assesses, at each balance sheet date, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement, and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

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

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

- the aggregate exposure to the customer and the existence of non-performing loans;
- the viability of the customer's business model and 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 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, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an a economical basis), in order to eliminate 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 as at fair value through profit or loss or as available for sale.

• Available-for-sale financial assets

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 financial assets, are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case these transaction costs are directly recognised in the income statement.

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

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of any impairment losses recognised.
The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Financial instruments whose fair value cannot be reliably measured are carried at cost.

Reclassifications between categories

In accordance with IAS 39, the Group does not reclassify, after initial recognition, a financial instrument 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. 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 transfer cash or another financial asset, independently from its legal form.

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

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 measured at fair value.

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

- Such financial liabilities are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial liabilities contain embedded derivatives.

The 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 initially 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.

When these assets are available for immediate disposal, in accordance with IFRS 5, they are classified as Non-current assets held for sale and booked in accordance with the accounting policy described in note 2.23.

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 revalue amount of property and equipment as determined in accordance with previous accounting policies of the Group, which was broadly similar to depreciated cost measured under IFRS, adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation 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 the 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 installments, 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 opened 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 recognizes 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 amortization 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%.

The Group assesses at each reporting date and for each plan separately, the recoverability of any recognized asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

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 surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, holiday and Christmas subsidy.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above.

Long-service benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, the Group has assumed the commitment to pay to current employees that achieve 15, 25 or 30 years of service within the Group, long service premiums corresponding, respectively, to 1, 2 or 3 months of their effective monthly remuneration earned at the date the premiums are paid.

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 and to the Board of Directors

In accordance with IAS 19 – Bonuses to employees, the bonus payment to employees and to the Board of Directors 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 in any jurisdiction and that are expected to apply when the related deferred income tax asset is realized 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 those classified as hedging instruments of interest rate risk and those used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, 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 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.

Note 3 // Critical accounting estimates, and judgments in applying accounting policies

IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies, are discussed in this section in order to improve understanding of how their application affects the Group's reported results and related disclosure. A broader description of the accounting policies employed by the Group is shown in Note 2 to the Consolidated Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Group's reported results would differ if a different treatment were chosen. Management believes that the choices made by it are appropriate and that the financial statements present the Group's financial position and results fairly in all material respects.

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 judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price.

In addition, valuations are generally obtained through market quotation or valuation models that may require assumptions or judgment in making estimates of fair value.

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

3.2. Fair value of derivatives

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

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

3.3. Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.5.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, among other 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 instead of 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 annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

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 and Factoring – includes leasing and factoring operations;

(v) Other – includes the remaining segments that individually represent less than 10% of total assets or profits 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)

	31.12.2007											
	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	3,664,372	139,377	2,195	202,426	2,136	4,010,506	875,437	125,656	478	1,001,571	(1,641,845)	3,370,232
Interest expense and similar charges	2,928,888	118,127	-	164,104	6,485	3,217,604	724,688	115,926	133	840,747	(1,641,845)	2,416,506
Net interest income	**735,484**	**21,250**	**2,195**	**38,322**	**(4,349)**	**792,902**	**150,749**	**9,730**	**345**	**160,824**	**-**	**953,726**
Dividend income	48,458	1,123	-	-	358	49,939	20	-	-	20	-	49,959
Fee and commission income	434,884	71,850	70,034	6,581	1,306	584,655	93,419	52,630	29,856	175,905	(44,249)	716,311
Fee and commission expense	(68,320)	(9,811)	(33,419)	(1,792)	(51)	(113,393)	(15,301)	(7,456)	(13,138)	(35,895)	44,854	(104,434)
Net gain/(loss) from financial assets at fair value through profit or loss	86,822	(5,281)	-	44	(3,187)	78,398	(3,303)	(9,231)	-	(12,534)	-	65,864
Net gains from available-for-sale financial assets	176,409	7,597	-	3	701	184,710	(413)	47,227	-	46,814	-	231,524
Net gains from foreign exchange differences	(19,055)	(15,100)	(9)	(4)	(1,412)	(35,580)	23,616	40,077	(241)	63,452	-	27,872
Net gains from the sale of other financial assets	169	2,373	-	1	-	2,543	271	-	1	272	-	2,815
Other operating income	55,411	3,529	776	5,828	17,077	82,621	(3,258)	(5,052)	(149)	(8,459)	(50,067)	24,095
Operating income	**1,450,262**	**77,530**	**39,577**	**48,983**	**10,443**	**1,626,795**	**245,800**	**127,925**	**16,674**	**390,399**	**(49,462)**	**1,967,732**
(Operating income from external customers)	*1,393,849*	*88,781*	*67,332*	*109,650*	*9,113*	*1,668,725*	*147,544*	*127,925*	*23,538*	*299,007*	*-*	*1,967,732*
(Inter-segments operating income)	*(56,413)*	*11,251*	*27,755*	*60,667*	*(1,330)*	*41,930*	*(98,256)*	*-*	*6,864*	*(91,392)*	*49,462*	*-*
Staff costs	362,602	27,337	7,945	4,891	9,065	411,840	59,720	29,256	2,622	91,598	(1,295)	502,143
General and administrative expenses	321,956	15,992	5,283	8,798	10,439	362,468	50,626	12,208	1,696	64,530	(48,167)	378,831
Depreciation and amortisation	55,298	1,097	338	902	483	58,118	10,272	1,220	145	11,637	-	69,755
Provisions net of reversals	26,032	1,624	(526)	-	-	27,130	(2,009)	-	287	(1,722)	-	25,408
Loans impairment net of reversals	172,578	(899)	-	13,110	-	184,789	28,049	346	-	28,395	-	213,184
Impairment on other financial assets net of reversals	14,467	(502)	-	236	3,986	18,187	-	-	-	-	-	18,187
Impairment on other assets net of reversals	6,331	-	(8)	(238)	-	6,085	-	-	-	-	-	6,085
Operating expenses	**959,264**	**44,649**	**13,032**	**27,699**	**23,973**	**1,068,617**	**146,658**	**43,030**	**4,750**	**194,438**	**(49,462)**	**1,213,593**
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	1,573	1,573	-	-	-	-	-	1,573
Share of profit of associates	-	-	-	-	26,751	26,751	5,156	-	-	5,156	-	31,907
Profit before income tax	**490,998**	**32,881**	**26,545**	**21,284**	**14,794**	**586,502**	**104,298**	**84,895**	**11,924**	**201,117**	**-**	**787,619**
Income tax												
Current tax	58,750	(21,358)	7,336	8,244	4,119	57,091	2,130	24,812	2,883	29,825	-	86,916
Deferred tax	24,806	29,304	17	(1,983)	3,068	55,212	10,418	-	-	10,418	-	65,630
Profit after income tax and before minority interests	**407,442**	**24,935**	**19,192**	**15,023**	**7,607**	**474,199**	**91,750**	**60,083**	**9,041**	**160,874**	**-**	**635,073**
Minority interests	8 840	(215)	-	-	-	8,625	10,764	8,602	13	19,379	-	28,004
Profit for the period	**398,602**	**25,150**	**19,192**	**15,023**	**7,607**	**465,574**	**80,986**	**51,481**	**9,028**	**141,495**	**-**	**607,069**
Total assets	79,757,826	3,252,663	85,296	3,967,247	848,176	87,911,208	17,412,351	2,243,146	38,313	19,693,810	(39,250,305)	68,354,713
Investments in associates	-	-	-	-	533,614[a)]	533,614	40,086	-	-	40,086	-	573,700
Total liabilities	76,020,596	3,072,567	21,466	3,885,633	216,497	83,216,759	16,947,279	2,009,317	17,956	18,974,552	(39,250,305)	62,941,006
Capital expenditure (Property and equipment)	117,206	2,116	510	208	1 112	121,152	18,254	-	61	18,315	-	139,467
Capital expenditure (Intangible assets)	35,653	744	544	336	1 836	39,113	12,420	-	18	12,438	-	51,551

a) Includes the investment on BES-Vida: euro 457,992 thousands (see Note 27).

(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	394,823	49,995	57,104	15,563	230	517,715	79,154	56,530	14,328	150,012	(28,074)	639,653
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	115,385	1,991	(1,114)	3,257	7,534	127,053	(2,216)	(9,076)	16	(11,276)	(92,770)	23,007
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	346,921	13,071	4,460	12,966	4,929	382,347	41,546	12,461	40	54,047	(92,266)	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	**958,658**	**39,715**	**12,872**	**33,407**	**12,683**	**1,057,335**	**127,601**	**41,464**	**40**	**169,105**	**(93,224)**	**1,133,216**
Gains on disposal of investments in subsidiaries and associates	-	-	-	-	11,064	11,064	316	-	-	316		11,380
Share of profit of associates	-	-	-	-	5,999	5,999	3,283	-	1,488	4,771	-	10,770
Profit before income tax	**306,403**	**57,817**	**18,685**	**24,292**	**41,168**	**448,365**	**87,591**	**22,133**	**13,532**	**123,256**	**-**	**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	**230,047**	**43,122**	**12,373**	**16,529**	**30,333**	**332,404**	**77,054**	**16,147**	**10,552**	**103,753**	**-**	**436,157**
Minority interests	4,838	83	-	-	-	4,921	8,290	2,218	14	10,522	-	15,443
Profit for the period	**225,209**	**43,039**	**12,373**	**16,529**	**30,333**	**327,483**	**68,764**	**13,929**	**10,538**	**93,231**	**-**	**420,714**
Other information												
Total assets	72,995,523	2,670,560	59,788	3,217,431	760,801	79,704,103	13,368,174	1,896,508	20,275	15,284,957	(35,850,254)	59,138,806
Investments in associates	-	-	-	-	537,172[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)

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

(in thousands of euros)

	31.12.2007									
	Portugal	Spain	France / Luxembourg	UK	United States of America	Brazil	Angola	Cape Verde	Macao	Total
Profit for the year	465,574	15,165	12,275	44,350	1,928	32,224	33,542	288	1 723	607,069
Total assets	54,798,059	5,732,288	61,068	3,711,852	1,505,628	1,045,003	1,275,326	65,734	159,755	68,354,713
Capital expenditure (Property and equipment)	121,152	6,372	-	-	24	-	11,914	-	5	139,467
Capital expenditure (Intangible assets)	39,113	4,743	-	-	3	-	7,690	-	2	51,551

(in thousands of euros)

	31.12.2006									
	Portugal	Spain	France / Luxembourg	UK	United States of America	Brazil	Angola	Cape Verde	Macao	Total
Profit for the year	327,484	11,630	13,820	39,077	980	5,812	20,286	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

Nota 5 // Net interest income

This balance is analysed follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Assets/ Liabilities at Amortised Cost	Assets/ Liabilities at Fair Value	Total	Assets/ Liabilities at Amortised Cost	Assets/ Liabilities at Fair Value	Total
Interest and similar income						
Interest from loans and advances	2,271,698	6,776	2,278,474	1,671,093	1,519	1,672,612
Interest from financial assets at fair value through profit or loss	-	412,491	412,491	-	460,062	460,062
Interest from deposits with banks	339,457	1,315	340,772	176,911	-	176,911
Interest from available-for-sale financial assets	167,182	-	167,182	117,195	-	117,195
Interest from derivatives for risk management purposes	-	122,201	122,201	-	104,355	104,355
Other interest and similar income	49,112	-	49,112	59,969	-	59,969
	2,827,449	**542,783**	**3,370,232**	**2,025,168**	**565,936**	**2,591,104**
Interest expense and similar charges						
Interest from debt securities	877,271	209,918	1,087,189	543,245	100,191	643,436
Interest from amounts due to customers	532,630	4,836	537,466	390,229	2,554	392,783
Interest from deposits from central banks and other banks	452,777	-	452,777	313,209	375	313,584
Interest from derivatives for risk management purposes	-	219,490	219,490	-	289,981	289,981
Interest from subordinated debt	106,561	10,895	117,456	109,956	11,843	121,799
Other interest expense and similar charges	2,128	-	2128	-	-	-
	1,971,367	**445,139**	**2,416,506**	**1,356,639**	**404,944**	**1,761,583**
	856,082	**97,644**	**953,726**	**668,529**	**160,992**	**829,521**

Interest from loans and advances includes an amount of euro 13 102 thousands (31 December 2006: euro 10 861 thousands) 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 Notes 2.5, 2.6 and 2.8.

Note 6 // Net fee and commission income

This balance is analysed follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Fee and commission income		
From banking services	483,689	436,933
From guarantees granted	64,999	61,123
From transactions with securities	63,609	47,125
From commitments assumed to third parties	17,406	13,056
Other fee and commission income	86,608	81,416
	716,311	639,653
Fee and commission expense		
From banking services rendered by third parties	62,978	51,354
From transactions with securities	14,495	4,360
From guarantees received	249	379
Other fee and commission expense	26,712	23,355
	104,434	79,448
	611,877	560,205

Note 7 // Net gain/ (loss) from financial assets at fair value through profit or loss

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	85,536	113,465	(27,929)	104,991	74,384	30,607
Issued by other entities	9,243	5,990	3,253	5,630	1,401	4,229
Shares	102,988	86,015	16,973	104,469	65,102	39,367
Other variable income securities	25,978	24,492	1,486	25,283	6,820	18,463
	223,745	229,962	(6,217)	240,373	147,707	92,666
Derivative financial instruments						
Exchange rate contracts	1,024,759	1,181,110	(156,351)	574,619	585,982	(11,363)
Interest rate contracts	6,570,100	6,512,057	58,043	2,838,075	2,978,745	(140,670)
Equity/Index contracts	1,424,736	1,334,338	90,398	1,158,598	1,187,780	(29,182)
Credit default contracts	155,214	145,420	9,794	88,644	88 611	33
Credit default contracts	142,130	196,932	(54,802)	1,197,946	1,136,663	61,283
Other	9,316,939	9,369,857	(52,918)	5,857,882	5,977,781	(119,899)
	9,540,684	9,599,819	(59,135)	6,098,255	6,125,488	(27,233)
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	13,942	21,070	(7,128)
Issued by other entities	315,193	239,594	75,599	192,764	256,730	(63,966)
Shares	32,003	815	31,188	37,383	15,755	21,628
	347,196	240,409	106,787	244,089	293,555	(49,466)
Financial assets[(1)]						
Loans and advances to banks	49	-	49	-	-	-
Loans and advances to customers	626	953	(327)	-	4,309	(4,309)
	675	953	(278)	-	4,309	(4,309)
Financial liabilities[(1)]						
Deposits from banks	13,033	-	13,033	117	-	117
Due to customers	1,544	2,364	(820)	439	4,865	(4,426)
Debt securities issued	44,909	51,911	(7,002)	52,470	7,192	45,278
Other subordinated debt	13,279	-	13,279	38,942	107	38,835
	72,765	54,275	18,490	91,968	12,164	79,804
	420,636	295,637	124,999	336,057	310,028	26,029
	9,961,320	9,895,456	65,864	6,434,312	6,435,516	(1,204)

(1) includes the fair value change on hedged assets and liabilities and of assets and liabilities at fair value trought profit or loss.

As at 31 December 2007, this balance includes a positive effect of euro 9,421 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 (31 December 2006: negative effect of euro 2,026 thousands).

The balance derivative financial instruments (interest rate contracts) includes an amount of approximately euro 6.8 million referring to losses on derivative financial instruments arising on the consolidation of special purpose entities, in accordance with SIC 12, which were sold during 2007 (2006: gains of euro 26.8 million).

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

This balance is analysed follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	3,284	32	3,252	1,494	1	1,493
Issued by other entities	5,773	34,273	(28,500)	99,356	13,016	86,340
Shares	255,818	3,064	252,754	78,717	3,582	75,135
Other variable income securities	4,626	608	4,018	2,215	-	2,215
	269,501	37,977	231,524	181,782	16,599	165,183

During 2007, the Group sold (i) 7.2 million ordinary shares of Bradesco (realised gain: euro 85.5 millions); (ii) 64.3 million ordinary shares of EDP (realised gain: euro 41.6 millions); and (iii) 6.9 million shares of Portugal Telecom (realised gain: euro 12.8 millions).

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 Note arising on 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 Note arising on 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.

Note 9 // Net gains from foreign exchange differences

This balance is analysed follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	535,066	507,194	27,872	958,942	898,457	60,485
	535,066	507,194	27,872	958,942	898,457	60,485

Note 10 // Other operating income and expense

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Other operating income		
Technological services	4,921	6,137
Call center services	7,610	5,029
Other	98,572	72,294
	111,103	83,460
Other operating expense		
Direct and indirect taxes	12,934	11,692
Contributions to the Deposits Guarantee Fund	3,190	4,124
Donations	5,770	3,913
Other	65,114	40,724
	87,008	60,453
	24,095	23,007

Note 11 // Staff costs

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Wages and salaries	364,781	328,390
Remuneration	363,421	325,443
Long-service benefits (see Note 12)	1,360	2,947
Health-care benefits - SAMS	20,288	18,093
Other mandatory social charges	44,076	40,151
Pension costs (see Note 12)	53,088	71,413
Other costs	19,910	20,153
	502,143	478,200

The health-care benefits – SAMS include the amount of euro 9,931 thousand (31 December 2006: euro 9 773 thousand) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation (see Note 12).

The reduction on pension costs for the year ended 31 December 2007, when compared to the year ended 31 December 2006 is mainly explained by the reduction in the unrecognised actuarial losses as a result of the fund's performance, implying a decrease of the annual depreciation of euro 21.8 millions (see Note 12).

Included in other costs is the amount of euro 1 402 thousand (31 December 2006: euro 2,454 thousand) related with 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 management key personnel of BES Group are analysed follows:

(in thousands of euros)

	Board of Directors	Audit Board	Other management key personnel	Total
31 December 2007				
Salaries and other short-term benefits	4,218	691	8,817	13,726
Pension costs and health-care benefits (SAMS)	337	-	703	1,040
Long service benefits	-	-	46	46
Bonus	7,352	-	7,334	14,686
Total	**11,907**	**691**	**16,900**	**29,498**
31 December 2006				
Salaries and other short-term benefits	3,914	671	7,865	12,450
Pension costs and health-care benefits (SAMS)	316	-	643	959
Long service benefits	80	-	39	119
Bonus	5,269	-	6,284	11,553
Total	**9,579**	**671**	**14,831**	**25,081**

Other key management personnel includes BES Board and Audit Committee members, board members of BES subsidiaries and BES senior management.
As at 31 December 2007 and 2006, the loans granted by the Group to key management personnel amounted to euro 25,641 thousand and euro 21,203 thousand, respectively.

As at 31 December 2007 and 2006, the number of employees of the Group is analysed as follows:

	31.12.2007	31.12.2006
BES employees(1)	6,787	6,095
Financial sector subsidiary employees	2,131	2,300
Financial sector employees	**8,918**	**8,395**
Employed by other companies essencially providing services to customers outside the Group	563	409
	9,481	**8,804**

(1) On December 31st 2007, BES employees from business units merged into BES, wich on 31 December 2006 amounted to 367.

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

	31.12.2007	31.12.2006
Senior management	824	718
Management	962	1,208
Specific functions	4,211	3,240
Administrative functions and others	3,484	3,518
	9,481	**8,804**

Note 12 // Employee benefits

Pension and health-care benefits

In compliance with the collective labor agreement for the banking sector established 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 Funds de Pensões, S.A.

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

	Assumptions		Actual	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Financial Assumptions				
Salaries increase rate	3.25%	2.75%	4.50%	5.60%
Pensions increase rate	2.25%	1.75%	1.59%	1.48%
Expected return of plan assets	5.25%	4.75%	12.97%	12.58%
Discount rate	5.25%	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 as at 31 December 2007 and 2006 corresponded to 6.5% of total wages. The percentage of contribution is established by SAMS, and no changes are expected for 2008.

The number of employees covered by the plan is a follows:

	31.12.2007	31.12.2006
Employees	6,182	6,048
Pensioners	5,540	5,495
Total	**11,722**	**11,543**

Pension Fund assets are analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Shares	1,061,790	965,431
Other variable income securities	246,535	598,214
Bonds	264,476	183,008
Real estate assets	382,637	179,126
Other	278,385	103,001
Total	**2,233,823**	**2,028,780**

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)

	31.12.2007	31.12.2006
Shares	51,972	65,360
Bonds	-	254
Real estate assets	124,986	123,299
Total	**176,958**	**188,913**

The shares held by the pension fund, in 31 December 2007, are 3.5 million shares of BES (31 December 2006: 4.7 million shares of BES and 60 thousand shares of Sotancro).

During 2006, the transactions between the Group and the pension fund are referred to in Note 8. During 2007 there were no transactions between the Group and the pension fund.

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 2007 and 2006 are analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Assets / (liabilities) recognised in the balance sheet						
Liabilities as at 1 January						
Pensioners	(1,397,653)	(80,911)	(1,478,564)	(1,372,233)	(107,645)	(1,479,878)
Employees	(572,712)	(29,764)	(602,476)	(519,414)	(2,152)	(521,566)
	(1,970,365)	**(110,675)**	**(2,081,040)**	**(1,891,647)**	**(109,797)**	**(2,001,444)**
Fair value of plan assets as at 31 December	2,233,343	480	2,233,823	2,028,303	477	2,028,780
Excess / deficit of coverage	262,978	(110,195)	152,783	136,656	(109,320)	27,336
Unrecognised net actuarial losses as at 31 December	305,068	23,019	328,087	442,352	26,535	468,887
Asset/(liabilities) recognised in the balance sheet as at 31 December	**568,046**	**(87,176)**	**480,870**	**579,008**	**(82,785)**	**496,223**

The health-care benefits in the amount of euro 87 176 thousand (31 December 2006: euro 82 785 thousand) are covered by liabilities in the same amount recognised in the balance sheet (see note 35).

The net assets with pensions are included in the balance Other assets (see note 28).

In accordance with accounting policy described in Note 2.15 and following the requirements of IAS 19 – Employees benefits, the Group assesses at each balance sheet date and for each plan separately, the recoverability of the recognised assets in relation to the defined benefit pension plans based on the expectation of reductions in future contributions to the funds.

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Liabilities as at 1 January	**1,891,647**	**109,797**	**2,001,444**	**1,826,346**	**117,330**	**1,943,676**
Service cost	30,292	1,991	32,283	29,478	2,079	31,557
Interest cost	87,196	5,085	92,281	84,143	5,444	89,587
Plan participants' contribution	2,826	1	2,827	3,072	-	3,072
Actuarial (gains) / losses:						
- Change of discount rate	(8,258)	(199)	(8,457)	-	-	-
- Other actuarial (gains) / losses	42,590	(1,881)	40,709	3,460	(11,577)	(8,117)
Benefits paid by the Fund	(96,533)	-	(96,533)	(94,919)	-	(94,919)
Benefits paid by the Group	-	(5,520)	(5,520)	-	(5,464)	(5,464)
Curtailment losses related to early retirements	22,158	1,440	23,598	40,601	1,983	42,584
Other	(1,553)	(39)	(1,592)	(534)	2	(532)
Liabilities as at 31 December	**1,970,365**	**110,675**	**2,081,040**	**1,891,647**	**109,797**	**2,001,444**

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 (see Note 32).

As at 31 December 2007, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 17.0 millions (31 December 2006: euro 16.9 million) and an increase in costs (service cost and interest cost) of euro 1.2 million (31 December 2006: euro 1.1 million).

The change in fair value of the plan assets in 2007 and 2006 is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Fair value of plan assets as at 1 January	**2,028,303**	**477**	**2,028,780**	**1,816,229**	**-**	**1,816,229**
Actual return on plan assets	257,763	21	257,784	222,666	-	222,666
Group contribution	42,951	20	42,971	82,121	477	82,598
Plan participants' contribution	2,826	1	2,827	3,072	-	3,072
Benefits paid by the Fund	(96,533)	-	(96,533)	(94,919)	-	(94,919)
Other	(1,967)	(39)	(2,006)	(866)	-	(866)
Fair value of plan assets as at 31 December	**2,233,343**	**480**	**2,233,823**	**2,028,303**	**477**	**2,028,780**

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unrecognised net actuarial losses as at 1 January	**442,352**	**26,535**	**468,887**	**630,521**	**41,237**	**671,758**
Actuarial (gains) / losses						
- Change of discount rate	(8,258)	(199)	(8,457)	-	-	-
- other actuarial (gains) / losses	(115,049)	(1,881)	(116,930)	(137,530)	(11,577)	(149,107)
Amortisation of the year	(11,448)	(1,083)	(12,531)	(33,243)	(1,967)	(35,210)
Additional amortisation (curtailment)	(2,118)	(357)	(2,475)	(17,029)	(1,113)	(18,142)
Other	(411)	(4)	(407)	(367)	(45)	(412)
Unrecognised net actuarial losses as at 31 December	**305,068**	**23,019**	**328,087**	**442,352**	**26,535**	**468,887**
Of which:						
Within the corridor	223,054	11,067	234,121	202,437	10,980	213,417
Outside the corridor	82,014	11,952	93,966	239,915	15,555	255,470

From the amount of the additional amortization (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 in the restructuring provision (see Note 32).

The changes in unfunded liabilities are analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unfunded liabilities as at 1 January	**136,656**	**(109,320)**	**27,336**	**(10,117)**	**(117,330)**	**(127,447)**
Actuarial (gains) / losses of liabilities	(34,332)	2,080	(32,252)	(3,460)	11,577	8,117
Actuarial (gains) / losses of plan assets	157,639	(4)	157,635	140,990	-	140,990
Charges for the year:						
- Service cost	(30,292)	(1,991)	(32,283)	(29,478)	(2,079)	(31,557)
- Interest cost	(87,196)	(5,085)	(92,281)	(84,143)	(5,444)	(89,587)
- Expected return on plan assets	100,124	25	100,149	81,676	-	81,676
- Curtailment losses related to early retirements	(22,158)	(1,440)	(23,598)	(40,601)	(1,983)	(42,584)
- Other	(414)	-	(414)	(332)	(2)	(334)
Contributions of the year and pensions paid by the Group	42,951	5,540	48,491	82,121	5,941	88,062
Unfunded liabilities as at 31 December	**262,978**	**(110,195)**	**152,783**	**136,656**	**(109,320)**	**27,336**

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Service cost	30,292	1,991	32,283	29,478	2,079	31,557
Interest cost	87,196	5,085	92,281	84,143	5,444	89,587
Expected return on plan assets	(100,124)	(25)	(100,149)	(81,676)	-	(81,676)
Amortisation of the unrecognised net gain / (loss)	11,448	1,083	12,531	33,243	1,967	35,210
Curtailment losses related to early retirements	24,276	1,797	26,073	6,225	283	6,508
Staff cost	**53,088**	**9,931**	**63,019**	**71,413**	**9,773**	**81,186**

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

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
At 1 January	**579,008**	**(82,785)**	**496,223**	**620,404**	**(76,093)**	**544,311**
Net periodic benefit cost	(53,088)	(9,931)	(63,019)	(71,413)	(9,773)	(81,186)
Charge-off of provisions	-	-	-	(51,405)	(2,857)	(54,262)
Contributions of the year and pensions paid by the Group	42,951	5,540	48,491	82,121	5,941	88,062
Other	(825)	-	(825)	(699)	(3)	(702)
At 31 December	**568,046**	**(87,176)**	**480,870**	**579,008**	**(82,785)**	**496,223**

Historical information regarding pension plan is as follows:

(in thousands of euros)

	31.12.2007		31.12.2006		31.12.2005		31.12.2004		31.12.2003	
	Pension plans	Health-care plans	Pension plans	Health-care plans	Pension plans	Health-care plans	Pension plans	Health-care plans	Pension plans	Health-care plans
Defined benefit obligation	(1,970,365)	(110,675)	(1,891,647)	(109,797)	(1,826,346)	(117,330)	(1,552,833)	(95,849)	(1,416,490)	(87,403)
Fair value of plan assets	2,233,343	480	2,028,303	477	1,816,229	-	1,511,672	-	1,360,674	-
Over /un (funded) liabilities	**262,978**	**(110,195)**	**136,656**	**(109,320)**	**(10,117)**	**(117,330)**	**(41,161)**	**(95,849)**	**(55,816)**	**(87,403)**
Experience adjustments arising on plan liabilities (gains)/losses	42,590	(2,080)	3,460	(11,577)	39,592	6,548	6,555	410	93,754	5,860
Experience adjustments arising on plan assets (gains)/losses	(157,639)	(4)	(140,990)	-	(69,709)	-	1,169	-	22,855	-

Health care plans are covered by liabilities recognised in the balance sheet.

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 2007 (1)	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	Expired (May-07)	3,169,016	11,51	-	-
Plan 2002					
1st block	Expired (Apr-07)	755,408	12,02	-	-
2nd block	Apr-08	1,762,619	12,02	294,861	100%
Plan 2003					
1st block	May-08	480,576	14,00	105,270	100%
2nd block	May-09	1,121,343	14,00	1,102,008	100%
Plan 2004					
1st block (2)	Dec-07	541,599	13,54	594,465	100%
2nd block	Dec-10	1,270,175	13,54	1,387,658	100%

(1) Includes shares attributed under the incorporation of shares premium as a result of the capital increase in 2006.
(2) The 1st block plan of 2004 matured in the first day of January 2008.

The changes of underlying shares to the outstanding plans during 2007 and 2006 were as follows:

	31.12.2007		31.12.2006	
	Number of shares	Average price (euros)	Number of shares	Average price (euros)
Opening balance	5,667,612	11	7,617,500	12,63
Shares capital increase (1)	-	-	850,504	-
Shares sold (2)	(2,183,350)	10.21	(2,800,392)	11,61
Year-end balance	**3,484,262**	**11.89**	**5,667,612**	**11.24**

(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)

	31.12.2007	31.12.2006
Total costs of the plans (see Note 11)	1,402	2,454

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 2007 and 2006, the Group's liability and costs incurred related to long-service benefits can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Liabilities as at 1 January	**23,627**	**22,553**
Costs of the year	1,360	2,947
Benefits paid	(1,362)	(1,873)
Liabilities as at 31 December	**23,625**	**23,627**

The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable). These liabilities are booked in the balance Other liabilities (see note 35).

Note 13 // General and administrative expenses

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Rental costs	58,225	54,523
Advertising costs	43,947	43,548
Communication costs	35,933	32,027
Maintenance and related services	16,584	15,576
Travelling and representation costs	28,424	24,631
Transportation	10,053	8,328
Insurance costs	5,899	6,538
Specialised services		
IT services	44,863	42,453
Independent work	7,896	8,088
Temporary work	9,155	7,777
Electronic payment systems	11,709	12,447
Advisory services	13,881	11,645
Legal services	9,580	6,152
Consultants and auditors	11,934	8,366
Other specialised services	28,868	23,179
Water, energy and fuel	7,757	7,286
Consumables	5,731	6,418
Other costs	28,392	25,146
	378,831	**344,128**

The balance Other specialized services includes, among others, costs with security, information and databases. The balance Other costs includes costs with external suppliers.

Note 14 // Earnings per share

Basic earnings per share

Basic earnings 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)

	31.12.2007	31.12.2006
Profit attributable to the equity holders of the Bank	**607,069**	**420,714**
Weighted average number of ordinary shares (thousands) (1)	500,000	417,222
Weighted average number of treasury shares (thousands)	4,090	6,373
Weighted average number of ordinary shares outstanding (thousands)	**495,910**	**410,849**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**1.22**	**1.02**

(1) As at 31 December 2006 represents the average number of ordinary shares weighted by the period after the capital increase in 30 May 2006 (see Note 36)

Diluted earnings per share

The diluted earnings per share is calculated considering the profit attributable to the equity holders of the Bank and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

The diluted earnings per share 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 2007 and 2006.

Note 15 // Cash and deposits at central banks

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Cash	277,260	311,335
Deposits at central banks		
Bank of Portugal	984,887	711,847
Other central banks	99,071	61,745
	1,083,958	773,592
	1,361,218	1,084,927

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 2007, these deposits have earned interest at an average rate of 3.94% (31 December 2006: 2.79%).

Note 16 // Deposits with banks

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Deposits with banks in Portugal		
Uncollected cheques	378,824	430,619
Repayable on demand	96,039	30,984
Other	-	37,134
	474,863	498,737
Deposits with banks abroad		
Repayable on demand	117,277	76,041
Uncollected cheques	1,570	4,019
Other	126,732	94,179
	245,579	174,239
	720,442	672,976

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 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	1,366,296	1,538,485
Issued by other entities	153,937	157,882
Shares	187,611	267,868
Other variable income securities	712,199	991,793
	2,420,043	2,956,028
Derivatives		
Derivative financial instruments with positive fair value	1,427,190	1,215,379
	3,847,233	4,171,407
Financial liabilities held for trading		
Derivatives		
Derivative financial instruments with negative fair value	1,257,201	1,284,376

As at 31 December 2007 and 2006, the analysis of the securities held for trading by the period to maturity, is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	412,762	358,504
3 to 12 months	351,206	610,918
1 to 5 years	409,018	459,480
More than 5 years	581,078	502,412
Undetermined	665,979	1,024,714
	2,420,043	2,956,028

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)

	31.12.2007			31.12.2006		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Securities						
Bonds and other fixed income securities						
Issued by govermment and public entities	1,366,296	-	1,366,296	1,343,863	194,622	1,538,485
Issued by other entities	145,419	8,518	153,937	137,842	20,040	157,882
Shares	187,611	-	187,611	267,868	-	267,868
Other variable income securities	12,152	700,047	712,199	-	991,793	991,793
	1,711,478	708,565	2,420,043	1,749,573	1,206,455	2,956,028

As at 31 December 2007 and 2006, derivative financial instruments can be analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	11,779,165	112,862	247,220	15,181,980	164,353	206,550
- sell	11,897,733			15,274,654		
Currency Swaps						
- buy	373,440	2,000	4,531	1,283,531	9,351	11,469
- sel	325,110			1,320,835		
Currency Interest Rate Swaps						
- buy	1,657,950	187,592	176,210	5,682,850	301,310	283,604
- sel	1,660,293			5,704,527		
Currency Options	4,170,682	57,980	89,482	3,785,013	9,283	21,968
	31,864,373	360,434	517,443	48,233,390	484,297	523,591
Interest rate contracts						
Forward Rate Agreements	5,353,657	1,444	342	255,930	112	126
Interest Rate Swaps	37,695,485	588,160	360,382	22,346,464	543,581	360,907
Swaption - Interest Rate Options	2,360,536	3,814	2,104	2,348,648	13,519	11,220
Interest Rate Caps & Floors	7,361,058	34,672	30,824	3,843,982	12,238	13,284
Interest Rate Futures	100,000	-	-	3,540,889	788	4,673
Bonds Options	30,000	665	558	84,686	161	-
Future Options	5,451,986	-	189	9,985,103	-	-
	58,352,722	628,755	394,399	42,405,702	570,399	390,210
Equity / index contracts						
Equity / Index Swaps	1,835,258	191,300	21,404	4,519,022	51,635	20,570
Equity / Index Options	5,030,269	226,835	309,119	4,471,905	92,968	335,105
Equity / Index Futures	-	-	-	1,331,085	-	-
	6,865,527	418,135	330,523	10,322,012	144,603	355,675
Credit default contracts						
Credit Default Swaps	1,608,191	19,866	14,836	1,417,632	16,080	14,900
Total	98,690,813	1,427,190	1,257,201	102,378,736	1,215,379	1,284,376

As at 31 December 2007 the fair value of derivative financial instruments included the amount of Euro 2.8 million (31 December 2006: Euro 5.3 million) related to the fair value of the embedded derivates, as described in Note 2.4.

As at 31 December 2007 and 2006, the analysis of trading derivatives by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007		31.12.2006	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	26,676,635	(99,769)	38,450,282	(51,611)
3 to 12 months	21,301,291	18,272	16,555,807	(35,601)
1 to 5 years	28,482,345	323,321	21,234,324	(32,606)
More than 5 years	22,230,542	(71,835)	26,138,323	50,821
	98,690,813	**169,989**	**102,378,736**	**(68,997)**

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

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Bonds and other fixed income securities		
Issued by other entities	1,234,344	1,322,698
Shares	192,360	175,894
Book value	**1,426,704**	**1,498,592**

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 balance, as at 31 December 2006, includes securities in the amount of euro 575,621 thousand, which were sold by the Group but not derecognised, as the Group retained substantially all risks and rewards of ownership through total return swaps. The amount received from this operation was booked in the balance Deposits from banks.

As at 31 December 2007 and 2006, 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)

	31.12.2007	31.12.2006
Up to 3 months	468,580	228,802
3 to 12 months	113,332	192,144
1 to 5 years	155,652	569,385
More than 5 years	496,780	332,367
Undetermined	192,360	175,894
	1,426,704	**1,498,592**

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed income securities						
Issued by other entities	420,069	814,275	1,234,344	66,067	1,256,631	1,322,698
Shares	192,360	-	192,360	175,894	-	175,894
	612,429	**814,275**	**1,426,704**	**241,961**	**1,256,631**	**1,498,592**

Note 19 // Available-for-sale financial assets

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	Cost[(1)]	Fair value reserve		Impairment	Book value
		Positive	Positive		
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 December 2006	**4,618,102**	**699,733**	**(8,653)**	**(57,498)**	**5,251,684**
Bonds and other fixed income securities					
Issued by government and public entities	803,246	911	(1,450)	-	802,707
Issued by other entities	2,944,596	27,352	(57,872)	(9,332)	2,904,744
Shares	1,251,511	984,183	(7,774)	(40,207)	2,187,713
Other variable income securities	354,233	4,565	(511)	(14,562)	343,725
Balance as at 31 December 2007	**5,353,586**	**1,017,011**	**(67,607)**	**(64,101)**	**6,238,889**

(1) Acquisition cost relating to shares and amortized cost relating to debt securities.

The balance Available-for-sale financial assets includes the amount of euro 711 451 thousand of securities pledged as collateral by the Group, (31 December 2006: euro 558 689 thousand) (see Note 38).

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

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January	57,498	60,012
Charge for the year	20,165	8,292
Charge off	(10,845)	(7,140)
Write back for the year	(1,484)	(1,288)
Exchange differences and other	(1,233)	(2,378)
Balance at the end of the year	**64,101**	**57,498**

As at 31 December 2007 and 2006, the analysis of available-for-sale assets by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	712,158	288,524
3 to 12 months	420,870	248,114
1 to 5 years	1,371,131	1,171,860
More than 5 years	1,221,488	1,461,894
Undetermined	2,513,242	2,081,292
	6,238,889	**5,251,684**

The main contributions to the fair value reserve, as at 31December 2007 and 2006, can be analysed as follows:

(in thousands of euros)

31.12.2007					
Description	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Banco Bradesco	286,047	661,695	-	-	947,742
Portugal Telecom	291,914	76,010	-	-	367,924
EDP	263,801	70,497	-	-	334,298
Banque Marocaine du Commerce Extérieur	2,480	8,589	-	(682)	10,387
Bradespar	6,215	22,029	-	-	28,244
	850,457	**838,820**	**-**	**(682)**	**1,688,595**

(in thousands of euros)

31.12.2006					
Description	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

On 7 November 2007, Portugal Telecom (PT) concluded the Spin-off of its 58.43% interest in PT Multimédia (PTM), each shareholder having been allocated 0.176067 PTM shares for each PT share held. Following this transaction, the Group received 9,444,819 PTM shares, which based on their respective fair value, determined at the date of the spin off, were accounted as an appropriation of the book value of the underlying PT shares as at that date.
Additionally, the acquisition cost of PT shares and the respective accumulated fair value reserve, before the spin-off, were split between PT shares held and the new PTM shares received, proportionally to their respective fair values determined at the date of the spin-off. As a consequence, the Group did not recognise any gain or loss following this transaction.

Regarding listed or unlisted securities, the balance available-for-sale financial assets, is as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	85,707	717,000	802,707	97,018	252,031	349,049
Issue by other entities	681,114	2,223,630	2,904,744	908,675	1,913,018	2,821,693
Shares	1,943,689	244,024	2,187,713	1,573,637	224,857	1,798,494
Other variable income securities	35,934	307,791	343,725	33,091	249,357	282,448
	2,746,444	3,492,445	6,238,889	2,612,421	2,639,263	5,251,684

Note 20 // Loans and advances to banks

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Loans and advances to banks in Portugal		
Inter-bank money market	1,269,865	425,723
Deposits	83,369	52,659
Loans	67,719	52,143
Very short term deposits	345,042	25
Other loans and advances	1,445	1,404
	1,767,440	531,954
Loans and advances to banks abroad		
Deposits	3,541,730	3,145,408
Very short term deposits	1,137,238	2,026,383
Loans	1,732,552	1,880,656
Other loans and advances	32,575	6,002
	6,444,095	7,058,449
Impairment losses	(1,204)	(2,354)
	8,210,331	7,588,049

The main loans and advances to banks in Portugal, as at 31 December 2007, bear interest at an average annual interest rate of 4.47% (31 December 2006: 3.46%). Loans and advances to banks abroad bear interest at international market rates where the Group operates.

As at 31 December 2007, this balance includes euro 559,687 thousands of loans and advances recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2007 and 2006, the analysis of loans and advances to banks by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	7,812,446	6,987,458
3 to 12 months	156,240	410,257
1 to 5 years	110,002	112,106
More than 5 years	132,847	80,582
	8,211,535	7,590,403

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

(in thousands of euros)

	31.12.2007	31.12.2006
Balance at the begining of the year	2,354	2,558
Charge for the year	1,757	2,084
Write back for the year	(2,251)	(1,991)
Exchange differences and other	(656)	(297)
Balance at the end of the year	**1,204**	**2,354**

Note 21 // Loans and advances to customers

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Domestic loans		
Corporate		
Loans	9,794,194	7,515,911
Commercial lines of credits	5,655,418	6,551,451
Finance leases	2,829,881	2,254,375
Discounted bills	1,114,157	1,176,756
Factoring	1,156,111	977,934
Overdrafts	49,777	29,536
Other loans	245,152	238,960
Retail		
Mortgage loans	9,545,741	7,917,558
Consumer and other loans	2,310,264	2,001,327
	32,700,695	28,663,808
Foreign loans		
Corporate		
Loans	6,092,130	3,688,714
Commercial lines of credits	1,520,636	1,208,129
Finance leases	288,123	178,774
Discounted bills	135,949	113,075
Overdrafts	74,396	51,964
Other loans	985,137	620,928
Retail		
Mortgage loans	529,488	519,968
Consumer and other loans	326,505	233,952
	9,952,364	6,615,504
Overdue loans and interest		
Up to 3 months	74,790	74,160
3 months to 1 year	102,863	104,882
1 to 3 years	212,154	181,278
More than 3 years	117,792	112,200
	507,599	**472,520**
	43,160,658	**35,751,832**
Provision for impaired loans and advances	(990,395)	(869,327)
	42,170,263	34,882,505

As at 31 December 2007, the balance loans and advances to customers includes an amount of euro 2,924.8 million (31 December 2006: euro 794.1 million) related to securitized loans following the consolidation of securitisation vehicles (see Note 41), according to the accounting policy described in Note 2.2. The liabilities related to this securitisations are booked under Debt securities issued (see Notes 31 and 41).

The fair value of loans and advances to customers is presented in Note 42.

As at 31 December 2007, this caption includes Euro 163,726 thousands of loans at fair value through profit or loss (see Note 23)

As at 31 December 2007, loans and advances includes euro 64,218 thousands of restructured loans (31 December 2006: euro 45,677 thousands). These loans correspond, in accordance with the definition of the Bank of Portugal, to loans previously overdue, which through a restructuring process are considered as performing loans.

As at 31 December 2007 and 2006, the analysis of loans and advances to customers by the period to maturity is a follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	6,591,577	6,147,170
3 to 12 months	5,821,538	5,150,636
1 to 5 years	8,584,877	7,136,228
More than 5 years	21,655,067	16,845,278
Undetermined	507,599	472,520
	43,160,658	35,751,832

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

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January	869,327	829,874
Charge for the year	257,737	232,547
Charge off	(80,481)	(133,935)
Write back for the year	(44,553)	(50,992)
Unwind of discount	(13,102)	(10,861)
Exchange differences and other	1,467	2,694
Balance at the end of the year	**990,395**	**869,327**

The unwind of discount represents the interest on overdue loans, recognised as interest and similar income, as impairment losses are calculated using the discounted cash flows method.

As at 31 December 2007, the detail of impairment is as follows:

(in thousands of euros)

	31.12.2007						
	Loans with Impairment calculated on na indivudual basis		Loans with no Impairment calculated on a portfolio basis		Total		
	Gross amount	Impairment on an individual basis	Gross amount	Impairment in a portfolio basis	Gross amount	Impairment	Net amount
Corporate loans	3,283,164	398,599	27,022,385	304,821	30,305,549	703,420	29,602,129
Mortgage loans	871,399	152,696	9,269,550	24,799	10,140,949	177,495	9,963,454
Consumers loans - other	252,055	68,933	2,462,105	40,547	2,714,160	109,480	2,604,680
Total	**4,406,618**	**620,228**	**38,754,040**	**370,167**	**43,160,658**	**990,395**	**42,170,263**

(in thousands of euros)

	31.12.2006						
	Loans with Impairment calculated on na indivudual basis		Loans with no Impairment calculated on a portfolio basis		Total		
	Gross amount	Impairment on an individual basis	Gross amount	Impairment in a portfolio basis	Gross amount	Impairment	Net amount
Corporate loans	2,249,996	335,595	22,692,764	301,932	24,942,760	637,527	24,305,233
Mortgage loans	740,104	112,798	7,759,751	19,390	8,499,855	132,188	8,367,667
Consumers loans - other	204,455	63,058	2,104,762	36,554	2,309,217	99,612	2,209,605
Total	**3,194,555**	**511,451**	**32,557,277**	**357,876**	**35,751,832**	**869,327**	**34,882,505**

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.

The interest recognised in relation to these loans amounted to euro 239.3 million (2006: euro 176.0 million), which includes the effect of the unwind of discount in connection with overdue loans.

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

(in thousands of euros)

	31.12.2007	31.12.2006
Fixed interest rate	3,184,004	3,700,610
Variable interest rate	39,976,654	32,051,222
	43,160,658	**35,751,832**

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

(in thousands of euros)

	31.12.2007	31.12.2006
Gross investment in finance leases, receivable		
Up to 1 year	572,483	503,693
From 1 to 5 years	2,058,919	1,252,844
More than 5 years	1,172,297	1,266,535
	3,803,699	**3,023,072**
Unearned future finance income on finance leases		
Up to 1 year	117,264	86,951
From 1 to 5 years	278,854	174,483
More than 5 years	289,577	328,489
	685,695	**589,923**
Net investment in finance leases		
Up to 1 year	455,219	416,742
From 1 to 5 years	1,780,065	1,078,361
More than 5 years	882,720	938,046
	3,118,004	**2,433,149**

Note 22 // Held to maturity investments

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

(in thousands of euros)

	31.12.2007	31.12.2006
Bonds and other fixed income securities		
Issued by government and public entities	394,935	589,354
Issued by other entities	12,907	3,817
	407,842	593,171

As at 31 December 2007 and 2006, the analysis of held to maturity investments by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	19,740	50,653
3 to 12 months	11,298	66,910
1 to 5 years	351,625	468,073
More than 5 years	25,179	7,535
	407,842	593,171

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

Note 23 // Derivatives for risk management purposes

As at 31 December 2007 and 31 December 2006, derivatives for risk management purposes can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Derivatives for risk management purposes with positive fair value (assets)	211,890	199,704
Derivatives for risk management purposes with negative fair value (liabilities)	286,940	262,760
	(75,050)	(63,056)

The balance Derivatives for risk management purposes includes hedging derivatives and derivatives contracted with the purpose of managing the risk of certain financial assets and liabilities designated at fair value through profit or loss and that were not classified as hedging derivatives.

Derivatives for risk management purposes as at 31 December 2007, in the amount of euro 75,050 thousands (net liabilities) includes (i) euro 42,689 thousand of net liabilities related to hedging derivatives (31 December 2006: euro 59,959 thousand of net liabilities) and (ii) euro 32,361 thousand of net assets related to derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss and that were not classified as hedging derivatives (31 December 2006: euro 3,097 thousand of net liabilities).

a) Hedging derivatives

As at 31 December 2007, the fair value hedge relationships present the following features:

(in thousands of euros)

31.12.2007							
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 Swap	Subordinated loans	Interest rate and FX	181,895	(22,678)	(11,995)	22,455	12,621
Currency Interest Rate Swap	Debt security issued	Interest rate and FX	18,777	60	(63)	265	(32)
Currency Interest Rate Swap	Deposits from banks	Interest rate and FX	407,405	(4,841)	(4,191)	4,633	4,191
Interest Rate Swap	Domestic loans	Interest rate	91,993	1,210	969	(767)	(953)
Interest Rate Swap	Subordinated loans	Interest rate	20,000	(864)	(593)	802	658
Interest Rate Swap	Debt security issued	Interest rate	2,564,460	(15,405)	46,205	30,690	(41,027)
Interest Rate Swap	Due to customers	Interest rate	307,859	1,057	(1,580)	1,286	395
Interest Rate Swap	Deposits from banks	Interest rate	128,000	(1,228)	(9,130)	2,601	8,842
			3,720,389	(42,689)	19,622	61,965	(15,305)

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

(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

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 gain / (loss) from financial assets at fair value through profit or loss.

As at 31 December 2007, the ineffectiveness of the fair value hedge operations amounted to euro 4.3 million
(31 December 2006: euro 0.4 million) and was recognised in the income statement. BES Group evaluates on an ongoing basis the effectiveness of the hedges.

b) Other derivatives for risk management purposes

Other derivatives for risk management purposes includes derivatives held to hedge assets and liabilities at fair value through profit or loss as described in accounting policy 2.5, 2.6 and 2.8 and that the Group did not classified as hedging derivatives. Book value of assets and liabilities at fair value through profit or loss can be analysed as follows:

(in thousands of euros)

31.12.2007								
Derivative	Related financial assets/liabilities	Derivative			Related assets/liabilities			
		Notional	Fair Value	Changes in the fair value of the derivative in the year	Fair Value	Changes in the fair value of the derivative in the year	Book Value	Reimbursement amount at maturity date(1)
	Assets							
Currency Swap	Loans and advances to banks	561,051	3,716	(198)	49	49	559,687	561,051
Interest Rate Swap	Securities	185,000	319	467	(1,805)	1,098	187,545	189,350
Interest Rate Swap	Loans and advances to costumers	122,000	511	511	626	626	163,726	162,668
	Liabilities							
Equity Swap	Due to costumers	18,969	(192)	(27)	29	29	18,897	14,575
Index Swap	Debt securities issued	185,800	13,827	4,474	(12,432)	(1,898)	195,903	181,223
Index Swap	Due to costumers	82,702	(429)	172	(180)	(275)	82,407	66,204
Index Rate Swap	Debt securities issued	1,186,741	(49,099)	(33,613)	49,078	35,955	905,223	969,483
Index Rate Swap	Due to costumers	90,862	(1,014)	961	952	(969)	90,041	90,325
		2,433,125	**(32,361)**	**(27,253)**	**36,317**	**34,615**	**2,203,429**	**2,234,879**

(1) Corresponds to the minimum guaranted amount to be reimbursed at maturity.

(in thousands of euros)

31.12.2006								
Derivative	Related financial assets/liabilities	Derivative			Related assets/liabilities			
		Notional	Fair Value	Changes in the fair value of the derivative in the year	Fair Value	Changes in the fair value of the derivative in the year	Book Value	Reimbursement amount at maturity date(1)
	Liabilities							
Interest Rate Swap	Debt securities issued	778,023	(13,870)	(13,870)	(1,733)	(1,733)	764,328	775,658
Index Swap	Debt securities issued	99,962	7,591	7,591	(5,319)	(5,319)	92,238	85,583
Index Option	Debt securities issued	7,400	(708)	(708)	(139)	(139)	7,538	7,248
Index Swap	Due to customers	56,339	(435)	(435)	439	439	55,899	47,710
Equity Swap	Debt securities issued	117,276	4,844	4,844	5,938	5,938	123,214	117,276
FX Swaps	Deposits from banks	387,114	(519)	(519)	117	117	386,997	561,051
		1,446,114	**(3,097)**	**(3,097)**	**(698)**	**(698)**	**1,430,214**	**1,594,526**

(1) Corresponds to the minimum guaranted amount to be reimbursed at maturity.

As at 31 December 2007, the fair value of the financial liabilities at fair value through profit or loss, includes a positive cumulative effect of euro 7 599 thousands (31 December 2006: negative cumulative effect of euro 2,026 thousands) attributable to the Group's own credit risk. The change in fair value attributable to the Group's own credit risk resulted in the recognition, in 2007, of a profit amounting to euro 9,421 thousands (31 December 2006: loss amounting to of euro 2,026 thousands).

As at 31 December 2007 and 2006, the analysis of Derivatives for risk management purposes by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007		31.12.2006	
	Notional	Fair value	Notional	Fair value
Up to 3 months	886,563	9,381	666,912	6,630
3 to 12 months	1,460,489	8,863	603,836	1,178
1 to 5 years	1,889,030	(3,317)	1,834,379	2,477
More than 5 years	1,917,432	(89,977)	1,141,825	(73,341)
	6,153,514	**(75,050)**	**4,246,952**	**(63,056)**

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

This balance as at 31 December de 2007 and 2006 is analysed as follows:

(in thousands of euros)

	31.12.2007	
	Assets	Liabilities
Assets and liabilities of subsidiaries acquired exclusively for relase purpose	235,993	233,189
Property	49,499	-
Impairment losses	(6,084)	
	43,415	-
	279,408	**233,189**

The amounts presented refer to (i) investments in companies controlled by the Group, which have been acquired exclusively with the purpose of being sold in the short term, and (ii) assets acquired in exchange for loans and discontinued branches available for immediate sale.

As at 31 December 2007, the amount of Property includes euro 15,855 thousand related to discontinued branches (see Note 25), in relation to which the Group recognised an impairment loss amounting to euro 2,299 thousand.

The changes occurred in impairment losses of Non-current assets and liabilities held for sale are presented as follows:

(in thousands of euros)

	31.12.2007
Balance at the begining of the year	-
Charge for the year	2,605
Charge off	(2,017)
Write back for the year	(45)
Transfers [(a)]	5,541
Balance at the end of the year	**6,084**

(a) Represents the tranfer from Other assets of impaiment losses related to property which qualify for recognition as non current assets held for sale, in accordance with the accounting policy described in Note 2.11 (see Note 28)

Note 25 // Property and equipment

As at 31 December 2007 and 2006 this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Property		
For own use	405,878	295,060
Improvements in leasehold property	200,834	184,298
Other	3,913	3,853
	610,625	483,211
Equipment		
Computer equipment	248,445	238,863
Fixtures	103,341	93,615
Furniture	105,651	86,415
Security equipment	24,868	20,808
Office equipment	32,967	31,111
Motor vehicles	4,700	3,872
Other	6,150	6,086
	526,122	480,770
Other	557	1,627
	1,137,304	965,608
Work in progress		
Improvements in leasehold property	16,275	11,886
Property for own use	12,049	7,646
Equipment	17,934	14,223
Other	365	573
	46,623	34,328
	1,183,927	999,936
Accumulated depreciation	(646,159)	(617,007)
	537,768	382,929

The movement in this balance was as follows:

(in thousands of euros)

	Property	Equipment	Other	Work in progress	Total
Acquisition cost					
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**
Acquisitions	47,710	35,148	155	56,454	139,467
Disposals	(3,567)	(14,104)	-	-	(17,671)
Transfers (c)	10,668	24,646	-	(44,736)	(9,422)
Exchange differences	(1,269)	(883)	(14)	(173)	(2,339)
Other (b)	73,872	545	(1,211)	750	73,956
Balance as at 31 December 2007	**610,625**	**526,122**	**557**	**46,623**	**1,183,927**
Depreciation					
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**
Depreciation of the year	17,082	26,761	191	-	44,034
Disposals	(3,036)	(13,965)	-	-	(17,001)
Transfers (c)	(2,946)	3,362	-	-	416
Exchange differences	(151)	(917)	(10)	-	(1,078)
Other	-	2,931	(150)	-	2,781
Balance as at 31 December 2007	**229,999**	**415,858**	**302**	**-**	**646,159**
Net amount as at 31 December 2007	**380,626**	**110,264**	**255**	**46,623**	**537,768**
Net amount as at 31 December 2006	**264,161**	**83,084**	**1,356**	**34,328**	**382,929**

(a) Includes the amount of euro 7 447 thousands related to the acquisition costs and euro 1 961 thousands of accumulated depreciations transferred to the balance Other Assets, referring to discontinued branches.
(b) Includes the amount of euro 4 835 thousands related to the acquisition costs and euro 1 256 thousands of accumulated depreciations transferred to the balance Other Assets, referring to discontinued branches.
(c) Includes the amount of euro 13576 thousands related to the acquisition costs (property and equipment) and euro 3207 thousands of accumulated depreciations transferred to the balance Other Assets, refering to discontinued branches

Note 26 // Intangible assets

As at 31 December 2007 and 2006 this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Goodwill	**7,441**	**3,282**
Internally developed		
Software	13,324	7,793
Acquired to third parties		
Software	428,285	403,676
Other	1,099	30,393
	429,384	434,069
Work in progress	31,106	19,429
	481,255	464,573
Accumulated amortisation	(390,084)	(395,921)
	91,171	68,652

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	Work in progress	Total
Acquisitions cost					
Balance as at 31 December 2005	**2,874**	**387,065**	**35,571**	**19,892**	**445,402**
Acquisitions:					
Internally developed	-	182	-	5,638	5,820
Acquired from third parties	731	6,152	1,805	15,164	23,852
Disposals	(16)	(996)	(1,344)	-	(2,356)
Transfers	-	21,228	(8,547)	(21,228)	(8,547)
Exchange differences	(307)	(109)	(48)	-	(464)
Other	-	(2,053)	2,956	(37)	866
Balance as at 31 December 2006	**3,282**	**411,469**	**30,393**	**19,429**	**464,573**
Acquisitions:					
Internally developed	-	91	-	6,042	6,133
Acquired from third parties	3,854	14,675	150	26,739	45,418
Disposals	-	(3,941)	(27,058)	-	(30,999)
Transfers	-	15,633	392	(20,179)	(4,154)
Exchange differences	-	45	-	(10)	35
Other	305	3,637	(2,778)	(915)	249
Balance as at 31 December 2007	**7,441**	**441,609**	**1,099**	**31,106**	**481,255**
Amortisation					
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**
Amortisation of the year	-	25,494	227	-	25,721
Disposals	-	(3,940)	(25,200)	-	(29,140)
Transfers	-	(3,230)	(392)	-	(3622)
Exchange differences	-	46	-	-	46
Other	-	368	790	-	1,158
Balance as at 31 December 2007	**-**	**388,985**	**1,099**	**-**	**390,084**
Balance as at 31 December 2007	**7,441**	**52,624**	**-**	**31,106**	**91,171**
Balance as at 31 December 2006	**3,282**	**41,222**	**4,719**	**19,429**	**68,652**

Note: transfers from BESSA to tangible assets

In 2007, the changes in goodwill refer essentially, to the acquisition of 51% of ES Data. This acquisition led to the recognition of euro 3 691 thousands of goodwill.

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	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
BES VIDA [a)]	7,647,855	6,842,137	7,375,001	6,512,852	272,854	329,285	822,964	879,725	52,218	115,048	474,997	474,997
BES VÉNÉTIE	1,288,135	1,216,063	1,187,920	1,132,469	100,215	83,594	87,942	72,111	12,889	8,208	22,000	22,000
LOCARENT	291,074	216,036	286,903	215,972	4,171	64	72,839	44,910	1,107	(940)	2,517	2,517
BES SEGUROS	108,662	88,919	84,207	64,784	24,455	24,135	61,862	60,455	4,723	4,425	3,749	3,749
ESEGUR	41,466	42,203	31,552	33,486	9,914	8,717	62,369	53,426	3,609	2,800	9,634	2,134
EUROP ASSISTANCE	31,401	29,164	21,778	20,168	9,623	8,996	26,046	24,631	1,211	1,082	1,147	1,147
FUNDO ES IBERIA	26,430	26,332	1,938	616	24,492	25,716	26	12	(1,262)	(766)	10,496	10,496
CARLUA	21,039	19,652	19,389	17,908	1,650	1,744	19,278	31,479	239	339	1,250	1,250
SCI GEORGES MANDEL	11,916	11,590	40	68	11,876	11,522	1,133	1,115	353	324	2,401	2,401
FOMENTINVEST	11,866	9,151	2,144	1,673	9,722	7,478	2,139	4,301	1,543	2,743	1,000	1,000
COMINVEST [b)]	-	7,275	-	430	-	6,845	-	459	-	191	-	2,089
BRB INTERNACIONAL	11,756	5,590	10,213	2,945	1,543	2,645	59	4,654	(1,002)	405	10,033	10,033
ESUMÉDICA	3,497	3,419	3,780	3,031	(283)	388	4,504	4,749	(333)	(191)	395	395
SGPICE	2,577	2,934	10,614	9,694	(8,037)	(6,760)	6,255	12,216	(612)	(1,245)	2,667	2,667
CONCORDIA [b)]	-	1,065	-	32	-	1,033	-	502	-	(355)	-	996
FIDUPRIVATE	733	962	118	100	615	862	652	507	120	130	31	31
APOLO FILMS	810	671	30	40	780	631	14	245	(19)	(165)	791	791
BIOGENESIS	4,681	-	(16)	-	4,697	-	-	-	(16)	-	6,670	-
SYNERGIE	522,049	-	441,187	-	80,862	-	121,756	-	4,389	-	10,848	-
RODI 2	36,659	-	21,211	-	15,448	-	-	-	(225)	-	1,240	1,240
Other	-	-	-	-	-	-	-	-	-	-	24,834	14,413
	-	-	-	-	-	-	-	-	-	-	586,700	554,346

a) Investment acquired in June 2006. The result generated in June was not included in BES Group consolidated accounts.
b) Investments consolidated under the full consolidation method starting 2007

(in thousands of euros)

	% held		Book value		Share of profit of associates	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
BES VIDA	50.00%	50,00%	457,992	490,566	21,752	3,676
BES VÉNÉTIE	40.00%	40,00%	40,089	34,391	5,156	3,284
LOCARENT	45.00%	45,00%	1,998	7	497	(445)
BES SEGUROS	25.00%	25,00%	6,112	6,426	1,180	1,499
ESEGUR	44.00%	34,00%	11,206	2,964	1,468	952
EUROP ASSISTANCE	23.00%	23,00%	2,214	2,069	279	249
FUNDO ES IBERIA	38.69%	38,69%	9,811	10,027	(488)	(278)
CARLUA	18.34%	18,34%	530	560	(30)	(11)
SCI GEORGES MANDEL	22,50%	22,50%	2,672	2,592	79	73
FOMENTINVEST	20.00%	20,00%	1,945	1,496	449	549
COMINVEST	0.00%	25,00%	-	1,711	-	48
BRB INTERNACIONAL	24.93%	24,93%	386	661	(274)	205
ESUMÉDICA	24.90%	24,90%	-	96	(83)	(48)
SGPICE	33.33%	33,33%	-	-	-	-
CONCORDIA	0.00%	49,00%	-	506	-	(230)
FIDUPRIVATE	24.76%	24,76%	225	213	30	32
APOLO FILMS	25.00%	25,00%	194	157	37	(27)
BIOGENESIS	19.99%	-	6,670	-	-	-
SYNERGIE	15.00%	-	3,842	-	1,281	-
RODI 2	25.29%	25.29%	5,560	1,240	(168)	-
OTHERS	-	-	22,254	15,881	742	1,242
	-	-	**573,700**	**571,563**	**31,907**	**10,770**

The movement in this balance was as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January	**571,563**	**62,374**
Disposals	(10,534)	(6,463)
Acquisitions	43,140	498,120
Share of profit of associates	31,907	10,770
Fair value reserve from investments in associates [(a)]	(24,063)	11,890
Dividends received	(33,249)	(1,907)
Exchange diferences and other	(5,064)	(3,221)
Balance as at 31 December	**573,700**	**571,563**

(a) Change in fair value reserves from BES Vida

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

(in thousands of euros)

	31.12.2007	31.12.2006
Shareholders equity of BES Vida	272,854	329,285
Attributable to BES (50%)	136,425	164,643
Goodwill	267,440	267,440
Value in Force [(a)]		
Fair value determined at acquisition date	60,955	60,955
Accumulated Amortisation	(6,828)	-
Amortisation of the year	(4,356)	(2,472)
Net value	**54,127**	**58,483**
Amount recognised in the balance sheet, related to BES Vida	**457,992**	**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 2007 and 2006, the balance Other assets is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Debtors		
Deposits placed with options contracts	208,910	176,707
Deposits placed with futures contracts	128,695	103,646
Recoverable government subsidies on mortgage loans	52,742	46,897
Collateral deposits placed	126,295	51,593
Loans to companies in which the Group has a minority interest	133,010	105,391
Public sector	42,498	40,148
Sundry debtors	143,980	144,935
	836,130	**669,317**
Impairment losses on debtors	(12,099)	(9,298)
	824,031	**660,019**
Other assets		
Gold, other precious metals, numismatics,		
and other liquid assets	13,423	36,055
Other assets	45,023	32,503
	58,446	**68,558**
Accrued income	**71,392**	**75,300**
Prepayments and deferred costs	**111,273**	**84,115**
Other sundry assets		
Foreign exchange transactions pending settlement	5,016	19,495
Stock exchange transactions pending settlement	412,072	398,672
Other transactions pending settlement	92,242	84,558
	509,330	**502,725**
Assets received as a recovery of non-performing loans	100,633	119,713
Impairment losses on these assets	(8,951)	(10,652)
	91,682	**109,061**
Assets recognised on pensions (see Note 12)	**568,046**	**579,008**
	2,234,200	**2,078,786**

As at 31 December 2006 included in Other assets is an amount of euro 5 486 thousands (see Note 25) related to discontinued branches. These assets were subject to a valuation performed by the Group and an impairment loss in the amount of euro 799 thousands has been booked.

As at 31 December 2006, the balance prepayments and deferred costs includes the amount of euro 79 823 thousand (31 December 2006: euro 54 024 thousand) related to the difference between the nominal amount of loans granted to Group's employees under the collective labor 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.

The stock exchange transactions pending settlement refer to transactions with securities on behalf of third parties, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.6.

The movements occurred in impairment losses are presented as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance at the begining of the year	**19,950**	**18,507**
Charge for the year	3,967	4,549
Charge off	-	(611)
Write back for the year	(442)	(2,371)
Other [(a)]	(2,425)	(124)
Balance at the end of the year	**21,050**	**19,950**

(a) Includes impairment losses transferred from the caption Other assets, in the moment the assets were transferred, in accordance with the accounting policy described in Note 2.11 (see Note 24).

Note 29 // Deposits from banks

The balance deposits from banks is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Domestic		
Loans	1,076,366	891,829
Inter-bank money market	37,814	120,915
Deposits	101,201	149,872
Very short term funds	37,353	13,702
Repurchase agreements	1,571	1,352
Other funds	5,599	23,581
	1,259,904	**1,201,251**
International		
Deposits	2,867,043	2,366,230
Loans	2,120,707	2,526,197
Very short term funds	241,620	88,923
Repurchase agreements	497,507	516,700
Other funds	109,868	128,085
	5,836,745	**5,626,135**
	7,096,649	**6,827,386**

As at 31 December 2006, this balance includes the amount euro 386,997 thousands related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2007 and 2006, the analysis of deposits from banks by the period to maturity is a follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	3,634,217	2,783,657
3 to 12 months	1,055,290	2,181,269
1 to 5 years	1,628,873	1,630,655
More than 5 years	778,269	231,805
	7,096,649	**6,827,386**

Note 30 // Due to customers

The balance due to customers is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Repayable on demand		
Demand deposits	9,938,448	9,565,627
Time deposits		
Time deposits	9,281,688	7,807,665
Notice deposits	876	514
Other	30,094	1,868
	9,312,658	**7,810,047**
Savings accounts		
Pensioners	121,998	182,535
Other	1,912,976	1,956,924
	2,034,974	**2,139,459**
Other funds		
Repurchase agreements	1,426,814	1,452,259
Other	1,062,136	1,026,279
	2,488,950	**2,478,538**
	23,775,030	**21,993,671**

As at 31 December 2007, this balance includes the amount of euro 191,345 thousands (31 December 2006: euro 55,899 thousands) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2007 and 2006, the analysis of the amount due to customers by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Repayable on demand	9,938,448	9,565,627
With agreed maturity		
Up to 3 months	9,472,037	9,193,809
3 to 12 months	2,344,846	2,435,123
1 to 5 years	626,063	714,047
More than 5 years	1,393,636	85,065
	13,836,582	12,428,044
	23,775,030	21,993,671

Note 31 // Debt securities issued

Outstanding debt securities is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Euro Medium Term Notes [(a)]	11,029,443	8,980,124
Bonds	5,913,198	4,905,583
Certificates of deposit	5,899,817	4,737,685
Other [(a)]	1,471,133	407,077
	24,313,591	19,030,469

(a) As at 31 December 2007, the captions EMTN and Other include the amount of euro 200.4 millions and 681.9 millions, respectivily, from extendible notes.

The fair value of Debt securities issued is presented in Note 42.

During the year ended 31 December 2007, BES Group issued debt securities amounting to euro 8,351.4 million (31 December 2006: euro 5,650.6 million), and reimbursed euro 3,202.1 million (31 December 2005: euro 1,695.2 million).

As at 31 December 2007 and 2006, the analysis of debt securities outstanding by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	5,784,477	3,735,843
3 to 12 months	3,904,911	3,293,593
1 to 5 years	9,061,863	8,267,290
More than 5 years	5,562,340	3,733,743
	24,313,591	19,030,469

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

(in thousands of euros)

Issuer	Designation	31.12.2007				
		Currency	Issue date	Book value	Maturity	Global yield / interest rate
BES	Deposits	EUR	2007	452,587	2008	3.00 % - 5.60%
BES	Deposits a)	EUR	2007	2,724	2008	c)
BES	Deposits	USD	2007	18,171	2008	4.37% - 5.40%
BES (London branch)	Deposits	EUR	2007	968,700	2008	4.13% - 4.87%
BES (London branch)	Deposits	GBP	2007	1,385,421	2008	5.51% - 6.72%
BES (London branch)	Deposits	USD	2007	1,787,243	2008	4.79% - 5.47%
BES (London branch)	Deposits	CAD	2007	41,525	2008	4.7%
BES (London branch)	Deposits	SEK	2007	47,662	2008	4.47%
BES (London branch)	Deposits	CHF	2007	18,432	2008	2.79%
BES (New York branch)	Deposits	USD	2006 - 2007	670,613	2008	4.41% - 5.53%
BES	BES Rendimento Mais – 1st Series	EUR	2000	10,801	2008	Fixed rate - 5.80%
BES	BES Rendimento Mais – 2nd Series	EUR	2000	4,948	2008	Fixed rate - 5.95%
BES	BES Rendimento Mais – 3rd Series	EUR	2000	6,865	2008	Fixed rate - 8.07%
BES	BES Rendimento Mais – 4th Series	EUR	2000	7,117	2008	Fixed rate - 8.14%
BES	BES Rendimento Mais – 5th Series	EUR	2000	5,142	2008	Fixed rate - 8.05%
BES	BES EURO RENDA August 2001	EUR	2001	15,000	2009	Fixed rate - 5.53%
BES	BES Euro Renda	EUR	2002	22,306	2010	Fixed rate - 5.39%
BES	BES TARGET 10%	EUR	2005	4,776	2013	Fixed rate - 5.00%
BES	BES FEB 2009	EUR	2006	6,500	2009	Fixed rate - 4.00%
BES	BIC 99 - 3rd emission	EUR	1999	24,000	2008	6 months Euribor+ 0.65%
BES	BIC EURO VALOR	EUR	2005	19,768	2010	l)
BES	BIC SNOWBL APR0	EUR	2005	21,059	2012	l)
BES	BES 12/01/2009 a)	USD	2005	634	2009	6 months US Libor
BES	BES 4% DUAL a)	EUR	2006	5,444	2008	4% (50%) + DJ Eurostoxx 50 (50%)
BES	BES BRIC MAR.06 a)	EUR	2006	5,736	2009	d)
BES	BES CHINA FEB05 a)	EUR	2005	8,165	2008	FSTE/Xinhua China 25 Index
BES	BES COMMODIT 7% a)	EUR	2005	1,744	2014	Fixed rate - 7.00%
BES	BES CR.JAPÝO PL a)	EUR	2006	4,798	2009	Nikkei 225
BES	BES ER 4% APR05 a)	EUR	2005	2,009	2013	Fixed rate 4.08% on 1st.2nd and 8th year + swap rate from 3rd to 7th year.
BES	BES ER 4% APR05 a)	EUR	2005	1,511	2013	Fixed rate 4.14% on 1st.2nd e 8th year + swap rate from 3rd to 7th year.
BES	BES ER3,75%0805 a)	EUR	2005	2,202	2013	Fixed rate 3.85% on 1st.2nd e 8th year + swap rate from 3rd to 7th year.
BES	BES TARGET 9% a)	EUR	2006	3,289	2010	12 months Euribor
BES	BES TARGET 9% 2 a)	EUR	2006	3,086	2010	12 months Euribor
BES	BES-4,25% DUAL a)	EUR	2006	2,918	2008	4.25% (50%) + DJ Eurostoxx 50 (50%)
BES	BES-CABAZ 2008 a)	EUR	2003	9,092	2008	Internacional shares basket
BES	BES-E.RENDA 4% a)	EUR	2005	7,484	2013	Fixed rate 4.15% on 1st.2nd e 8th year + swap rate from 3rd to 7th year.
BES	BES-IND.JUN.03 a)	EUR	2003	1,040	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	BES-IND.M.FEB03 a)	EUR	2003	2,358	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	BES-IND.MAY 03 a)	EUR	2003	2,955	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	BES-LIBOR NOV04 a)	USD	2004	557	2008	6 months US Libor
BES	BES-T.14,5%MAY a)	EUR	2004	4,741	2014	12 months Euribor
BES	BES-TARG.14,5%A a)	EUR	2004	3,657	2014	12 months Euribor
BES	BES-V.SEG.APR03 a)	EUR	2003	2,443	2008	DJ Eurostoxx 50 + HICP Ex-Tobacco
BES	BES.LIBOR INV04 a)	USD	2004	650	2009	3 months US Libor
BES	BIC E.RENDA 4% a)	EUR	2005	2,619	2013	Fixed rate 4.15% on 1st.2nd e 8th year + swap rate from 3rd to 7th year.

(in thousands of euros)

Issuer	Designation	31.12.2007				
		Currency	Issue date	Book value	Maturity	Global yield / interest rate
BES	BES 4,125% 2010	EUR	2007	49,497	2010	Fixed rate - 4.125%
BES	BES DUE 2010	EUR	2007	400,153	2010	3 months Euribor+ 0.09%
BES	BES DUE 2012	EUR	2007	999,266	2012	3 months Euribor+ 0.10%
BES	BES JAP†O FEB07 a)	EUR	2007	5,809	2010	Nikkei 225
BES	BES BRIC MAR.07 a)	EUR	2007	8,382	2010	S&P BRIC 40 EUR Price Return
BES	BES DUE 2013	EUR	2007	499,868	2013	3 months Euribor+ 0.125%
BES	BES DUE MAY 10	EUR	2007	499,623	2010	3 months Euribor+ 0.07%
BES	BES EN.ALT.2010 a)	EUR	2007	4,810	2010	DAX Global Alternative Energy EUR Price Return
BES	BES DUE JUN 14	EUR	2007	499,796	2014	3 months Euribor+ 0.15%
BES	BES INF.ESTR.07 a)	EUR	2007	1,938	2009	Indexed to a basket of shares (Brisa. Abertis. REW and E.On)
BES	BES DUE SEP.08 b)	EUR	2007	200,000	2008	Indexed to 1 month Euribor + 0.04%
BES	BES I.EST. 07 a)	EUR	2007	2,931	2009	Indexed to a basket of shares (Brisa. Abertis. REW and E.On)
BES (SFE)	BES-SFE 27/11/2008	EUR	2003	45,079	2008	swap rate 10 years EUR
BES (Cayman branch)	BES CAYMAN 5,22%	USD	2001	34,858	2011	Fixed rate - 5.22%
BES (Cayman branch)	BES CAYMAN 5,22%	USD	2001	34,885	2011	Fixed rate - 5.22%
BES (Cayman branch)	BES CAYMAN - Zero coupon	EUR	2002	55,386	2027	Zero coupon - Effective rate 5.90%
BES (Cayman branch)	BES CAYMAN - Zero coupon	EUR	2002	91,225	2027	Zero coupon - Effective rate 5.90%
BES (Cayman branch)	BES CAYMAN - Zero coupon	EUR	2002	116,395	2027	Zero coupon - Effective rate 5.74%
BES (Cayman branch)	BES CAYMAN 4,82% 01/28/13	USD	2003	53,645	2013	Fixed rate - 4.82%
BES (Cayman branch)	BES CAYMAN 4,83% 02/05/13	USD	2003	53,667	2013	Fixed rate - 4.83%
BES (Cayman branch)	BES CAYMAN 5,06% 02/11/15	USD	2003	53,984	2015	Fixed rate - 5.06%
BES (Cayman branch)	BES CAYMAN - Zero coupon	EUR	2003	68,030	2028	Zero coupon - Effective rate 5.50%
BES (Cayman branch)	BES CAYMAN 5,01% 02/18/15	USD	2003	53,961	2015	Fixed rate - 5.01%
BES (Cayman branch)	BES CAYMAN 5,37% 03/12/18	USD	2003	50,948	2018	Fixed rate - 5.37%
BES (Cayman branch)	BES CAYMAN Step Up 07/15/13	USD	2003	50,948	2013	StepUp (1º coupon 1.25%)
BES (Cayman branch)	BES CAYMAN Step Up 07/25/13	USD	2003	50,948	2013	StepUp (1º coupon 1.50%)
BES (Cayman branch)	BES CAYMAN Step Up 07/28/10	USD	2003	50,948	2010	StepUp (1º coupon 3.50%)
BES (Cayman branch)	BES CAYMAN - Zero coupon	EUR	2003	12,964	2028	Zero coupon - Effective rate 5.75%
BES (Cayman branch)	BES CAYMAN Step Up 08/27/13	EUR	2003	75,700	2013	StepUp (1º coupon 3.00%)
BES (Cayman branch)	BES CAYMAN Step Up 09/02/13	EUR	2003	75,735	2013	StepUp (1º coupon 3.00%)
BES (Cayman branch)	BES CAYMAN Step Up 09/16/13	EUR	2003	75,000	2013	StepUp (1º coupon 2.90%)
BES (Cayman branch)	BES CAYMAN Step Up 10/07/13	EUR	2003	75,787	2013	StepUp (1º coupon 3.10%)
BES (Cayman branch)	BES CAYMAN - Zero coupon	EUR	2003	79,261	2028	Zero coupon - Effective rate 5.81%
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2003	22,643	2013	Fixed Note
BES (Cayman branch)	BES CAYMAN Step Up 02/02/17	USD	2004	33,965	2017	StepUp (1º coupon 1.87%)
BES (Cayman branch)	BES CAYMAN Step Up 02/11/19	USD	2004	33,965	2019	StepUp (1º coupon 1.78%)
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2004	10,599	2014	Fixed Note
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2004	26,140	2014	Fixed Note
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2004	6,261	2014	Fixed Note
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2004	5,218	2014	Fixed Note
BES (Cayman branch)	BES CAYMAN Step Up 07/21/14	USD	2004	50,949	2014	StepUp (1º coupon 2.07%)
BES (Cayman branch)	BES CAYMAN - 4% Mais R.E. a)	EUR	2004	4,415	2009	6 months Euribor
BES (Cayman branch)	BES CAYMAN - 4% Mais R.E. a)	EUR	2004	1,601	2009	6 months Euribor
BES (Cayman branch)	BES CAYMAN - 4% Mais R.E. a)	EUR	2004	527	2009	6 months Euribor
BES (Cayman branch)	BES CAYMAN - BES Libor 4%	USD	2005	648	2008	6 months Euribor+ 0.51%
BES (Cayman branch)	BES CAYMAN - BES Libor 4%	USD	2005	775	2008	Fixed rate - 4.00%
BES (Cayman branch)	BES CAYMAN Step Up 06/30/08	USD	2005	1,470	2008	StepUp (1º coupon 4.00%)
BES (Cayman branch)	BES CAYMAN Step Up 07/11/08	USD	2005	1,512	2008	StepUp (1º coupon 3.60%)
BES (Cayman branch)	BES CAYMAN Step Up 08/08/08	USD	2005	1,453	2008	StepUp (1º coupon 3.60%)
BES (Cayman branch)	BES CAYMAN Step Up 08/09/08	USD	2005	584	2008	StepUp (1º coupon 3.75%)

(in thousands of euros)

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		Currency	Issue date	Book value	Maturity	Global yield / interest rate
BES (Cayman branch)	BES CAYMAN Step Up 10/14/08	USD	2005	1,209	2008	StepUp (1º coupon 3.75%)
BES (Cayman branch)	BES CAYMAN Step Up 11/10/08	USD	2005	1,284	2008	StepUp (1º coupon 3.75%)
BES (Cayman branch)	BES CAYMAN Step Up 12-15-08	USD	2005	1,408	2008	StepUp (1º coupon 4.25%)
BES (Cayman branch)	BIC CAYMAN 1 2001	EUR	2001	49,999	2008	Fixed rate - 5.48%
BES (Cayman branch)	BIC CAYMAN 2 2001	EUR	2001	49,983	2011	Fixed rate - 5.68%
BES (Cayman branch)	BIC CAYMAN 3 2001	EUR	2001	49,999	2008	Fixed rate - 5.40%
BES (Cayman branch)	BIC CAYMAN 4 2001	EUR	2001	49,998	2008	Fixed rate - 5.46%
BES (Cayman branch)	BIC CAYMAN 5 2001	EUR	2001	49,998	2008	Fixed rate - 5.48%
BES (Cayman branch)	BIC CAYMAN 6 2001	EUR	2001	49,992	2009	Fixed rate - 5.43%
BES (Cayman branch)	BIC CAYMAN 7 2001	EUR	2001	49,991	2009	Fixed rate - 5.41%
BES (Cayman branch)	BIC CAYMAN 8 2001	EUR	2001	49,991	2009	Fixed rate - 5.45%
BES (Cayman branch)	BIC CAYMAN 9 2001	EUR	2001	49,991	2009	Fixed rate - 5.42%
BES (Cayman branch)	BIC CAYMAN 10 2001	EUR	2001	49,986	2010	Fixed rate - 5.53%
BES (Cayman branch)	BIC CAYMAN 11 2001	EUR	2001	49,986	2010	Fixed rate - 5.57%
BES (Cayman branch)	BIC CAYMAN 12 2001	EUR	2001	49,986	2010	Fixed rate - 5.58%
BES (Cayman branch)	BIC CAYMAN 13 2001	EUR	2001	49,986	2010	Fixed rate - 5.73%
BES (Cayman branch)	BIC CAYMAN 14 2001	EUR	2001	49,981	2011	Fixed rate - 5.80%
BES (Cayman branch)	BIC CAYMAN 15 2001	EUR	2001	50,246	2011	Fixed rate - 5.79%
BES (Cayman branch)	BIC CAYMAN 16 2001	EUR	2001	50,236	2011	Fixed rate - 5.90%
BES (Cayman branch)	BIC CAYMAN 17 2001	EUR	2001	50,293	2012	Fixed rate - 5.89%
BES (Cayman branch)	BIC CAYMAN 18 2001	EUR	2001	49,978	2012	Fixed rate - 5.83%
BES (Cayman branch)	BIC CAYMAN 19 2001	EUR	2001	49,978	2012	Fixed rate - 5.96%
BES (Cayman branch)	BIC CAYMAN 20 2001	EUR	2001	49,978	2012	Fixed rate - 5.94%
BES (Cayman branch)	BIC CAYMAN 21 2001	EUR	2001	49,975	2013	Fixed rate - 6.03%
BES (Cayman branch)	BIC CAYMAN 22 2001	EUR	2001	74,962	2013	Fixed rate - 6.08%
BES (Cayman branch)	BIC CAYMAN 23 2001	EUR	2001	75,401	2013	Fixed rate - 6.03%
BES (Cayman branch)	BIC CAYMAN 24 2001	EUR	2001	74,958	2014	Fixed rate - 6.01%
BES (Cayman branch)	BIC CAYMAN 25 2001	EUR	2001	75,415	2014	Fixed rate - 6.02%
BES (Cayman branch)	BIC CAYMAN 26 2001	EUR	2001	74,955	2015	Fixed rate - 6.16%
BES (Cayman branch)	BIC CAYMAN 27 2001	EUR	2001	75,411	2015	Fixed rate - 6.09%
BES (Cayman branch)	BIC CAYMAN 29 2001	EUR	2001	50,268	2011	Fixed rate - 5.28%
BES (Cayman branch)	BIC CAYMAN 30 2001	EUR	2001	50,684	2011	Fixed rate - 5.42%
BES (Cayman branch)	BIC CAYMAN 1 2002	EUR	2002	70,474	2012	Fixed rate - 5.92%
BES (Cayman branch)	BIC CAYMAN 2 2002	EUR	2002	5,962	2012	Fixed rate - 4.65%
BES Açores	Deposits a)	EUR	2007	123	2008	c)
BES Açores	BES Azores October 2006	EUR	2006	25,000	2009	6 months Euribor+ 0.35%
BES Açores	BES Azores December 2006	EUR	2006	32,223	2009	6 months Euribor+ 0.35%
BES Açores	BES AÇORES 2007	EUR	2007	25,726	2010	6 months Euribor+ 0.35%
BES Finance	EMTN 23	CZK	2003	18,777	2008	Fixed rate - 3.75%
BES Finance	EMTN 24 a)	EUR	2003	296,367	2008	HICP Ex-Tobacco
BES Finance	EMTN 25 a)	EUR	2003	64,043	2008	HICP Ex-Tobacco
BES Finance	EMTN 27 a)	EUR	2003	123,666	2008	DJ Eurostoxx 50
BES Finance	EMTN 29	EUR	2004	599,661	2009	3 months Euribor+ 0.15%
BES Finance	EMTN 30	EUR	2004	299,611	2011	3 months Euribor+ 0.20%
BES Finance	EMTN 33	EUR	2004	299,977	2008	3 months Euribor+ 0.15%
BES Finance	EMTN 36	EUR	2004	599,890	2009	3 months Euribor+ 0.19%
BES Finance	EMTN 37	EUR	2004	22,769	2029	Zero coupon - Effective rate 5.30%
BES Finance	EMTN 39	EUR	2005	100,000	2015	3 months Euribor+ 0.23%
BES Finance	EMTN 41	EUR	2005	499,940	2010	3 months Euribor+ 0.15%
BES Finance	EMTN 44	EUR	2005	299,860	2010	3 months Euribor+ 0.13%

(in thousands of euros)

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BES Finance	EMTN 46	EUR	2005	299,955	2008	3 months Euribor+ 0.10%
BES Finance	EMTN 47	EUR	2005	500,000	2008	3 months Euribor+ 0.05%
BES Finance	EMTN 40 a)	EUR	2005	188,011	2035	e)
BES Finance	EMTN 48	EUR	2006	749,755	2011	3 months Euribor+ 0.12%
BES Finance	EMTN 49 a)	GBP	2006	76,592	2011	3 months Libor + 0.072%
BES Finance	EMTN 50	EUR	2006	299,999	2009	3 months Euribor+ 0.11%
BES Finance	EMTN 51	CZK	2006	18,512	2011	Fixed rate - 3.65%
BES Finance	EMTN 53	EUR	2006	499,861	2011	3 months Euribor+ 0.15%
BES Finance	EMTN 54	EUR	2006	749,715	2009	3 months Euribor+ 0.10%
BES Finance	Extendible Notes b)	USD	2007	116,840	2008	1 month Libor + 0.05% (Extendible notes)
BES Finance	Extendible Notes b)	USD	2007	169,517	2008	1 month Libor + 0.05% (Extendible notes)
BES Finance	Extendible Notes b)	USD	2007	392,636	2008	1 month Libor + 0.05% (Extendible notes)
Besleasing e Factoring	BLI/99	EUR	1999	999	2009	6 months Euribor+ 0.70%
Besleasing e Factoring	BLI/2000	EUR	2000	1,667	2010	6 months Euribor+ 0.67%
Besleasing e Factoring	BEF 2004/2014	EUR	2004	99,988	2014	6 months Euribor+ 0.75%
Besleasing e Factoring	BEF 2005/2008	EUR	2005	120,754	2008	3 months Euribor + 0.65%
Besleasing e Factoring	BEF 2005/2011	EUR	2005	100,000	2011	3 months Euribor + 0.715%
Besleasing e Factoring	BEF 2005/2012	EUR	2005	81,000	2012	3 months Euribor + 0.73%
Besleasing e Factoring	BEF 2005/2010	EUR	2005	49,991	2010	6 months Euribor+ 0.70%
Besleasing e Factoring	Commercial paper	EUR	1998	28,000	2010	4.50%
Besleasing e Factoring	Commercial paper	EUR	2006	20,000	2011	4.73%
BESNAC LLC	Commercial paper	USD	2007	21,377	2008	4.69% - 5.28%
ES	PlcCommercial paper	EUR	2007	193,103	2008	4.55% - 4.94%
BESIL	BESIL STEP UP 08/27/13	EUR	2003	25,000	2013	Fixed rate - 4.75%
BESIL	BESIL STEP UP 09/02/13	EUR	2003	25,000	2013	Fixed rate - 4.74%
BESIL	BESIL STEP UP 09/16/13	EUR	2003	25,000	2013	Fixed rate - 4.84%
BESIL	BESIL STEP UP 10/07/13	EUR	2003	25,000	2013	Fixed rate - 4.84%
BESIL	BESIL STEP UP 02/02/17	USD	2004	16,983	2017	Fixed rate - 5.42%
BESIL	BESIL STEP UP 02/11/19	USD	2004	16,983	2019	Fixed rate - 5.37%
BESIL	BESIL STEP UP 07/21/14	USD	2004	16,983	2014	Fixed rate - 6.06%
BESIL	BESIL LTD 5.41% 21/07/14	USD	2004	67,930	2014	Fixed rate - 5.41%
BESIL	BESIL LTD 5.7065% 11/02/19	USD	2004	50,947	2019	Fixed rate - 5.7065%
BESIL	BESIL LTD 5.515% 02/02/17	USD	2004	50,947	2017	Fixed rate - 5.515%
BESI	Deposits	BRL	2007	411,879	2008 - 2009	0.00% - 10.94%
BESI	BESI CAIXA(BEST) TX F JUN08 PLUS	EUR	2004	3,346	2008	Sonwball l)
BESI	BESI CAIXA (BEST) TX FIXA	EUR	2004	218	2008	Growing fixed rate
BESI	BESI RENDIM PLUSII TX VAR AGO08	EUR	2004	1,119	2008	Sonwball l)
BESI	BESI CAIXA BEST ACCOES EUROPA 4%a)	EUR	2005	2,500	2010	j)
BESI	BESI MULTIESTRATEGIA MAR2010 a)	EUR	2005	2,537	2010	f)
BESI	BESI OBRIG RENDIMENT 20% MAY2015	EUR	2005	2,298	2015	Fixed rate 5% + Indexed to CMS
BESI	BESI OBRIG BULL&BEAR JUN10 a)	EUR	2005	1,451	2010	Indexed to DJ Eurostoxx 50
BESI	BESI CX RANGE ACCR AND FX NOV11	EUR	2005	4,110	2011	q)
BESI	BESI OBCX R.ACCRUAL TARN MAR2016	EUR	2006	2,982	2016	Fixed rate 6% + Range Accrual
BESI	BESI OB CX RENDIM STEP UP APR14	EUR	2006	3,280	2014	Growing fixed rate
BESI	BESI CAIXA 6.15% NIKKEI JAN2011 a)	EUR	2006	3,982	2011	Indexed to Nikkei 225
BESI	BESI CERT DUAL5%+SX5E JUN09 a)	EUR	2006	2,331	2009	Fixed rate 5% + indexed to DJ Eurostoxx 50
BESI	BESI VMOP OREY JUN2009	EUR	2006	7,446	2009	Fixed rate 14.75%
BESI	BESI CERT DUALREND+EUSTOXX AUG14 a)	EUR	2006	3,018	2014	Fixed rate 6.6743% + indexed to DJ Eurostoxx 50
BESI	BESI CERT INDEX BASKET JUL2008 a)	EUR	2006	10,235	2008	s)
ES Investment Plc	ES INVESTPLC SEP09 EURIBOR CAPII	EUR	1999	2,541	2009	Euribor 6M (Capped 8%)

(in thousands of euros)

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ES Investment Plc	ESIP NOV02 OCT2017 CALLABLE STEP	EUR	2002	6,329	2017	Fixed rate 6% + indexed to CMS
ES Investment Plc	ESIP APR11 INDX BASQ LINQ 90% a)	EUR	2003	4,446	2011	i)
ES Investment Plc	ESIP JUL03/JUL11 LINKED CMS a)	EUR	2003	14,607	2011	Fixed rate + indexed to CMS+CLN
ES Investment Plc	ESIP NOV2011 CMS LINKED EUR 5M	EUR	2003	4,945	2011	Fixed rate + indexed to CMS
ES Investment Plc	ESIP DEC2011 CMS LINKED EUR 6.5M	EUR	2003	6,358	2011	Fixed rate + indexed to CMS
ES Investment Plc	ESIP JUL2012 CMS LINKED EUR 5.5M	EUR	2004	5,435	2012	Fixed rate + indexed to CMS
ES Investment Plc	ESIP OUT24 ESFP LINKED CMS NOTE	EUR	2004	10,013	2024	Fixed rate + indexed to CMS
ES Investment Plc	ESIP EURCRE CRDLINK NOV09 a)	EUR	2004	3,538	2009	g)
ES Investment Plc	ESIP CMS LINKED NOV2014	EUR	2004	4,653	2014	Fixed rate 6% + indexed to CMS
ES Investment Plc	ESIP EUR SNOWBALL FLOAT NOV2012	EUR	2004	4,921	2012	Fixed rate + Sonwball l)
ES Investment Plc	ESIP JAN01/JAN11 CRDLKD US 11.85 a)	USD	2001	2,164	2011	Fixed rate 5% + indexed to credit default
ES Investment Plc	ESIP EUR SNOWBALL FLOAT FEB2010	EUR	2005	57	2010	Fixed rate + Sonwball l)
ES Investment Plc	ESIP EUR SNOWB FLOAT FEB2010 II	EUR	2005	145	2010	Fixed rate + Sonwball l)
ES Investment Plc	ESIP EUR SNOWBALL FLOAT APR2010	EUR	2002	795	2010	Fixed rate + Sonwball l)
ES Investment Plc	ESIP EUR12M+14 BPS APR2008	EUR	2005	15,000	2008	12 months Euribor
ES Investment Plc	ESIP AMORTIZING MAY2010 ESTOXX50a)	EUR	2005	1,289	2010	Indexed to DJ Eurostoxx 50
ES Investment Plc	ESIP ASIAN BASKET EURO MAY2008 a)	EUR	2005	140	2008	h)
ES Investment Plc	ESIP CALL RANGE ACCRUAL MAY2015	EUR	2005	2,313	2015	Range accrual
ES Investment Plc	ESIP RANGE ACCRUAL JUN15	EUR	2005	168	2015	Range accrual
ES Investment Plc	ESIP RANGE ACCRUAL AUG2013	EUR	2005	3,685	2013	Fixed rate 4.75% + Range accrual
ES Investment Plc	ESIP BESLEAS&INFLAT LINK MAY15 a)	EUR	2005	6,525	2015	Indexed to HIPC Ex-Tobacco + g)
ES Investment Plc	ESIP EURIBOR12M+13 BP MAY2008	EUR	2005	8,100	2008	Euribor 12M
ES Investment Plc	ESIP EUR LEVERAGE SNOWBALL JUL15	EUR	2005	1,465	2015	Fixed rate + Sonwball l)
ES Investment Plc	ESIP AGO05 AGO08 FTD USD 1M a)	USD	2005	605	2008	g)
ES Investment Plc	ESIP AGO05 SEP35 CALLABLE INV FL	EUR	2005	8,551	2035	12 months Euribor+ p)
ES Investment Plc	ESIP SEP17 RANGE ACC TARN	EUR	2005	1,871	2017	Range accrual
ES Investment Plc	ESIP EURBRL LNQ NOTE SEP13 a)	EUR	2005	2,466	2013	Fixed rate 15% + indexed to exchange market
ES Investment Plc	ESIP LEVERAGE SNOWBALL SEP2015	EUR	2005	4,449	2015	Fixed rate + Sonwball l)
ES Investment Plc	ESIP CALL RANGE ACCRUAL OCT2008	EUR	2005	6,085	2008	Range accrual
ES Investment Plc	ESIP CALL RANGE ACCRUAL NOV2017	EUR	2005	867	2017	Range accrual
ES Investment Plc	ESIP HYBRID (FX AND EUR6M) OCT09 a)	EUR	2005	3,445	2009	Fixed rate + q)
ES Investment Plc	ESIP 30CMS-2CMS LKD NOTE NOV2036	EUR	2005	10,725	2036	Fixed rate 7.44% + indexed to CMS
ES Investment Plc	ESIP RANGE ACCRUAL AND FX NOV11	EUR	2005	76	2011	q)
ES Investment Plc	ESIP ZERO COUPON DEC08	EUR	2005	1,929	2008	Zero coupon
ES Investment Plc	ESIP INDEX BASKET LINKED APR2008 a)	EUR	2006	7,472	2008	m)
ES Investment Plc	ESIP EUR12M+16 BP APR2016	EUR	2006	3,995	2016	Euribor 12M
ES Investment Plc	ESIP CALLABLE EUR SNOWBALL MAY10	EUR	2006	2,671	2010	Fixed rate + Sonwball l
ES Investment Plc	ESIP CALLABLE EUR FLIPPER MAY11	EUR	2006	4,914	2011	Fixed rate + variable coupon
ES Investment Plc	ESIP IDX BSKT LINKED AUG2009 EUR a)	EUR	2006	1,923	2009	n)
ES Investment Plc	ESIP IDX BSKT LINKED AUG2009 USD a)	USD	2006	553	2009	n)
ES Investment Plc	ESIP PORTUGAL TELECOM FIN LINKED a)	EUR	2006	8,699	2012	g)
ES Investment Plc	ESIP 5% EUR6M DIGITAL SEP2011	EUR	2006	1,461	2011	r)
ES Investment Plc	ESIP INDEX BASKET LINKED SEP2011 a)	EUR	2006	6,905	2011	o)
ES Investment Plc	ESIP FX BASKET LINKED MAR2008 a)	USD	2006	853	2008	Indexed to exchange market
ES Investment Plc	ESIP EURTRY LINKED NOV2009 a)	EUR	2006	2,112	2009	Indexed to exchange market
ES Investment Plc	ESIP NOV09 STOCK BASKET LKD USD a)	USD	2006	1,679	2009	t)
ES Investment Plc	ESIP RANGE ACCRUAL USD NOV2021	USD	2006	5,637	2021	Range accrual
ES Investment Plc	ESIP USD RANGE ACCRUAL NOV2021	USD	2006	3,367	2021	Range accrual
ES Investment Plc	ESIP 4% MAY 2008	EUR	2006	24,908	2008	Fixed rate 4%
ES Investment Plc	ESIP JUN08 STOCK BASKET LKD a)	EUR	2006	4,191	2008	t)

(in thousands of euros)

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ES Investment Plc	ESIP JUN08 STOCK BASKET LKD a)	EUR	2006	4,191	2008	t)
ES Investment Plc	ESIP 4.08% COMPOUND JUN2008	EUR	2006	14,930	2008	Fixed rate 4.08%
ES Investment Plc	ESIP EUR3M+9BPS JAN2009	EUR	2007	199,941	2009	Euribor 3M
ES Investment Plc	ESIP 1% DEC2011	EUR	2006	4,380	2011	Fixed rate 1%
ES Investment Plc	ESIP JAN2010 INDEX BASKET LKD a)	EUR	2007	1,018	2010	k)
ES Investment Plc	ESIP JAN2017 INDEX BASKET LKD a)	EUR	2007	6,596	2017	k)
ES Investment Plc	ESIP 4.1094% JAN2008	EUR	2007	111,341	2008	Fixed rate 4.1094%
ES Investment Plc	ESIP FEB2008 INDEX BASKET LKD a)	USD	2007	8,543	2008	u)
ES Investment Plc	ESIP CIMPOR FIN CRD LKD MAY2011 a)	EUR	2007	13,994	2011	g)
ES Investment Plc	ESIP FEB2012 DEUTSCHE BANK LKD a)	EUR	2007	5,389	2012	Indexed to Deutsche Telecom
ES Investment Plc	ESIP FX EURUSD LINKED MAR2008 a)	EUR	2007	1,401	2008	Indexed to exchange market
ES Investment Plc	ESIP MAR08 REPSOL LINKED a)	EUR	2007	1,591	2008	Indexed to Repsol
ES Investment Plc	ESIP JUL2010 EQUITY BASKET LKD a)	EUR	2007	1,692	2010	v)
ES Investment Plc	ESIP 5% RANGE ACCRUAL APR2008	EUR	2007	1,001	2008	Range accrual
ES Investment Plc	ESIP 5.5% RANGE ACCRUAL OCT2008	EUR	2007	1,010	2008	Range accrual
ES Investment Plc	ESIP APR08 BBVA LINKED a)	EUR	2007	995	2008	Indexed to BBVA
ES Investment Plc	ESIP EURIBOR12M APRIL2009	EUR	2007	15,000	2009	Euribor 12M
ES Investment Plc	ESIP MAY12 EQUIT BASKT ENERGY a)	EUR	2007	6,635	2012	ag)
ES Investment Plc	ESIP 5.95% JUL2008	USD	2007	884	2008	Fixed rate 5.95%
ES Investment Plc	ESIP MAY08 NOKIA LINKED REVERSE a)	EUR	2007	2,437	2008	Indexed to onKIA
ES Investment Plc	ESIP MAY2009 TOPIX LINKED a)	EUR	2007	3,308	2009	Indexed to Topix
ES Investment Plc	ESIP JUN2012 BASKET LINKED a)	EUR	2007	1,068	2012	x)
ES Investment Plc	ESIP MAY14 EQUIT BASKT LINKED a)	USD	2007	3,013	2014	y)
ES Investment Plc	ESIP ZERO COUPON 05 DEC 2008	EUR	2007	31,922	2008	Zero coupon
ES Investment Plc	ESIP JUN2011 INDEX BASKET LKD a)	EUR	2007	5,854	2011	w)
ES Investment Plc	ESIP JUN2011 INDEX BASKET LINKED a)	EUR	2007	15,659	2011	z)
ES Investment Plc	ESIP JUL2012 LUSITANO BSK LINKED a)	EUR	2007	4,457	2008	af)
ES Investment Plc	ESIP ZERO COUPON JUN2008	EUR	2007	114,534	2008	Zero coupon
ES Investment Plc	ESIP JUL2009 SX5E LINKED	EUR	2007	1,498	2009	Indexed to Eurostoxx50
ES Investment Plc	ESIP AUG2009 EQL BASKET	EUR	2007	1,998	2009	aa)
ES Investment Plc	ESIP 7% RANGE ACC SEPTEMBER2017	USD	2007	3,022	2017	Range accrual
ES Investment Plc	ESIP 5.12% RANGE ACC SEP2008	EUR	2007	1,057	2008	Range accrual
ES Investment Plc	ESIP EURTRY LINKED OCT2012	EUR	2007	4,731	2012	Indexed to exchange market
ES Investment Plc	ESIP 5.50% RANGE ACCRUAL OCT2008	EUR	2007	1,060	2008	Range accrual
ES Investment Plc	ESIP WHEAT+CORN LINKED OCT2008	EUR	2007	2,129	2008	Commodity Linked
ES Investment Plc	ESIP APR2009 WRC BZ SHARE LKD 3	EUR	2007	3,233	2009	ac)
ES Investment Plc	ESIP 23OCT2008 ESTOXX50 LINKED	EUR	2007	6,463	2008	Indexed to Eurostoxx50
ES Investment Plc	ESIP METAL INVESTMENT OCT2012	EUR	2007	3,036	2012	Commodity Linked
ES Investment Plc	ESIP 5.25% SWITCHABLE RA OCT2009	EUR	2007	2,871	2009	Range accrual
ES Investment Plc	ESIP 4.604% OCT2008	EUR	2007	182,500	2008	Fixed rate 4.604%
ES Investment Plc	ESIP NOV08 FX BASKET LINKED USD	USD	2007	637	2008	Indexed to exchange market
ES Investment Plc	ESIP MAY2009 WRC BZ SHARE LKD	EUR	2007	998	2009	ac)
ES Investment Plc	ESIP CALL COMPOUND COUPON NOV37	EUR	2007	3,017	2037	Compounded rate
ES Investment Plc	ESIP CMS LINKED JUN2019	EUR	2007	20,150	2019	Fixed rate + indexed to CMS
ES Investment Plc	ESIP JUN2009 WRC BZ SHARE LKD 2	USD	2007	3,393	2009	ac)
ES Investment Plc	ESIP DEC08 DT LINKED REVERSE	EUR	2007	3,771	2008	Indexed to Deutsche Telecom
ES Investment Plc	ESIP JUN2009 WRC BZ SHARE LKD 3	EUR	2007	2,419	2009	ac)
ES Investment Plc	ESIP DEC2011 BBVA POP LINKED	EUR	2007	3,182	2011	Indexed to BBVA e Banco Popular
ES Investment Plc	ESIP ZERO COUPON JAN2008	EUR	2007	17,000	2008	Zero coupon
ES Investment Plc	ESIP BCP FIN CRD LKD JUN2008	EUR	2007	20,049	2008	g)

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ES Investment Plc	ESIP ZERO COUPON JUN2008 2	EUR	2007	29,375	2008	Zero coupon
ES Investment Plc	ESIP JUN2009 WRC BZ SHARE LKD	USD	2007	470	2009	ad)
ES Investment Plc	ESIP MAR08 CIT LINKED REVERSE	USD	2007	1,670	2008	Indexed to Citigroup
ES Investment Plc	ESIP JUN2009 WRC SHARE LKD	USD	2007	867	2009	ae)
ES Investment Plc	ESIP BCP FIN CRD LKD DEC2015	EUR	2007	4,374	2015	g)
ES Investment Plc	ESIP ML CRD LKD DEC2008	USD	2007	10,163	2008	g)
ES Investment Plc	ESIP DEC2010 CLIQUET MSCI BRAZIL	USD	2007	1,286	2010	Indexed to MSCI Brasil
ES Investment Plc	ESIP DEC2015 BASKET LINKED	EUR	2007	3,091	2015	ab)
ES Investment Plc	ESIP JUN2009 WRC BZ SHARE LKD 4	USD	2007	1,729	2009	ac)
Lusitano Mortgages n.º 6	Class A Mortgage Backed Floating Rate Notes	EUR	2007	892,749	2060	Euribor + 0.20%
Lusitano Mortgages n.º 6	Class B Mortgage Backed Floating Rate Notes	EUR	2007	65,450	2060	Euribor + 0.30%
Lusitano Mortgages n.º 6	Class C Mortgage Backed Floating Rate Notes	EUR	2007	41,800	2060	Euribor + 0.45%
Lusitano Mortgages n.º 6	Class D Mortgage Backed Floating Rate Notes	EUR	2007	17,600	2060	Euribor + 0.85%
Lusitano Mortgages n.º 6	Class E Mortgage Backed Floating Rate Notes	EUR	2007	31,900	2060	Euribor + 2.70%
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%
				24,038,940		
	Accrued			274,651		
				24,313,591		

a) Designated liabilities at fair value throught profit or loss
b) Extendible notes: due in one year, with the option to extend for one year, with a spread increase, up to 5 years
c) Indexed to a basket composed by Continental AG, Accor, KPN NV and Vivendi shares
d) Indexed to a basket composed by Nifty India + RDX Russia + HK Hang Seng + Bovespa Index
e) Indexed from the 1st to 4th year to a fixed rate of 6,00% and indexed to a swap rate after the 4th year
f) Indexed to a basket composed by EUGATR, Eurostoxx 50, Short EUR/Long USD, Goldman Sachs Commodity Index Excess Return
g) Indexed to credit default
h) Indexed to a basket composed by Nifty India Index; REX Russia Index and China HSCE Index
i) Indexed to a basket composed by DJ Eurostoxx 50; Standard & Poors 500 and Nasdaq 100
j) Indexed to a basket composed by Altadis, Deutsche Bank, Deutsche Telecom, Inditex, Nokia, Banco Popular shares
k) Indexed to basket composed by Dow Jones Eurostoxx 50, S&P 500 and Nikkei 225
l) Indexed to previous coupon + Spread - Euribor
m) Indexed to a basket composed by DJ Eurostoxx 50, S&P 500, Nasdaq
n) Indexed to a basket composed by S&P 500 and Nikkei
o) Indexed to a basket composed by DJ Eurostoxx 50, S&P 500, Nasdaq, Hang Seng and Topix
p) Indexed to Reverse Floater
q) Indexed to interest and exchange rate
r) Indexed to digital interest rate
s) Indexed to a basket composed by DJ Eurostoxx50, SP500, Nikkei 225, SP BRIC 40, HONGKONG HANG SENG, MSCI TAIWAN, MSCI SINGAPORE, KOREA STOCK EXCHANGE 200
t) Indexed to a basket composed by ABN, BBVA, BSCH, BCP and COMMERZBANK shares
u) Indexed to a basket composed by Topix, Hang Seng Index, Hang Seng China Enterprises Index and Nifty
v) Indexed to abasket composed by AXA, Alianz and ING. Shares
w) Indexed to a basket composed by EDP, Iberdrola, FPL Group, Gamesa, Vestas Wind Systems and Solarworld shares
x) Indexed to a basket composed by DJ Eurostoxx 50, SP500 and Topix
y) Indexed to a basket composed by BBVA and BSCH shares
z) Indexed to a basket composed by DJ Eurostoxx 50, SP500, BOVESPA, iShares MSCI Pacific ex-Japan
aa) Indexed to a basket composed by DJ Eurostoxx 50, SP500, TOPIX, BOVESPA, Hang Seng China
ab) Indexed to a basket composed by BBVA, Credit Agricole and Fortis shares.
ac) Indexed to a basket composed by Petroleo Brasileiro, Banco Bradesco, Companhia de Vale de Rio Doce shares.
ad) Indexed to a basket composed by Petroleo Brasileiro, Banco Bradesco, Companhia de Vale de Rio Doce and Companhia Siderurgica Nacional shares.
ae) Indexed to a basket composed by Petroleo Brasileiro, Unibanco, Companhia de Vale de Rio Doce and Apple shares.
af) Indexed to a basket composed by BCP, EDP, Brisa and PT shares.
ag) Indexed to a basket composed by Marubeni Corp, Solarworld and VestasWind Systems shares.

This balance includes euro 1,110,126 thousands (31 December 2006: euro 987,318 thousands) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

Note 32 // Provisions

As at 31 December 2007 and 2006, the balance of provisions presents the following movements:

(in thousands of euros)

	Restructuring provisions	Other provisions	Total
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)
Exchange differences and other	(800)	(3,385)	(4,185)
Balance as at 31 December 2006	**1,686**	**138,196**	**139,882**
Charge for the year	23,437	7,024	30,461
Charge off	(848)	(7,560)	(8,408)
Write back for the year	(74)	(4,979)	(5,053)
Exchange differences and other	-	(12,932)	(12,932)
Balance as at 31 December 2007	**24,201**	**119,749**	**143,950**

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 millions to meet costs with the restructuring. As at 31 December 2007, this provision amounts to euro 1.4 millions.

In April 2007, following the merger of BESSA and its subsequent change into a branch of BES, a provision in the amount of euro 23.4 millions was booked for the costs associated with this project. As at 31 December 2007, this provision amounts to euro 22.8 millions.

Other provisions in the amount of euro 119,749 thousands (31 December 2006: euro 138,196 thousands) are intended to cover certain contingencies related to the Group's activities, as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Group has provisions in the amount of approximately euro 38.6 millions (31 December 2006: euro 25.9 millions) to cover these contingencies;
- Contingencies in connection with legal processes established following the bankruptcy of clients which might imply losses for the Group. Provisions in the amount of euro 7.5 millions as at 31 December 2007 (31 December 2006: euro 9.8 million) were established to cover these losses;
- Contingencies for ongoing tax processes. To cover these contingencies, the Group maintains provisions of approximately euro 52.4 millions (31 December 2006: euro 51.4 millions);
- The remaining balance of approximately euro 21.2 millions (31 December 2006: euro 50.4 millions), is maintained to cover potential losses within the normal activities of the Group, such as frauds, robbery and on-going judicial cases.

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 and deferred income tax balance for 2007 and its deferred tax balance for 2006 on the basis of a nominal rate of 26.5%, in accordance with the Law No. 107-B/2003 from 31 December and Law No. 2/2007 of 15 January (approved Local Tax Law). The 2006 current tax was determined on the basis of a nominal rate of 27.5%.

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

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2007 and 31 December 2006 can be analysed as follows:

(in thousands of euros)

	Assets		Liabilities		Net	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Derivative financial instruments	9,654	34,404	(73,588)	(50,183)	(63,934)	(15,779)
Available-for-sale financial assets	7,945	2,975	(271,747)	(181,856)	(263,802)	(178,881)
Loans and advances to customers	101,770	62,800	-	-	101,770	62,800
Property and equipment	-	813	(8,922)	(9,692)	(8,922)	(8,879)
Intangible assets	197	1,051	-	-	197	1,051
Investments in subsidiaries and associates	2,361	-	(28,923)	(22,648)	(26,562)	(22,648)
Provisions	24,025	28,332	(4,327)	(72)	19,698	28,260
Pensions	16,111	1,210	(37,941)	(46,971)	(21,830)	(45,761)
Health care - SAMS	21,812	21,263	-	-	21,812	21,263
Long-service benefits	6,470	5,525	-	-	6,470	5,525
Other	5,481	1,672	(4,025)	(2,652)	1,456	(980)
Tax credits resulting from double tax treaties	-	19,958	-	-	-	19,958
Tax losses brought forward	1,690	45,168	-	-	1,690	45,168
Deferred tax asset / (liability)	**197,516**	**225,171**	**(429,473)**	**(314,074)**	**(231,957)**	**(88,903)**
Assets / liabilities compensation for deferred taxes	(173,570)	(145,404)	173,570	145,404	-	-
Deferred tax asset / (liability), net	**23,946**	**79,767**	**(255,903)**	**(168,670)**	**(231,957)**	**(88,903)**

The changes in deferred taxes were recognised as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January	(88,903)	(4,201)
Recognised in the income statement	(65,630)	(49,522)
Recognised in fair value reserve	(83,689)	(42,901)
Recognised in other reserves	7,771	5,343
Exchange differences and other	(1,506)	2,378
Balance as at 31 December (Assets/ (Liabilities))	**(231,957)**	**(88,903)**

The deferred tax recognised against profit or loss and reserves, during 2007 and 2006 is analysed as follows:

(in thousands of euros)

	31.12.2007		31.12.2006	
	Recognised in profit	Recognised in reserves	Recognised in profit	Recognised in reserves
Derivative financial instruments	48,155	-	8,850	-
Available-for-sale financial assets	1,232	83,689	(5,752)	42,901
Loans and advances to customers	(38,970)	-	(14,289)	-
Property and equipment	43	-	(1,861)	-
Intangible assets	854	-	4,046	-
Investments in subsidiaries and associates	3,914	-	12,267	-
Provisions	8,562	-	(802)	-
Pensions	(18,918)	(5,013)	(10,738)	(157)
Health care - SAMS	(549)	-	(809)	-
Long-service benefits	(945)	-	925	-
Other	(1,184)	(2,758)	7,105	(5,186)
Tax credits resulting from double tax treaties	19,958	-	(1,246)	-
Tax losses brought forward	43,478	-	51,826	-
Deferred tax	**65,630**	**75,918**	**49,522**	**37,558**
Current tax	**86,916**	**5,720**	**85,942**	**157**
	152,546	**81,638**	**135,464**	**37,715**

The current tax recognised in reserves includes euro 5,013 thousands related to pensions and euro 372 thousands related to the share based payments scheme.

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

(in thousands of euros)

	31.12.2007		31.12.2006	
	%	Amount	%	Amount
Profit before taxes and minority interests		**787,619**		**571,621**
Statutory tax rate	26.5		27.5	
Income tax calculated based on the statutory tax rate		208,719		157,196
Diferences on the subsidiaries statutory tax rates	(1.3)	(9,913)	(1.6)	(9,252)
Tax-exempt dividends	(2.4)	(19,105)	(1.1)	(6,215)
Tax-exempt profits (off shore)	(4.9)	(38,566)	(4.2)	(23,990)
Tax-exempt gains	(1.6)	(12,482)	(0.3)	(1,524)
Non deductible losses	-	-	0.5	2,651
Tax on capital gains obtained abroad	-	-	2.4	14,000
Changes in estimates	2.4	18,566	(1.2)	(7,089)
Changes in the statutory tax rate	-	-	0.6	3,554
Unrecognised deferred tax assets related to tax losses generated in the period	0.7	5,866	0.2	1,048
Non-taxable share of profit of associates	(1.1)	(8,455)	(0.5)	(2,962)
Non deductible costs	0.6	4,487	0.8	4,555
Other	0.4	3,429	0.1	530
	19.4	**152,546**	**23.7**	**135,464**

Note 34 // Subordinated debt

The balance subordinated debt is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Bonds	886,815	1,002,230
Loans	159,319	183,202
Perpetual Bonds	1,048,681	1,054,384
	2,094,815	2,239,816

The subordinated debt fair value is analysed in Note 42.

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

(in thousands of euros)

Issuer	Designation	31.12.2007					
		Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity	
BES (Cayman)	Subordinated bonds	2005	213,068	155,385	3.95%	2015	
BES Finance	Subordinated bonds	1999	43,022	38,798	7.80%	2009	
BES Finance	Subordinated bonds	2000	300,000	306,513	6.63%	2010	
BES Finance	Subordinated bonds	2001	400,000	402,986	6.25%	2011	
BES Finance	Subordinated perpetual bonds	2002	500,000	504,756	6.63%	2012	a)
BES Finance	Subordinated perpetual bonds	2004	500,000	506,543	4.50%	2015	a)
Besleasing e Factoring	Subordinated bonds	2001	7,000	7,260	5.39%	2011	
Besleasing e Factoring	Subordinated bonds	2004	25,000	25,024	5.36%	2014	b)
Besleasing e Factoring	Subordinated perpetual bonds	2005	15,000	15,061	6.41%	2015	a)
BESI	Subordinated bonds	2003	10,000	9,776	5.50%	2033	
BESI	Subordinated bonds	2005	60,000	59,928	3.20%	2015	
BESI	Subordinated bonds	2007	21,134	21,194	1.30%	2014	
			2,094,224	2,094,815			

a) Call option date
b) The call option can be executed in 2009

During the year ended 31 December 2007, BES Group issued subordinated debt securities in the amount of euro 21.1 million (during 2006 the Group did not issue any subordinated debt), and reimbursed euro 129.7 million (31 December 2006: euro 59.9 million).

Note 35 // Other Liabilities

As at 31 December 2007 and 2006, the balance Other Liabilities is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Creditors		
Public sector	49,530	29,742
Creditors arising out from future contracts	48,527	28,334
Sundry creditors		
Creditors from health care benefits (see Note 12)	87,176	82,785
Creditors from transactions with securities	204,522	138,665
Suppliers	106,046	84,128
Creditors from factoring operations	9,369	7,425
Other sundry creditors	183,840	212,217
	688,645	583,296
Accrued expenses		
Long-service benefits (see Note 12)	23,625	23,627
Other accrued expenses	130,405	125,359
	154,030	148,986
Deferred income	10,347	22,855
Other sundry liabilities		
Stock exchange transactions pending settlement	466,435	377,675
Foreign exchange transactions pending settlement	27,306	22,288
Other transactions pending settlement	178,217	131,694
	671,958	531,657
	1,524,980	1,286,794

The stock exchange transactions pending settlement refer to transactions with securities on behalf of third parties, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.6.

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

Ordinary shares

As at 31 December 2007, 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:

	% Share capital	
	31.12.2007	31.12.2006
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	40.00%	40.00%
Credit Agricole, S.A.	10.81%	10.81%
Bradport, SGPS, S.A. (1)	3.05%	3.05%
Previsão - Sociedade Gestora de Fundos de Pensões, S.A.	2.62%	2.62%
Hermes Pensions Management Limited	2.03%	2.13%
Portugal Telecom, SGPS, S.A.	-	1.40%
Other	41.49%	39.99%
	100.00%	100.00%

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

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 2007, the Group charged against reserves the amount of euro 33,480 thousands (31 December 2006: euro 33,480 thousands) related to the dividends declared by the Board of Directors of the issuer, as at 22 May, which were paid as at 3 July 2007.

These shares rank lower than any BES liability, and pari passu relative to any preference shares that may come to be issued by the Bank.

Share premium

As at 31 December 2007, share premium are represented by euro 668,851 thousands related to the premium paid by the shareholders following the share capital increases occurred in the first half of 2002 and 2006.

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 2007, 3,484 thousand shares of BES (0.70% of total share capital), are allocated (31 December 2006: 5,667 thousand of shares, 1.13% of total share capital), for an overall amount of euro 41.4 million (31 December 2006: euro 63.7 million). These shares are recognised as treasury stock, as described in Note 2.15

The movement in treasury stocks is analysed as follows:

	31.12.2007		31.12.2006	
	Number of shares	Amount (euro'000)	Number of shares	Amount (euro'000)
Opening balance	5,667,612	63,732	7,617,500	96,247
Share capital increase	-	-	850,504	-
Shares sold	(2,183,350)	(22,295)	(2,800,392)	(32,515)
Year-end balance	**3,484,262**	**41,437**	**5,667,612**	**63,732**

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

During the year ended 31 December 2007 and the year ended 31 December 2006, the changes in these balances 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 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	-	-	-	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**
Share-based incentive plan (SIBA)	-	-	-	-	-	1,030	1,030
Dividends from preference shares	-	-	-	-	-	(33,480)	(33,480)
Changes in fair value	207,440	(72,781)	134,659	-	-	-	-
Exchange differences	-	-	-	-	3,455	-	3,455
Transfer to reserves	-	-	-	26,000	-	196,390	222,390
Balance as at 31 December 2007	**896,691**	**(249,990)**	**646,701**	**166,910**	**9,696**	**114,786**	**291,392**

As at 31 December 2007 and 2006, the fair value reserve can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Cost of available-for-sale financial assets	5,353,586	4,618,102
Accumulated impairment recognised	(64,101)	(57,498)
Cost of available-for-sale financial assets, net of impairment	5,289,485	4,560,604
Fair value of available for-sale financial assets	6,238,889	5,251,684
Net unrealised gains recognised in the fair value reserve	949,404	691,080
Deferred taxes	(260,898)	(177,209)
Net unrealised gains in associated companies recognised in the fair value reserve	(11,885)	11,890
Fair value reserve	676,621	525,761
Minority interests	(29,920)	(13,719)
Fair value reserve attributable to equity holders of the Bank	**646,701**	**512,042**

The movement in the fair value reserve, net of deferred taxes, impairment losses and minority interests is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January	**512,042**	**365,691**
Changes in fair value	419,125	316,893
Disposals during the year	(231,524)	(133,074)
Impairment recognised during the year	19,839	5,433
Deferred taxes recognised in reserves during the year (See note 33)	(72,781)	(42,901)
Balance as at 31 December	**646,701**	**512,042**

Minority interests

Minority interests by subsidiary are analysed as follows:

(in thousands of euros)

	31.12.2007		31.12.2006	
	Balance sheet	Income statement	Balance sheet	Income statement
ES CONCESSÕES	13,055	(980)	13,970	(592)
BES ANGOLA	20,500	10,215	13,566	6,802
ESAF	15,711	3,960	12,771	3,227
BES AÇORES	13,343	2,130	12,211	1,698
BESLEASING	8,783	1,599	8,323	1,388
BEST	7,486	668	7,362	(535)
BES Investimento do Brasil	5,330	412	5,036	1,318
BES Securities	25,354	7,419	1,368	(30)
Concordia	87	(361)	-	-
FIN Solutia	340	(165)	-	-
FIQ VENTURES II	18,951	2,119	990	(10)
FCR PME/BES	11,266	554	8,536	57
ES CONTACT CENTER	398	(51)	791	15
Other	527	485	1,655	2,105
	141,131	**28,004**	**86,579**	**15,443**

The changes in minority interests for the years ended 31 December 2007 and 2006 are analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Minority interests as at 1 January	**86,579**	**105,752**
Changes in the scope of consolidation [(1)]	15,759	(29,704)
Increase in share capital of subsidiaries	-	1,780
Decrease in share capital of subsidiaries	(347)	-
Dividends on preference shares	(5,443)	(5,752)
Changes in fair value reserve	18,685	3,030
Exchange differences and other	(2,106)	(3,970)
Profit for the year	28,004	15,443
Minority interests as at 31 December	**141,131**	**86,579**

(1) The changes in the scope of consolidation relate to the consolidation relate to the consolidation of FIQ Venture Fund (decrease in participation in 2007) , Comninvest and Concordia (see note 27) , both these two entities consolidated under the full consolidation method for the first time in June and December 2007, respectively.

Note 38 // Off-Balance sheet items

As at 31 December 2007 and 2006, this balance can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Contingent liabilities		
Guarantees and stand by letters of credit	5,370,597	4,782,409
Assets pleged as collateral	711,451	558,689
Open documentary credits	1,073,334	778,408
Other	103,121	123,356
	7,258,503	**6,242,862**
Commitments		
Revocable commitments	27,587,481	23,296,421
Irrevocable commitments	3,933,336	2,095,432
	31,520,817	**25,391,853**

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 collateralized. 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 2007, the balance 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 156,987 thousands (31 December 2006: euro 156,584 thousands);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 53,209 thousands (31 December 2006: euro 51,293 thousands);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 62,408 thousands (31 December 2006: euro 61,814 thousands);
- Securities pledged as collateral to the European Investment Bank in the amount of euro 287,000 thousands (31 December 2006: euro 287,000 thousands);
- Securities pledged as collateral to the Bovespa in the scope of the activity of BES Securities Brazil by an amount of euro 94,374 thousand.

The above mentioned securities pledged as collateral are booked in the available-for-sale portfolio and they can be executed in case the Group does not fulfil its obligations under the terms of the contracts.

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

(in thousands of euros)

	31.12.2007	31.12.2006
Securities and other items held for safekeeping on behalf of customers	67,905,088	59,339,734
Assets for collection on behalf of clients	249,453	503,532
Securitised loans under management (servicing)	4,228,346	4,793,720
Other responsabilities related with banking services	4,844,388	3,587,209
	77,227,275	68,224,195

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 non fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2007 and 2006, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Securities investment funds	4,966,403	5,540,393
Real estate investment funds	1,288,683	1,468,761
Pensions funds	2,800,088	2,608,495
Other assets under management	9,330,399	8,019,790
	18,385,573	17,637,439

Note 40 // Related parties transactions

As at 31 December 2007 and 2006, the balances and transactions with related parties are presented as follows:

(in thousands of euros)

	31.12.2007					31.12.2006				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associated companies										
ESUMÉDICA	1,850	37	-	58	11	1,546	56	-	22	35
EUROP ASSISTANCE	68	1,787	7	1	65	11	1,926	13	33	59
FIDUPRIVATE	828	773	-	-	10	9	475	-	-	-
BES VÉNÉTIE	315,607	647	-	10,872	80	300,574	601	-	11,691	53
BES SEGUROS	3	7,518	-	8,098	36	3	11,374	-	6,741	75
ESEGUR	399	233	1,887	10	149	399	243	2,749	8	115
BES VIDA	29,514	181,118	8	38,974	3,516	144	445,065	8	33,718	1,196
LOCARENT	123,657	2,066	-	5,529	6,705	97,175	-	-	3,494	3,497
OTHER	2,598	658	-	144	187	2,129	1,270	255	78	168
	474,524	**194,837**	**1,902**	**63,686**	**10,759**	**428,754**	**461,010**	**3,025**	**55,785**	**5,198**

As at 31 December 2007 and 2006, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euros)

	31.12.2007							31.12.2006						
	Assets					Guarantees	Liabilities	Assets					Guarantees	Liabilities
	Loans and advances to banks	Loans	Securities	Other	Total			Loans and advances to banks	Loans	Securities	Other	Total		
ES FINANCIAL GROUP	-	-	-	-	-	-	-	-	-	2,571	-	2,571	-	-
ESF PORTUGAL	-	-	59,450	-	59,450	-	148	-	-	63,500	-	63,500	-	221
BESPAR	-	-	-	-	-	-	1,867	-	-	-	-	-	-	4,252
PARTRAN	-	-	-	-	-	-	189	-	70,000	-	-	70,000	-	176
ESPÍRITO SANTO FINANCIÉRE, SA	-	137,847	-	-	137,847	-	27,299	-	137,593	-	-	137,593	-	35,765
COMPANHIA SEGUROS TRANQUILIDADE	-	2,990	-	432	3,422	1,257	89,409	-	2,420	-	171	2,591	1,001	123,720
GRUPO ESPÍRITO SANTO INTERNATIONAL	-	153,420	183	7,268	160,871	10,349	15,769	-	237,411	-	7,268	244,679	15,301	12,471
BANQUE PRIVÉE ESPÍRITO SANTO	4,845	-	-	-	4,845	960	145,059	23,815	-	-	-	23,815	1,298	203,446
ES BANK PANAMA	219,472	-	-	-	219,472	-	9,000	223,593	-	-	-	223,593	-	21,000
ES SAUDE	-	30,700	15,810	4,009	50,519	3	1,105	-	93,500	15,810	4,000	113,310	1,652	2,312
OTHERS	-	12,780	458	1,149	14,387	2,002	24,242	-	42,817	455	1,062	44,334	8,616	10,966
TOTAL	**224,317**	**337,737**	**75,901**	**12,858**	**650,813**	**14,571**	**314,087**	**247,408**	**581,741**	**82,336**	**12,501**	**923,986**	**27,868**	**414,329**

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

Transactions, salaries and other benefits attributed to the key management personnel of BES Group are analysed in Note 11.

As at 31 December 2007, the loans and advances attributed by BES Group to key management personnel of Espírito Santo Financial Group (ESFG) amounted to euro 10 789 thousands.

Note 41 // Securitisation transactions

As at 31 December 2007, 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	128,693	Domestic bonds and eurobonds
Lusitano Mortgages No.1 plc	December 2002	1,000,000	594,142	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	602,546	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	847,163	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	950,719	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1,400,000	1,233,776	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862,607	800,740	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1,122,000	1,037,383	Mortgage loans (general regime)
Lusitano Project Finance No.1 plc	December 2007	1,079,100	1,060,239	Project Finance loans

The main characteristics of these transactions, as at 31 December 2007, 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 de 2015	-	-	-
	Class A2	623,800	-	-	December de 2015	AAA	Aaa	AAA
	Class B	42,300	9,997	-	December de 2015	AAA	Aa1	AA
	Class C	25,200	25,200	15,300	December de 2015	AA	A1	A+
	Class D	103,000	103,000	25,900	December de 2015	-	-	-
Lusitano Mortgages No.1 plc	Class A	915,000	505,975	-	December de 2035	AAA	Aaa	AAA
	Class B	32,500	32,500	-	December de 2035	AA	Aa3	AA
	Class C	25,000	25,000	-	December de 2035	A	A2	A
	Class D	22,500	22,500	-	December de 2035	BBB	Baa2	BBB
	Class E	5,000	5,000	-	December de 2035	BB	Ba1	BB
	Class F	10,000	10,000	-	December de 2035	-	-	-
Lusitano Mortgages No.2 plc	Class A	920,000	537,175	-	December de 2036	AAA	Aaa	AAA
	Class B	30,000	30,000	-	December de 2046	AA	Aa3	AA
	Class C	28,000	28,000	-	December de 2046	A	A3	A
	Class D	16,000	16,000	-	December de 2046	BBB	Baa3	BBB
	Class E	6,000	6,000	-	December de 2046	BBB-	Ba1	BB
	Class F	9,000	9,000	-	December de 2046	-	-	-
Lusitano Mortgages No.3 plc	Class A	1,140,000	779,944	-	December de 2047	AAA	Aaa	AAA
	Class B	27,000	27,000	-	December de 2047	AA	Aa2	AA
	Class C	18,600	18,600	-	December de 2047	A	A2	A
	Class D	14,400	14,400	-	December de 2047	BBB	Baa2	BBB
	Class E	10,800	10,800	-	December de 2047	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	897,426	-	December de 2048	AAA	Aaa	AAA
	Class B	22,800	22,800	-	December de 2048	AA	Aa2	AA
	Class C	19,200	19,200	-	December de 2048	A+	A1	A+
	Class D	24,000	24,000	-	December de 2048	BBB+	Baa1	BBB+
	Class E	10,200	10,200	-	December de 2048	-	-	-
Lusitano Mortgages No.5 plc	Class A	1,323,000	1,156,773	-	December de 2059	AAA	Aaa	AAA
	Class B	26,600	26,600	-	December de 2059	AA	Aa2	AA
	Class C	22,400	22,400	-	December de 2059	A+	A1	A+
	Class D	28,000	28,000	-	December de 2059	BBB+	Baa1	BBB+
	Class E	11,900	11,900	-	December de 2059	-	-	-
Lusitano SME No.1 plc	Class A	759,525	759,525	-	December de 2028	AAA	-	AAA
	Class B	40,974	40,974	-	December de 2028	AA	-	AA
	Class C	34,073	34,073	-	December de 2028	A+	-	A+
	Class D	28,035	28,035	28,035	December de 2028	BBB+	-	BBB+
	Class E	8,626	8,626	8,626	December de 2028	-	-	-
Lusitano Mortgages No.6 plc	Class A	943,250	892,749	-	March 2060	AAA	Aaa	AAA
	Class B	65,450	65,450	-	March 2060	AA	Aa3	AA
	Class C	41,800	41,800	-	March 2060	A	A3	A
	Class D	17,600	17,600	-	March 2060	BBB	Baa3	BBB
	Class E	31,900	31,900	-	March 2060	BB	NR	BB
	Class F	28,391	22,000	22,000	March 2060	-	-	-
Lusitano Project Finance No.1 plc	Class A	890,256	890,256	890,256	December 2037	AAA	-	AAA
	Class B	35,610	35,610	35,610	December 2037	AAA	-	AA
	Class C	39,926	39,926	39,926	December 2037	A+	-	A+
	Class D	23,741	23,741	23,741	December 2037	BBB	-	BBB
	Class E	11,871	11,871	11,871	December 2037	BB	-	BB
	Class F	77,696	77,696	77,696	December 2037	-	-	-

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 the Lusitano SME No. 1, plc, the Lusitano Mortgages No.6 plc and the Lusitano Project Finance No.1 plc as it retains the majority of the risks and rewards associated with the activity of these SPE's. Therefore, assets and liabilities of Lusitano SME No. 1 plc, of Lusitano Mortgages No.6 plc and of Lusitano Project Finance 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.

As at 31 December 2007 and 2006 the impact on fully consolidation these entities had an impact on the following balances:

(in thousands of euros)

	31.12.2007	31.12.2006
Loans to customers (net from impairment)	2,903,355	786,600
Debt securities issued	1,897,325	837,194
Equity	(15,993)	(7,500)
Net Income	(8,493)	(7,500)

Note 42 // Fair value of financial 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 2007								
Cash and deposits at central banks	-	-	-	1,361,218	-	-	1,361,218	1,361,218
Deposits with banks	-	-	-	720,442	-	-	720,442	720,442
Financial assets held for tranding	3,847,233	-	-	-	-	-	3,847,233	3,847,233
Financial assets as at fair value through profit or loss	-	1,426,704	-	-	-	-	1,426,704	1,426,704
Financial assets available-for-sale	-	-	-	-	6,238,889	-	6,238,889	6,238,889
Loans and advances to banks	-	559,687	-	7,650,644	-	-	8,210,331	8,210,331
Loans and advances to customers	-	163,726	-	42,006,537	-	-	42,170,263	42,471,075
Held to maturity investments	-	-	407,842	-	-	-	407,842	401,898
Hedging derivatives (assets)	211,890	-	-	-	-	-	211,890	211,890
Financial assets	**4,059,123**	**2,150,117**	**407,842**	**51,738,841**	**6,238,889**	**-**	**64,594,812**	**64,889,680**
Deposits from central banks	-	-	-	-	-	1,887,622	1,887,622	1,887,622
Financial liabilities held for trading	1,257,201	-	-	-	-	-	1,257,201	1,257,201
Deposits from banks	-	-	-	-	-	7,096,649	7,096,649	7,096,649
Due to customers	-	191,345	-	-	-	23,583,685	23,775,030	23,775,030
Debt securities issued	-	1,101,126	-	-	-	23,212,465	24,313,591	23,807,850
Hedging derivatives (liabilities)	286,940	-	-	-	-	-	286,940	286,940
Subordinated debt	-	-	-	-	-	2,094,815	2,094,815	2,068,599
Financial liabilities	**1,544,141**	**1,292,471**	**-**	**-**	**-**	**57,875,236**	**60,711,848**	**60,179,891**
31 December 2006								
Cash and deposits at central banks	-	-	-	1,084,927	-	-	1,084,927	1,084,927
Deposits with banks	-	-	-	672,976	-	-		
Financial assets held for tranding	4,171,207	-	-	-	-	-	672,976	4,171,407
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)	199,704	-	-	-	-	-	199,704	199,704
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	1,284,376	-	-	-	-	-	1,284,376	1,308,524
Deposits from banks	-	386,997	-	-	-	6,440,389	6,827,386	6,827,386
Due to customers	-	55,899	-	-	-	21,937,772	21,993,671	21,993,671
Debt securities issued	-	987,318	-	-	-	18,043,151	19,030,469	19,216,170
Hedging derivatives (liabilities)	262,760	-	-	-	-	-	262,760	238,612
Subordinated debt	-	-	-	-	-	2,239,816	2,239,816	2,348,267
Financial liabilities	**1,547,136**	**1,430,214**	**-**	**-**	**-**	**49,704,303**	**52,681,653**	**52,975,805**

The 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 their 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 installments 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 their 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 installments 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 or fair value option, the 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 honor its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk).

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

The risk profile of BES Group's credit portfolios is analysed on a regular basis by the Risk Committee. In these meetings the Committee monitors and analyses the risk profile of BES Group and respective business units under four major perspectives: 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 2007 and 2006, can be analysed as follows:

(in thousands of euros)

	31.12.2007										
	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	501,661	(12,360)	1,052	-	-	-	-	-	-	-	47,202
Mining	241,823	(3,649)	8,781	-	543	-	37,018	-	-	-	13,172
Food, beverage na tobacco	648,532	(16,004)	3,436	-	-	-	63,247	(48)	-	-	126,891
Textiles	364,912	(37,439)	1,435	-	-	-	24,484	(2,238)	-	-	31,739
Shoes	76,665	(6,720)	127	-	-	-	501	(499)	-	-	3,310
Wood and cork	166,716	(11,156)	308	-	-	-	-	-	-	-	8,994
Priting and publishing	221,892	(7,103)	6,876	-	-	-	33,043	(10)	-	-	38,212
Refining and oil	115,156	(871)	-	-	-	-	-	-	-	-	4,031
Chemicals and rubber	531,766	(6,018)	1,400	-	-	-	35,772	(5)	-	-	38,383
Non-metalic minerals	295,945	(9,889)	221	-	-	-	10,041	-	-	-	48,059
Metalic products	411,273	(11,447)	316	-	-	-	8,365	-	-	-	53,053
Production of machinery, equipment and electric devices	405,325	(7,533)	411	-	-	-	7,762	(1,356)	-	-	154,321
Production of transport material	355,909	(6,210)	1,050	-	-	-	87,691	-	-	-	100,631
Other transforming industries	295,975	(8,283)	2,876	-	-	-	6,444	(72)	-	-	25,693
Electricity, gas and water	832,713	(5,885)	57,396	-	48,279	-	344,273	-	-	-	307,482
Construction	4,928,484	(118,576)	18,472	-	-	-	28,712	(1,691)	-	-	1,351,652
Wholesale and retail	2,853,008	(126,160)	13,114	-	-	-	59,330	(852)	-	-	427,496
Tourism	793,279	(17,691)	2,250	-	-	-	8,783	(171)	-	-	78,382
Transports and communications	1,918,958	(32,845)	130,421	-	-	-	793,516	(3)	-	-	698,020
Financial activities	1,512,187	(22,324)	2,088,574	-	1,149,476	-	2,055,160	(13,843)	12,907	-	285,769
Real estate activities	5,252,041	(95,474)	6,519	-	-	-	127,451	(591)	-	-	497,082
Services provided to companies	3,952,450	(53,297)	11,410	-	143,916	-	986,225	(23,810)	-	-	554,675
Public services	736,175	(11,265)	1,366,949	-	-	-	802,707	-	394,935	-	34,750
Non-profit organisations	1,638,881	(46,902)	49,024	-	84,490	-	579,122	(17,050)	-	-	159,343
Mortgage loans	10,140,949	(181,985)	192	-	-	-	-	-	-	-	-
Consumers loans	2,714,160	(107,249)	-	-	-	-	-	-	-	-	78,180
Other	1,253,823	(26,060)	74,623	-	-	-	203,343	(1,862)	-	-	204,075
TOTAL	**43,160,658**	**(990,395)**	**3,847,233**	**-**	**1,426,704**	**-**	**6,302,990**	**(64,101)**	**407,842**	**-**	**5,370,597**

(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)	(41)	-	-	-	4,065	-	-	-	46,121
Mining	146,818	(3,313)	9,669	-	1,246	-	110,035	-	-	-	8,445
Food, beverage na tobacco	357,610	(13,250)	2,735	-	6,259	-	28,507	(34)	-	-	101,684
Textiles	381,638	(21,664)	79	-	-	-	26,079	(3,422)	-	-	47,729
Shoes	76,670	(5,312)	28	-	-	-	499	(499)	-	-	5,080
Wood and cork	156,399	(11,531)	159	-	-	-	-	-	-	-	11,182
Priting and publishing	189,699	(6,723)	16,810	-	10,566	-	18,015	-	-	-	34,043
Refining and oil	75,077	(1,510)	3,147	-	-	-	-	-	-	-	252,134
Chemicals and rubber	470,693	(5,755)	572	-	-	-	5,555	(68)	-	-	45,003
Non-metalic minerals	228,129	(8,726)	605	-	-	-	14,401	(469)	-	-	43,698
Metalic products	400,796	(10,703)	52	-	-	-	5,926	(6)	762	-	41,789
Production of machinery, equipment and electric devices	193,596	(6,412)	70	-	5,256	-	20,055	(1,445)	-	-	118,290
Production of transport material	225,358	(3,557)	1,463	-	-	-	91,267	-	-	-	80,778
Other transforming industries	208,334	(7,658)	2,731	-	-	-	9,284	(72)	-	-	20,785
Electricity, gas and water	571,734	(6,714)	56,127	-	8,084	-	340,070	-	-	-	258,257
Construction	4,535,520	(106,257)	4,678	-	3,039	-	34,575	(1,691)	-	-	1,088,823
Wholesale and retail	2,730,327	(108,196)	2,194	-	-	-	128,220	(633)	777	-	461,562
Tourism	660,662	(15,837)	1,109	-	-	-	1,682	(171)	-	-	83,079
Transports and communications	1,816,692	(42,344)	113,901	-	76,717	-	798,393	(3)	-	-	607,548
Financial activities	912,594	(12,207)	2,213,221	-	1,080,392	-	2,060,713	(19,858)	2,278	-	117,518
Real estate activities	4,463,771	(82,204)	1,170	-	-	-	1,502	(387)	-	-	400,053
Services provided to companies	2,635,909	(60,789)	26,785	-	175,894	-	902,104	(18,090)	-	-	580,318
Public services	903,756	(14,047)	1,539,079	-	-	-	349,643	(594)	589,354	-	41,317
Non-profit organisations	1,391,864	(38,176)	13,533	-	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)	161,531	-	-	-	27,413	(1,997)	-	-	96,022
TOTAL	**35,751,832**	**(869,327)**	**4,171,407**	**-**	**1,498,592**	**-**	**5,309,182**	**(57,498)**	**593,171**	**-**	**4,782,409**

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. As a complement to VaR stress testing have been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euros)

	31.12.2007				31.12.2006			
	December	Annual Average	Maximum	Mínimum	December	Annual Average	Maximum	Mínimum
Exchange Risk	11	13	17	10	15	16	23	12
Interest rate risk	4	8	6	6	5	14	22	6
Shares	21	9	16	2	14	7	6	9
Other price risks	2	3	3	3	-	-	-	-
Covariance	-14	-13	-13	-7	-10	-11	-16	-8
Total	**24**	**20**	**29**	**14**	**24**	**26**	**35**	**19**

As at 31 December 2007, the Group has a VaR of euro 24 million, for its trading positions and no significant changes occurred in comparison to 31 December 2006.

Following the recommendations of Basel II (Pilar 2) and Instructions n.19/2005, of the Bank of Portugal, BES Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS) which requires the classification of non- trading balances and off-balance positions by repricing intervals.

(in thousands of euros)

	31.12.2007							31.12.2006						
	Book Value	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Book Value	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	277	277	-	-	-	-	-	311	311	-	-	-	-	-
Loans and advances to banks	9,617	-	8,961	359	50	79	168	8,591	-	8,289	59	13	154	76
Loans and advances to customers	42,424	-	27,512	10,903	2,158	1,171	680	35,116	-	24,237	8,451	1,426	758	243
Securities	10,531	3,691	4,840	986	553	268	192	10,340	3,585	4,478	620	681	761	215
Off balance sheet			84	53	-	(82)	(56)		-	16	(13)	-	(4)	-
Total			**41,398**	**12,301**	**2,761**	**1,436**	**984**		**-**	**37,021**	**9,118**	**2,120**	**1,669**	**534**
Deposits from banks	9,462	-	7,177	1,084	210	715	279	8,338	-	6,419	912	129	716	162
Due to customers	21,197	-	19,139	904	768	19	368	19,427	-	17,494	876	678	7	371
Repo's with Clients	1,427	-	1,412	-	14	-	-	1,452	-	1,437	14	-	-	-
Debt securities issued and subordinated debt	26,153	-	17,777	1,805	727	2,736	3,887	21,026	-	12,663	1,659	203	2,911	4,546
Preference shares	600	-	-	-	-	-	600	600	-	-	-	-	-	600
Off balance sheet			1,423	1,216	(186)	(1,205)	(1,214)		-	912	912	(15)	(1,335)	(410)
Total			**46,929**	**5,008**	**1,533**	**2,265**	**3,920**			**38,926**	**4,373**	**995**	**2,300**	**5,270**
GAP (Assets -Liabilities)	**-**	**-**	**5,531**	**7,293**	**1,227**	**(828)**	**(2,936)**			**(1,905)**	**4,744**	**1,125**	**(631)**	**(4,736)**

The model used to monitor the sensitivity of BES Group to interest rate risk is based on the duration model, and consider parallel and non parallel scenarios.

(in thousands of euros)

	31.12.2007				31.12.2006			
	Similar increase of 100 bp	**Similar decrease of 100 bp**	**Increase of 50 bp after 1 year**	**Decrease of 50 bp after 1 year**	**Similar increase of 100 bp**	**Similar decrease of 100 bp**	**Increase of 50 bp after 1 year**	**Decrease of 50 bp after 1 year**
31 December	108	(108)	70	(70)	250	(250)	138	(138)
Average for the period	169	(169)	98	(98)	218	(218)	124	(124)
Maximum for the period	255	(255)	138	(138)	250	(250)	138	(138)
Minimum for the period	108	(108)	70	(70)	192	(192)	112	(112)

The following table presents the average balances, interests and interest rates in relation to the Group's major assets and liabilities categories, for the years ended 31 December 2007 and 2006.

(in thousands of euros)

	31.12.2007			31.12.2006		
	Average amount for the period	**Interest for the period**	**Average interest rate**	**Average amount for the period**	**Interest for the period**	**Average interest rate**
Monetary assets	7,899,595	364,124	4.61%	5,663,364	214,766	3.79%
Loans and advances to customers	39,108,815	2,278,474	5.83%	33,354,454	1,672,612	5.01%
Securities	6,692,630	506,016	7.56%	6,359,335	413,745	6.51%
Financial Assets	**53,701,040**	**3,148,614**	**5.86%**	**45,377,153**	**2,301,123**	**5.07%**
Monetary liabilities	8,516,677	452,778	5.32%	7,700,875	313,584	4.07%
Due to consumers	19,583,022	537,466	2.74%	18,407,175	392,783	2.13%
Other	24,564,566	1,204,644	4.90%	18,482,007	765,235	4.14%
Diferencial resources	1,036,775	-	-	787,096	-	-
Financial Liabilities	**53,701,040**	**2,194,888**	**4.09%**	**45,377,153**	**1,471,602**	**3.24%**
Financial Net		**953,726**	**1.78%**		**829,521**	**1.83%**

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2007 and 2006, is analysed as follows:

(in thousands of euros)

	31.12.2007						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Assets by currency							
Cash and deposits at central banks	1,221,043	76,623	2,731	20	2,419	58,382	1,361,218
Deposits with banks	657,024	43,203	6,502	1,950	2,634	9,129	720,442
Financial assets held for trading	2,499,668	297,732	130,136	11,748	876,705	31,244	3,847,233
Financial assets at fair value through profit or loss	845,031	562,459	15,253	-	3,744	217	1,426,704
Available-for-sale financial assets	4,116,019	687,246	22,152	-	1,255,596	157,876	6,238,889
Loans and advances to banks	2,891,666	3,568,419	1,159,858	69,849	80	520,459	8,210,331
Loans and advances to customers	38,428,641	2,170,368	1,209,982	9,203	26,709	325,360	42,170,263
Held to maturity investments	-	407,842	-	-	-	-	407,842
Non-current assets held for sale	73,408	19,895	65,357	46,758	-	6,472	211,890
Derivatives for risk management purposes	279,408	-	-	-	-	-	279,408
Investments in associates	573,700	-	-	-	-	-	573,700
Other non-financial assets	1,604,108	767,585	281,734	695	21,432	750,743	3,426,297
Total assets	**53,189,716**	**8,601,372**	**2,893,705**	**140,223**	**2,189,319**	**1,859,882**	**68,874,217**
Liabilities by currency							
Deposits from central banks	1,478,127	237,467	171,044	-	-	984	1,887,622
Financial liabilities held for trading	747,045	319,709	155,720	2,963	14,339	17,425	1,257,201
Deposits from banks	1,901,822	3,476,440	1,192,917	244	330,928	194,298	7,096,649
Due to customers	21,012,692	1,910,642	609,673	9,354	-	232,669	23,775,030
Debt securities issued	21,138,744	2,510,970	76,592	-	439,164	148,121	24,313,591
Derivatives for risk management purposes	279,112	5,221	-	-	-	2,607	286,940
Subordinated debt	1,879,272	34,909	-	159,440	21,194	-	2,094,815
Other non-financial liabilities	50,099	136,946	835,550	44,430	115,685	1,046,448	2,229,158
	48,486,913	**8,632,304**	**3,041,496**	**216,431**	**921,310**	**1,642,552**	**62,941,006**
Net assets / (liabilities) by currency	**4,702,803**	**(30,932)**	**(147,791)**	**(76,208)**	**1,268,009**	**217,330**	**5,933,211**
Equity	**4,702,803**	**(54,761)**	**6**	**-**	**636,667**	**128,992**	**5,413,707**
Net exposure	**-**	**23,829**	**(147,797)**	**(76,208)**	**631,342**	**88,338**	**519,504**

(in thousands of euros)

	31.12.2006						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Assets by currency							
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	2,909,387	484,614	112,886	19,508	627,120	17,892	4,171,407
Financial assets at fair value through profit or loss	1,077,087	404,231	17,274	-	-	-	1,498,592
Available-for-sale financial assets	3,668,852	650,736	-	-	907,793	24,303	5,251,684
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
Non-current assets held for sale	54,202	8,465	65,551	63,997	-	7,489	199,704
Hedging derivatives	-	-	-	-	-	-	-
Investments in associates	571,563	-	-	-	-	-	571,563
Other non-financial assets	16,603	1,405,248	1,284,755	17,707	20,240	21,882	2,766,435
	45,500,087	8,317,663	3,240,848	202,950	1,580,029	439,436	59,281,013
Liabilities by currency							
Deposits from central banks	125,891	811,657	104,745	-	-	882	1,043,175
Financial liabilities held for trading	861,302	288,272	85,496	4,424	10,011	34,871	1,284,376
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	251,070	8,609	-	-	-	3,081	262,760
Subordinated debt	1,979,992	76,469	-	183,355	-	-	2,239,816
Other non-financial liabilities	1,114,930	429,387	93,638	(176,689)	34,131	374,604	1,870,001
	41,320,601	8,237,517	3,656,713	137,622	581,438	617,763	54,551,654
Net assets/(liabilities) by currency	4,179,486	80,146	(415,865)	65,328	998,591	(178,327)	4,729,359
Equity	4,179,486	66,626	-	-	505,310	71,029	4,822,451
Net exposure	-	13,520	(415,865)	65,328	493,281	(249,356)	(93,092)

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 centralized 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 identify negative mismatches allowing 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.

	31.12.2007	31.12.2006
Treasury GAP (millions of euros) [1]	(2,302)	(3,096)
Treasury GAP / Net asset (%)	3.37	5.24
Liquidity ratio (%) [2]	91	97

(1) Treasury gap - immediate liquidity and short term interbank loans deducted to interbank debt up to one year. Considering the financing needs, the treasury gap indicates liquidity levels over what the bank needs.
(2) Liquidity ratio calculated in accordance with the instruction nº1/2000 of Bank of Portugal

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviors, information systems and external events.

To manage operational risk, it was developed and implemented a system that standardizes, systematizes and regulates the frequency of actions with an objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organizational level by a unit within the Global Risk Department, exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Capital Management and Solvency Ratio

Capital management main goals are (i) to allow adequate growth of activities through the creation of enough capital to support the increase of assets, (ii) fulfilment of the minimum requirements defined by the supervision authorities in terms of capital adequacy and (iii) to ensure the fulfilment of the Groups strategic goals in capital adequacy matters.

The definition of the strategy in terms of capital adequacy is made by the Executive Commission and is integrated in the global goals of the Group.

The capital metrics are incorporated in the main management control instruments, and its monitoring is made in a permanent way, which allows a quick response in order to fulfil the defined goals.

In prudential matters, the Group is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

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

- Basic Own Funds (BOF): This category includes the share capital, the eligible reserves, the retained earnings of the year, minority interests and preference shares, and is deducted by the book value of goodwill, intangible assets and actuarial losses. Additionally, in 2007, 50% of the book value of equity investments in banking and insurance entities, exceeding 10% of the respective share capital, is also deducted.

- Complementary Own Funds (COF): Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve and is deducted by 50% of the book value of equity investments in banking and insurance entities.

- Deductions (D): Refers mainly to the amortisation for regulatory purposes, of assets acquired in exchange for loans.

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

In the new capital accord implementation process, Basel II, the Group established the goal to use the approach of internally based models (Internal Rates Based Method – IRB – to credit risk and Standardized Approach – TSA- to operational risk).

In April 2007, Bank of Portugal issued Regulation 4/2007, which changed the rules to determine capital requirements. This notice changed the treatment of the equity investments in banking and insurance entities that began to be deducted in 50% to the BOF and 50% to the COF. Previously, these investments were included in the deductions made to the total capital requirements.

The impact on regulatory capital of adopting IFRS in January 2005 is being recognised on a strait line basis (in accordance with Regulation n. 2/2005, n. 4/2005 and n. 12/2005 from Bank of Portugal):

- Until 2012 – in what relates to the changes in the mortality tables (31 December 2007, euro 70 million still to incorporate)
- Until 2011 - in what relates to the recognition of post employment health-care benefits (31 December 2007, euro 49 million still to incorporate)
- Until 2009 - in what relates to the impact of pensions (31 December 2007, euro 33 million still to incorporate)
- Until 2007 – regarding the remaining situations (totally incorporated in 31 December 2007)

At 2007 and 2006, the main movements occurred in Basic Own Funds (Tier I) are as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance at the begining of the year	**3,751**	**2,372**
Share capital increase	-	1,380
Retained profit for the year	334	187
Changes on actuarial losses	157	212
Goodwill	(18)	(267)
Recognition of the impact of adopting IFRS	(141)	(131)
Investments in banking and insurance entities	(133)	-
Others effects	3	(2)
Balance at the end of the year	**3,953**	**3,751**

The capital adequacy of BES Group as at 31 December 2007 and 31 December 2006 is presented as follows:

(in thousands of euros)

		31.12.2007	31.12.2006
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		3,127	3,105
Net Income, Legal Reserves, Estatutárias e Resultados não distribuidos		630	287
Minority Interests		141	87
Intangible Assets, Balance Sheet actuarial deviation and Goodwill		(412)	(328)
A1 -basic own funds excluding preference shares (CORE TIER I)	(A1)	**3,486**	**3,151**
Preference Shares		467	600
A2 - Basic Own funds (TIER I)	(A2)	**3,953**	**3,751**
Positive Fair Value Reserves and Others		428	310
Elegible Subordinated Debt		1,824	1,982
Deductions of investments in Financial Instituitions, insurance companies and others		(133)	(15)
Complementary own funds (TIER II)		**2,119**	**2,277**
Deductions		**(5)**	**(189)**
Elegible own funds	(A3)	**6,067**	**5,839**
B- Similar Risk Assets			
Calculated according Notice 1/93 (Credit Portfolio)	(B)	48,392	41,646
Calculated according Notice 7/96 (Trading Portfolio)		4,464	3,092
Similar Risk Assets Total		**52,856**	**44,738**
C- Prudential Ratios			
Ratio Core Tier 1	(A1 / B)	6.6%	7.0%
Ratio Tier 1	(A2 / B)	7.5%	8.4%
Solvancy Ratio	(A3 / B)	**11.5%**	**13.1%**

Financial branches' activities

BES Group has a branch in the Madeira off-shore and an international branch in the Cayman Islands.

Through the Madeira off-shore 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 tax statute.

As at 31 December 2007, the total net assets of Madeira off-shore Branch amounted to euro 2 409 million (31 December 2006: euro 1 998 million), being structured as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Financial assets at fair value through profit or loss	156	203
Available-for-sale financial assets	409	555
Loans and advances to banks	1,519	974
Loans and advances to customers	289	253
Other assets	36	13
	2,409	**1,998**
Deposits from central banks	540	610
Due to customers	1,754	1,289
Other liabilities	70	62
Own funds	45	37
	2,409	**1,998**

The Madeira off-shore 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 program, issued by the Group in international capital markets. These two areas of funding activity, at 31 December 2007, amounted to euro 15,015 million (31 December 2006: euro 15,128 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 2007 amounted to euro 254 million(31 December 2006: euro 295 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:

IFRS 2 (amendment) – Share-based payments: vesting conditions

The International Accounting Standards Board (IASB) issued in January, 2008 an amendment to IFRS 2, which will be effective from 1 January 2009.

The objective of the amendment to IFRS 2 was to clarify that (i) vesting conditions are service conditions and performance conditions only and that (ii) all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

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

IFRS 3 (revised) – Business combinations and IAS 27 (amendment) Consolidated and Separate Financial Statements

The International Accounting Standards Board (IASB) issued in January 2008, IFRS 3 (revised) Business Combination and an amendment to IAS 27 Consolidated and Separate Financial Statements.

The main changes the revised IFRS 3 and amended IAS 27 will make to existing requirements or practice relate to (i) partial acquisitions, whereby non-controlling interests (previously named minority interests) can be measured either at fair value (implying full goodwill recognition against non-controlling interests) or at their proportionate interest in the fair value of the net identifiable assets acquired (which is the original IFRS 3 requirement); (ii) step acquisitions whereby, upon acquisition of a subsidiary and in determining the resulting goodwill, any investment in the business held before the acquisition is measured at fair value against the profit and loss account; (iii) acquisition-related costs, which must generally, be recognised as expenses (rather than included in goodwill); (iv) contingent consideration which must be recognised and measured at fair value at the acquisition date, subsequent changes in fair value being recognised in profit or loss (rather than by adjusting goodwill); and (v) changes in a parent's ownership interest in a subsidiary that do not result in the loss of control which are required to be accounted for as equity transactions.

Additionally, IAS 27 was amended to require that an entity attributes a share of the accumulated loss of a subsidiary to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance, and to specify that, upon losing control of a subsidiary, an entity measures any non-controlling interest retained in the former subsidiary at its fair value, determined at the date the control is lost.

The IFRS 3 (revised) and the amendment to IAS 27 will be effective from 1 July, 2009. The Group is evaluating the impact of adopting both rules.

IFRS 8 – Operating Segments

The International Accounting Standards Board (IASB) has issued on 30 November 2006 the IFRS 8 Operational segments, which was endorsed by the European Commission on 21 November, 2007.

The IFRS 8 Operational segments sets out requirements for disclosures of information about an entity's operating segments. 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 applicable for periods beginning on 1 January 2009.

The Group is evaluating the impact of adopting this standard.

IAS 1 (amended) – Presentation of Financial Statements

The International Accounting Standards Board (IASB) has issued in September 2007, IAS 1 (amendment) Presentation of Financial Statements, which is applicable from 1 January, 2009.

IAS 1 (amended) requires financial information to be presented in the financial statements based on the nature of the underlying transactions and introduces the statement of 'comprehensive income'.

The Board's objectives in this project are to present information in ways that improve the ability of investors, creditors, and other financial statement users to distinguish between transactions with shareholders, in their capacity as shareholders (e.g. dividends, treasury shares), and transactions with third parties, which will be summarised in a statement of 'comprehensive income'.

IAS 1 (amended) will impact the way the financial statements are presented. The Group is at the moment analysing the extent of the necessary modifications to the current presentation of its financial statements.

IAS 23 (amendment) – Borrowing costs

The International Accounting Standards Board (IASB) has issued in March, 2007 an amendment to IAS 23 Borrowing costs, which is applicable from 1 January, 2009.

This standard requires the capitalization of borrowing costs that are directly attributable to the acquisition, production or construction of a qualifying asset, as part of the cost of that asset. As a result, the option to recognise such borrowing costs as an expense in the period which they arise was eliminated.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The Group does not expect any material impact from the adoption of the amended IAS 23.

Amendment to IAS 32 Financial Instruments: Presentation – Puttable financial instruments and obligations arising on liquidation

International Accounting Standards Board (IASB) issued, in February 2008, an amendment to IAS 32 Financial Instruments: Presentation - Puttable financial instruments and obligations arising on liquidation effective from 1 January 2009.

This amendment addresses the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. Under the current requirements of IAS 32, if an issuer can be required to pay cash or another financial asset in return for redeeming or repurchasing a financial instrument, the instrument is classified as a financial liability. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the last residual interest in the net assets of the entity.

The Board also amended IAS 1 Presentation of Financial Statements to add new disclosure requirements relating to puttable instruments and obligations arising on liquidation.

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

IFRIC 11 – IFRS 2 – Group and Treasury Share transactions

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 2 November, 2006 an Interpretation—IFRIC 11 – IFRS 2 Group and Treasury Share Transactions.

IFRIC 11 clarifies in what conditions a share based payment with treasury shares or shares of another group company should be classified in the subsidiaries financial statements as an equity settled or cash settled share based payment.

This IFRIC is mandatory and applicable for the Group for annual periods beginning on or after 1 January, 2008.

The Group is evaluating the impact of adopting this interpretation on the financial statements of its subsidiaries.

IFRIC 12 – Service Concession Arrangements

The IFRIC 12 applies to public-to-private service concession arrangements. This interpretation will be applicable only when a) the grantor controls or regulates what services the operator must provide and b) the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

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

IFRIC 13 – Customer Loyalty Programmes

The IFRIC 13 Customer Loyalty Programmes was issued on 28 June, 2007 and will be effective from 1 July, 2008. As a result, it will only be relevant for the Group from 1 January, 2009.

This interpretation addresses how companies, that grant their customers loyalty award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points

The Group is evaluating the impact of adopting this interpretation in the financial statements.

IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interpretation

IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interpretation is applicable for annual periods beginning on or after 1 January, 2008.

This interpretation addresses how entities should determine the limit placed by paragraph 58 of IAS 19 Employee Benefits on the amount of a surplus in a pension plan they can recognise as an asset and discusses how a minimum funding requirement affects that limit.

The Group is evaluating the impact of adopting this interpretation on the financial statements.

Note 45 // Subsequent Events

- At January 2008, BES Investimento acquired, through is associate ESSI Sociedade Gestora de Participações Sociais, S.A, 6.96% of the share capital and voting rights in the British company Evolution Group Plc listed in the London Stock Exchange, through an investment of approximately Euro 35.5 million. This investment is seen by the Group as an opportunity to gain exposure to United Kingdom and Asia markets, which are important for the development of the international activity;

- Banco Espírito Santo and Espírito Santo Financial Group established an agreement for the acquisition of 5% of the share capital of Saxo Bank A/S, 2.5% each, amounting to euro 63 million in total. This investment includes an option for the acquisition of an additional 5% of the capital. The agreement includes a strategic partnership between Banco BEST and SAXO BANK for, among other initiatives, integrated assets management and the joint approach to foreign markets and development of the already existing partnership with Banco BEST in Portugal.

- On the 14 January 2008, BES Group issued 25,000 covered bonds in the amount of euro 1,250 million due within three years.

- On February 2008, the Group issued 10,000 exchangeable bonds into Banco Bradesco ordinary shares, in the amount of USD 1,000 million due within three years.

02
Individual Financial Statements and Notes to the Financial Statements

2.1 // Individual Income Statement at 31st December 2007

	Dec 06 (eur '000)	Dec 07 (eur '000)
Interest income	2,149,052	2,724,868
Interest expense	1,521,853	2,000,977
Net interest income	**627,199**	**723,891**
Dividends from securities	133,115	236,770
Comissions and other similar income	392,533	466,705
Comissions and other similar expense	50,403	72,711
Gains and losses in financial assets as fair value	(27,018)	(59,172)
Gains and losses in financial assets available for sail	76,577	190,448
Gains and losses from sale of other assets	(7,925)	(3 ,047)
Gains and losses from foreign exchange revaluation	10,255	52
Other income from banking activity	44,250	12,278
Banking Income	**1,198,583**	**1,495,214**
Staff expenses	307,903	363,536
Other administrative expenses	302,153	303,549
Depreciation	52,930	57,040
Provions net of reversals	49,262	40,634
Loan impairment net of reversals and recoveries	133,016	151,892
Other financial assets' impairment net of reversal and recoveries	6,513	13,762
Other assets' impairment net of reversals and recoveries	10,694	13,332
Income before tax	**336,112**	**551,469**
Tax		
Current tax	16,299	50,626
Deferred tax	62,362	6,144
Income after tax and before minority interests	**257,451**	**494,699**
of which: income after of discontinued operations	-	44
Net Income	**257,451**	**494,699**

Chief Account

The Board of Directors

2.2 // Individual Balance Sheet at 31st December 2007

	Dec 06 (eur '000)	Dec 07 (eur '000)
Assets		
Cash and Deposits at central banks	961,793	1,216,096
Loans and advances to credit institutions repayable on demand	532,333	477,216
Financial assets held for trading	3,200,142	2,617,896
Financial assets at fair value through profit or loss	1,141,854	1,086,683
Financial assets held for trading	4,125,229	5,589481
Loans and advances to banks	9,807,321	10,375,037
Loans and advances to customers	27,134,372	32,875,867
Haeld to maturity investments	567,747	390,025
Financial assets with repurchase agreements	-	-
Hedging derivatives	177,309	165,346
Non current assets held for sail	-	43,415
Investment proprety	-	-
Other intangible assets	300,239	386,223
Intangible assets	51,353	69,961
Investments in associated companies	1,055,918	1,084,641
Current tax assets	2,435	14,434
Deferred tax assets	136,817	157,580
Other assets	1,341,806	1,470,259
Total Assets	**50,536,668**	**58,020,160**
Liabilities		
Amounts owed to central banks	1,043,175	1,833,114
Fianancial liabilities held for trading	946,068	1,034,222
Financial assets at fair value through profit and loss	-	-
Deposits from banks	13,935,369	13,299,938
Due to costumers	18,037,505	21,145,409
Debt securities	8,444,112	12,088,864
Financial liabilities associated to transferred assets	-	-
Hedging derivatives	205,590	189,651
Non current liabilities held for sial	-	-
Provisions	485,881	521,280
Current income tax liabilities	8,002	42,545
Deferred income tax liabilities	311,104	350,210
Instruments representing capital	-	-
Other subordinated loans	2,607,483	2,573,805
Other liabilities	440,761	503,814
Total Liabilities	**46,465,050**	**53,582,852**
Shareholders' Equity		
Shares capital	2,500,000	2,500,000
Share premium	666,327	666,327
Other capital interests	-	-
Treasury stock	(63,732)	(41,437)
Fair value reserve	482,062	597,027
Other reserves and retained earnings	229,510	220,692
Profit for the period/year	257,451	494,699
Anticipated dividends	-	-
Total Shareholders' Equity	**4,071,618**	**4,437,308**
Total Liabilities and Shareholders' Equity	**50,536,668**	**58,020,160**

Chief Account

The Board of Directors

2.3 // Individual Financial Statement and Notes to the Financial Statements

Income Statement for the Years Ended 31 December 2007 and 2006

(in thousands of euros)

	Notes	31.12.2007	31.12.2006
Interest and similar income	4	2,724,868	2,149,052
Interest expense and similar charges	4	2,000,977	1,521,853
Net interest income		**723,891**	**627,199**
Dividend income	5	236,770	133,115
Fee and commission income	6	466,705	392,533
Fee and commission expense	6	-72,711	-50,403
Net gain/(loss) from financial assets at fair value through profit or loss	7	-59,172	-27,018
Net gains from available-for-sale financial assets	8	190,448	76,577
Net gains from foreign exchange differences	9	-3,047	-7,925
Net gains from the sale of other financial assets		52	405
Other operating income	10	12,278	44,250
Operating income		**1,495,214**	**1,188,733**
Staff costs	11	363,536	307,903
General and administrative expenses	13	303,549	302,153
Depreciation and amortisation	25 and 26	57,040	52,930
Provisions net of reversals	32	40,634	49,262
Loans impairment net of reversals	20 and 21	151,892	133,016
Impairment on other financial assets net of reversals	19	13,762	6,513
Impairment on other assets net of reversals	24, 27 and 28	13,332	10,694
Operating expenses		**943,745**	**862,471**
Gains on disposal of investments in subsidiaries and associates	27	0	9,850
Profit before income tax		**551,469**	**336,112**
Income tax			
Current tax	33	50,626	16,299
Deferred tax	33	6,144	62,362
Profit for the period		**494,699**	**257,451**
Basic (in Euro)	14	1.00	0.63
Diluted (in Euro)	14	1.00	0.63

The following notes form an integral part of these financial statements

Balance Sheet as at 31 December 2007 and 2006

(in thousands of euros)

	Notas	31.12.2007	31.12.2006
Assets			
Cash and deposits at central banks	15	1,216,096	961,793
Deposits with banks	16	477,216	532,333
Financial assets held for trading	17	2,617,896	3,200,142
Financial assets at fair value through profit or loss	18	1,086,683	1,141,854
Available-for-sale financial assets	19	5,589,481	4,125,229
Loans and advances to banks	20	10,375,037	9,807,321
Loans and advances to customers	21	32,875,867	27,134,372
Held to maturity investments	22	390,025	567,747
Derivatives for risk management purposes	23	165,346	177,309
Non-current assets held for sale	24	43,415	-
Property and equipment	25	386,223	300,239
Intangible assets	26	69,961	51,353
Investments in subsidiaries and associates	27	1,084,641	1,055,918
Current income tax assets		14,434	2,435
Deferred income tax assets	33	157,580	136,817
Other assets	28	1,470,259	1,341,806
Total assets		**58,020,160**	**50,536,668**
Liabilities			
Deposits from central banks		1,833,114	1,043,175
Financial liabilities held for trading	17	1,034,222	946,068
Deposits from banks	29	13,299,938	13,935,369
Due to customers	30	21,145,409	18,037,505
Debt securities issued	31	12,088,864	8,444,112
Derivatives for risk management purposes	23	189,651	205,590
Provisions	32	521,280	485,881
Current income tax liabilities		42,545	8,002
Deferred income tax liabilities	33	350,210	311,104
Subordinated debt	34	2,573,805	2,607,483
Other liabilities	35	503,814	440,761
Total liabilities		**53,582,852**	**46,465,050**
Equity			
Share capital	36	2,500,000	2,500,000
Share premium	36	666,327	666,327
Treasury stock	36	(41,437)	(63,732)
Fair value reserve	37	597,027	482,062
Other reserves and retained earnings	37	220,692	229,510
Profit for the period		494,699	257,451
Total equity		**4,437,308**	**4,071,618**
Total equity and liabilities		**58,020,160**	**50,536,668**

The following notes form an integral part of these financial statements

Statement of Changes in Consolidated Equity for the Years Ended 31 December 2007 and 2006

(in thousands of euros)

	Share capital	Share premium	Treasury stock	Fair value reserve	Other reserves and retained earnings	Profit for the year	Total equity
Balance as at 31 December 2005	1,500,000	300,000	(96,247)	326,223	171,862	190,169	2,392,007
Other movements recognised directly in Equity:							
Changes in fair value, net of taxes	-	-	-	155,839	-	-	155,839
Pensions - transition period	-	-	-	-	(29,640)	-	(29,640)
Share based payment scheme, net of taxes (see Note 12)	-	-	-	-	2,454	-	2,454
Profit for the period	-	-	-	-	-	257,451	257,451
Total gains and losses recognised in the period	-	-	-	155,839	(27,186)	257,451	386,104
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)
Transfer to reserves	-	-	-	-	71,835	(71,835)	-
Dividends on ordinary shares [(a)]	-	-	-	-	-	(118,334)	(118,334)
Changes in treasury stock (see Note 36)	-	-	32,515	-	-	-	32,515
Effect of Crediflash's merger	-	-	-	-	12,999	-	12,999
Balance as at 31 December 2006	2,500,000	666,327	(63,732)	482,062	229,510	257,451	4,071,618
Other movements recognised directly in Equity:							
Changes in fair value, net of taxes	-	-	-	115,312	-	-	115,312
Pensions - transition period	-	-	-	-	(31,174)	-	(31,174)
Share based payment scheme, net of taxes (see Note 12)	-	-	-	-	1,030	-	1,030
Other movements	-	-	-	-	470		470
Profit for the period	-	-	-	-	-	494,699	494,699
Total gains and losses recognised in the period	-	-	-	115,312	(29,674)	494,699	580,337
Transfer to reserves	-	-	-	-	59,127	(59,127)	-
Dividends on ordinary shares [(a)]	-	-	-	-	-	(198,324)	(198,324)
Changes in treasury stock (see Note 36)	-	-	22,295	-	-	-	22,295
Effect of BESSA's merger	-	-	-	(347)	(38,271)	-	(38,618)
Balance as at 31 December 2007	2,500,000	666,327	(41,437)	597,027	220,692	494,699	4,437,308

(a) Corresponds to a dividend per share of 0.40 euros and 0.40 euros paid to the shares outstading as at 31 December 2007 and 2006, respectively.

The following notes form an integral part of these financial statements

Cash Flow Statement for the Years Ended 31 December 2007 and 2006

(in thousands of euros)

	Notes	31.12.2007	31.12.2006
Cash flows arising from operating activities			
Interest and similar income received		2,665,455	2,069,653
Interest expense and similar charges paid		(1,884,804)	(1,407,260)
Fee and commission income received		505,106	419,274
Fee and commission expense paid		(80,932)	(50,403)
Recoveries on loans previously written off		31,574	21,160
Cash payments to employees and suppliers		(691,228)	(597,168)
		545,171	**455,256**
Changes in operational assets and liabilities:			
Cash and deposits at central banks		(280,701)	440,099
Financial assets at fair value through profit or loss		922,291	(709,821)
Loans and advances to banks		121,743	(2,285,166)
Deposits from banks		(1,596,219)	1,439,857
Loans and advances to customers		(3,515,997)	(1,763,695)
Due to customers		1,552,748	1,066,494
Derivatives for risk management purposes		(4,031)	(48,994)
Other operational assets and liabilities		(45,914)	(192,782)
Net cash flow from operating activities before income taxes		**(2,300,909)**	**(1,598,752)**
Income taxes paid		(32,502)	(19,728)
		(2,333,411)	**(1,618,480)**
Cash flows arising from investing activities			
Acquisition of subsidiaries and associates		(138,920)	(577,045)
Disposal of subsidiaries and associates		521	99,581
Dividends received		236,770	133,115
Acquisition of available-for-sale financial assets		(11,830,149)	(3,908,323)
Disposal of available-for-sale financial assets		10,565,454	3,687,754
Held to maturity investments		117,895	(67,482)
Acquisition of tangible and intangible assets		(145,795)	(60,915)
Sale of tangible and intangible assets		212	1,268
		(1,194,012)	**(692,047)**
Cash flows arising from financing activities			
Capital increase		-	1,366,327
Proceeds from issue of bonds		3,876,477	1,193,158
Reimbursement of bonds		(185,829)	(88,060)
Proceeds from issue of subordinated debt		-	12,200
Reimbursement of subordinated debt		(99,762)	(59,856)
Treasury stock		22,295	32,515
Dividends paid from ordinary shares		(198,324)	(118,334)
Net cash flow from financing activities		**3,414,857**	**2,337,950**
Effect of BESSA's merger on cash and cash equivalents		28,228	-
Effect of Crediflash's merger on cash and cash equivalents		-	2,754
Net changes in cash and cash equivalents		**(84,338)**	**30,177**
Cash and cash equivalents at the beginning of the year		**789,501**	**788,935**
Effect of exchange rate changes on cash and cash equivalents		(2,874)	(29,611)
Net changes in cash and cash equivalents		(84,338)	30,177
Cash and cash equivalents at the end of the period		**702,289**	**789,501**
Cash and cash equivalents includes:			
Cash	15	225,073	257,168
Deposits with banks	16	477,216	532,333
Total		**702,289**	**789,501**

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 2007

(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.. During April 2007, Banco Espírito Santo, S.A. (Spain) was merged in Banco Espírito Santo,S.A.. BESSA's financial statements as at merger date are presented in Note 43.

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 704 branches, 25 of them results from the merger of Banco Espírito Santo, S.A. (Spain), (31 December 2006: 605), international branches in London, Madrid, 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 preparation and statement of compliance

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 financial statements for the year ended 31 December 2007 were prepared in accordance with Adjusted Accounting Standards (NCA), which includes the IFRS adopted for use in the EU until 31 December 2007.

In the preparation of the financial statements as at 31 December 2007, the Bank adopted IFRS 7 Financial Instruments – Disclosures and IAS 1 (Revised) Presentation of Financial Statements – Capital Disclosures. These standards, which are mandatory from 1 January 2007, impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or on financial position of the Bank. In accordance with the transitional requirements of the standards, the Bank has provided full comparative information.

Additionally, BES adopted in 2007 the IFRIC 8 Scope of IFRS 2, IFRIC 9 Reassessment of Embedded Derivatives and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these interpretations had no impact in the financial statements of the Bank.

These financial statements are expressed in thousand of euros, except when indicated, 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 financial assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

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

These financial statements were approved in the Board of Directors meeting held on 26 February 2008.

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 on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

Fair values are obtained from quoted market prices, in active markets, if available or are determined using valuation techniques including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

• Classification criteria

Hedge accounting is used for derivative financial instruments designated as hedging instrument, provided the following criteria are met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the 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 will affect the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

During the 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 their cash flows have expired, (ii) the Bank has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Bank has transferred the control over the assets.

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

In accordance with the documented strategy for risk management, the Bank contracts derivative financial instruments to manage certain risks of a portion of the loan portfolio, without applying, however the provisions of hedge accounting as mentioned in Note 2.3. These loans are measured at fair value through profit or loss, in order to eliminate a measurement inconsistency resulting from measuring loans and derivatives for risk management purposes on different basis (accounting mismatch). This procedure is in accordance with the accounting policy for classification, recognition and measurement of financial assets at fair value through profit or loss accounting policy, as described in note 2.5.

Impairment

The Bank assesses, at each balance sheet date, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

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

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

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

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

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

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

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

According to NCA, loans value should be adjusted on 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, measured and their performance evaluated on a fair value basis;
- Such financial assets are bring hedged (on an economical basis), in order to eliminate 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 Bank's management has the positive intention and ability to hold until its maturity and that are not classified as at fair value through profit or loss or as available for sale.

• Available-for-sale financial assets

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 derecognising

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) held to maturity investments and (iii) available for sale financial assets are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case these transaction costs are directly recognised in the income statement.

Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Bank has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Bank has transferred the control over the assets.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of any impairment losses recognised.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Bank establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Financial instruments whose fair value cannot be reliably measured are carried at cost.

Reclassifications between categories

In accordance with IAS 39, the Bank does not reclassify, after initial recognition, a financial instrument 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. 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 transfer cash or another financial asset, independently from its legal form.

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

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

- Such financial liabilities are bring hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

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 initially 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.

When these assets are available for immediate disposal, in accordance with IFRS 5, they are classified as Non-current assets held for sale and booked in accordance with the accounting policy described in note 2.22.

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 revalue amount of property and equipment as determined in accordance with previous accounting policies of the Bank, which was broadly similar to depreciated cost measured under NCA adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

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

The Bank assesses, at each reporting date and for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plan, based on the expectation of reductions in future contributions for the funds.

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 surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Bank to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, holiday and Christmas subsidy.

The measurement and recognition of the Bank's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above.

In preparing these financial statements in accordance with NCA, the recognition of the impact with NCA adoption as at 31 December 2004, is amortised 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 and to the Board of Directors

In accordance with IAS 19 - Employees benefits, bonus payment to employees and to the Board of Directors, 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, 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 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. 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.

2.23. 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.

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

NCA set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Bank's reported results and related disclosure. A broader description of the accounting policies employed by the Bank is shown in Note 2 to the Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Bank's reported results would differ if a different treatment were chosen. Management believes that the choices made by it are appropriate and that the financial statements present the Bank's financial position and results fairly in all material respects.

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 higher level of impairment losses recognised with a consequent impact in the income statement of the Bank.

3.2. Fair value of derivatives

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

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

3.3. Impairment losses on loans and advances

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

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

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

3.4 Held-to-maturity investments

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

In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost.

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 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 balance is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Assets/ liabilities at amortised cost and available for sale	**Assets / liabilities at fair value through profit or loss**	**Total**	**Assets/ liabilities at amortised cost and available for sale**	**Assets / liabilities at fair value through profit or loss**	**Total**
Interest and similar income						
Interest from loans and advances	1,777,989	6,509	1,784,498	1,336,746	1,519	1,338,265
Interest from financial assets at fair value through profit or loss	-	316,678	316,678	-	376,428	376,428
Interest from deposits with banks	379,724	1,315	381,039	221,304	-	221,304
Interest from available-for-sale financial assets	103,897	-	103,897	81,793	-	81,793
Interest from derivatives for risk management purposes	-	84,727	84,727	-	80,735	80,735
Other interest and similar income	54,029	-	54,029	50,527	-	50,527
	2,315,639	**409,229**	**2,724,868**	**1,690,370**	**458,682**	**2,149,052**
Interest expense and similar charges						
Interest from deposits from central banks and other banks	671,498	-	671,498	505,886	375	506,261
Interest from debt securities	498,954	66,459	565,413	296,720	59,405	356,125
Interest from amounts due to customers	434,837	4,836	439,673	258,935	2,554	261,489
Interest from derivatives for risk management purposes	-	175,162	175,162	-	261,372	261,372
Interest from subordinated debt	139,452	7,501	146,953	126,423	8,189	134,612
Other interest expense and similar charges	2,278	-	2,278	1,994	-	1,994
	1,747,019	**253,958**	**2,000,977**	**1,189,958**	**331,895**	**1,521,853**
	568,620	**155,271**	**723,891**	**500,412**	**126,787**	**627,199**

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 2.4, 2.5 and 2.7.

Note 5 // Dividend income

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Dividends from subsidiaries and associates	187,351	92,244
Dividends from available-for-sale financial assets	49,419	40,871
	236,770	**133,115**

Note 6 // Net fee and commission income

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Fee and commission income		
From banking services	320,301	267,921
From guarantees granted	60,185	55,877
From transactions with securities	8,178	8,434
From commitments assumed to third parties	18,952	8,290
Other fee and commission income	59,089	52,011
	466,705	392,533
Fee and commission expense		
From banking services rendered by third parties	43,610	32,192
From transactions with securities	10,817	2,896
From guarantees received	237	241
Other fee and commission expense	18,047	15,074
	72,711	50,403
	393,994	342,130

Note 7 // Net gain/(loss) from financial assets at fair value through profit or loss

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	20,845	27,596	(6,751)	34,830	39,687	(4,857)
Issued by other entities	-	4	(4)	-	36	(36)
Shares	47	5,357	(5,310)	-	-	-
Other variable income securities	25,281	24,493	788	25,283	6,820	18,463
	46,173	**57,450**	**(11,277)**	**60,113**	**46,543**	**13,570**
Derivative financial instruments						
Exchange rate contracts	915,528	1,059,971	(144,443)	545,144	541,346	3,798
Interest rate contracts	4,790,026	4,798,802	(8,776)	2,199,997	2,230,618	(30,621)
Equity/Index contracts	762,214	687,569	74,645	423,878	421,646	2,232
Credit default contracts	126,931	118,649	8,282	86,532	80,820	5,712
Other	78,390	77,015	1,375	742,198	743,601	(1,403)
	6,673,089	**6,742,006**	**(68,917)**	**3,997,749**	**4,018,031**	**(20,282)**
	6,719,262	**6,799,456**	**(80,194)**	**4,057,862**	**4,064,574**	**(6,712)**
Financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	-	-	-	13,942	21,070	(7,128)
Issued by other entities	139,501	149,722	(10,221)	168,532	233,492	(64,960)
Shares	32,003	814	31,189	37,383	15,755	21,628
	171,504	**150,536**	**20,968**	**219,857**	**270,317**	**(50,460)**
Other Financial Assets [(1)]						
Loans to clients	609	953	(344)	-	4,309	(4,309)
Loans and advances to Banks	49	-	49	-	-	-
	658	**953**	**(295)**	**-**	**4,309**	**(4,309)**
Financial Liabiliites [(1)]						
Deposits from banks	13,033	-	13,033	117	-	117
Due to customers	1,342	2,038	(696)	1,511	6,780	(5,269)
Debt securities issued	468	25,077	(24,609)	8,655	7,982	673
Other subordinated debt	12,621	-	12,621	38,942	-	38,942
	27,464	**27,115**	**349**	**49,225**	**14,762**	**34,463**
	199,626	**178,604**	**21,022**	**269,082**	**289,388**	**(20,306)**
	6,918,888	**6,978,060**	**(59,172)**	**4,326,944**	**4,353,962**	**(27,018)**

(1) includes the fair value change of hedged assets and liabilities and of assets and liabilities at fair value through profit and loss.

As at 31 December 2007, this balance includes a negative effect of euro 41 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.

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

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by government and public entities	3,257	32	3,225	1,494	-	1,494
Issued by other entities	1,808	15,806	(13,998)	5,317	4,716	601
Shares	198,967	1,709	197,258	75,792	3,525	72,267
Other variable income securities	4,571	608	3,963	2,215	-	2,215
	208,603	**18,155**	**190,448**	**84,818**	**8,241**	**76,577**

During 2007, the Bank sold (i) 7.2 million ordinary shares of Bradesco, (realised gain of euro 85.5 million); (ii) 64.3 million ordinary shares of EDP (realised gain of euro 41.6 million) and (iii) 6.9 million shares of Portugal Telecom (realised gain euro 12.8 million).

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 arising on 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.

Note 9 // Net gains from foreign exchange differences

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange translation	440,664	443,711	(3,047)	460,090	468,015	(7,925)
	440,664	**443,711**	**(3,047)**	**460,090**	**468,015**	**(7,925)**

This balance includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.2.

Note 10 // Other operating income and expense

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Other operating income		
Other services	5,288	19,994
Other	67,111	58,243
	72,399	78,237
Other operating service		
Direct and indirect taxes	4,541	2,422
Contributions to the Deposits Guarantee Fund	2,517	3,145
Donations	4,257	3,084
Other	48,806	25,336
	60,121	33,987
	12,278	44,250

Note 11 // Staff costs

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Wages and salaries	257,505	198,865
Remuneration	256,540	196,286
Long-service benefits (see Note 12)	965	2,579
Health-care benefits - SAMS	19,448	17,397
Other mandatory social charges	30,710	21,941
Pension costs (see Note 12)	47,948	62,502
Other costs	7,925	7,198
	363,536	307,903

The health-care benefits – SAMS include the amount of euro 9 323 thousand (31 December 2006: euro 9 113 thousand) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation (see Note12).

The reduction on pension costs for the year ended 31 December 2007, when compared to the year ended 31 December 2006 is mainly explained by the reduction in the unrecognised actuarial losses as a result of the fund's performance, implying a decrease of the annual depreciation by euro 18.8 millions (see Note 12).

Included in other costs is the amount of euro 1 402 thousand (31 December 2005: euro 2 454 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)

	Board of Directors	Audit Board	Other management key personnel	Total
31 de December de 2007				
Salaries and other short-term benefits	3,561	691	5,344	9,596
Pension costs and health-care benefits (SAMS)	337	-	510	847
Long service benefits	-	-	37	37
Bonus	6,502	-	1,863	8,365
Total	**10,400**	**691**	**7,754**	**18,845**
31 de December de 2006				
Salaries and other short-term benefits	3,420	671	4,812	8,903
Pension costs and health-care benefits (SAMS)	316	-	463	779
Long service benefits	80	-	24	104
Bonus	4,660	-	1,444	6,104
Total	**8,476**	**671**	**6,743**	**15,890**

(1) Directores coordenadores

Key management personnel includes BES Board and Audit Committee members and BES senior management.
As at 31 December 2007 and 2006, the loans granted by the Bank to key management personnel amounted to euro 24,761 thousand and euro 20,494 thousand, respectively.

As at 31 December 2007, the number of employees of the Bank is 6,787 (31 December 2005: 6,095).

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

(in thousands of euros)

	31.12.2007	31.12.2006
Senior management	449	385
Management	771	874
Specific functions	2,546	1,942
Administrative functions	3,021	2,894
	6,787	**6,095**

Note 12 // Employee benefits

Pension and health-care benefits

In compliance with the collective labour agreement for the banking sector established 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	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Financial Assumptions				
Salaries increase rate	3.25%	2.75%	4.50%	5.60%
Pensions increase rate	2.25%	1.75%	1.59%	1.48%
Expected return of plan assets	5.25%	4.75%	13.23%	12.78%
Discount rate	5.25%	4.75%		
Demographic assumptions and Valuation methods				
Mortality table				
Men	TV 73/77 (adjusted)			
Woman	TV 88/90			
Mortality table	*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 as at 31 December 2007 and 2006, corresponded to 6.50% of total wages. The percentage of contribution is established by SAMS and no changes are expected for 2008.

As at 31 December 2007 and 31 December 2006, the number of employees covered by the plan is as follows:

	31.12.2007	31.12.2006
Employees	5,805	5,616
Pensioners	5,475	5,426
TOTAL	**11,280**	**11,042**

The Pension Fund assets can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Shares	1,037,508	960,354
Other variable income securities	238,807	571,018
Bonds	249,162	164,821
Real estate assets	379,911	179,126
Other	274,798	95,272
Total	**2,180,186**	**1,970,591**

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)

	31.12.2007	31.12.2006
Shares	51,972	64,175
Real estate assets	124,986	123,299
Total	**176,958**	**187,474**

As at 31 December 2007, the shares held by the pension fund are 3.5 million shares of BES (31 December 2006: 4.7 million shares of BES).

During 2006, the transactions between BES and the pension fund are referred in Note 8. During 2007 there were no transactions between BES and the pension fund.

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 2007 and 31 December 2006 are analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	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	(1,380,097)	(79,781)	(1,459,878)	(1,353,503)	(106,589)	(1,460,092)
Employees	(538,124)	(27,516)	(565,640)	(480,097)	-	(480,097)
	(1,918,221)	**(107,297)**	**(2,025,518)**	**(1,833,600)**	**(106,589)**	**(1,940,189)**
Fair value of plan assets as at 31 December	**2,180,186**	**-**	**2,180,186**	**1,970,591**	**-**	**1,970,591**
Excess / deficit of coverage	261,965	(107,297)	154,668	136,991	(106,589)	30,402
Unrecognised net actuarial losses as at 31 December	301,943	22,949	324,892	436,695	26,082	462,777
Transitional rules	59,204	40,691	99,895	88,806	50,863	139,669
Asset/(liabilities) recognised in the balance sheet as at 31 December	**623,112**	**(43,657)**	**579,455**	**662,492**	**(29,644)**	**632,848**

In accordance with accounting policy described in Note 2.14 and following the requirements of IAS 19 – Employees benefits, the Bank assesses at each balance sheet date and for each plan separately, the recoverability of the recognised asset in relation to the defined benefit pension plans based on the expectation of reduction in future contributions to the funds.

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Liabilities as at 1 January	**1,833,600**	**106,589**	**1,940,189**	**1,772,396**	**114,373**	**1,886,769**
Service cost	27,996	1,828	29,824	27,078	1,924	29,002
Interest cost	84,879	4,933	89,812	82,010	5,304	87,314
Plan participants' contribution	2,625	-	2,625	2,911	-	2,911
Actuarial (gains) / losses:						
- Changes in the discount rate	(8,250)	(198)	(8,448)	-	-	-
- Other actuarial (gains) / losses	43,061	(1,813)	41,248	2,916	(11,568)	(8,652)
Benefits paid by the Fund	(95,383)	-	(95,383)	(93,797)	-	(93,797)
Benefits paid by the Bank	-	(5,482)	(5,482)	-	(5,427)	(5,427)
Curtailment losses related to early retirements	22,158	1,440	23,598	40,086	1,983	42,069
Integration of liabilities from BESSA	8,465	-	8,465	-	-	-
Others	(930)	-	(930)	-	-	-
Liabilities as at 31 December	**1,918,221**	**107,297**	**2,025,518**	**1,833,600**	**106,589**	**1,940,189**

From the total amount of curtailment losses related to early retirements as at 31 December 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.

As at 31 December 2007, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 16.5millions (31 December 2006: euro 16.4 million) and an increase in costs (service cost and interest cost) of euro 1.2 million (31 December 2006: euro 1.1 million).

The change in the fair value of the plan assets in 2007 and 2006 is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Fair value of plan assets as at 1 January	**1,970,591**	**-**	**1,970,591**	**1,766,187**	**-**	**1,766,187**
Actual return on plan assets	256,236	-	256,236	219,863	-	219,863
Bank contribution	41,056	-	41,056	75,427	-	75,427
Plan participants' contribution	2,625	-	2,625	2,911	-	2,911
Benefits paid by the Fund	(95,383)	-	(95,383)	(93,797)	-	(93,797)
Integration of liabilities form BESSA	6,535	-	6,535	-	-	-
Other	(1,474)	-	(1,474)	-	-	-
Fair value of plan assets as at 31 December	**2,180,186**	**-**	**2,180,186**	**1,970,591**	**-**	**1,970,591**

The change in the unrecognised net actuarial losses in 2007 and 2006 is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Unrecognised net actuarial losses as at 1 January	**436,695**	**26,082**	**462,777**	**618,376**	**40,364**	**658,740**
Actuarial (gains) / losses						
- Changes in the discount rate	(8,250)	(198)	(8,448)	-	-	-
- Other actuarial (gains) / losses	(115,505)	(1,813)	(117,318)	(137,343)	(11,568)	(148,911)
Amortisation of the period	(8,467)	(765)	(9,232)	(27,307)	(1,601)	(28,908)
Additional amortisation (curtailment)	(2,118)	(357)	(2,475)	(17,031)	(1,113)	(18,144)
Other	(412)	-	(412)			
Unrecognised net actuarial losses as at 31 December	**301,943**	**22,949**	**324,892**	**436,695**	**26,082**	**462,777**
Of which:						
Within the corridor	217,669	10,730	228,399	197,547	10,659	208,206
Within the adjusted corridor	61,175	4,176	65,351	71,824	4,669	76,493
Outside the corridor	23,099	8,043	31,142	167,324	10,754	178,078

From the amount of the additional amortisation (curtailment) resulting from early retirements as at 31 December 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 in the restructuring provision (see Note 32).

This change in the transitional rules in 2006 and 2007 is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Balance as at 1 January	**88,805**	**50,863**	**139,668**	**118,410**	**61,037**	**179,447**
Amortisation through reserves	(29,601)	(10,172)	(39,773)	(29,605)	(10,174)	(39,779)
Balance as at 31 December	**59,204**	**40,691**	**99,895**	**88,805**	**50,863**	**139,668**

The change in unfunded liabilities is analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Assets/ (Liabilities) as at 1 January	**136,991**	**(106,589)**	**30,402**	**(6,208)**	**(114,373)**	**(120,581)**
Actuarial gains / losses of liabilities	(34,811)	2,011	(32,800)	(2,916)	11,568	8,652
Actuarial gains / losses of plan assets	158,566	-	158,566	140,259	-	140,259
Charges for the year:						
- Service cost	(27,996)	(1,828)	(29,824)	(27,078)	(1,924)	(29,002)
- Interest cost	(84,879)	(4,933)	(89,812)	(82,010)	(5,304)	(87,314)
- Expected return on plan assets	97,670	-	97,670	79,603	-	79,603
- Curtailment losses related to early retirements	(22,158)	(1,440)	(23,598)	(40,086)	(1,983)	(42,069)
Contributions of the year and pensions paid by the Bank	41,056	5,482	46,538	75,427	5,427	80,854
Integration of BESSA's unfunded liabilities	(1,930)	-	(1,930)	-	-	-
Other	(544)	-	(544)	-		
Assets/ (Liabilities) as at 31 December	**261,965**	**(107,297)**	**154,668**	**136,991**	**(106,589)**	**30,402**

The net periodic benefit cost can be analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
Service cost	27,996	1,828	29,824	27,078	1,924	29,002
Interest cost	84,879	4,933	89,812	82,010	5,304	87,314
Expected return on plan assets	(97,670)	-	(97,670)	(79,603)	-	(79,603)
Amortisation of the unrecognised net gain / (loss)	8,467	765	9,232	27,307	1,601	28,908
Curtailment losses related to early retirements	24,276	1,797	26,073	5,710	284	5,994
Net periodic benefit cost	**47,948**	**9,323**	**57,271**	**62,502**	**9,113**	**71,615**

The curtailment losses related to early retirements from 2006 include the effect of the additional amortisation.

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Pension plans	Health-care plans	Total	Pension plans	Health-care plans	Total
At 1 January	**662,492**	**(29,644)**	**632,848**	**730,577**	**(12,972)**	**717,605**
Net periodic benefit cost	(47,948)	(9,323)	(57,271)	(62,502)	(9,113)	(71,615)
Charge-off of provisions	-	-	-	(51,405)	(2,812)	(54,217)
Amortisation of transitional rules (reserves)	(29,601)	(10,172)	(39,773)	(29,605)	(10,174)	(39,779)
Contributions of the year and pensions paid by the Bank	41,056	5,482	46,538	75,427	5,427	80,854
Integration of BESSA's net assets/(liabilities)	(1,930)	-	(1,930)	-	-	-
Other	(957)	-	(957)	-	-	-
At 31 December	**623,112**	**(43,657)**	**579,455**	**662,492**	**(29,644)**	**632,848**

The net assets recognised in the balance sheet are included under other assets (see Note 28).

Historical information regarding pension plan is as follows:

(in thousands of euros)

	31.12.2007		31.12.2006		31.12.2005		31.12.2004		31.12.2003	
	Pension plans	Health-care plans	Pension plans	Health-care plans	Pension plans	Health-care plans	Pension plans	Health-care plans	Pension plans	Health-care plans
Defined benefit obligation	(1,918,221)	(107,297)	(1,833,600)	(106,589)	(1,772,396)	(114,373)	(1,393,000)	(86,280)	(1,284,983)	(79,604)
Fair value of plan assets	2,180,186	-	1,970,591	-	1,766,187	-	1,354,289	-	1,235,333	-
Over/un(funded) liabilities	**261,965**	**(107,297)**	**136,991**	**(106,589)**	**(6,209)**	**(114,373)**	**(38,711)**	**(86,280)**	**(49,650)**	**(79,604)**
Experience adjustments arising on plan liabilities										
(gains)/losses	43,061	(1,813)	2,916	(11,568)	28,899	5,418	2,480	144	96,456	6,029
Experience adjustments arising on plan assets										
(gains)/losses	(158,566)	-	(140,259)	-	(64,787)	-	2,243	-	20,211	-

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 (i) to sell the shares in the market; (ii) to keep them, paying the debt to the Bank or, (iii) 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 2007(1)	Coverage by shares
Plan 2000					
1st	blockExpired (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	Expired (May-07)	3,169,016	11.51	-	-
Plan 2002				-	
1st block	Expired (Apr-07)	755,408	12.02	-	-
2nd block	Apr-08	1,762,619	12.02	294,861	100%
Plan 2003				-	
1st block	May-08	480,576	14.00	105,270	100%
2nd block	May-09	1,121,343	14.00	1,102,008	100%
Plan 2004					
1st block (2)	Dec-07	541,599	13.54	594,465	100%
2nd block	Dec-10	1,270,175	13.54	1,387,658	100%

(1) Includes shares attributed under the incorporation of shares premiums related share to capital increase of 2006.
(2) The 1st block Plan of 2004 matured in the first days of January of 2008.

The changes in the number of underlying shares to the outstanding plans during 2007 and 2006 were as follows:

	31.12.2007		31.12.2006	
	Number of shares	Average price (Euro)	Number of shares	Average price (Euro)
Opening balance	5,667,612	11.24	7,617,500	12.63
Share capital increase (1)	-	-	850,504	-
Shares sold (2)	(2,183,350)	10	(2,800,392)	11.61
Year-end balance	**3,484,262**	**11.89**	**5,667,612**	**11.24**

(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	Expired	Expired	Expired
2nd block	60 months	60 months	60 months	Expired	Expired
Volatility	12%	12%	12%	12%	12%
Risk free interest rate					
1st block	3.04%	2.63%	2.7%	4.38%	4.71%
2nd block	3.22%	3.52%	3.56%	5.01%	5.05%
Dividend yield	2.90%	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)

	31.12.2007	31.12.2006
Total costs of the plans (see Note 11)	1,402	2,454

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

Longservice 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 2007 and 2006, the Bank's liability and costs incurred related to long-service benefits can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Liabilities as at 1 January	**20,849**	**20,090**
Costs of the year (see note 11)	965	2,579
Benefits paid	(1,284)	(1,820)
Liabilities as at 31 December	**20,530**	**20,849**

The actuarial assumptions used in the calculation of the liabilities are those presented for the calculation of pensions (when applicable). These liabilities are included in balance Other liabilities (see Note 35).

Note 13 // General and administrative expenses

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Rental costs	46,054	40,084
Advertising costs	36,348	35,872
Communication costs	26,790	22,653
Maintenance and related services	13,770	12,140
Travelling and representation costs	17,960	14,076
Water, energy and fuel	6,461	5,954
Transportation	8,732	7,494
Consumables	4,633	4,602
Specialised services		
IT services	45,223	43,731
Temporary work	4,905	4,421
Independent work	5,597	5,438
Electronic payment systems	11,281	11,088
Advisory services	13,455	11,502
Legal services	8,676	4,772
Consultants and auditors	3,962	1,214
Security and surveillance	3,229	3,015
Other specialised services	25,936	57,439
Other costs	20,537	16,658
	303,549	302,153

The balance Other Specialised services includes costs from expert evaluation services, call center, and cost with services made by the "Agrupamento Complementar de Empresas (ACE)".

Note 14 // Earnings per share

Basic earnings per share

Basic earnings 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 euros)

	31.12.2007	31.12.2006
Profit attributable to the equity holders of the Bank	**494,699**	**257,051**
Weighted average number of ordinary shares (thousands) [1]	500,000	417,222
Weighted average number of treasury shares (thousands)	4,090	6,373
Weighted average number of ordinary shares outstanding (thousands)	**495,910**	**410,849**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**1.00**	**0.63**

(1) As at 31 December 2006 represents the average number of ordinary shares weighted by the period after the capital increase in 30 May 2006 (see Note 36).

Diluted earnings per share

The diluted earnings per share is calculated considering the profit attributable to the equity holders of the Bank and the weighted average number of ordinary shares outstanding and is adjusted for the effects of all dilutive potential ordinary shares

The diluted earnings 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 2007 and 2006.

Note 15 // Cash and deposits at central banks

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Cash	225,073	257,168
Deposits at central banks		
Bank of Portugal	979,012	704,549
Other central banks	12,011	76
	991,023	704,625
	1,216,096	**961,793**

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 2007, these deposits have earned interest at an average rate of 3.94% (31 December 2006: 2.79%).

Note 16 // Deposits with banks

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Deposits with banks in Portugal		
Uncollected cheques	374,395	428,301
Repayable on demand	9,193	11,679
Other	-	36,743
	383,588	476,723
Deposits with banks abroad		
Repayable on demand	93,620	55,505
Uncollected cheques	8	105
	93,628	55,610
	477,216	532,333

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 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	723,364	1,141,614
Issued by other entities	930	943
Other variable income securities	698,353	991,793
	1,422,647	2,134,350
Derivatives		
Derivative financial instruments with positive fair value	1,195,249	1,065,792
	2,617,896	3,200,142
Derivative financial instruments with negative fair value	1,034,222	946,068

As at 31 December 2007 and 2006, the analysis of the securities held for trading by the period to maturity, is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	347,491	345,971
3 to 12 months	336,586	604,102
1 to 5 years	194,466	324,996
More than 5 years	82,458	111,797
Undetermined	461,646	747,484
	1,422,647	2,134,350

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed income securities						
Issued by govermment and public entities	723,364	-	723,364	946,992	194,622	1,141,614
Issued by other entities	747	183	930	839	104	943
Other variable income securities	-	698,353	698,353	-	991,793	991,793
	724,111	698,536	1,422,647	947,831	1,186,519	2,134,350

As at 31 December 2007 and 2006, derivative financial instruments can be analysed as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	12,133,575	112,847	247,145	15,210,301	120,506	160,855
- sell	12,252,372			15,238,164		
Currency Swaps						
- buy	345,984	2,056	2,243	1,297,385	9,404	11,494
- sell	347,198			1,296,468		
Currency Interest Rate Swaps						
- buy	1,657,950	187,591	176,211	363,129	244,916	220,411
- sell	1,660,294			368,375		
Currency Options	4,218,176	57,379	86,511	2,271,360	9,489	21,053
	32,615,549	**359,873**	**512,110**	**36,045,182**	**384,315**	**413,813**
Interest rate contracts						
Forward Rate Agreements	5,353,657	1,444	342	255,930	112	126
Interest Rate Swaps	29,831,122	616,970	401,020	25,795,960	559,181	444,107
Swaption - Interest Rate Options	2,330,536	3,814	2,105	2,348,648	13,519	11,220
Interest Rate Caps & Floors	5,135,206	29,862	25,529	1,620,352	3,851	4,046
Interest Rate Futures	100,000	-	-	50,000	-	-
Bonds Options	30,000	665	558	84,686	-	-
Future Options	3,229,375	-	-	9,985,103	-	-
	46,009,896	**652,755**	**429,554**	**40,140,679**	**576,663**	**459,499**
Equity / index contracts						
Equity / Index Swaps	1,797,380	85,468	24,648	1,189,679	37,912	23,305
Equity / Index Options	1,505,819	76,345	56,716	2,108,390	52,919	40,281
	3,303,199	**161,813**	**81,364**	**3,298,069**	**90,831**	**63,586**
Credit default contracts						
Credit Default Swaps	1,439,622	20,808	11,194	1,085,192	13,983	9,170
Total	**83,368,266**	**1,195,249**	**1,034,222**	**80,569,122**	**1,065,792**	**946,068**

As at 31 December 2007, the fair value of derivative financial instruments included the amount of euro 7.5 million related to the fair value of the embedded derivates, as described in Note 2.3.

As at 31 December 2007 and 2006, the analysis of trading derivates by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007		31.12.2006	
	Notional	Fair value (net)	Notional	Fair value (net)
Up to 3 months	27,362,969	(149,180)	36,764,342	(39,958)
3 to 12 months	18,730,128	77,424	15,305,907	13,670
1 to 5 years	21,016,696	286,240	15,248,629	155,209
More than 5 years	16,258,473	(53,457)	13,250,244	(9,197)
	83,368,266	161,027	80,569,122	119,724

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

This balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Bonds and other fixed income securities		
Issued by other entities	894,329	9,655,960
Shares	192,354	175,894
Book value	1,086,683	1,141,854

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.

As at 31 December 2006, this balance 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. The amount received from this operation was booked in the balance Deposits from banks.

As at 31 December 2007 and 2006, 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)

	31.12.2007	31.12.2006
Up to 3 months	384,980	210,269
3 to 12 months	112,142	146,339
1 to 5 years	64,105	438,432
More than 5 years	333,102	170,920
Undetermined	192,354	175,894
	1,086,683	1,141,854

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

(in thousands of euros)

	31.12.2007			31.12.2006		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed income securities						
Issued by other entities	178,708	715,621	894,329	66,067	899,893	965,960
Shares	192,354	-	192,354	175,894	-	175,894
Book value	371,062	715,621	1,086,683	241,961	899,893	1,141,854

Note 19 // Available-for-sale financial assets

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	Cost[1]	Fair value reserve		Impairment	Book value
		Positive	Negative		
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**
Bonds and other fixed income securities					
Issued by government and public entities	259,735	820	(922)	-	259,633
Issued by other entities	3,224,405		1,726		
	(20,604)	(7,492)	3,198,035		
Shares	1,025,822	818,878	(6,822)	(28,143)	1,809,735
Other variable income securities	335,445	4,190	(472)	(17,085)	322,078
Balance as at 31 December 2007	**4,845,407**	**825,614**	**(28,820)**	**(52,720)**	**5,589,481**

(1) Aquisition cost relating to shares and amortised cost relating to debt securities.

The balance Available-for-sale financial assets includes the amount of euro 582 299 thousand of securities pledged as collateral by BES, (31 December 2006: euro 529,242 thousand) (see Note 38).

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

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January 2006	49,040	51,764
Charge for the year	14,241	7,513
Charge off	(10,845)	(7,101)
Write back for the year	(479)	(1,000)
Exchange differences and other	763	(2,136)
Balance as at 31 December 2007	**52,720**	**49,040**

As at 31 December 2007 and 2006, the analysis of available-for-sale financial assets by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	642,209	232,698
3 to 12 months	324,453	166,053
1 to 5 years	799,231	834,981
More than 5 years	1,691,775	981,970
Undetermined	2,131,813	1,909,527
	5,589,481	**4,125,229**

The main contributions to the fair value reserve, as at 31 December 2007, can be analysed as follows:

(in thousands of euros)

31.12.2007					
Description	Acquisition cost	Fair value reserve		Impairment	Book value
		Positive	Negative		
Banco Bradesco	286,047	661,695	-	-	947,742
Portugal Telecom	291,914	76,010	-	-	367,924
EDP	263,801	70,497	-	-	334,298
Banque Marocaine du Commerce Extérieur	2,480	8,589	-	(682)	10,387
	844,242	**816,791**	-	**(682)**	**1,660,351**

(in thousands of euros)

31.12.2006					
Description	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
	763,281	**633,188**	-	**(682)**	**1,395,787**

On 7 November 2007, Portugal Telecom (PT) concluded the Spin-off of its 58.43% interest in PT Multimédia (PTM), each shareholder having been allocated 0.176067 PTM shares for each PT share held. Following this transaction, the Bank received 9,444,819 PTM shares, which based on their respective fair value, determined at the date of the spin off, were accounted as an appropriation of the book value of the underlying PT shares as at that date.

Additionally, the acquisition cost of PT shares and the respective accumulated fair value reserve, before the spin-off, were split between PT shares held and the new PTM shares received, proportionally to their respective fair values determined at the date of the spin-off. As a consequence, the Bank did not recognise any gain or loss following this transaction.

Regarding listed or unlisted securities, the balance available-for-sale financial assets, is as follows:

(in thousands of euros)

	31.12.2007			31.12.2006		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds and other fixed income securities						
Issued by govermment and public entities	47,562	212,071	259,633	35,699	107,100	142,799
Issued by other entities	11,401	3,186,634	3,198,035	506,484	1,566,773	2,073,257
Shares	1,707,688	102,047	1,809,735	1,544,731	87,877	1,632,608
Other variable income securities	-	322,078	322,078	-	276,565	276,565
	1,766,651	3,822,830	5,589,481	2,086,914	2,038,315	4,125,229

Note 20 // Loans and advances to banks

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

(in thousands of euros)

	31.12.2007	31.12.2006
Loans and advances to banks in Portugal		
Loans	1,348,181	748,031
Inter-bank money market	1,310,118	1,034,082
Deposits	580,952	271,307
Short term deposits	377,260	56,046
Other loans and advances	1,473	43
	3,617,984	2,109,509
Loans and advances to banks in Portugal		
Deposits	4,420,583	5,273,111
Short term deposits	1,351,258	2,166,380
Loans	969,433	253,681
Other loans and advances	16,145	6,235
	6,757,419	7,699,407
	(366)	(1,595)
	10,375,037	9,807,321

The main loans and advances to banks in Portugal, as at 31 December 2007, bear interest at an average annual interest rate of 4.47% (31 December 2005: 3.64%). Loans and advances to banks abroad bear interest at international market rates where the Bank operates.

As at 31 December 2007, this balance includes euro 559,687 thousands of loans and advances recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2007 and 2006, the analysis of loans and advances to banks by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	9,703,137	8,448,940
3 to 12 months	436,419	1,105,147
1 to 5 years	103,014	150,440
More than 5 years	132,833	104,389
	10,375,403	9,808,916

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

(in thousands of euros)

	31.12.2007	31.12.2006
Balance at the begining of the year	1,595	2,562
Charge for the year	1,114	1,300
Write back for the year	(2,236)	(1,990)
Exchange differences and other	(107)	(277)
Total	**366**	**1,595**

Note 21 // Loans and advances to customers

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Domestic loans		
Corporate		
Commercial lines of credits	8,773,195	6,514,609
Loans	5,295,525	6,181,671
Discounted bills	1,108,224	1,168,988
Factoring	158,019	141,598
Overdrafts	49,641	27,654
Finance leases	1,876	1,987
Other loans	198,124	142,070
Retail		
Mortgage loans	8,327,928	7,774,554
Consumer and other loans	2,228,742	1,943,165
	26,141,274	23,896,296
Foreign loans		
Corporate		
Loans	3,703,654	2,254,834
Commercial lines of credits	1,050,661	421,476
Overdrafts	27,199	20,292
Discounted bills	135,950	41
Financial leasing	258,102	-
Other loans	876,701	501,531
Retail		
Mortgage loans	431,927	-
Consumer and other loans	295,332	7,552
	6,779,526	3,205,726
Overdue loans and interest		
Up to 3 months	44,478	41,813
From 3 to 12 months	96,709	91,331
From 1 to 3 years	191,110	165,037
More than 3 years	110,574	103,535
	442,871	401,716
	33,363,671	27,503,738
Provision for impaired loans and advances	(487,804)	(369,366)
	32,875,867	27,134,372

The fair value of loans and advances to customers is presented in Note 41.

This balance includes euro 156,049 thousands of loans and advances recognised on the balance sheet at fair value through profit or loss (see Note 23)

During July 2007, BES carried out a mortgage loans securitization transaction (Lusitano Mortgages No. 6) in the amount of euro 1,122 million (2005: euro 1,400 million – Lusitano Mortgages no.5). During December 2007 BES, together with other entities of the Group, participated in a project finance securitization transaction in the amount of euro 1,079 million, from which euro 889 million were transferred from BES (see Note 40).

As at 31 December 2007, loans and advances includes euro 63 102 thousands of restructured loans (31 December 2006: 44 641 thousands of euros). These loans correspond, in accordance with definition of the Bank of the Portugal, to loans previously overdue, which through a restructuring process are considered as performing loans.

As at 31 December 2007 and 2006, the analysis of loans and advances to customers by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	5,644,786	5,170,622
3 to 12 months	4,798,897	3,699,002
1 to 5 years	6,134,674	5,050,056
More than 5 years	16,342,443	13,182,342
Undetermined	442,871	401,716
	33,363,671	27,503,738

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

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January	369,366	414,457
Charge for the year	172,826	135,257
Charge off	(77,759)	(182,076)
Write back for the year	(19,812)	(1,551)
Transfers	36,640[c]	-
Exchange differences and other	6,543[a]	3,279[b]
Balance at the end of the year	**487,804**	**369,366**

(a) Includes euros 6 384 thousands from BESSA's merger.
(b) Includes euros 3 050 thousands from Crediflash's merger.
(c) Provisions from credit risk (see Note 32)

Additionally, as at 31 December 2007, the Bank has a provision for general banking risks in the amount of euro 396,385 thousands (31 December 2006: euro 385,536 thousands), which in accordance to NCA is presented as a liability (see Note 32).

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

(in thousands of euros)

	31.12.2007	31.12.2006
Fixed interest rate	2,789,115	2,987,371
Variable interest rate	30,574,556	24,516,367
	33,363,671	27,503,738

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

(in thousands of euros)

	31.12.2007	31.12.2006
Gross investment in finance leases, receivable		
Up to 1 year	3,239	1,987
From 1 to 5 years	130,988	-
More than 5 years	131,176	-
	265,403	1,987
Unearned future finance income on finance leases		
Up to 1 year	-	-
From 1 to 5 years	-	-
More than 5 years	5,425	-
	5,425	-
Net investment in finance leases		
Up to 1 year	3,239	1,987
From 1 to 5 years	130,988	-
More than 5 years	125,751	-
	259,978	1,987

Note 22 // Held to maturity investments

As at 31 December 2007 and 2006, this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Bonds and other fixed income securities		
Issued by government and public entities	390,025	567,747
	390,025	567,747

To maturity investments fair value is presented in Note 41.

As at 31 December 2007 and 2006, the analysis of held to maturity investments by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	6,085	38,106
3 to 12 months	9,254	60,146
1 to 5 years	350,267	462,826
More than 5 years	24,419	6,669
	390,025	567,747

Note 23 // Derivatives for risk management purposes

As at 31 December 2007 and 31 December 2006, derivatives for risk management purposes can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Derivatives for risk management purposes with positive fair value (assets)	165 346	177 309
Derivatives for risk management purposes with negative fair value (liabilities)	189 651	205 590
	(24 305)	(28 281)

The balance derivatives for risk management purposes includes hedging derivatives, derivatives contracted with the purpose of managing the risk of certain financial assets and liabilities designated at fair value through profit or loss and that were not classified as hedging derivatives.

Derivatives for risk management purposes as at 31 December 2007, in the amount of euro 24,305 thousands (net liabilities) includes (i) euro 27,091 thousand of net liabilities related to hedging derivatives (31 December 2006: euro 30,521 thousand of net liabilities) and (ii) euro 2,786 thousand of net assets related to derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss and that were not classified as hedging derivatives (31 December 2006: euro 2,240 thousand of net liabilities).

a) Hedging derivatives

As at 31 December 2007 and 2006, the fair value hedge relationships present the following features:

(in thousands of euros)

31.12.2007							
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 Swap	Subordinated loans	Exchange and interest rate	181,895	(22,678)	(11,995)	22,455	12,621
Currency Interest Rate Swap	Deposits from banks	Exchange and interest rate	407,405	(4,841)	(4,191)	4,633	4,191
Interest Rate Swap	Loans	Interest rate	91,993	1,210	969	(767)	(953)
Interest Rate Swap	Bonds	Interest rate	1,306,665	(376)	22,065	7,770	(22,251)
Interest Rate Swap	Due to customers	Interest rate	191,077	822	(1,463)	831	275
Interest Rate Swap	Deposits from banks	Interest rate	128,000	(1,228)	(9,130)	2,601	8,842
			2,307,035	(27,091)	(3,745)	37,523	2,725

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

(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	Due to customers	Interest rate and FX	429,596	2,248	1,060	448	(1,181)
Currency Interest Rate Swaps	Subordinated 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 to customers	Interest rate	245,884	(1,244)	3,778	428	(4,309)
Interest Rate Swaps	Due to customers	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

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 gain / (loss) from financial assets at fair value through profit or loss.

As at 31 December 2007, the ineffectiveness of the fair value hedge operations amounted to euro 1.0 million
(31 December 2006: euro 2.1 million) and was recognised in the income statement. BES evaluates on an ongoing basis the effectiveness of the hedges.

b) Other derivatives for risk management purposes

Other derivatives for risk management purposes includes derivatives held to hedge assets and liabilities at fair value through profit or loss as described in accounting policy 2.4, 2.5 and 2.8 and that the Bank did not classified as hedging derivatives. Book value of assets and liabilities at fair value through profit or loss can be analysed as follows:

(in thousands of euros)

31.12.2007								
Derivative	Related financial assets/liabilities	Derivative			Related assets/liabilities			
		Notional	Fair Value	Changes in the fair value of the derivative in the year	Fair Value	Changes in the fair value of the derivative in the year	Book Value	Reimbursement amount at maturity date(1)
	Assets							
Currency Swap	Loans and advances to Banks	561,051	(333)	(198)	49	49	559,687	561,051
Interest Rate Swap	Securities	185,000	319	467	(1,805)	1,098	187,545	189,350
Interest Rate Swap	Domestic loans	115,000	461	461	609	609	156,049	154,991
	Liabilities							
Index Swap	Bonds	68,524	6,911	2,844	(6,042)	(669)	71,110	64,520
Interest Rate Swap	Bonds	95,210	(3,671)	453	3,676	(1,689)	84,613	87,737
Index Swap	Due to costumers	3,000	(58)	(58)	51	51	2,639	2,675
Interest Rate Swap	Due to costumers	75,000	(843)	1,022	841	(1,022)	74,159	75,000
		1,102,785	**2,786**	**4,991**	**(2,621)**	**(1,573)**	**1,135,802**	**1,135,324**

(in thousands of euros)

31.12.2007								
Derivative	Related financial assets/liabilities	Derivative			Related assets/liabilities			
		Notional	Fair Value	Changes in the fair value of the derivative in the year	Fair Value	Changes in the fair value of the derivative in the year	Book Value	Reimbursement amount at maturity date(1)
	Liabilities							
Interest Rate Swap	Debt Securities issued	94,732	(4,124)	(4,124)	3,097	3,097	85,867	92,367
Index Swap	Debt Securities issued	99,962	7,591	7,591	(5,319)	(5,319)	92,238	85,583
Index Option	Debt Securities issued	7,400	(708)	(708)	(139)	(139)	7,538	7,248
FX Swaps	Deposits from banks	387,114	(519)	(519)	117	117	386,997	561,051
		589,208	**2,240**	**2,240**	**(2,244)**	**(2,244)**	**572,640**	**746,249**

As at 31 December 2007, the fair value of the financial liabilities at fair value through profit or loss, includes a positive cumulative effect of euro 41 thousands, related to the Bank's credit risk.

As at 31 December 2007 and 2006, the analysis of Derivatives for risk management purposes by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007		31.12.2006	
	Notional	Fair value	Notional	Fair value
Up to 3 months	620,954	4,495	462,998	3,478
3 to 12 months	273,837	1,415	194,919	2,487
1 to 5 years	1,160,626	(2,817)	810,520	(512)
More than 5 years	1,354,403	(27,398)	491,369	(33,734)
	3,409,820	**(24,305)**	**1,959,806**	**(28,281)**

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

As at 31 December 2007 and 31 December 2006 this balance can be analysed as follows:

(in thousands of euros)

	31.12.2007
Property	49,499
Impairment losses	(6,084)
	43,415

The amounts presented refer to assets acquired in exchange for loans and discontinued branches available for immediate sales.

As at 31 December 2007, the amount related to discontinued branches is euro 15,855 thousand (see Note 25), in relation to which the Bank recognised an impairment loss of euro 2,299 thousand.

The changes occurred in impairment losses of non-current assets held for sale, are presented as follows:

(in thousands of euros)

	31.12.2007
Balance at the begining of the year	-
Charge for the year	2,605
Charge off	(2,017)
Write back for the year	(45)
Tranfers [(a)]	5,541
Balance at the end of the year	**6,084**

(a) Represents the transfer from Other assets of impairment losses related to property which qualify for recognition as a non current asset held for sale in accordance with the accounting policy described in Note 2.10 (see 28).

Note 25 // Property and equipment

As at 31 December 2007 and 2006 this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Property		
For own use	293,602	257,460
Improvements in leasehold property	184,823	169,893
Other	13	13
	478,438	**427,366**
Equipment		
Computer equipment	232,841	214,560
Fixtures	95,593	86,114
Furniture	87,994	57,743
Security equipment	22,377	18,551
Office equipment	29,245	28,875
Motor vehicles	1,730	1,787
Other	338	338
	470,118	**407,968**
Work in progress		
Improvements in leasehold property	15,373	11,726
Property for own use	4,741	3,713
Equipment	16,194	13,408
Other	352	574
	36,660	**29,421**
	985,216	**864,755**
Accumulated depreciation	(598,993)	(564,516)
	386,223	**300,239**

The movement in this balance is as follows:

(in thousands of euros)

	Property	Equipment	Work in progress	Total
Acquisitions cost				
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 [(a)]	983	7,284	(15,726)	(7,459)
Exchange differences	-	(115)	(1)	(116)
Other [(b)]	2,484	1,656	-	4,140
Balance as at 31 December 2006	**427,366**	**407,968**	**29,421**	**864,755**
Acquisitions	41,892	27,289	51,532	120,713
Disposals	(2,817)	(11,925)	-	(14,742)
Transfers [(c)]	10,668	20,098	(44,342)	(13,576)
Exchange differences	(5)	(347)	49	(303)
Other [(d)]	1,334	27,035	-	28,369
Balance as at 31 December 2007	478,438	470,118	36,660	985,216
Depreciation				
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 [(a)]	(1,090)	(871)	-	(1,961)
Exchange differences	(288)	(2,178)	-	(2,466)
Other [(e)]	743	3,545	-	4,288
Balance as at 31 December 2006	**209,642**	**354,874**	**-**	**564,516**
Depreciation of the year	14,040	20,244	-	34,284
Disposals	(2,817)	(11,908)	-	(14,725)
Transfers [(c)]	(2,946)	(261)	-	(3,207)
Exchange differences	(1)	(323)	-	(324)
Other [(d)]	262	18,187	-	18,449
Balance as at 31 December 2007	218,180	380,813	-	598,993
Balance as at 31 December 2007	260,258	89,305	36,660	386,223
Balance	217,724	53,094	29,421	300,239

(a) Includes the amount of euro 7 459 thousands related to the acquisition costs and euro 1 961 thousands of accumulated depreciations, referring to discontinued branches, transfered for its net value to other captions on the balance sheet.
(b) Crediflash's merger: euro 2 484 thousand of Property and euro 1 656 thousand of Equipment
(c) Includes the amount of euro 13 576 thousands related to the acquisition costs and euro 3 207 thousands of accumulated depreciations, referring to discontinued branches, transfered for its net value to other captions on the balance sheet.
(d) On 31st December 2006, the amounts registered in the balance Other are from BESSA's merger.
(e) Crediflash's merger: euro 528 thousand of Property and euro 1 656 thousand the Equipment

Note 26 // Intangible assets

As at 31 December 2007 and 2006 this balance is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Internally developed		
Software	11,994	6,532
Software	400,793	364,522
Other	-	18,082
	400,793	**382,604**
Work in progress	22,735	18,378
	435,522	407,514
Accumulated amortisation	(365,561)	(356,161)
	69,961	51,353

The balance internally developed – software includes the costs incurred by BES 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	Work in Progress	Total
Acquisitions cost				
Balance as at 31 December 2005	**342,237**	**17,962**	**18,790**	**378,989**
Acquisitions:				
Internally developed	30	-	5,635	5,665
Acquired from third parties	3,054	-	14,413	17,467
Transfers	20,460	-	(20,460)	-
Exchange differences	(9)	-	-	(9)
Other [(a)]	5,282	120	-	5,402
Balance as at 31 December 2006	**371,054**	**18,082**	**18,378**	**407,514**
Acquisitions:				
Internally developed	22	-	6,010	6,032
Acquired from third parties	6,920	-	18,162	25,082
Disposals	-	(18,082)	-	(18,082)
Transfers	19,815	-	(19,815)	-
Exchange differences	(9)	-	-	(9)
Other [(b)]	14,985	-	-	14,985
Balance as at 31 December 2007	**412,787**	**-**	**22,735**	**435,522**
Amortisation				
Balance as at 31 December 2005	**311,290**	**17,912**	**-**	**329,202**
Amortisation of the year	22,154	48	-	22,202
Transfers	500	(500)	-	-
Exchange differences	(9)	-	-	(9)
Other [(a)]	4,144	622	-	4,766
Balance as at 31 December 2006	**338,079**	**18,082**	**-**	**356,161**
Amortisation of the year	22,756	-	-	22,756
Disposals	-	(18,082)	-	(18,082)
Exchange differences	27	-	-	27
Other [(b)]	4,699	-	-	4,699
Balance as at 31 December 2007	**365,561**	**-**	**-**	**365,561**
Net balance as at 31 December 2007	**47,226**	**-**	**22,735**	**69,961**
Net balance as at 31 December 2006	**32,975**	**-**	**18,378**	**51,353**

a) Values from Crediflash's merger.
b) Values from BESSA's merger.

Note 27 // Investments in subsidiaries and associates

The financial information in relation to subsidiaries and associates is presented in the following table:

(in thousands of euros)

	31.12.2007				31.12.2006			
	Number of assets	% held by the bank	Per value (euros)	Acquisition cost	Number of assets	% held by the bank	Per value (euros)	Acquisition cost
BES AÇORES	2,013,103	57.52%	5.00	9,652	2,013,103	57.52%	5.00	9,652
BES FINANCE	100,000	100.00%	1.00	25	100,000	100.00%	1.00	25
BES ORIENTE	199,500	99.75%	84.57	21,341	199,500	99.75%	94.80	21,341
BES ANGOLA	799,600	79.96%	6.79	9,102	799,600	79.96%	7.59	9,102
BES-VIDA	24,999,700	50.00%	5.00	474,994	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
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%	0.67	36	1,000	100.00%	0.75	36
BESSA [(a)]	-	-	0.00	-	10,825,000	100.00%	8.00	108,976
BEST	20,181,680	32.03%	1.00	20,182	20,181,680	32.03%	1.00	20,182
BIC INTERNATIONAL BANK	10,000,000	100.00%	1.00	24,197	10,000,000	100.00%	1.00	24,197
CÊNTIMO	500,000	100.00%	1.00	925	500,000	100.00%	1.00	925
E.S. BANK	6,377,050	98.45%	3.39	71,027	6,377,050	98.45%	3.78	71,027
E.S. PLC	29,996	99.99%	5.00	38	29,996	99.99%	5.00	38
BES SEGUROS	749,800	24.99%	5.00	3,749	749,800	24.99%	5.00	3,749
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%	5,513.17	788	100	100.00%	6,162.45	787
ES CONCESSÕES	390,000	60.00%	5.00	19,793	390,000	60.00%	5.00	19,793
ESDATA	1,400,000	100.00%	5.00	7,805	686,000	49.00%	5.00	4,114
ESEGUR	242,000	44.00%	5.00	9,634	187,000	34.00%	5.00	2,134
ESGEST	20,000	100.00%	5.00	100	20,000	100.00%	5.00	100
E.S. CONTACT CENTER	525,001	35.00%	1.00	739	1,045,900	35.00%	1.00	1,260
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%	0.38	39	49,995	99.99%	0.35	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	488,400	66.00%	5.00	3,965	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%	152.45	2,401
BES BETEILIGUNGS GMBH	1	100.00%	25,000.00	165,025	1	100.00%	25,000.00	65,025
ES SERVICIOS [(b)]	9,998	99.98%	1.50	15	-	-	0.00	-
ESAF ESPANHA [(b)]	500	50.00%	1,000.00	33,515	-	-	0.00	-
PRAÇA DO MARQUÊS	3,185,000	100.00%	4.99	27,724	-	-	0.00	-
				1,193,380				1,130,426
Impairment losses				(108,739)				(74,508)
				1,084,641				1,055,918

(a) BESSA's merger on the 1st of April 2007.
(b) BESSA's subsidiaries, on the 1st of April 2007, were transfered to BES during the merger.

During the year ended 31 December 2007 the main changes in investment in associates are analysed as follows:

• In March 2007, BES acquired 10% of the share capital of ESEGUR, thus increasing its participation in this entity to 44%;
• As at 1 April 2007, Banco Espírito Santo, S.A. (Spain) was merged in BES;
• In May 2007, BES acquired 51% of the share capital of ES Data thus gaining full control over this entity.;
• In November 2007, BES acquired 100% of the share capital of Praça do Marquês – Serviços Auxiliares, S.A..

Changes in impairment losses are presented as follows::

(in thousands of euros)

	31.12.2007	31.12.2006
Balance at the begining of the year	74,508	72,144
Charge for the year	7,001	12,103
Charge off	-	(6,487)
Write back for the year	-	(3,252)
Exchange differences and other [(a)]	27,230	-
Balance at the end of the year	**108,739**	**74,508**

a) Values from BESSA's merger.

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

(in thousands of euros)

	31.12.2006
BES SEGUROS	9,754
Other	96
	9,850

Note 28 // Other assets

As at 31 December 2007 and 2006, the balance Other assets is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Debtors		
Deposits placed with futures contracts	49,880	32,835
Recoverable government subsidies on mortgage loans	52,640	46,779
Collateral deposits placed	126,295	51,593
Loans to subsidiaries and associates	169,792	150,024
Public sector	26,428	641
Sundry debtors	169,150	136,633
	594,185	418,505
Impairment losses on debtors	(4,182)	(4,112)
	590,003	**414,393**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	13,269	29,445
Other assets	38,609	18,904
	51,878	48,349
Accrued income	**57,931**	**67,174**
Prepayments and deferred costs	**100,494**	**65,817**
Other sundry assets		
Foreign exchange transactions pending settlement	-	15,941
Stock exchange transactions pending settlement	19,376	-
Other transactions pending settlement	-	25,189
	19,376	**41,130**
Assets acquired in exchange for loans	78,635	81,071
Impairment losses on these assets	(7,513)	(8,976)
	71,122	**72,095**
Assets recognised on pensions (see Note 12)	**579,455**	**632,848**
	1,470,259	**1,341,806**

As at 31 December 2006, included in Other assets is an amount of euro 15,855 thousands (see note 25), related to discontinued branches. These assets were subject to evaluation performed by the Bank and an impairment loss in the amount of 2,299 thousands of euros has been booked.

As at 31 December 2007, the balance prepayments and deferred costs include the amount of euro 79,328 thousand (31 December 2006: euro 53,815 thousand) related to the difference between the nominal amount of loans granted to Bank's employees under the collective labor 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.

The stock exchange transactions pending settlement refer to transactions with securities on behalf of third parties, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.5.

The movements occurred in impairment losses are presented as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance at begining of the year	13,088	11,058
Charge for the year	3,813	3,384
Charge off	-	(612)
Write back for the year	(42)	(1,541)
Exchange differences and other [(a)]	(5,164)	799
Balance at the end of the year	**11,695**	**13,088**

(a) Impairment transfered to Available for sale non current assets, according to accounting policy described on note 2.10 (see note 24).

Note 29 // Deposits from banks

The balance deposits from banks is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Domestic		
Deposits	285,536	251,747
Inter-bank money market	-	68,880
Very short term funds	35,710	31,393
Repurchase agreements	1,571	1,340
Other funds	1,614	2,968
	324,431	356,328
International		
Deposits	10,450,189	10,665,191
Loans	1,839,689	2,596,237
Very short term funds	229,272	105,436
Repurchase agreements	362,760	151,100
Other funds	93,597	61,077
	12,975,507	13,579,041
	13,299,938	13,935,369

As at 31 December 2006, this balance includes euro 386 997 thousands related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2007 and 2006, the analysis of deposits from banks by the period to maturity is a follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	4,331,321	2,557,476
3 to 12 months	2,501,939	2,812,886
1 to 5 years	5,326,131	7,291,550
More than 5 years	1,140,547	1,273,457
	13,299,938	13,935,369

Note 30 // Due to customers

The balance due to customers is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Repayable on demand		
Demand deposits	9,168,637	8,600,858
Time deposits		
Time deposits	8,303,168	6,363,420
Notice deposits	876	514
Other	246,296	2,609
	8,550,340	**6,366,543**
Savings accounts		
Pensioners	118,763	178,736
Other	1,892,923	1,931,989
	2,011,686	**2,110,725**
Other funds	1,414,746	959,379
	21,145,409	**18,037,505**

As at 31 December 2007, this balance includes euro 76,798 thousands related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2007 and 2006, the analysis of the amount due to customers by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Repayable on demand	**9,168,637**	**8,600,858**
With agreed maturity		
Up to 3 months	8,322,585	7,037,201
3 to 12 months	1,746,964	1,845,019
1 to 5 years	524,439	485,087
More than 5 years	1,382,784	69,340
	11,976,772	**9,436,647**
	21,145,409	**18,037,505**

Note 31 // Debt securities issued

Outstanding debt securities is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Certificates of deposit	5,446,975	4,738,245
Bonds	3,438,542	3,653,510
Euro Medium Term Notes [a]	3,203,347	44,764
Other	-	7,593
	12,088,864	**8,444,112**

(a) As at 31 December 2007, includes the amount of euro 200 millions of extendible notes.

During the year ended 2007, BES issued debt securities amounting to euro 3,173.5 million (31 December 2006: euro 1 193.1 million), and reimbursed euro 185.8 million (31 December 2006: euro 88.1 million).

As at 31 December 2007 and 2006, the analysis of debt securities outstanding by the period to maturity is as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Up to 3 months	4,604,083	3,540,168
3 to 12 months	1,489,534	1,462,630
1 to 5 years	3,180,439	1,299,458
More than 5 years	2,814,808	2,141,856
	12,088,864	**8,444,112**

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

(in thousands of euros)

Entity	Designation	31.12.2007					
		Currency	Issue date	Book value	Maturity	Global yield / interest rate
BES	Deposits	EUR	2007	454,597	2008	3.00 % - 5.60%
BES	Deposits a)	EUR	2007	2,724	2008	Indexed to shares (Continental. Accor. KPN NV e Vivendi)
BES	Deposits	USD	2007	18,171	2008	4.37% - 5.40%
BES (London branch)	Deposits	EUR	2007	968,700	2008	4.13% - 4.87%
BES (London branch)	Deposits	GBP	2007	1,385,421	2008	5.51% - 6.72%
BES (London branch)	Deposits	USD	2007	1,787,243	2008	4.79% - 5.47%
BES (London branch)	Deposits	CAD	2007	41,525	2008	4.7%
BES (London branch)	Deposits	SEK	2007	47,662	2008	4.47%
BES (London branch)	Deposits	CHF	2007	18,432	2008	2.79%
BES (New York branch)	Deposits	USD	2006 - 2007	670,613	2008	4.41% - 5.53%
BES	BES Rendimento Mais – 1st Series	EUR	2000	10,801	2008	Fixed rate - 5.80%
BES	BES Rendimento Mais – 2nd Series	EUR	2000	4,948	2008	Fixed rate - 5.95%
BES	BES Rendimento Mais – 3rd Series	EUR	2000	6,865	2008	Fixed rate - 5.98%
BES	BES Rendimento Mais – 4th Series	EUR	2000	7,117	2008	Fixed rate - 2.76%
BES	BES Rendimento Mais – 5th Series	EUR	2000	5,142	2008	Fixed rate - 5.96%
BES	BES EURO RENDA August 2001	EUR	2001	15,000	2009	Fixed rate - 2.75%
BES	BES Euro Renda	EUR	2002	22,306	2010	Fixed rate - 5.32%
BES	BES TARGET 10%	EUR	2005	4,776	2013	Fixed rate - 5.00%
BES	BES FEV 2009	EUR	2006	6,500	2009	Fixed rate - 4.00%
BES	BIC 99 - 3rd emission	EUR	1999	24,000	2008	Fixed rate - 2.80%
BES	BIC EURO VALOR	EUR	2005	19,768	2010	Indexed to previous rate plus Spread - Euribor
BES	BIC SNOWBL ABR0	EUR	2005	21,059	2012	Indexed to previous rate plus Spread - Euribor
BES	BES JAPÃO FEV07 a)	EUR	2007	5,809	2010	Nikkei 225
BES	BES 4,125% 2010	EUR	2007	49,497	2010	Fixed rate - 4.125%
BES	BES DUE 2010	EUR	2007	400,153	2010	Euribor 3 months + 0.09%
BES	BES DUE 2012	EUR	2007	999,266	2012	Euribor 3 months + 0.10%
BES	BES BRIC MAR.07 a)	EUR	2007	8,382	2010	S&P BRIC 40 EUR Price Return
BES	BES DUE 2013	EUR	2007	499,868	2013	Euribor 3 months + 0.125%
BES	BES DUE MAIO 10	EUR	2007	499,623	2010	Euribor 3 months + 0.07%
BES	BES DUE JUN 14	EUR	2007	499,796	2014	Euribor 3 months + 0.15%
BES	BES DUE SET.08 b)	EUR	2007	200,000	2008	Indexed Euribor 1 month + 0.04%
BES	BES 12/01/2009 a)	USD	2005	634	2009	US LIbor 6 months
BES	BES 4% DUAL a)	EUR	2006	5,444	2008	4% (50%) + DJ Eurostoxx 50 (50%)
BES	BES BRIC MAR.06 a)	EUR	2006	5,736	2009	Nifty India + RDX Russia + HK Hang Seng + Bovespa
BES	BES CHINA FEV05 a)	EUR	2005	8,165	2008	FSTE/Xinhua China 25 Index
BES	BES COMMODIT 7% a)	EUR	2005	1,744	2014	Fixed Rate - 7.00%
BES	BES CR.JAPÃO PL a)	EUR	2006	4,798	2009	Nikkei 225
BES	BES ER 4% ABR05 a)	EUR	2005	2,009	2013	Fixed rate 4.08% on 1st.2nd and 8th year + swap rate from 3rd to 7th year.
BES	BES ER 4% ABR05 a)	EUR	2005	1,511	2013	Fixed rate 4.14% on 1st.2nd and 8th year + swap rate from 3rd to 7th year.
BES	BES ER3,75%0805 a)	EUR	2005	2,202	2013	Fixed rate 3.85% on 1st.2nd and 8th year + swap rate from 3rd to 7th year.
BES	BES TARGET 9% a)	EUR	2006	3,289	2010	Euribor 12 months
BES	BES TARGET 9% 2 a)	EUR	2006	3,086	2010	Euribor 12 months
BES	BES-4,25% DUAL a)	EUR	2006	2,918	2008	4.25% (50%) + DJ Eurostoxx 50 (50%)
BES	BES-CABAZ 2008 a)	EUR	2003	9,092	2008	Internacional shares
BES	BES-E.RENDA 4% a)	EUR	2005	7,484	2013	Fixed rate 4.15% on 1st.2nd and 8th year + swap rate from 3rd to 7th year.
BES	BES-IND.JUN.03 a)	EUR	2003	1,040	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225

(in thousands of euros)

Entity	Designation	31.12.2007				
		Currency	Issue date	Book value	Maturity	Global yield / interest rate
BES	BES-IND.M.FEV03 a)	EUR	2003	2,358	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	BES-IND.MAIO 03 a)	EUR	2003	2,955	2008	DJ Eurostoxx 50 + S&P 500 + Nikkei 225
BES	BES-LIBOR NOV04 a)	USD	2004	557	2008	US LIbor 6 months
BES	BES-T.14,5%MAIO a)	EUR	2004	4,741	2014	Euribor 12 months
BES	BES-TARG.14,5%A a)	EUR	2004	3,657	2014	Euribor 12 months
BES	BES-V.SEG.ABR03 a)	EUR	2003	2,443	2008	DJ Eurostoxx 50 + HICP Ex-Tobacco
BES	BES.LIBOR INV04 a)	USD	2004	650	2009	US LIbor 3 months
BES	BIC E.RENDA 4% a)	EUR	2005	2,619	2013	Fixed rate 4.15% on 1st.2nd and 8th year + swap rate from 3rd to 7th year.
BES	BES EN.ALT.2010 a)	EUR	2007	4,810	2010	DAX Global Alternative Energy EUR Price Return
BES	BES INF.ESTR.07 a)	EUR	2007	1,938	2009	Indexed to shares (Brisa. Abertis. REW e E.On)
BES	BES I.EST. 07 a)	EUR	2007	2,931	2009	Indexed to shares (Brisa. Abertis. REW e E.On)
BES (SFE)	BES-SFE 27/11/2008 a)	EUR	2003	45,079	2008	Swap rate 10 years EUR
BES (Cayman branch)	BES CAYMAN 5,22%	USD	2001	34,858	2011	Fixed rate - 5.22%
BES (Cayman branch)	BES CAYMAN 5,22%	USD	2001	34,885	2011	Fixed rate - 5.22%
BES (Cayman branch)	BES CAYMAN - Zero Coupon	EUR	2002	55,386	2027	Zero Coupon - Effective rate 5.90%
BES (Cayman branch)	BES CAYMAN - Zero Coupon	EUR	2002	91,225	2027	Zero Coupon - Effective rate 5.90%
BES (Cayman branch)	BES CAYMAN - Zero Coupon	EUR	2002	116,395	2027	Zero Coupon - Effective rate 5.74%
BES (Cayman branch)	BES CAYMAN 4,82% 01/28/13	USD	2003	53,645	2013	Fixed rate - 4.82%
BES (Cayman branch)	BES CAYMAN 4,83% 02/05/13	USD	2003	53,667	2013	Fixed rate - 4.83%
BES (Cayman branch)	BES CAYMAN 5,06% 02/11/15	USD	2003	53,984	2015	Fixed rate - 5.06%
BES (Cayman branch)	BES CAYMAN - Zero Coupon	EUR	2003	68,030	2028	Zero Coupon - Effective rate 5.50%
BES (Cayman branch)	BES CAYMAN 5,01% 02/18/15	USD	2003	53,961	2015	Fixed rate - 5.01%
BES (Cayman branch)	BES CAYMAN 5,37% 03/12/18	USD	2003	50,948	2018	Fixed rate - 5.37%
BES (Cayman branch)	BES CAYMAN Step Up 07/15/13	USD	2003	50,948	2013	StepUp (1st coupon 1.25%)
BES (Cayman branch)	BES CAYMAN Step Up 07/25/13	USD	2003	50,948	2013	StepUp (1st coupon 1.50%)
BES (Cayman branch)	BES CAYMAN Step Up 07/28/10	USD	2003	50,948	2010	StepUp (1st coupon 3.50%)
BES (Cayman branch)	BES CAYMAN - Zero Coupon	EUR	2003	12,964	2028	Zero Coupon - Effective rate 5.75%
BES (Cayman branch)	BES CAYMAN Step Up 08/27/13	EUR	2003	75,700	2013	StepUp (1st coupon 3.00%)
BES (Cayman branch)	BES CAYMAN Step Up 09/02/13	EUR	2003	75,735	2013	StepUp (1st coupon 3.00%)
BES (Cayman branch)	BES CAYMAN Step Up 09/16/13	EUR	2003	75,000	2013	StepUp (1st coupon 2.90%)
BES (Cayman branch)	BES CAYMAN Step Up 10/07/13	EUR	2003	75,787	2013	StepUp (1st coupon 3.10%)
BES (Cayman branch)	BES CAYMAN - Zero Coupon	EUR	2003	79,261	2028	Zero Coupon - Effective rate 5.81%
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2003	22,643	2013	Fixed coupon
BES (Cayman branch)	BES CAYMAN Step Up 02/02/17	USD	2004	33,965	2017	StepUp (1st coupon 1.87%)
BES (Cayman branch)	BES CAYMAN Step Up 02/11/19	USD	2004	33,965	2019	StepUp (1st coupon 1.78%)
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2004	10,599	2014	Fixed coupon
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2004	26,140	2014	Fixed coupon
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2004	6,261	2014	Fixed coupon
BES (Cayman branch)	BES CAYMAN - FIXED NOTE	EUR	2004	5,218	2014	Fixed coupon
BES (Cayman branch)	BES CAYMAN Step Up 07/21/14	USD	2004	50,948	2014	StepUp (1st coupon 2.07%)
BES (Cayman branch)	BES CAYMAN - 4% Mais R.E. a)	EUR	2004	4,415	2009	Euribor 6 months
BES (Cayman branch)	BES CAYMAN - 4% Mais R.E. a)	EUR	2004	1,601	2009	Euribor 6 months
BES (Cayman branch)	BES CAYMAN - 4% Mais R.E. a)	EUR	2004	527	2009	Euribor 6 months
BES (Cayman branch)	BES CAYMAN - BES Libor 4%	USD	2005	647	2008	Euribor 6 months + 0.51%
BES (Cayman branch)	BES CAYMAN - BES Libor 4%	USD	2005	775	2008	Fixed rate - 4.00%
BES (Cayman branch)	BES CAYMAN Step Up 06/30/08	USD	2005	1,470	2008	StepUp (1st coupon 4.00%)
BES (Cayman branch)	BES CAYMAN Step Up 07/11/08	USD	2005	1,512	2008	StepUp (1st coupon 3.60%)
BES (Cayman branch)	BES CAYMAN Step Up 08/08/08	USD	2005	1,453	2008	StepUp (1st coupon 3.60%)
BES (Cayman branch)	BES CAYMAN Step Up 08/09/08	USD	2005	584	2008	StepUp (1st coupon 3.75%)

(in thousands of euros)

Entity	Designation	31.12.2007				
		Currency	Issue date	Book value	Maturity	Global yield / interest rate
BES (Cayman branch)	BES CAYMAN Step Up 10/14/08	USD	2005	1,209	2008	StepUp (1st coupon 3.75%)
BES (Cayman branch)	BES CAYMAN Step Up 11/10/08	USD	2005	1,284	2008	StepUp (1st coupon 3.75%)
BES (Cayman branch)	BES CAYMAN Step Up 12-15-08	USD	2005	1,408	2008	StepUp (1st coupon 4.25%)
BES (Cayman branch)	BIC CAYMAN 1 2001	EUR	2001	49,999	2008	Fixed rate - 5.48%
BES (Cayman branch)	BIC CAYMAN 2 2001	EUR	2001	49,983	2011	Fixed rate - 5.68%
BES (Cayman branch)	BIC CAYMAN 3 2001	EUR	2001	49,999	2008	Fixed rate - 5.40%
BES (Cayman branch)	BIC CAYMAN 4 2001	EUR	2001	49,998	2008	Fixed rate - 5.46%
BES (Cayman branch)	BIC CAYMAN 5 2001	EUR	2001	49,998	2008	Fixed rate - 5.48%
BES (Cayman branch)	BIC CAYMAN 6 2001	EUR	2001	49,992	2009	Fixed rate - 5.43%
BES (Cayman branch)	BIC CAYMAN 7 2001	EUR	2001	49,991	2009	Fixed rate - 5.41%
BES (Cayman branch)	BIC CAYMAN 8 2001	EUR	2001	49,991	2009	Fixed rate - 5.45%
BES (Cayman branch)	BIC CAYMAN 9 2001	EUR	2001	49,991	2009	Fixed rate - 5.42%
BES (Cayman branch)	BIC CAYMAN 10 2001	EUR	2001	49,986	2010	Fixed rate - 5.53%
BES (Cayman branch)	BIC CAYMAN 11 2001	EUR	2001	49,986	2010	Fixed rate - 5.57%
BES (Cayman branch)	BIC CAYMAN 12 2001	EUR	2001	49,986	2010	Fixed rate - 5.58%
BES (Cayman branch)	BIC CAYMAN 13 2001	EUR	2001	49,986	2010	Fixed rate - 5.73%
BES (Cayman branch)	BIC CAYMAN 14 2001	EUR	2001	49,981	2011	Fixed rate - 5.80%
BES (Cayman branch)	BIC CAYMAN 15 2001	EUR	2001	50,246	2011	Fixed rate - 5.79%
BES (Cayman branch)	BIC CAYMAN 16 2001	EUR	2001	50,236	2011	Fixed rate - 5.90%
BES (Cayman branch)	BIC CAYMAN 17 2001	EUR	2001	50,293	2012	Fixed rate - 5.89%
BES (Cayman branch)	BIC CAYMAN 18 2001	EUR	2001	49,978	2012	Fixed rate - 5.83%
BES (Cayman branch)	BIC CAYMAN 19 2001	EUR	2001	49,978	2012	Fixed rate - 5.96%
BES (Cayman branch)	BIC CAYMAN 20 2001	EUR	2001	49,978	2012	Fixed rate - 5.94%
BES (Cayman branch)	BIC CAYMAN 21 2001	EUR	2001	49,975	2013	Fixed rate - 6.03%
BES (Cayman branch)	BIC CAYMAN 22 2001	EUR	2001	74,962	2013	Fixed rate - 6.08%
BES (Cayman branch)	BIC CAYMAN 23 2001	EUR	2001	75,401	2013	Fixed rate - 6.03%
BES (Cayman branch)	BIC CAYMAN 24 2001	EUR	2001	74,958	2014	Fixed rate - 6.01%
BES (Cayman branch)	BIC CAYMAN 25 2001	EUR	2001	75,415	2014	Fixed rate - 6.02%
BES (Cayman branch)	BIC CAYMAN 26 2001	EUR	2001	74,955	2015	Fixed rate - 6.16%
BES (Cayman branch)	BIC CAYMAN 27 2001	EUR	2001	75,411	2015	Fixed rate - 6.09%
BES (Cayman branch)	BIC CAYMAN 29 2001	EUR	2001	50,268	2011	Fixed rate - 5.28%
BES (Cayman branch)	BIC CAYMAN 30 2001	EUR	2001	50,684	2011	Fixed rate - 5.42%
BES (Cayman branch)	BIC CAYMAN 1 2002	EUR	2002	70,474	2012	Fixed rate - 5.92%
BES (Cayman branch)	BIC CAYMAN 2 2002	EUR	2002	5,962	2012	Fixed rate - 4.65%
				11,939,594		
	Accrued			149,270		
				12,088,864		

a) Fair Value liabilities through profits
b) Extendible notes: emissions with 1 year maturity, with option of one more year maturity and increasing spread until 5 years.

The fair value of the debt secured issued is presented in Note 41.

As at 31 December 2007, this balance includes euro 155 723 (31 December 2006: euro 185 643 thousands) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

Note 32 // Provisions

As at 31 December 2007 and 2006, the balance Provisions presents the following movements:

(in thousands of euros)

	General banking risk provision	Restructuring provision	Other provisions	Total
Balance as at 31 December 2005	**321,791**	**49,662**	**61,025**	**432,478**
Charge for the year [a]	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)
Exchange differences and other	1,497 [b]	(800)	2,006 [c]	2,703
Balance as at 31 December 2006	**385,536**	**1,686**	**98,659**	**485,881**
Charge for the year	36,815	23,133	4,851	64,799
Charge off	-	(848)	(5,298)	(6,146)
Write back for the year	(19,746)	(74)	(4,345)	(24,165)
Transfers	(36,640) [f]	-	-	(36,640)
Exchange differences and other	30,421 [d]	-	7,130 [e]	37,551
Balance as at 31 December 2007	**396,386**	**23,897**	**100,997**	**521,280**

(a) Includes euro 59 721 thousands from enforcements made by a reduction on operational results
(b) Includes euro 2 271 thousands and euro 2 497 thousands related to Crediflash's merger (c)
(d) Includes euro 31 236 thousands related to BESSA's merger
(e) Includes euro 7 132 thousands related to BESSA's merger
(f) Provisions due credit impairment losses (see Note 21).

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 provision in the amount of euro 10.8 million to meet costs with the restructuring. As at 31 December 2007, this provision amounts to euro 1.4 millions.

In April 2007, following the merger of BESSA and its subsequent change into a branch of BES, a provision of euro 23.1 million was booked for the costs associated to this project. As at 31 December 2007, this provision amounts to euro 22.5 millions.

Other provisions in the amount of euro 101 millions (31 December 2006: euro 98.7 millions) are intended to cover certain contingencies related to the Bank's activities, as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Bank has provisions in the amount of approximately euro 38.6 millions (31 December 2006: euro 25.9 millions) to cover these contingencies;
- Contingencies in connection with legal processes established following the bankruptcy from clients which might imply losses for the Bank. Provisions in the amount of euro 7.5 millions as at 31 December 2007 (31 December 2006: euro 9.8 millions);
- Contingencies for ongoing tax processes. To cover these contingencies, the Bank maintains provisions of approximately euro 46.8 millions (31 December 2006: 45.2 millions);
- The balance of approximately euro 8.1 million (31 December 2006: euro 17.9 millions), is maintained to cover potential losses within the normal activities of the Bank, such as frauds, robbery and on-going judicial cases.

Note 33 // 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 and deferred income tax balance for 2007 and its deferred income tax balance for 2006 on the basis of a nominal rate of 26.5% in accordance with the Law No. 107-B/2003 from 31 December and the Law nº2/2007 from 15 January (approved Local Tax Law). The current income tax for 2006 was determined on the basis of a nominal rate of 27.5%.

The Portuguese Tax Authorities are entitled to review the annual tax returns of the Bank related to 2007 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 2007 and 2006 can be analysed as follows:

(in thousands of euros)

	Assets		Liabilities		Net	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Derivative financial instruments	-	-	(73,588)	(44,633)	(73,588)	(44,633)
Available-for-sale financial assets	6,586	1,623	(207,571)	(181,583)	(200,985)	(179,960)
Loans and advances to customers	96,479	50,277	-	-	96,479	50,277
Property and equipment	-	-	(8,922)	(9,087)	(8,922)	(9,087)
Intangible assets	186	1,040	-	-	186	1,040
Investments in subsidiaries and associates	2,253	-	(8,547)	(9,873)	(6,294)	(9,873)
Provisions	18,564	10,836	-	-	18,564	10,836
Pensions	13,809	235	(50,538)	(65,470)	(36,729)	(65,235)
Health care - SAMS	11,645	7,468	-	-	11,645	7,468
Long-service benefits	6,286	5,525	-	-	6,286	5,525
Other	1,772	271	(1,044)	(458)	728	(187)
Tax credits resulting from double tax treaties	-	18,711	-	-	-	18,711
Tax losses brought forward	-	40,831	-	-	-	40,831
Deferred tax asset / (liability)	**157,580**	**136,817**	**(350,210)**	**(311,104)**	**(192,630)**	**(174,287)**

The changes in deferred taxes during 2007 and 2006 were recognised as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January	(174,287)	(77,575)
Recognised in the income statement	(6,144)	(62,362)
Recognised in fair-value reserve	(25,451)	(50,210)
Recognised in other reserves	13,612	15,329
Exchange difference and other	(360)	531
Balance as at 31 December (Asset/(liability))	**(192,630)**	**(174,287)**

The changes in deferred taxes during 2007 and 2006 were recognised as follows

(in thousands of euros)

	31.12.2007		31.12.2006	
	Recognised in profit	Recognised in reserve	Recognised in profit	Recognised in reserve
Deferred Tax				
Available-for-sale financial assets	4,426	25,451	1,584	50,210
Investments in subsidiaries and associates	3,579	-	170	-
Loans and advances to customers	46,202	-	16,489	-
Property and equipment	165	-	508	-
Intangible assets	(854)	-	(3,907)	-
Derivative financial instruments	(28,955)	-	(22,272)	-
Pensions	17,590	(10,916)	6,389	(10,140)
Health care - SAMS	1,481	(2,696)	4,023	-
Provisions	7,728	-	(13,486)	-
Long-service benefits	761	-	(454)	-
Other	1,275	-	(5,908)	(5,189)
Tax credits resulting from double tax treaties	(59,542)	-	(45,498)	-
Deffered Tax	**(6,144)**	**11,839**	**(62,362)**	**34,881**
Current Tax	**50,626**	**5,720**	**16,299**	**5,202**
Current Tax	**44,482**	**17,559**	**(46,063)**	**40,083**

The current tax recognized in reserves includes the amount of euro 5,013 thousands related to pensions and euro 372 thousands related to the stock based incentive scheme (SIBA)

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

(in thousands of euros)

	31.12.2007		31.12.2006	
	%	Value	%	Value
Profit before minority interests and taxes		**551,469**		**336,112**
Statutory tax rate	26.5		27.5	
Income tax calculated based on the statutory tax rate		146,139		92,431
Tax-exempt dividends	(11.5)	(63,204)	(9.4)	(31,572)
Tax-exempt profits (off shore)	(1.1)	(6,246)	(1.4)	(4,631)
Tax-exempt gains	(2.3)	(12,482)	(0.5)	(1,524)
Non deductible losses	-	-	0.8	2,651
Tax on capital gains obtained abroad	-	-	4.2	14,000
Tax paid by branches	-	-	0.6	2,095
Changes in statutory tax rate	-	-	0.6	2,008
Non deductible costs	-	-	2.7	9,087
Changes in estimates	(1.3)	(7,437)	(2.3)	(7,852)
Other	-	-	0.6	1,968
	10.3	**56,770**	**23.4**	**78,661**

Note 34 // Subordinated debt

The balance subordinated debt is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Bonds	-	99,861
Loans	2,573,805	2,507,622
	2,573,805	2,607,483

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

(in thousands of euros)

Designation	31.12.2007					
	Currency	Issue Date	Amount Issued	Carrying amount	Interest Rate	Maturity
Subordinated loans	USD	2000	42,384	34,289	7.90%	2009
Subordinated loans	EUR	2000	300,000	316,403	6.63%	2010
Subordinated loans	EUR	2002	400,000	413,975	6.25%	2011
Subordinated loans	EUR	2002	500,000	518,337	6.63%	2012
Subordinated loans	EUR	2003	310,000	315,681	5.59%	2014
Subordinated loans	EUR	2004	100,000	102,702	5.39%	2014
Subordinated loans	EUR	2004	100,000	102,702	5.39%	2014
Subordinated loans	EUR	2006	12,200	12,530	5.39%	2014
Subordinated loans	EUR	2004	500,000	515,629	4.51%	-
Subordinated loans	JPY	2005	213,068	159,320	3.95%	2015
Subordinated loans	EUR	2004	80,000	82,237	5.50%	-
			2,557,652	2,573,805		

The fair value of the subordinated loans portfolio is presented in Note 41.

During the year ended 31 December 2007, BES did not issued subordinated debt securities (31 December 2006: euro 12.2 million), and reimbursed euro 99.8 million (31 December 2006: euro 59.9 million).

Note 35 // Other liabilities

As at 31 December 2007 and 2006, the balance Other liabilities is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Creditors		
Public sector	37,349	22,529
Creditors arising out of future contracts	48,523	28,335
Sundry creditors		
Suppliers	61,211	38,565
Creditors from transactions with securities	26,041	49,076
Other sundry creditors	131,938	137,965
	305,062	**276,470**
Accrued expenses		
Long-service benefits (see Note 12)	20,530	20,849
Other accrued expenses	108,312	83,817
	128,842	**104,666**
Deferred income	**2,966**	**4,561**
Other sundry liabilities		
Stock exchange transactions pending settlement	-	55,064
Foreign exchange payable	22,374	-
Other	44,570	-
	66,944	**55,064**
	503,814	**440,761**

The stock exchange transactions pending settlement refer to transactions with securities on behalf of third parties, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.5.

Note 36 // Share capital, share premium and treasury stock

Ordinary shares

As at 31 December 2007, 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	
	31.12.2007	31.12.2006
BESPAR - Sociedade Gestora de Participações Sociais, S.A.	40.00%	40.00%
Credit Agricole, S.A.	10.81%	10.81%
Bradport-SGPS, S.A. (a)	3.05%	3.05%
Previsão - Sociedade Gestora de Fundos de Pensões, S.A.	2.62%	2.62%
Hermes Pensions Management Limited	2.03%	2.13%
Portugal Telecom, S.A.	-	1.40%
Others	41.49%	39.99%
	100.00%	**100.00%**

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

Share premium

Until 31 December 2007, share premium are represented by euro 666 327 thousands, related to the premium paid by the shareholders following the share capital increases occurred in the first semester of 2002 and 2006.

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 2007, 3,484 thousand shares of BES (0.70% of total share capital), are allocated (31 December 2006: 5,667 thousand of shares, 1.13% of total share capital), for an overall amount of euro 41.4 million (31 December 2006: euro 63.7 million). These shares are recognised as treasury stock, as described in Note 2.14.

The movement in treasury stocks is analysed as follows:

(in thousands of euros)

	31.12.2007		31.12.2006	
	Number of shares	Amount	Number of shares	Amount
Opening balance	5,667,612	63,732	7,617,500	96,247
Share capital increase	-	-	850,504	-
Shares sold	(2,183,350)	(22,295)	(2,800,392)	(32,515)
Year-end balance	**3,484,262**	**41,437**	**5,667,612**	**63,732**

Note 37 // 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 presented net of deferred taxes.

During 2007 and 2006, the changes in these balances were as follows:

(in thousands of euros)

	Fair value reserves			Other reserves and retained earnings		
	Available for-sale financial assets	Deferred tax	Total fair value reserve	Legal reserve	Other reserves and retained earnings	Total Other reserves and retained earnings
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**
Share-based incentive plan (SIBA)	-	-	-	-	1,030	1,030
Changes in fair value	140,934	(25,622)	115,312	-	-	-
Transfer to reserves	-	-	-	26,000	33,127	59,127
Pensions - Transitional rules	-	-	-	-	(31,174)	(31,174)
Effect of BESSA's merger	(518)	171	(347)	-	(38,271)	(38,271)
Other	-	-	-	-	470	470
Balance as at 31 December 2007	**796,794**	**(199,767)**	**597,027**	**166,910**	**53,782**	**220,692**

As at 31 December 2007 and 2006, the fair value reserve can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Cost of available-for-sale financial assets	4,845,407	3,517,891
Accumulated impairment recognised	(52,720)	(49,040)
Cost of available-for-sale financial assets, net of impairment	4,792,687	3,468,851
Fair value of available-for-sale financial assets	5,589,481	4,125,229
Net unrealised gains recognised in the fair value reserve	796,794	656,378
Deferred taxes	(199,767)	(174,316)
	597,027	**482,062**

The movement in the fair value reserve, net of deferred taxes and impairment losses, in the year ended 31 December 2007 and 2006 is analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance as at 1 January	**482,062**	**326,223**
Changes in fair value	316,618	285,517
Disposals during the year	(190,446)	(84,901)
Impairment recognised during the year	14,244	5,433
Deferred taxes recognised in reserves during the year (See note 32)	(25,451)	(50,210)
Balance as at 31 December	**597,027**	**482,062**

Note 38 // Off – Balance Sheet items

As at 31 December 2007 and 2006, this balance can be analysed as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Contingent liabilities		
Guarantees and stand by letters of credit	16,117,094	15,828,170
Assets pleged as collateral	582,299	529,242
Open documentary credits	887,476	582,361
Other	101,814	120,729
	17,688,683	**17,060,502**
Commitments		
Revocable commitments	25,772,663	21,521,268
Irrevocable commitments	2,969,079	827,952
	28,741,742	**22,349,220**

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 (e.g. unused credit lines). These agreements are, generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the client and its business, like any other commercial operation. When necessary, the 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 2007, the balance 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 131,183 thousand (31 December 2006: euro130 130 thousand);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 52,912 thousand (31 December 2006: 51,112 thousands);
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 61,664 thousand (31 December 2006: euro 61,000 thousand);
- Securities pledged as collateral to European Investment Bank in the amount of euro 287,000 thousand (31 December 2006: euro 287,000 thousand).

The above mentioned securities pledged as collateral are booked in the available-for-sale portfolio and they can be executed in cases the Bank does not fulfil its obligations under the terms of the contracts.

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

(in thousands of euros)

	31.12.2007	31.12.2006
Securities and other items held for safekeeping on behalf of customers	63,016,007	48,282,082
Assets for collection on behalf of clients	195,075	170,507
Securitised loans under management (servicing)	6,066,469	5,584,353
Other responsabilities related with banking services	4,384,662	1,103,495
	73,662,213	55,140,437

Note 39 // Related parties transactions

As at 31 December 2007 and 2006, the balances and transactions with related parties are presented as follows:

(in thousands of euros)

	31.12.2007					31.12.2006				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Subsidiaries										
BESLEASING E FACTORING	1,763,290	70	847,878	60,175	882	1,244,416	390	-	42,128	-
ES RECUPERAÇÃO DE CRÉDITO	-	-	-	-	6,213	-	3,811	-	-	7,535
ES CONCESSÕES	91,495	34	-	1,993	-	59,773	-	-	1,677	-
ES ACE	-	-	-	-	-	-	-	-	12,943	37,660
ES ACE 2	-	-	-	-	1,440	-	-	-	-	532
ESAF	-	29,484	-	29,917	2,128	-	49,581	-	23,832	992
ESAF ESPANHA	-	-	-	7,162	392	-	-	-	-	-
ES SERVICIOS	-	-	-	215	1,902	-	-	-	-	-
BESSA	-	-	-	8,836	2,838	1,614,197	260,704	1,158,751	29,383	13,882
ESGEST	-	212	-	-	1,063	-	257	-	-	1,052
ESDATA	-	2,555	-	-	11	-	2,417	-	-	11
ESINF	-	-	-	-	6,251	-	-	-	-	7,173
BESNAC	-	213,801	217,377	-	4,290	-	1,656	-	-	85
CREDIFLASH	-	-	-	-	-	-	-	-	3,063	1,507
CÊNTIMO	1,819	327	-	-	-	4,922	2,865	-	-	-
BESI	218,337	262,210	-	13,825	4,978	461,985	55,094	-	15,544	5,454
BES GMBH	-	115	-	61	77	-	-	-	20,001	1,277
BES ORIENTE	-	211	-	-	16	-	62	-	-	-
BES FINANCE	-	9,660,968	9,862,641	1	480,356	-	10,288,431	10,380,574	5,452	371,155
ESOL	-	-	-	-	-	-	-	-	-	5
ES PLC	568,507	194,155	195,500	24,756	2,524	395,305	37,889	-	2,127	177
ES BANK	-	2,124	-	-	-	-	276	-	-	-
ES TECH VENTURES	70,977	7,045	-	4,332	158	97,293	12,310	-	6,749	36
ES REPRESENTAÇÕES	-	-	-	-	1,340	-	-	-	-	928
ES CONTACT CENTER	488	-	-	-	4,508	-	1,291	-	-	3,981
ESCLINC	-	-	-	-	991	-	-	-	-	1,026
BEST	-	168,954	-	549	1,650	50,000	47,693	-	1,583	95
BES AÇORES	21,757	18,584	-	313	685	40,772	63,998	-	695	123
BES ANGOLA	23,033	29,443	-	-	4,062	25,887	74,137	22,779	-	4,798
ES FIN. CONSULTANTS	143	-	-	-	-	105	-	-	-	-
QUINTA DOS CONEGOS	1,417	-	-	-	-	1,209	-	-	-	-
BIBL	764,730	65,461	-	24,931	3,280	504,123	120,068	-	11,345	3,886
FCR PME	-	2,010	-	-	79	-	-	-	-	-
FIQ VENTURES II	-	361	-	-	363	-	-	-	-	-
CLN'S	-	-	-	6,846	11,877	-	-	-	-	-
SPE-PF1	-	-	-	1,416	-	-	-	-	-	-
PRAÇA DO MARQUES	7,120	263	-	-	-	-	-	-	-	-
	3,533,113	**10,658,387**	**11,123,396**	**185,328**	**544,354**	**4,499,987**	**11,022,930**	**11,562,104**	**176,522**	**463,370**
Associates										
BES VIDA	29,242	162,778	8	38,499	3,006	26,764	434,357	8	32,873	480
BES VÉNÉTIE	309,107	617	-	10,872	80	293,977	576	-	11,691	53
LOCARENT	123,657	2,057	-	5,529	6,103	97,175	-	-	3,494	3,214
BES SEGUROS	-	3,931	-	8,020	36	-	5,635	-	6,675	75
EUROP ASSISTANCE	-	1,787	7	1	65	-	1,926	13	-	59
ESUMÉDICA	1,850	30	-	58	-	1,546	54	-	22	-
FIDUPRIVATE	825	773	-	-	-	-	475	-	-	-
ESEGUR	399	183	1,887	10	12	399	243	2,749	8	18
OUTRAS	2,598	644	-	144	2	2,129	1,270	255	78	3
	467,678	**172,800**	**1,902**	**63,133**	**9,304**	**421,990**	**444,536**	**3,025**	**54,841**	**3,902**

As at 31 December 2007 and 2006, the total amount of assets and liabilities of BES with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euros)

	31.12.2007							31.12.2006		
	Assets									
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Assets	Guarantees	Liabilities
GRUPO ESPÍRITO SANTO INTERNATIONAL	-	153,379	183	7,268	160,830	10,349	15,763	244,107	12,819	12,400
ESPÍRITO SANTO FINANCIÉRE, SA	-	137,847	-	-	137,847	-	27,299	130,000	-	35,765
ES SAUDE		30,700	15,810	4,000	50,510	3	1,105	113,310	1,652	2,312
PARTRAN	-	-	-	-	-	-	188	70,000	-	175
BANQUE PRIVÉE ESPÍRITO SANTO	4,835	-	-	-	4,835	960	145,059	23,797	1,298	203,446
COMPANHIA SEGUROS TRANQUILIDADE	-	31	-	-	31	1,257	89,288	2	1,001	117,810
ES BANK PANAMA					-		9,000	-	-	21,000
BESPAR	-	-	-	-	-	-	1,867	-	-	4,252
ESAF PORTUGAL	-	-	-	-	-	-	148	-	-	221
Other	-	11,625	455	1,149	13,229	2,002	20,670	41,670	8,616	10,966
TOTAL	**4,835**	**333,582**	**16,448**	**12,417**	**367,282**	**14,571**	**310,387**	**622,886**	**25,386**	**408,347**

During the year ended 31 December 2007, 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.

Transactions, salaries and other benefits attributed to the key management personnel of the Bank are analysed in Note 11.

As at 31 December 2007, the loans and advances attributed by BES to key management personnel of Espírito Santo Financial Group (ESFG) amounted to euro 10 789 thousands.

Note 40 // Securitisation transactions

As at 31 December 2007, 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	128,693	Domestic bonds and eurobonds
Lusitano Mortgages No.1 plc	December 2002	1,000,000	594,142	Mortgage loans (subsidised regime)
Lusitano Mortgages No.2 plc	November 2003	1,000,000	602,546	Mortgage loans (subsidised and general regime)
Lusitano Mortgages No.3 plc	November 2004	1,200,000	847,163	Mortgage loans (general regime)
Lusitano Mortgages No.4 plc	September 2005	1,200,000	950,719	Mortgage loans (general regime)
Lusitano Mortgages No.5 plc	September 2006	1,400,000	1,233,776	Mortgage loans (general regime)
Lusitano SME No.1 plc	October 2006	862,607	800,740	Loans to small and medium entities
Lusitano Mortgages No.6 plc	July 2007	1,122,000	1,037,383	Mortgage loans (general regime)
Lusitano Project Finance No.1 plc (*)	December 2007	1,079,100	1,060,239	Project Finance loans

(*) This security includes 888,600 thousands of euros from loans from BES and 190 500 thousands of euros from loans from BESI (BES Group).

The main characteristics of these transactions, as at 31 December 2007, 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 de 2015	-	-	-
	Class A2	623,800	-	-	December de 2015	AAA	Aaa	AAA
	Class B	42,300	9,997	-	December de 2015	AAA	Aa1	AA
	Class C	25,200	25,200	15,300	December de 2015	AA	A1	A+
	Class D	103,000	103,000	25,900	December de 2015	-	-	-
Lusitano Mortgages No.1 plc	Class A	915,000	505,975	-	December de 2035	AAA	Aaa	AAA
	Class B	32,500	32,500	-	December de 2035	AA	Aa3	AA
	Class C	25,000	25,000	-	December de 2035	A	A2	A
	Class D	22,500	22,500	-	December de 2035	BBB	Baa2	BBB
	Class E	5,000	5,000	-	December de 2035	BB	Ba1	BB
	Class F	10,000	10,000	-	December de 2035	-	-	-
Lusitano Mortgages No.2 plc	Class A	920,000	537,175	-	December de 2036	AAA	Aaa	AAA
	Class B	30,000	30,000	-	December de 2046	AA	Aa3	AA
	Class C	28,000	28,000	-	December de 2046	A	A3	A
	Class D	16,000	16,000	-	December de 2046	BBB	Baa3	BBB
	Class E	6,000	6,000	-	December de 2046	BBB-	Ba1	BB
	Class F	9,000	9,000	-	December de 2046	-	-	-
Lusitano Mortgages No.3 plc	Class A	1,140,000	779,944	-	December de 2047	AAA	Aaa	AAA
	Class B	27,000	27,000	-	December de 2047	AA	Aa2	AA
	Class C	18,600	18,600	-	December de 2047	A	A2	A
	Class D	14,400	14,400	-	December de 2047	BBB	Baa2	BBB
	Class E	10,800	10,800	-	December de 2047	-	-	-
Lusitano Mortgages No.4 plc	Class A	1,134,000	897,426	-	December de 2048	AAA	Aaa	AAA
	Class B	22,800	22,800	-	December de 2048	AA	Aa2	AA
	Class C	19,200	19,200	-	December de 2048	A+	A1	A+
	Class D	24,000	24,000	-	December de 2048	BBB+	Baa1	BBB+
	Class E	10,200	10,200	-	December de 2048	-	-	-
Lusitano Mortgages No.5 plc	Class A	1,323,000	1,156,773	-	December de 2059	AAA	Aaa	AAA
	Class B	26,600	26,600	-	December de 2059	AA	Aa2	AA
	Class C	22,400	22,400	-	December de 2059	A+	A1	A+
	Class D	28,000	28,000	-	December de 2059	BBB+	Baa1	BBB+
	Class E	11,900	11,900	-	December de 2059	-	-	-
Lusitano SME No.1 plc	Class A	759,525	759,525	-	December de 2028	AAA	-	AAA
	Class B	40,974	40,974	-	December de 2028	AA	-	AA
	Class C	34,073	34,073	-	December de 2028	A+	-	A+
	Class D	28,035	28,035	28,035	December de 2028	BBB+	-	BBB+
	Class E	8,626	8,626	8,626	December de 2028	-	-	-
Lusitano Mortgages No.6 plc	Class A	943,250	892,749	-	March 2060	AAA	Aaa	AAA
	Class B	65,450	65,450	-	March 2060	AA	Aa3	AA
	Class C	41,800	41,800	-	March 2060	A	A3	A
	Class D	17,600	17,600	-	March 2060	BBB	Baa3	BBB
	Class E	31,900	31,900	-	March 2060	BB	NR	BB
	Class F	28,391	22,000	22,000	March 2060	-	-	-
Lusitano Project Finance No.1 plc	Class A	890,256	890,256	890,256	December 2037	AAA	-	AAA
	Class B	35,610	35,610	35,610	December 2037	AAA	-	AA
	Class C	39,926	39,926	39,926	December 2037	A+	-	A+
	Class D	23,741	23,741	23,741	December 2037	BBB	-	BBB
	Class E	11,871	11,871	11,871	December 2037	BB	-	BB
	Class F	77,696	77,696	77,696	December 2037	-	-	-

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 performed after 1 January 2004, were derecognised considering that the Bank has transferred substantially all the risks and rewards of ownership.

Note 41 // Fair value of financial assets and liabilities

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

(in thousands of euros)

	Trading	Designated at fair vale through profit or loss	Held to maturity	Loans and advances	Available-for-sale	Other at amortised cost	Carrying Value	Fair value
31 December 2007								
Cash and deposits at Central Banks	-	-	-	1,216,096	-	-	1,216,096	1,216,096
Deposits with banks	-	-	-	477,216	-	-	477,216	477,216
Financial assets held for tranding	2,617,896	-	-	-	-	-	2,617,896	2,617,896
Financial assets as at fair value through profit or loss	-	1,086,683	-	-	-	-	1,086,683	1,086,683
Financial assets available-for-sale	-	-	-	-	5,589,481	-	5,589,481	5,589,481
Loans and advances to banks	-	559,687	-	9,815,350	-	-	10,375,037	10,375,037
Loans and advances to customers	-	156,049	-	32,719,818	-	-	32,875,867	33,176,679
Held to maturity investments	-	-	390,025	-	-	-	390,025	384,100
Hedging derivatives (Assets)	165,346	-	-	-	-	-	165,346	165,346
Financial assets	**2,783,242**	**1,802,419**	**390,025**	**44,228,480**	**5,589,481**	**-**	**54,793,647**	**55,088,534**
Deposits from central banks	-	-	-	-	-	1,833,114	1,833,114	1,833,114
Financial liabilities held for trading	1,034,222	-	-	-	-	-	1,034,222	1,034,222
Deposits from banks	-	-	-	-	-	13,299,938	13,299,938	13,299,938
Due to customers	-	76,798	-	-	-	21,068,611	21,145,409	21,145,409
Debt securities issued	-	155,723	-	-	-	11,933,141	12,088,864	11,725,864
Hedging derivatives (Liabilities)	189,651	-	-	-	-	-	189,651	189,651
Subordinated debt	-	-	-	-	-	2,573,805	2,573,805	2,558,570
Financial liabilities	**1,223,873**	**232,521**	**-**	**-**	**-**	**50,708,609**	**52,165,003**	**51,786,768**
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	3,200,142	-	-	-	-	-	3,200,142	3,200,142
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)	177,309	-	-	-	-	-	177,309	177,309
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	946,068	-	-	-	-	-	946,068	946,068
Deposits from banks	-	386,997	-	-	-	13,548,372	13,935,369	13,935,369
Due to customers	-	-	-	-	-	18,037,505	18,037,505	18,037,505
Debt securities issued	-	185,643	-	-	-	8,258,469	8,444,112	8,607,101
Hedging derivatives (Liabilities)	205,590	-	-	-	-	-	205,590	205,590
Subordinated debt	-	-	-	-	-	2,607,483	2,607,483	2,747,735
Financial liabilities	**1,151,658**	**572,640**	**-**	**-**	**-**	**43,495,004**	**45,219,302**	**45,522,543**

The 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 their 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 their 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 or fair value option, the 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 42 // 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 risk management during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools, as well as in procedures and decision circuits.

The risk profile of BES credit portfolios is analysed on a regular basis by the Risk Committee. In these meetings the Committee monitors and analyses the risk profile of BES and respective business units under four major perspectives: 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 2007 and 2006, can be analysed as follows:

(in thousands of euros)

	31.12.2007										
	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 investment		Financial guarantees
	Gross amount	Impairment[(a)]	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	
Agriculture	394,353	(9,592)	1,052	-	-	-	-	-	-	-	34,635
Mining	205,825	(3,061)	1,898	-	-	-	-	-	-	-	12,449
Food, beverage na tobacco	517,955	(14,519)	2,837	-	-	-	32,688	(48)	-	-	126,468
Textiles	282,612	(33,936)	1,435	-	-	-	24,345	(2,238)	-	-	31,739
Shoes	55,919	(6,572)	127	-	-	-	501	(499)	-	-	3,310
Wood and cork	132,747	(10,510)	308	-	-	-	-	-	-	-	8,970
Priting and publishing	85,163	(5,093)	4,321	-	-	-	27,466	(10)	-	-	38,212
Refining and oil	61,027	(653)	-	-	-	-	-	-	-	-	4,031
Chemicals and rubber	427,603	(4,734)	1,215	-	-	-	35,772	(5)	-	-	38,383
Non-metalic minerals	204,022	(8,215)	221	-	-	-	10,041	-	-	-	48,011
Metalic products	290,447	(10,070)	316	-	-	-	5,209	-	-	-	52,921
Production of machinery, equipment and electric devices	129,620	(6,041)	411	-	-	-	3,752	(1,356)	-	-	154,278
Production of transport material	318,535	(5,786)	115	-	-	-	78,727	-	-	-	100,631
Other transforming industries	184,105	(6,648)	929	-	-	-	3,181	(72)	-	-	16,751
Electricity, gas and water	475,847	(3,512)	16	-	44,700	-	342,430	-	-	-	289,501
Construction	3,553,369	(107,492)	2,770	-	-	-	28,712	(1,691)	-	-	1,201,614
Wholesale na retail	1,839,503	(111,591)	12,077	-	-	-	30,249	(852)	-	-	418,524
Tourism	575,665	(13,960)	1,286	-	-	-	8,212	(171)	-	-	77,860
Transports and communications	1,097,539	(17,777)	9,581	-	-	-	660,384	(3)	-	-	678,290
Financial activities	1,249,281	(26,628)	1,796,406	-	876,240	-	2,502,655	(13,026)	-	-	11,281,044
Real estates activities	4,320,849	(83,953)	6,519	-	-	-	127,432	(591)	-	-	491,311
Services provided to companies	2,991,262	(44,331)	4,233	-	143,910	-	922,713	(13,321)	-	-	532,825
Public services	526,605	(8,678)	723,478	-	-	-	259,633	-	390,025	-	34,729
Non-profit organisations	1,274,680	(42,449)	45,666	-	21,833	-	517,908	(17,050)	-	-	159,115
Mortgage loans	8,824,959	(175,492)	-	-	-	-	-	-	-	-	-
Consumers loans	2,598,891	(103,440)	-	-	-	-	-	-	-	-	77,420
Other	745,288	(19,457)	679	-	-	-	20,191	(1,787)	-	-	204,072
TOTAL	**33,363,671**	**(884,190)**	**2,617,896**	**-**	**1,086,683**	**-**	**5,642,201**	**(52,720)**	**390,025**	**-**	**16,117,094**

(a) includes the amount of euros 487,804 thousands related to provision for impaired loans (see note 21) and provisions for general banking risks in th amount of euros 396,386 thousands (see note 32).

(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 investment		Financial guarantees
	Gross amount	Impairment[(a)]	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment	
Agriculture	253,513	(9,268)	(41)	-	-	-	4,065	-	-	-	32,557
Mining	76,349	(2,348)	(20)	-	-	-	110,035	-	-	-	7,746
Food, beverage na tobacco	289,460	(10,840)	1,833	-	3,133	-	19,853	(34)	-	-	95,796
Textiles	311,637	(19,545)	79	-	-	-	24,523	(1,988)	-	-	47,729
Shoes	61,965	(4,922)	28	-	-	-	499	(499)	-	-	5,080
Wood and cork	127,465	(10,940)	29	-	-	-	-	-	-	-	11,057
Priting and publishing	87,035	(5,342)	3,361	-	10,566	-	12,221	-	-	-	34,043
Refining and oil	53,782	(1,189)	-	-	-	-	-	-	-	-	252,134
Chemicals and rubber	378,927	(4,596)	560	-	-	-	5,555	(68)	-	-	42,479
Non-metalic minerals	170,275	(7,906)	(158)	-	-	-	13,006	(469)	-	-	43,663
Metalic products	190,803	(8,021)	(129)	-	-	-	2,008	(6)	-	-	33,148
Production of machinery, equipment and electric devices	148,963	(5,813)	70	-	5,256	-	17,672	(596)	-	-	118,266
Production of transport material	191,412	(3,217)	33	-	-	-	83,007	-	-	-	63,506
Other transforming industries	85,268	(5,715)	1,581	-	-	-	1,146	-	-	-	16,767
Electricity, gas and water	389,928	(4,914)	68	-	-	-	340,022	-	-	-	256,926
Construction	3,276,870	(96,146)	(161)	-	-	-	34,575	(1,691)	-	-	949,507
Wholesale na retail	1,865,211	(96,408)	1,545	-	-	-	86,832	(633)	-	-	434,007
Tourism	432,980	(12,891)	617	-	-	-	992	(171)	-	-	79,272
Transports and communications	1,231,069	(26,937)	35,040	-	23,743	-	658,405	(3)	-	-	595,662
Financial activities	958,692	(15,320)	1,905,806	-	848,914	-	1,512,314	(21,408)	-	-	11,602,704
Real estates activities	3,086,527	(64,461)	975	-	-	-	1,499	(387)	-	-	306,069
Services provided to companies	2,078,170	(54,233)	5,141	-	175,894	-	830,100	(11,104)	-	-	561,290
Public services	709,069	(11,389)	1,141,729	-	-	-	142,799	-	567,747	-	29,908
Non-profit organisations	917,571	(33,085)	371	-	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	274,199	(12,440)	101,785	-	-	-	22,188	(1,999)	-	-	45,778
TOTAL	27,503,738	(754,902)	3,200,142	-	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 32).

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 As a complement to VaR, stress testing have been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euros)

	31.12.2007				31.12.2006			
	December	Annual Average	Maximum	Mínimum	December	Annual Average	Maximum	Mínimum
Exchange Risk	10	12	17	9	13	13	22	9
Interest rate risk	5	10	21	9	6	5	3	5
Shares	20	8	2	2	12	6	5	2
Commodity	2	3	4	3	-	-	-	-
Diversification effect	-15	-13	-14	-9	-10	-7	-5	-6
Total	**23**	**20**	**30**	**14**	**20**	**17**	**25**	**11**

Following the recommendations of Basel II (Pillar 2) and Instruction n.19/2005, of the Bank of Portugal, BES calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS) which requires the classification of non-trading balances and off-balance positions, by repricing intervals.

(in thousands of euros)

	31.12.2007							31.12.2006						
	Book Value	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Book Value	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash and deposits	225	225	-	-	-	-	-	257	257	-	-	-	-	-
Loans and advances to banks	11,448	-	10,401	705	93	79	168	10,597	-	9,739	331	286	163	76
Loans and advances to customers	32,746	-	20,814	8,203	2,079	1,038	613	26,950	-	18,201	7,248	721	620	161
Securities	8,526	3,081	3,423	453	1,379	141	48	8,010	3,136	3,184	341	653	573	122
Off balance sheet	-	-	77	53	-	(82)	(49)	-	-	13	(13)	-	-	-
Total			**34,716**	**9,415**	**3,551**	**1,176**	**780**			**31,138**	**7,907**	**1,660**	**1,356**	**359**
Deposits from banks	15,539	-	13,214	1,214	185	626	301	15,374	-	12,394	1,369	344	834	434
Due to customers	19,647	-	17,699	851	717	13	367	17,027	-	15,630	662	675	-	60
Repo's with clients	491	-	477	-	14	-	-	-	-	-	-	-	-	-
Debt securities issued and subordinated debt	14,697	-	7,740	1,318	316	2,494	3,679	11,079	-	4,098	1,261	134	1,955	4,567
Preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet	-	-	1,684	687	(152)	(1,084)	(1,099)	-	-	913	124	(8)	(672)	(294)
Total			**40,815**	**4,070**	**1,080**	**2,048**	**3,249**			**33,035**	**3,416**	**1,145**	**2,117**	**4,767**
GAP (Assets - Liabilities)			**(6,100)**	**5,345**	**2,471**	**(872)**	**(2,469)**			**(1,898)**	**4,491**	**515**	**(761)**	**(4,408)**

The model used to monitor the sensitivity of the Bank to interest rate risk is based on the duration model, and considers parallel and non parallel scenarios.

(in thousands of euros)

	31.12.2007				31.12.2006			
	Similar increase of 100 bp	Similar decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year	Similar increase of 100 bp	Similar decrease of 100 bp	Increase of 50 bp after 1 year	Decrease of 50 bp after 1 year
31 December	90	(90)	63	(63)	243	(243)	104	(104)
Average for the period	158	(158)	92	(92)	225	(225)	91	(91)
Maximum for the period	244	(244)	131	(131)	243	(243)	104	(104)
Minimum for the period	90	(90)	63	(63)	216	(216)	79	(79)

The following table presents the average balances, interests and interest rates in relation to the Bank's major assets and liabilities categories, for the years ended 31 December 2007 and 2006.

(in thousands of euros)

	31.12.2007			31.12.2006		
	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	8,297,881	449,290	5.41%	6,820,966	305,703	4.48%
Loans and advances to customers	31,173,299	1,790,296	5.74%	27,008,013	1,338,265	4.96%
Investment securities	4,855,918	319,639	6.58%	3,641,665	243,709	6.69%
Differential investments	122,766	-	-	676,373	-	-
Financial assets	**44,449,864**	**2,559,225**	**5.76%**	**38,147,017**	**1,887,677**	**4.95%**
Monetary funds	14,711,601	683,172	4.64%	14,194,750	506,261	3.57%
Deposits from banks	15,653,158	435,359	2.78%	13,569,886	261,489	1.93%
Other funds	14,085,105	716,803	5.09%	10,382,381	492,728	4.75%
Financial liabilities	**44,449,864**	**1,835,334**	**4.13%**	**38,147,017**	**1,260,478**	**3.30%**
Net interest income		**723,891**	**1.63%**	**-**	**627,199**	**1.64%**

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2007 and 2006 is analysed as follows:

(in thousands of euros)

	31.12.2007						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Assets by currency							
Cash and deposits at central banks	1,209,218	3,886	2,706	20	2,419	(2,153)	1,216,096
Deposits with banks	450,822	18,356	1,225	1,564	1,098	4,151	477,216
Financial assets held for trading	2,236,716	248,782	89,011	11,737	165	31,485	2,617,896
Financial assets at fair value through profit or loss	695,547	372,139	15,253	-	3,744	-	1,086,683
Available-for-sale financial assets	4,319,448	169,943	4,701	-	1,060,176	35,213	5,589,481
Loans and advances to banks	4,287,740	4,249,680	1,264,999	69,835	-	502,783	10,375,037
Loans and advances to customers	31,089,734	1,117,096	477,394	9,203	-	182,440	32,875,867
Held to maturity investments	-	390,025	-	-	-	-	390,025
Derivatives for risk management purpose	48,224	18,915	47,583	46,758	-	3,866	165,346
Non-current assets held for sale	43,415	-	-	-	-	-	43,415
Investments in associates	1,007,636	60,216	-	-	19	16,770	1,084,641
Other non-financial assets	706,943	740,130	289,578	695	2,903	644,710	2,384,959
	46,095,443	**7,389,168**	**2,192,450**	**139,812**	**1,070,524**	**1,419,265**	**58,306,662**
Liabilities by currency							
Deposits from central banks	1,478,127	182,959	171,044	-	-	984	1,833,114
Financial liabilities held for trading	573,236	313,985	125,159	2,963	3,820	15,059	1,034,222
Deposits from banks	7,758,588	4,168,109	1,182,203	240	-	190,798	13,299,938
Due to customers	19,239,584	1,227,746	609,551	9,351	-	59,177	21,145,409
Debt securities issued	10,647,128	1,331,766	-	-	-	109,970	12,088,864
Derivatives for risk management purpose	183,584	3,460	-	-	-	2,607	189,651
Subordinated debt	2,380,197	34,168	-	159,440	-	-	2,573,805
Other non-financial liabilities	61,315	35,595	226,945	44,243	3,362	1,046,389	1,417,849
	42,321,759	**7,297,788**	**2,314,902**	**216,237**	**7,182**	**1,424,984**	**53,582,852**
Net asset/(liability) by currency	**3,773,684**	**91,380**	**(122,452)**	**(76,425)**	**1,063,342**	**(5,719)**	**4,723,810**
Equity	3,773,684	19,509	-	-	636,699	7,416	4,437,308
Investment exchange position	-	60,216	-	-	19	16,770	77,005
Net exposure	**-**	**11,655**	**(122,452)**	**(76,425)**	**426,624**	**(29,905)**	**209,497**

(in thousands of euros)

	31.12.2006						
	Euros	US Dollars	Sterling Pounds	Japanese Yens	Brazilian Reals	Other foreing currencies	Total
Assets by currency							
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
Derivatives for risk management purposes	31,759	496	65,551	63,997	-	4,408	166,211
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
	38,241,049	7,531,531	3,194,835	201,908	890,025	432,969	50,492,317
Liabilities by currency							
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	4,424	-	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
Derivatives for risk management purposes	193,323	328	-	-	-	3,081	196,732
Subordinated debt	2,385,961	38,167	-	183,355	-	-	2,607,483
Other non-financial liabilities	551,568	409,070	92,714	(177,122)	-	369,518	1,245,748
	34,689,558	7,520,335	3,543,756	137,088	-	574,313	46,465,050
Net asset/(liability) by currency	3,551,491	11,196	(348,921)	64,820	890,025	(141,344)	4,027,267
Equity	3,551,491	12,057	-	-	505,306	2,764	4,071,618
Investment exchange position	-	64,998	-	-	18	18,800	83,816
Net exposure	-	(65,859)	(348,921)	64,820	384,701	(162,908)	(128,167)

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 identify negative mismatches allowing 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. As at 31 December 2007, the liquidity ratio was 102% (31 December 2006: 112%).

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviours, information systems and external events.

To manage operational risk, 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.

Capital Management and Solvency Ratio

In prudential matters, the Bank is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

The capital elements of BES are divided into: Base Own Funds, Complementary Own Funds and Deductions, as follows:

- Basic Own Funds (BOF): This category includes the share capital, the eligible reserves, the retained earnings and preference shares and is deducted by the book value of goodwill, intangible assets and actuarial losses. Additionally, in 2007, 50% of the book value of equity investments in banking and insurance entities, exceeding 10% of the respective share capital is also deducted.

- Complementary Own Funds (COF): Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve and is deducted by 50% of the book value of equity investments in banking and insurance entities.

- Deductions (D): Refer mainly to the amortisation for regulatory purposes, of assets acquired in exchange for loans.

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

In April 2007, Bank of Portugal issued Regulation 4/2007, which changed the rules to determine capital requirements. This notice changed the treatment of the equity investments in banking and insurance entities that began to be deducted in 50% to the BOF and 50% to the COF. Previously, these investments were included in the deductions made to the total capital requirements.

The impact on regulatory capital of adopting NCA in January 2005 is being recognised on a strait line basis (in accordance with Regulation n. 2/2005, n. 4/2005 and n. 12/2005 from the Bank of Portugal):

- Until 2012 – in what relates to the changes in the mortality tables (31 December 2007, euro 68 million still to incorporate)
- Until 2011 - in what relates to the recognition of post employment health-care benefits (31 December 2007, euro 44 million still to incorporate)
- Until 2009 - in what relates to the impact of pensions recognition (31 December 2007, euro 30 million still to incorporate)

At 2007 and 2006, the main movements occurred in Basic Own Funds (Tier I) are as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Balance at the begining of the year	**3,237**	**1,689**
Share capital increase	-	1,380
Retained profit for the year	255	57
Changes on actuarial losses	187	251
Investments in banking and assurance entities	(236)	-
Recognition of the impact of adopting NCA	(213)	(140)
Balance at the end of the year	**3,230**	**3,237**

The capital adequacy of BES as at 31 December 2007 and 31 December 2006 is presented as follows:

(in thousands of euros)

		31.12.2007	31.12.2006
A - Capital Requirements			
Share Capital, Issue Premium and Treasury stock		3,125	3,103
Net Income, Legal and statutory Reserves and retained earnings		321	152
Deductions and Other elements		(216)	(18)
Basic own funds (TIER I)	(A1)	**3,230**	**3,237**
Positive Fair Value Reserves and Others (45%)		361	294
Elegible Subordinated Debt		2,287	2,376
Deduction of investments in Banking, Insurance entities and others		(236)	(5)
Complementary own funds (TIER II)	(A2)	**2,412**	**2,665**
Deductions		(5)	(996)
Total elegible own funds	(A3)	**5,637**	**4,906**
B- Similar Risk Assets			
Calculated according Notice 1/93 (Credit Portfolio)		44,368	36,607
Calculated according Notice 7/96 (Trading Portfolio)		3,785	2,279
Similar Risk Assets Total	(B)	**48,153**	**38,886**
C- Prudential Ratios			
Ratio Core Tier 1	(A1 / B)	**6.7%**	**8.3%**
Solvency Ratio	(A3 / B)	**11.7%**	**12.6%**

Financial branches' activities (off-shores)

BES has a branch in the Madeira off-shore and an international branch in the Cayman Islands.

Through the Madeira off-shore 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 tax statute.

As at 31 December 2007 and 2006, the total net assets of Madeira off shore Branch were structured as follows:

(in thousands of euros)

	31.12.2007	31.12.2006
Financial assets at fair value through profit or loss	156	203
Available-for-sale financial assets	409	555
Loans and advances to banks	1,519	974
Loans and advances to customers	289	253
Other assets	36	13
	2,409	**1,998**
Deposits from central banks	540	610
Due to customers	1,754	1,289
Other liabilities	70	62
Own funds	45	37
	2,409	**1,998**

The Madeira off shore 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 2007 amounted to euro 15,015 million (31 December 2006: euro 15,128 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 2007 amounted to euro 254 million (31 December 2006: euro 295 million).

The internal control procedures in the Cayman Islands branch are the same as those used in the global structure of the Bank.

Note 43 // Merger of BESSA

As at 1 April 2007 – Banco Espírito Santo, S.A. (BESSA), S.A. was merged into Banco Espírito Santo, S.A.

BESSA's was fully owned by BES, therefore assets and liabilities were merged into BES accounts at book value as at the merger date. The balances fair value reserve and other reserves and retained earnings were added to the respective balances of BES equity, being net profit of the year added to BES retained earnings. The difference between the amount of the investment and BESSA's equity was recognised as a merger reserve and added to BES equity.

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

(in thousands of euros)

	01.04.2007
Assets	
Cash and deposits at central banks	9,387
Deposits with banks	24,862
Financial assets held for trading	16,240
Financial assets available-for-sale	340,689
Loans and advances to banks	683,728
Loans and advances to customers	2,388,113
Derivatives for risk management purposes	2,209
Property and equipment	9,918
Intangible assets	10,429
Investments in subsidiaries and associates	6,300
Current income tax assets	2,286
Deferred income tax assets	19,112
Other assets	45,913
Total assets	**3,559,186**
Liabilities	
Financial liabilities held for trading	16,380
Deposits from banks	1,736,400
Due to customers	1,520,091
Derivatives for risk management purposes	-
Provisions	46,294
Current income tax liabilities	6,279
Subordinated debt	83,330
Other liabilities	60,737
Total liabilities	**3,469,511**
Equity	
Share capital	86,600
Share premiun	9,900
Fair value reserve	(347)
Other reserves and retained earnings	(6,065)
Profit for the period	(413)
Total equity	**89,675**
Total equity and liabilities	**3,559,186**

Note 44 // Recently Issued Prouncements

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:

IFRS 2 (amendment) – Share-based payments: vesting conditions

The International Accounting Standards Board (IASB) issued in January, 2008 an amendment to IFRS 2, which will be effective from 1 January 2009.

The objective of the amendment to IFRS 2 was to clarify that (i) vesting conditions are service conditions and performance conditions only and that (ii) all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

BES does not expect any material impact from the adoption of this standard.

IFRS 3 (revised) – Business combinations and IAS 27 (amendment) Consolidated and Separate Financial Statements

The International Accounting Standards Board (IASB) issued in January 2008, IFRS 3 (revised) Business Combination and an amendment to IAS 27 Consolidated and Separate Financial Statements.

The main changes the revised IFRS 3 and amended IAS 27 will make to existing requirements or practice relate to (i) partial acquisitions, whereby non-controlling interests (previously named minority interests) can be measured either at fair value (implying full goodwill recognition against non-controlling interests) or at their proportionate interest in the fair value of the net identifiable assets acquired (which is the original IFRS 3 requirement); (ii) step acquisitions whereby, upon acquisition of a subsidiary and in determining the resulting goodwill, any investment in the business held before the acquisition is measured at fair value against the profit or loss account; (iii) acquisition-related costs, which must generally, be recognised as expenses (rather than included in goodwill); (iv) contingent consideration which must be recognised and measured at fair value at the acquisition date, subsequent changes in fair value being recognised in profit or loss (rather than by adjusting goodwill); and (v) changes in a parent's ownership interest in a subsidiary that do not result in the loss of control which are required to be accounted for as equity transactions.

Additionally, IAS 27 was amended to require that an entity attributes a share of the accumulated loss of a subsidiary to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance, and to specify that, upon losing control of a subsidiary, an entity measures any non-controlling interest retained in the former subsidiary at its fair value, determined at the date the control is lost.

The IFRS 3 (revised) and the amendment to IAS 27 will be effective from 1 July, 2009. BES is evaluating the impact of adopting both rules.

IFRS 8 – Operating Segments

The International Accounting Standards Board (IASB) has issued on 30 November 2006 the IFRS 8 Operational segments, which was endorsed by the European Commission on 21 November, 2007.

The IFRS 8 Operational segments sets out requirements for disclosures of information about an entity's operating segments. 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 applicable for periods beginning on 1 January 2009.

BES is evaluating the impact of adopting this standard.

IAS 1 (amended) – Presentation of Financial Statements

The International Accounting Standards Board (IASB) has issued in September 2007, IAS 1 (amendment) Presentation of Financial Statements, which is applicable from 1 January, 2009.

IAS 1 (amended) requires financial information to be presented in the financial statements based on the nature of the underlying transactions and introduces the statement of 'comprehensive income'.

The Board's objectives in this project are to present information in ways that improve the ability of investors, creditors, and other financial statement users to distinguish between transactions with shareholders, in their capacity as shareholders (e.g. dividends, treasury shares), and transactions with third parties, which will be summarised in a statement of 'comprehensive income'.

IAS 1 (amended) will impact the way the financial statements are presented. BES is at the moment analysing the extent of the necessary modifications to the current presentation of its financial statements.

IAS 23 (amendment) – Borrowing costs

The International Accounting Standards Board (IASB) has issued in March, 2007 an amendment to IAS 23 Borrowing costs, which is applicable from 1 January, 2009.

This standard requires the capitalization of borrowing costs that are directly attributable to the acquisition, production or construction of a qualifying asset, as part of the cost of that asset. As a result, the option to recognise such borrowing costs as an expense in the period which they arise was eliminated.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

BES does not expect any material impact from the adoption of the amended IAS 23.

Amendment to IAS 32 Financial Instruments: Presentation – Puttable financial instruments and obligations arising on liquidation

International Accounting Standards Board (IASB) issued, in February 2008, an amendment to IAS 32 Financial Instruments: Presentation - Puttable financial instruments and obligations arising on liquidation effective from 1 January 2009.

This amendment addresses the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. Under the current requirements of IAS 32, if an issuer can be required to pay cash or another financial asset in return for redeeming or repurchasing a financial instrument, the instrument is classified as a financial liability. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the last residual interest in the net assets of the entity.

The Board also amended IAS 1 Presentation of Financial Statements to add new disclosure requirements relating to puttable instruments and obligations arising on liquidation.

BES does not expect any material impact from the adoption of this amendment.

IFRIC 11 – IFRS 2 – Group and Treasury Share transactions

The International Financial Reporting Interpretations Committee (IFRIC) has issued on 2 November, 2006 an Interpretation—IFRIC 11 – IFRS 2 Group and Treasury Share Transactions.

IFRIC 11 clarifies in what conditions a share based payment with treasury shares or shares of another group company should be classified in the subsidiaries financial statements as an equity settled or cash settled share based payment.

This IFRIC is mandatory and applicable for the Bank for annual periods beginning on or after 1 January, 2008.

BES is evaluating the impact of adopting this interpretation on the financial statements of its subsidiaries.

IFRIC 12 – Service Concession Arrangements

The IFRIC 12 Service Concession Arrangements will be effective from 1 January, 2008.

The IFRIC 12 applies to public-to-private service concession arrangements. This interpretation will be applicable only when a) the grantor controls or regulates what services the operator must provide and b) the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

BES does not expect any impact from the adoption of this interpretation.

IFRIC 13 – Customer Loyalty Programmes

The IFRIC 13 Customer Loyalty Programmes was issued on 28 June, 2007 and will be effective from 1 July, 2008. As a result, it will only be relevant for BES from 1 January, 2009.

This interpretation addresses how companies, that grant their customers loyalty award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points

BES is evaluating the impact of adopting this interpretation in the financial statements.

IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interpretation

IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interpretation is applicable for annual periods beginning on or after 1 January, 2008.

This interpretation addresses how entities should determine the limit placed by paragraph 58 of IAS 19 Employee Benefits on the amount of a surplus in a pension plan they can recognise as an asset and discusses how a minimum funding requirement affects that limit.

BES is evaluating the impact of adopting this interpretation on the financial statements.

Note 45 // Subsequent Events

• Banco Espírito Santo and Espírito Santo Financial Group established an agreement for the acquisition of 5% of the share capital of Saxo Bank A/S, 2.5% each, amounting to euro 63 million in total. This investment includes an option for the acquisition of an additional 5% of the capital. The agreement includes a strategic partnership between Banco BEST and SAXO BANK for, among other initiatives, integrated assets management and the joint approach to foreign markets and development of the already existing partnership with Banco BEST in Portugal.;

• On the 14 January 2008, BES issued 25,000 covered bonds in the amount of euro 1,250 million due within three years.

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BANCO ESPÍRITO SANTO, S.A.

AUDITORS' REPORT
CONSOLIDATED FINANCIAL STATEMENTS

(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 2007, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2007 (showing total consolidated assets of Euro 68,354,713 thousand and total equity attributable to the equity holders of the Bank of Euro 5,272,576 thousand, including a profit for the year attributable to the equity holders of the Bank of Euro 607,069 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 by 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

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 audit 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 2007, 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 by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 28 February 2008

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

KPMG

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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 2007, of **Banco Espírito Santo, S.A.**, which comprise the balance sheet as at 31 December 2007 (showing total assets of Euro 58,020,160 thousand and total equity of Euro 4,437,308 thousand, including a profit for the year of Euro 494,699 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 Adjusted Accounting Rules ("NCA") issued by the Bank of Portugal, which are based on the application of International Financial Reporting Standards ("IFRS") as adopted by 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 both issued by the Bank of Portugal, that present fairly, in all material respects, the financial position of the Bank, the results of its operations and its cash flows;

   b) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");

   c) the adoption of adequate accounting policies and criteria;

   d) maintaining an appropriate system of internal control; and

   e) the communication of any relevant fact that may have influenced the activity of the bank, its financial position or results.

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

KPMG

Scope

4. Our audit was performed in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly our audit included:

- verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
- assessment of the appropriateness of the accounting policies used and of their disclosure, taking into account the 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 audit 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 opinion, the financial statements referred to above present fairly in all material respects the financial position of **Banco Espírito Santo, S.A.** as at 31 December 2007, 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 2008

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

BANCO ESPIRITO SANTO

CONSELHO DE ADMINISTRAÇÃO
Comissão de Auditoria
Av. da Liberdade, 195-13º
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REPORT OF THE AUDIT COMMITTEE
FOR THE YEAR 2007

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

As required by the Portuguese law, we present our report which comprises a summary of the activity performed by the Audit Committee during the year 2007 and our opinion 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 2007, as well as on the related Board of Directors' proposal for the appropriation of the unconsolidated profit for the financial year 2007.

In compliance with the applicable legal, regulatory, and statutory responsibilities, during 2007 the Audit Committee of **Banco Espírito Santo, S.A.** has been informed of Management decisions and also of the deliberations of the Board of Directors regarding the business of the bank, and has 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 Accounting Firm which had been appointed by the General Meeting of Shareholders as the bank's Statutory Auditors.

Furthermore, we have reviewed the Statutory Auditors' Reports on the accompanying unconsolidated and consolidated financial statements for the year ended 31 December 2007, which contain their unqualified professional opinions, with which we concur, issued on 28 February 2008 on those financial statements.

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, regulatory, 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 2007;

b) The Board of Directors' proposal for the appropriation of the unconsolidated profit for the financial year 2007, amounting to 494 699 432,31 euros.

Lisbon, 5 March 2008

The Audit Committee

Dr. Mário Martins Adegas (Chairman)

Dr. José Manuel Ruivo da Pena

Mr. Luis Daun e Lorena

General Information

BES Shares

On December 31st, 2007 the share capital of Banco Espírito Santo was represented by 500 000 000 shares with the nominal value of euro 5 each. BES shares are listed on the Euronext Lisbon Stock Exchange and are part of several indices, namely the PSI 20, Euronext 100, Dow Jones Eurostoxx, Dow Jones Stoxx 600 Banks, FTSE All World Developed, FTSE4Good. BES Group also has 600,000 non voting preference shares with nominal value euro 1,000 each issued by its subsidiary BES Finance, Ltd. listed on the Luxembourg Stock Exchange.

Information

Shareholders, investors and analysts should address their requests for information or other queries to:

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Investor Relations
Avenida da Liberdade, 195 - 11.º
1250-142 Lisboa
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Annual Reports, press releases and other information are available on the website of BES (http://www.bes.pt/ir).

Date	Event
January 28th, 2008	2008 Results Release
March 31st, 2008	General Shareholders' Meeting
April 2008	Dividends Payment
April 29th, 2008	1st Quarter 2008 Results Release
July 30th, 2007	1st Half 2008 Results Release
Until September 28th, 2008	Publication of 2008 Interim Report
October 28th, 2008	3rd Quarter 2008 Results Release

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

Excerpt from the minutes of the Annual General Shareholders' Meeting of Banco Espírito Santo, S.A.

Minutes no. 70

At ten hours on March thirty first, in the year two thousand and eight, 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, the corporate governance report, and remaining individual reporting documents for the financial year of 2007.
2. To deliberate on the consolidated management report, consolidated accounts, and remaining consolidated reporting documents for the financial year of 2007.
3. To deliberate on the application 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 deliberate on the Regulation of the "Variable Compensation Payment Plan - (VCPP 2008/2010)".
7. To consider the statement issued by the Remuneration Committee on the remuneration policy of the corporate bodies and other senior officers of the Bank.
8. To elect the members of the corporate bodies for the period of 2008 to 2011.
9. To appoint the executive and deputy Certified Auditors for the period of 2008 to 2011.
10. To appoint the members of the Remuneration Committee for the period of 2008 to 2011.
11. To deliberate on the proposed Regulation of the General Meeting.
12. To deliberate on whether or not to maintain a Group relationship with the companies whose share capital is entirely held by the Bank, under the terms and for the purposes of Article 489 (2-c)) of the Companies Code.

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, all the members of the Audit Committee, and Ms. Isabel Maria Bastos Viegas Clare Neves Girão de Almeida, in representation of the Certified Auditor. Ms. Rita Lagos do Amaral Cabral also attended the meeting in representation of the Remuneration Committee, to provide clarification on any questions that the Shareholders might wish to raise.

The Chairman of the General Meeting declared the session opened, after ascertaining that there was a quorum of shareholders present or represented owning 327 498 243 shares, corresponding to 65.55% of the share capital and to 3 274 924 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 25th, 2008, on the website of the Portuguese Securities Market Commission (CMVM), on February 26th, 2008, on the website of BES, on the same date, and also on the Jornal de Notícias, Correio da Manhã, Diário de Notícias, Público, Diário de Notícias – Madeira and Açoriano Oriental newspapers, all on February 27th, 2007. The list of shareholders whose individual holdings exceed 2% of the Bank's share capital were also published on the Diário de Notícias and Correio da Manhã newspapers of March 26th, 2008.

The Chairman of the General Meeting asked the meeting to consider the following three items in the Agenda:
1. To deliberate on the management report, the corporate governance report, and remaining individual reporting documents for the financial year of 2007.
2. To deliberate on the consolidated management report, consolidated accounts, and remaining consolidated reporting documents for the financial year of 2007.
3. To deliberate on the application of earnings.

Each of the proposals presented by the Bank's Board of Directors concerning items 1, 2 and 3 in the Agenda were then put to the vote.
Concerning item 1 - To deliberate on the consolidated management report, consolidated accounts, and remaining consolidated reporting documents for the financial year of 2007 – the following proposal was read aloud and is transcribed herein: "The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Management Report, the Corporate Governance Report and other reporting documents of BANCO ESPÍRITO SANTO, S.A. for the financial year 2007 to the Shareholders for appreciation and discussion, proposing their approval." This proposal was put to the vote and was approved by a majority of 3 253 662 votes, with 281 dissenting votes and 43 114 abstentions.
The proposal concerning the 2nd item in the Agenda - To deliberate on the consolidated management report, consolidated accounts, and remaining consolidated reporting documents for the financial year of 2007 – was then read aloud, as transcribed herein, and put to the vote: "The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Consolidated Management Report and the consolidated accounting documents of BANCO ESPÍRITO SANTO, S.A. relating to the financial year 2007 to the to the Shareholders for appreciation and discussion, proposing their approval." This proposal was approved by a majority of 3,253,373 votes, with 281 dissenting votes and 43,405 abstentions.

The meeting then considered item 3 - To deliberate on the application of earnings, the respective proposal having been read, as transcribed herein, and approved by a majority of 3,294,860 votes, with 1,505 dissenting votes and 694 abstentions.

"The Board of Directors of BANCO ESPÍRITO SANTO, S.A. proposes that:
Pursuant to Article 376 (b)) of the Companies Code, and in accordance with the Management Report, the company's net earnings for the year, amounting to EUR 494,699 432.31, be allocated as follows:

	Euros
TO THE LEGAL RESERVE:	50,000,000.00
FOR DISTRIBUTION TO THE SHAREHOLDERS:	240,000,000.00
TO OTHER RESERVES:	204.699.432.31

Going into item 4 in the Agenda – To make a general assessment of the Bank's administration and supervision -, BESPAR Sociedade Gestora de Participações Sociais, S.A., submitted the proposal transcribed below, which was read aloud:

"Pursuant to the terms of Article 455 (1) of the Companies code, which requires the Annual General Meeting to assess the administration and supervision of the company in general;
Considering the results of the Activities of Banco Espírito Santo, S.A. during the financial year 2007, which bear witness to the correctness of its strategic and management orientations, implemented by its Board of Directors during the financial year in question;
Considering also the manner in which the Audit Committee carried out its duties;
It is proposed that the General Meeting approve a vote of confidence in the Board of Directors and the Audit Committee, with this vote extending to each of the members of the respective bodies."
(...)
After declaring the proposal open for discussion, and as no one wished to take the floor, the Chairman of the General Meeting put the proposal to the vote, and it was approved by the majority of 3 296 079 votes, with 64 dissenting votes and 924 abstentions.
(...)
Going into item 8 in the Agenda - To elect the members of the corporate bodies for the period of 2008 to 2011 – the Chairman of the General Meeting put to the vote the proposal transcribed below:
"Whereas:
a) In accordance with the recommendations of the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários) published in December 2007, regarding the independence of the Board members, the Board of Directors should contain an adequate number of independent members "that cannot under any circumstances be less than one fourth of the total number of Board members";
b) In accordance with the same Recommendation, the Chairman of the Audit Committee should be independent;
c) In order to implement the new independence requisites of the management and supervision bodies, it is desirable that the total number of members of the Board of Directors be reduced from 31 to 26, of whom 25 members shall be non executive and 11 executive, and of that total, 7 shall be independent, their respective independence having been previously ascertained by the company through questionnaires specifically designed to this effect addressed to these members.
d) In view of the above, the shareholder "BESPAR – Sociedade Gestora de Participações Sociais, S.A.", with headquarters at Rua de S. Bernardo, nº 62, in Lisbon, with share capital of EUR 683 062 035, and with fiscal and registration number in the Lisbon Registrar of Companies of 502,554,754, proposes that the following be deliberated with regard to the 2008-2011 mandate:

1. Elect to the Board of the General Meeting:

• Paulo de Pitta e Cunha – Chairman
• Fernão de Carvalho Fernandes Thomaz – Vice-Chairman
• Nuno Miguel Matos Silva Pires Pombo – Secretary

2. Elect to the Board of Directors:

- Ricardo Espírito Santo Silva Salgado
- José Manuel Pinheiro Espírito Santo Silva
- António José Baptista do Souto
- Jorge Carvalho Martins
- Aníbal da Costa Reis de Oliveira
- Manuel Fernando Moniz Galvão Espírito Santo Silva
- José Maria Espírito Santo Silva Ricciardi
- Jean-Luc Louis Marie Guinoiseau
- Rui Manuel Duarte Sousa da Silveira
- Joaquim Aníbal Brito Freixial de Goes
- Pedro José de Sousa Fernandes Homem
- Jean Frédéric de Leusse
- Bernard Delas
- Luís António Burnay Pinto de Carvalho Daun e Lorena
- José Manuel Ruivo da Pena
- Amilcar Carlos Ferreira de Morais Pires
- Michel Joseph Paul Goutorbe
- Alberto de Oliveira Pinto
- Nuno Maria Monteiro Godinho de Matos
- João Eduardo Moura da Silva Freixa
- Ricardo Abecassis Espírito Santo Silva
- Jean-Yves Hocher
- Pedro Mosqueira do Amaral
- José Epifânio da Franca
- Isabel Maria Osório de Antas Megre de Sousa Coutinho
- João de Faria Rodrigues

3. Appoint as Chairman and Vice-Chairmen of the Board of Directors:

- Alberto de Oliveira Pinto - Chairman
- Ricardo Espírito Santo Silva Salgado – Vice-Chairman
- Jean Frédéric de Leusse – Vice-Chairman

4. Elect the following Board members as members of the Audit Committee:

- José Manuel Ruivo da Pena - Chairman
- Luís António Burnay Pinto de Carvalho Daun e Lorena
- João de Faria Rodrigues

who fulfil the independence requirements and comply with the requisites in what concerns incompatibility and specialisation imposed by Article 423-B of the Companies Code.

5. Elect the following Board members as members of the Audit Committee:

- Ricardo Espírito Santo Silva Salgado - Chairman
- José Manuel Pinheiro Espírito Santo Silva
- António José Baptista do Souto
- Jorge Carvalho Martins

• José Maria Espírito Santo Silva Ricciardi
• Jean-Luc Louis Marie Guinoiseau
• Rui Manuel Duarte Sousa da Silveira
• Joaquim Aníbal Brito Freixial de Goes
• Pedro José de Sousa Fernandes Homem
• Amilcar Carlos Ferreira de Morais Pires
• João Eduardo Moura da Silva Freixa

6. That the responsibility of each Board member be pledged in one of the ways described in Article 396 of the Companies Code.

7. That the members elected to the corporate bodies of "Banco Espírito Santo, S.A." for the 2008-2001 mandate, in accordance with this proposal, start their duties immediately.

(...), the proposal was approved by a majority of 3,131,281 votes, with 140 847 dissenting votes and 23 798 abstentions;
The meeting went on to analyse item 9 in the Agenda - To appoint the executive and deputy Certified Auditors for the period of 2008 to 2011 -, the Audit Committee having submitted a proposal that was read aloud and is transcribed below:
"Whereas:
a) As a consequence of recent changes to the Companies Code pursuant to Decree-Law no. 76-A/2006, of March 29th, "Banco Espírito Santo, S.A." adopted the Anglo-Saxon model, characterised by the existence of a Board of Directors, which includes an Audit Committee and a Certified Auditor;
b) In accordance with Article 423-F(m)) of the Companies Code, it is up to the Audit Committee to "propose to the General Meeting the nomination of the Certified Auditor";
c) The proposal to elect the corporate bodies of "Banco Espírito Santo, S.A." for the period of 2008 to 2011 submitted by the shareholder "BESPAR – Sociedade Gestora de Participações Sociais, S.A.", which includes the election of the members of the Audit Committee, was previously put to the vote;

In view of the above and subject to the approval of the proposal referred in c) above, the Audit Committee of "Banco Espírito Santo, S.A." proposes that the General Meeting deliberate the following:

1. Elect as executive Certified Auditor for the period of 2008 to 2011, under the terms of Article 446 of the Companies Code and Article 28 of the Company Bylaws, "KPMG & Associados, Sociedade de Revisores Oficiais de Contas, SROC" (Certified Auditor).

2. Elect as deputy Certified Auditor for the period of 2008 to 2011, under the terms of Article 445 of the Companies Code and Article 28 of the Company Bylaws, Mr. Jean-Éric Gaign (Certified Auditor)."

(...), this proposal being approved by a majority of 3 293 541 votes, with 749 abstentions.

Going into item 10 in the Agenda - To appoint the members of the Remuneration Committee for the period of 2008 to 2011 – the Shareholder BESPAR Sociedade Gestora de Participações Sociais, SA submitted a proposal that was read aloud and is transcribed below:

"Whereas:
a) The Remuneration Committee is an essential element in the Bank's Corporate Governance structure, which determines the remuneration of the governing bodies, and that it should be formed by persons with independence relative to the Board of Directors and ensuring the Shareholders of Banco Espírito Santo the necessary impartiality and freedom of judgment in their activity;
b) the recent recommendations and regulations issued at national and international level regarding the need for an adequate control over the remuneration of the corporate bodies of listed companies;

In view of the above, "BESPAR – Sociedade Gestora de Participações Sociais, S.A.", with headquarters at Rua de S. Bernardo, nº 62, in Lisbon, with share capital of EUR 683 062 035, and with fiscal and registration number in the Lisbon Registrar of Companies of 502,554,754, proposes that the following be designated as members of the Remuneration Committee of Banco Espírito Santo for the 2008-2011 mandate:

• Rita Lagos do Amaral Cabral
• Daniel Proença de Carvalho
• Jacques dos Santos

It is also proposed that the members of the Remuneration Committee receive a monthly fixed remuneration of EUR 1 500 (one thousand five hundred euros), payable twelve times per year.

The Chairman of the General Meeting submitted the above proposal to the vote, and the same was approved by a majority of 3 270 175 votes, with 22 559 dissenting votes and 1 556 abstentions.
(...)

There being no further matters to discuss, the Chairman of the General Meeting declared the meeting closed at thirteen hours and thirty 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.

Photography:
Banco Espírito Santo collection

Design and development:
Linha 21 Marketing e Publicidade