BES art COLECÇÃO BANCO ESPÍRITO SANTO

EMANUEL BRÁS
b. 1967, Portugal
"27 lugares de afecção",
2005
lambda print mounted in acrylic
80 x 80 cm (image)
Edition: 2/5
Courtesy of the Artist

BES 07
ANNUAL REPORT

BANCO ESPIRITO SANTO

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

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

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

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//01

BES art COLECÇÃO BANCO ESPÍRITO SANTO

THOMAS STRUTH
b. 1954 Alemanha
“Museo Del Prado 7”,
Madrid 2005
2005
C-Print, framed
169,5 x 210,6 cm, 177,5 x 218,6 cm, framed
Edition of 10

MANAGEMENT REPORT
BES 07

01
Joint Message of the Chairman of the Board of Directors and the Chairman of the Executive Committee

Dear Shareholders,

2007 was marked by strong global economic growth during the first semester. In the second half of the year, however, the world economy and the financial markets were shaken by the effects of the subprime credit crisis in the US, leading to a sharp decline in investor confidence and a shortage of liquidity in the money and credit markets, with a consequent widening of spreads. In the third quarter of the year this climate of market instability became even more pronounced, and only the timely and constant intervention by the European Central Bank and the US Federal Reserve prevented further deterioration.

The emerging and developing economies played a key role in global economic growth, having benefited from little direct exposure to subprime credit, extremely favourable conditions in the commodities markets, the good behaviour of internal demand (associated to the upward trend of income per capita) and also from a balanced macroeconomic situation. The GDP of Brazil and Angola, in particular, grew respectively 5.4% and 23%.

The Portuguese economy pursued a gradual recovery trend, with GDP growth rising from 1.2% to 1.9% on the persistently good performance of exports, which grew year-on-year by 6.7%, and an upsurge in business investment. There was also a visible diversification in the geographic destination of exports, mainly to regions that maintained high growth rates in 2007, such as Africa (and Angola in particular), Asia and Latin America.

In a climate of instability such as marked the second half of the year, BES Group's balanced financial management model, aligned to strict capital discipline, were decisive, permitting to remain on track in a growth and consequent value creation path. BES Group has traditionally followed a rigorous and prudent liquidity policy based on medium and long term funding and the diversification of funding sources. On the other hand, the Group's financial strength, expressed by a Core Tier I ratio of 6.6% in 2007, is particularly relevant in the Iberian context.

The Group's strategy, based on organic growth in the domestic market complemented by international expansion focused on the triangle formed by Spain, Angola and Brazil, permitted to reach net income of euro 607.1 million in 2007, which represents a year-on-year increase of 44% and corresponds to return on equity of 16.6%.

The steady increase of the average market share in Portugal – which reached 20.4% in 2007 (19% in 2006) - has reinforced the Group's position in Portugal. This reinforcement was backed by permanent focus on the quality of customer service, innovation in the product offer, and a successful cross segment and cross selling strategy. Client acquisition efforts, namely through the Assurfinance programme, were equally important, permitting to attract 155,000 new individual clients and 950 corporate clients in 2007.

BES' innovative positioning and alertness to the needs of a rapidly changing society were key contributors to the reinforcement of the domestic business. The Bank has in fact pioneered the implementation of financial solutions targeting all the segments and needs of the Portuguese society, namely as the favoured partner in segments such as the Social Economy, the New Residents, Residential Tourism and the Younger.

In 2007 BES Group once again benefited from taking strategic positions in markets that simultaneously show strong growth prospects while being focal points for the internationalisation of Portuguese companies. In this respect, both the increasing integration of the Portuguese and Spanish economies, and the growth of the Portuguese exports to the emerging economies were determining factors. The contribution of the international business to consolidated net income thus reached euro 141.5 million, having increased by 51.9% year-on-year, with Brazil and Angola performing particularly well.

The solidity of the Group's strategy and the commitment to value creation have been recognised by the market, as translated not only by the weight of foreign institutional investors in BES' share capital, which reached 33% in 2007, but also by the performance of the BES shares, which gained 10.1% in the year, in clear opposition to the 16.9%[1] devaluation occurred in the European banking sector.

In 2007 BES announced the revision of the strategic objectives established at the time of the capital increase, in 2006. The new objectives for 2010 set more ambitious targets, better aligned to the consolidation of the strategy based on organic growth in the domestic market and selective international expansion, focused on the Spain-Angola-Brazil triangle. These objectives assume the reinforcement of the domestic positioning in order to reach an average market share of 22% in 2010 allied to increased contribution of international operations, permitting to reach a net profit CAGR of 20% between 2006 and 2010. At the same time, constant focus on rationalisation and productivity should lead to increasingly high efficiency levels. The cost to income decreased to 47.5% in 2007 and should be further reduced until reaching less than 45% in 2010. Net income growth should thus allow return on equity to attain 19% at the end of the period, while remaining strongly committed to a careful management of the capital position (Core Tier I ratio not below 6%).

The Board of Directors firmly believes that the objectives announced, though ambitious, remain valid despite the turmoil felt in the markets. 2007 was a year of growth and consolidation of a business model that relies on stability and a strategy for the long term.

Our strategic focus has always been and continues to be the creation of conditions to consolidate a strong domestic position combined with a development of our presence abroad.

We are inspired by a long and prestigious past of rigour and ethical values, a past that contains within itself the responsibility of being a Group that has always contributed to the economic, social and cultural development of the communities where it operates. The ultimate objective of Banco Espírito Santo Group is to create value. We will continue to do it with the same dedication and resolve.

It was only possible to come this far in our path thanks to the trust of our Shareholders, the recognition and loyalty of our Clients and the incessant dedication and stimulating competence of our Employees. We thank you all very much.

We end by expressing the Board of Director's recognition to the governmental and supervision authorities for the cooperation and trust granted to the Banco Espírito Santo Group.

Ricardo Espírito Santo Silva Salgado
Chairman of the Executive Committee

António Luís Roquette Ricciardi
Chairman of the Board of Directors

(1) As measured by the Dow Jones Eurostoxx Banks Evolution.

02
BES Group

2.1 // Corporate Bodies

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

Board of Directors[1]

António Luís Roquette Ricciardi (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Mário Mosqueira do Amaral
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
José Manuel Ferreira Neto
Manuel de Magalhães Villas-Boas
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Mário Martins Adegas
Luís António Burnay Pinto de Carvalho Daun e Lorena
Lázaro de Mello Brandão
Ricardo Abecassis Espírito Santo Silva
Bernard Henri Georges De Witt
José Manuel Ruivo da Pena
Jean Frédéric de Leusse
Amílcar Carlos Ferreira de Morais Pires
Bernard Delas
Miguel António Igrejas Horta e Costa
Nuno Maria Monteiro Godinho de Matos
Alberto Alves de Oliveira Pinto
João Eduardo Moura da Silva Freixa
Jean-Yves Hocher[2]
Michel Goutorbe[3]

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

Executive Committee

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

General Meeting

Paulo de Pitta e Cunha (Chairman)
Fernão de Carvalho Fernandes Thomaz (Vice-Chairman)
Nuno Miguel Matos Silva Pires Pombo (Secretary)

Audit Committee

Mário Martins Adegas (Chairman)
José Manuel Ruivo da Pena
Luis António Burnay Pinto de Carvalho Daun e Lorena

Certified Auditor (ROC)

KPMG Associados, SROC, S.A., representada por Inês Maria Bastos Viegas Clare Neves Girão de Almeida

Company Secretary

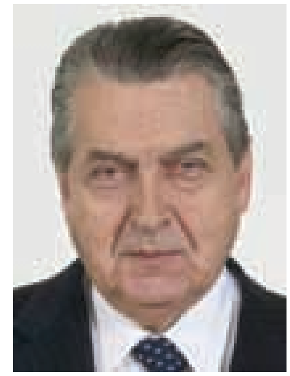
Eugénio Fernando Quintais Lopes

(1) Jean Gaston Pierre Marie Victor Laurent, BES Vice-Chairman of the Board of Directors, renounced his mandate on October 10th, 2007
(2) Jean–Yves Hocher was elected by the GM of March 29th, 2007 to replace Michel Villatte
(3) Michel Goutorbe was co-opted on July 26th, 2007, to fill the vacancy created through the resignation of Patrick Coudéne.

Ricardo Espírito Santo Salgado
(Chairman)

Mário Mosqueira do Amaral

José Manuel Pinheiro Espírito Santo Silva

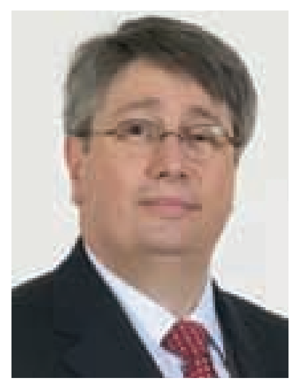


José Manuel Ferreira Neto

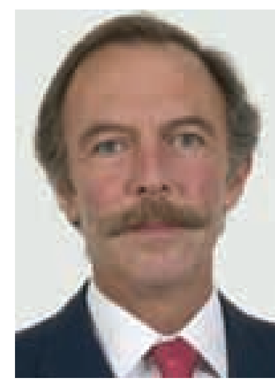
António José Baptista do Souto

Jorge Alberto Carvalho Martins

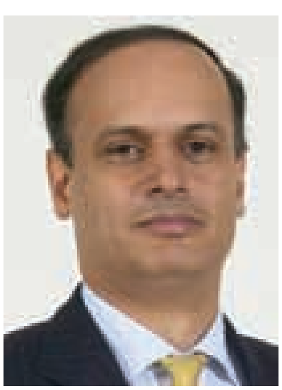
José Maria Espírito Santo Silva Ricciardi



Jean-Luc Louis Marie Guinoiseau

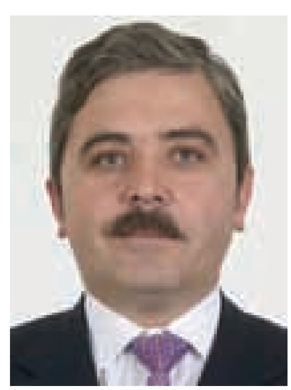


Rui Manuel Duarte Sousa da Silveira



Joaquim Anibal Brito Freixial de Goes

Pedro José de Sousa Fernandes Homem



Amílcar Carlos Ferreira de Morais Pires

João Eduardo Moura da Silva Freixa

2.2 // Profile of BES Group

2.2.1 // Key Indicators

	2004*	2005	2006	2007
ACTIVITY (euro million)				
Total Assets[1]	61,603	71,687	84,628	93,819
Net Assets	43,052	50,222	59,139	68,355
Customer Loans (gross)	28,487	31,662	35,752	43,161
Total Customer Funds	38,754	43,558	49,632	54,305
Own Funds	4,722	5,398	7,063	7,509
PROFITABILITY (%)				
Return on Equity (ROE)	0.37	0.61	0.81	0.98
Return on Assets (ROA)	6.4	13.5	14.7	16.6
SOLVENCY (%)				
Bank of Portugal				
- Total	12.1	12.3	13.1	11.5
- TIER I	6.7	6.2	8.4	7.5
- CORE TIER I	5.0	4.7	7.0	6.6
ASSET QUALITY (%)				
Overdue Loans >90 days/ Customer Loans (gross)	1.6	1.3	1.1	1.0
Coverage of Overdue Loans > 90 days	165.3	196.6	218.2	228.8
Cost of Risk (2)	0.79	0.69	0.51	0.49
PRODUTIVITY / EFFICIENCY				
Operating Cost / Total Assets (%)	1.44	1.20	1.05	1.01
Assets per Employee (3) (euro thousand)	8,441	9,444	10,855	10,520
Cost to Income (%)	62.0	56.0	52.3	47.5
BRANCH NETWORK				
Domestic	607	600	623	700
Foreign	39	39	46	57
RATINGS				
Long Term				
STANDARD AND POOR'S[(4)]	A -	A -	A -	A
MOODY'S[(5)]	A 1	A 1	A 1	Aa3
FITCHRatings	A+	A+	A+	A+
Short Term				
STANDARD AND POOR'S[(4)]	A 2	A 2	A 2	A1
MOODY'S	P 1	P 1	P 1	P1
FITCHRatings	F1	F1	F1	F1

(1) Net Assets+Asset Management+Other Off-Balance Sheet Liabilities+Securitised Credit
(2) Provision for Credit / Customer Loans (gross)
(3) Considering staff of the financial companies of BES Group
(4) Rating upgrade on the 28th March 2007
(5) Rating methodology and scale revised in November 2007
* Figures under IFRS

Results and Profitability	SYMBOL	2004*	2005	2006	2007
AVERAGE BALANCE (euro million)					
Interest Earning Assets	$\overline{AF}$	39,240	41,139	45,377	53,701
Capital and reserves	$\overline{KP}$	1,890	1,844	2,642	3,457
Net Assets	$\overline{AL}$	41,425	45,924	51,696	62,189
INCOME STATEMENT (euro million)					
Net Interest Income	RF	697.0	740.6	829.5	953.7
+ fees and Commissions	SB	549.6	555.1	610.5	643.4
= Commercial Banking Income	PBC	1,246.6	1,295.7	1,440.0	1,597.1
+ Capital Markets and other Results	RDF	184.4	242.0	264.8	404.1
= Banking Income	PB	1,431.0	1,537.7	1,704.8	2,001.2
- Operating Costs	CO	887.5	861.2	891.3	950.7
= Operating Income	RB	543.5	676.5	813.5	1,050.5
- Net Provisions	PV	322.3	320.6	241.9	262.9
= Income before Taxes and Minorities	RAI	221.2	355.9	571.6	787.6
- Taxes	I	46.7	65.8	135.4	152.5
- Minority Interests	IM	22.9	9.6	15.5	28.0
= Net Income	RL	151.6	280.5	420.7	607.1
PROFITABILITY (%)					
Net Interest Margin	RF / $\overline{AF}$	1.78	1.80	1.83	1.78
+ Return on Fees and Commissions	SB / $\overline{AF}$	1.40	1.35	1.35	1.20
+ Return on Capital Markets and Other Results	RDF / $\overline{AF}$	0.47	0.59	0.58	0.75
= Business Margin	PB / $\overline{AF}$	3.65	3.74	3.76	3.73
- Weighting of Operating Costs	CO / $\overline{AF}$	2.26	2.09	1.96	1.77
- Weighting of Provisions	PV / $\overline{AF}$	0.82	0.78	0.53	0.49
- Weighting of Minorities and Other Cost	(IM+I) / $\overline{AF}$	0.18	0.18	0.33	0.34
= Return on Interest Earning Assets	RL / $\overline{AF}$	0.39	0.68	0.93	1.13
x Weithing of Interest Earning Assets	$\overline{AF}$/ $\overline{AL}$	0.95	0.90	0.88	0.86
= Return on Assets (ROA)	RL / $\overline{AL}$	0.37	0.61	0.81	0.98
x Placements Multiplier	$\overline{AL}$ / $\overline{KP}$	17.38	22.16	18.01	17.00
= Return on Equity (ROE)	RL / $\overline{KP}$	6.36	13.54	14.66	16.59

* Figures under IFRS

Bank of Portugal Reference Indicators

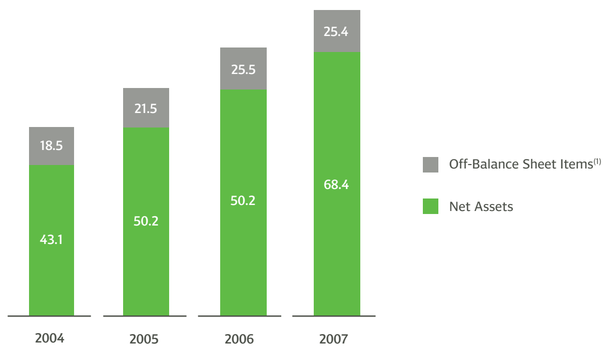
The table below lists the reference indicators established by Bank of Portugal Instruction no. 16/2004, for both December 2007 and 2006.

	2006	2007
SOLVENCY		
Regulatory Capital/Rik Weighted Assets	13.1%	11.5%
TIER I Capital/Risk Weighted Assets	8.4%	7.5%
ASSET QUALITY		
Overdue and doubtful Loans[(a)]/Customer Loans	1.4%	1.4%
Overdue and Doubtful Loans net and Provisions[(b)]/ Customer Loans Net of Provisions[(b)]	-1.1%	-0.9%
PROFITABILITY		
RIncome before taxes and Minorities/Average Equity[(c)]	15.1%	16.5%
Banking Income[(d)]/Average Equity	3.3%	3.2%
Income before taxes and Minorities/Average net Assets	1.1%	1.3%
EFFICIENCY		
General Admin Costs(d)+Depreciation/Banking Income[(d)]	52.3%	47.5%
Staff Costs/Banking Income[(d)]	28.1%	25.1%

(a) According to BoP Circular Letter no. 99/03/2003.
(b) Credit net of impairment.
(c) Includes average Minority Interests.
(d) According to BoP Instruction no. 16/2004

Total Assets

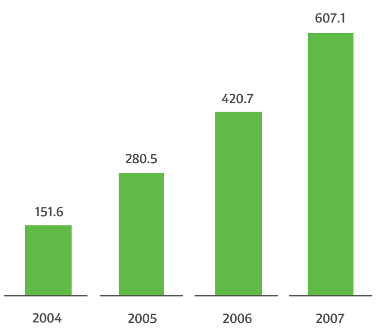
euro billion



(1) Asset and liabilities off-balance sheet items

Net Income

euro million

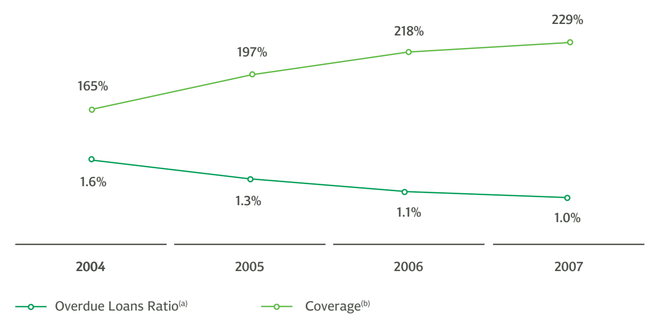


Business with Clients(2)

euro billion

(2) Includes assets and liabilities off-balance sheet items

Asset Quality



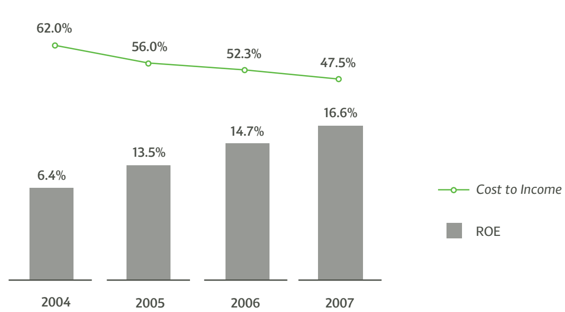
(a) Overdue Loans > 90 days / Loans to Customers (Gross)
(b) Provisions for credits / Overdue Loans > 90 days

Own Funds

euro billion

Profitability and Efficiency

euro billion



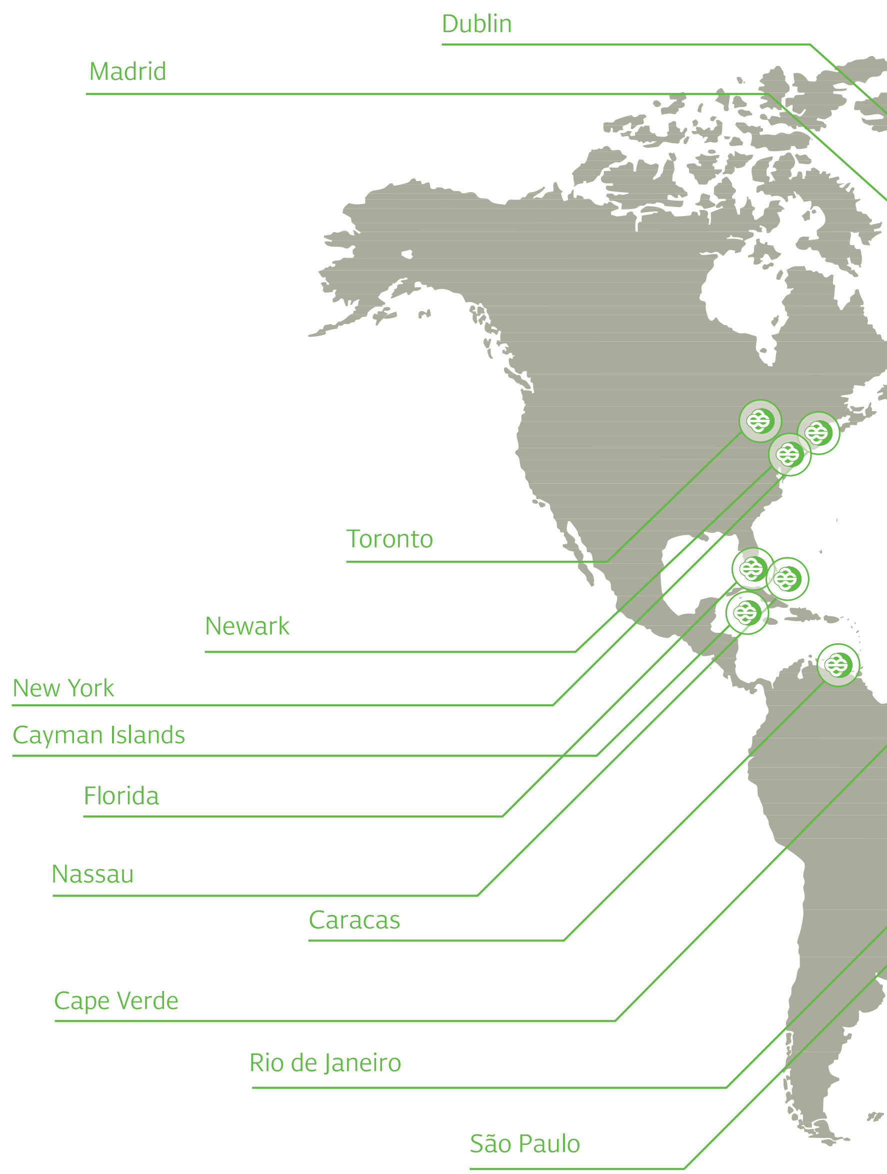
2.2.2 // Geographical Presence and Distribution Network

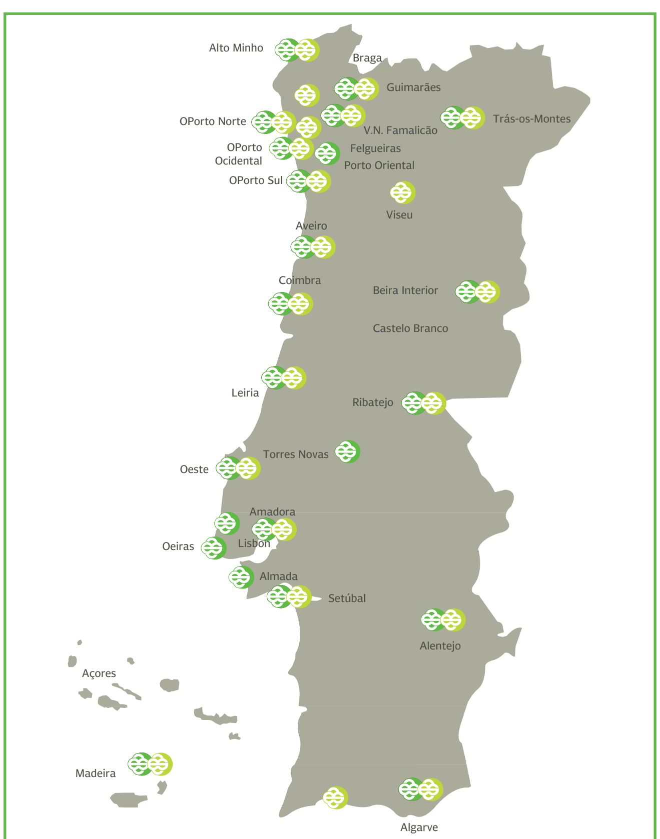
The BES Group pursues a strategy of organic growth in the domestic market complemented by an international presence focused on markets with cultural and/or economic affinities with Portugal, as well as markets showing high potential in specific areas where the Group holds particular skills.

In the development of its international activities, the Group exports its expertise and skills in Private Banking, Corporate Banking and Investment Banking, specifically in the area of project finance, taking advantage of the existing affinities with the Spanish market as well as with Portuguese speaking countries, in particular Angola and Brazil.

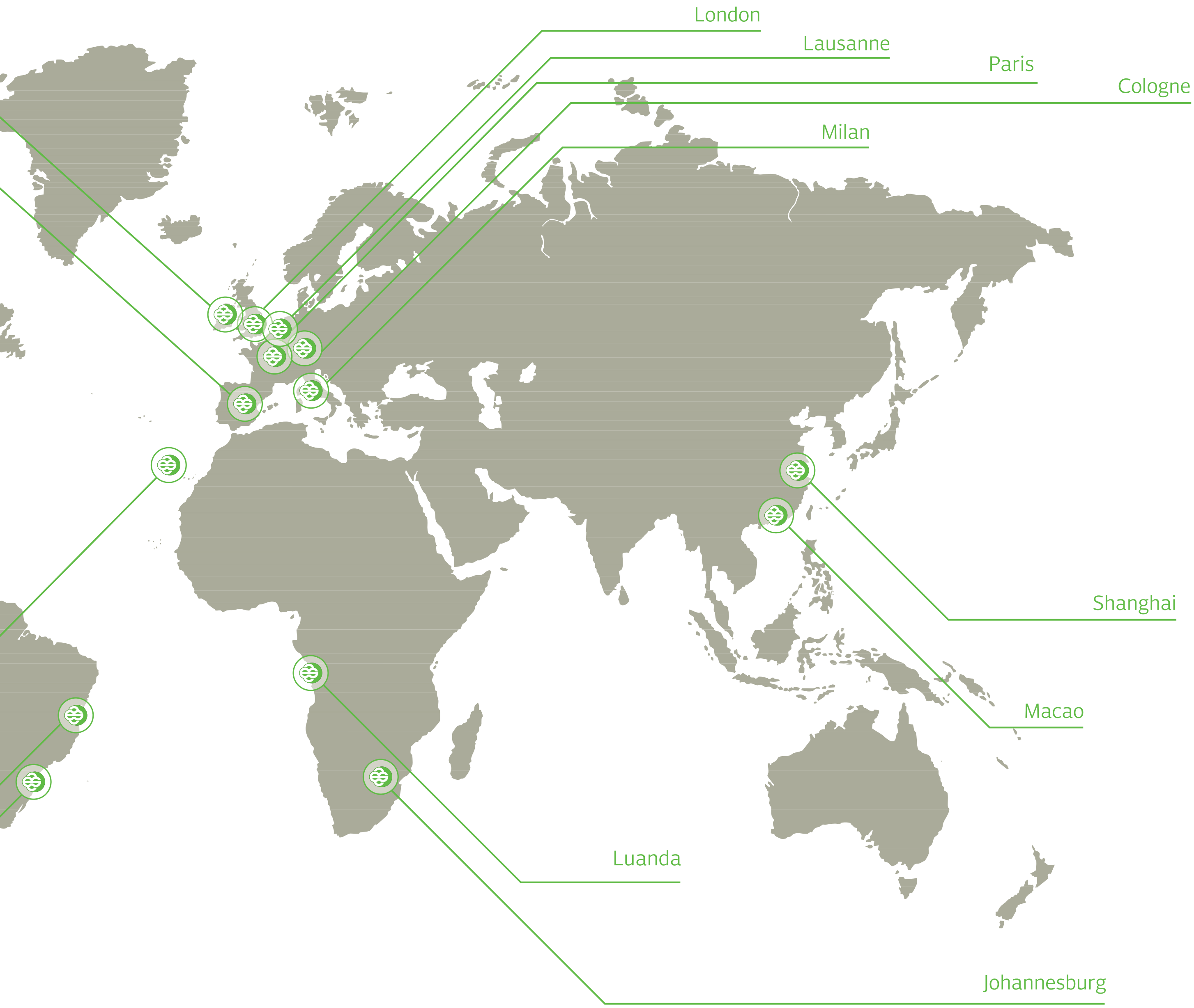
In Portugal, BES operates through a retail network of 700 branches, complemented by 29 Private Banking Centres and 27 Corporate Centres.

BES' international operations are developed through 25 platforms:
6 Subsidiaries and Associated Companies: BES Angola, BES Oriente (Macao), BES Investimento do Brasil, BES Vénétie (France), ES Bank (USA) and ES plc (Ireland).
6 International Branches: Spain, New York, London, Cape Verde, Nassau and Cayman Islands.
1 Off-shore Branch: Madeira.
12 Representative Offices: Toronto, Newark (3), Caracas, Rio de Janeiro, São Paulo, Lausanne, Cologne, Milan, Johannesburg and Shanghai.





Private Banking Centres
Corporate Centres


London
Lausanne
Paris
Cologne
Milan
Shanghai
Macao
Luanda
Johannesburg

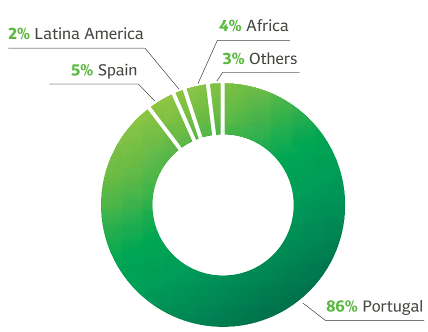
2.2.3 // Human Resources

Human resources are the key element behind the high level of efficiency and productivity maintained by the Group. Hence the human resources policy relies on the promotion of intellectual capital as a brand differentiation factor.

On December 31st, 2007, BES Group had 9,481 employees distributed by four continents. Of these, 8,196 (86%) worked in Portugal and 1,285 (14%) were based abroad. This staff distribution is aligned to the Group's strategy, namely in terms of its geographic presence.

	2006	2007
Portugal	7,707	8,196
Other European Countries	545	600
Spain	471	512
United Kingdom	48	48
Other	26	40
Africa	273	376
Latina America	141	159
North America	121	133
Asia	17	17
TOTAL	8,804	9,481

Workforce geographical distribution



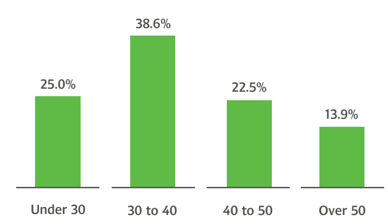
	2006	2007
Spain	471	512
Africa	269	372
Brazil	141	159
TOTAL	881	1,043

BES Group has 1,047 employees in the strategic triangle formed by Spain, Angola and Brazil, which is more than 80% of its entire workforce abroad. As required by the growth of its international operations, during the year the Group reinforced its teams abroad by 162 people, of whom 103 to work in Angola and 41 in Spain.

In Portugal, the staff was increased by 489 employees, essentially to meet the growth of the commercial networks (115 new branches opened during the year, with 75% of the new admissions intended to fill commercial functions), but also to reinforce the technical expertise of teams dealing with the more demanding segments, namely BES 360 (affluent individual clients) and the small businesses segment, with younger and better qualified professionals. Approximately 98% of the personnel recruited in 2007 are under 40 years old (and 79% under 30), while 78% have university degrees. At present, 65% of BES Group's employees have commercial functions.

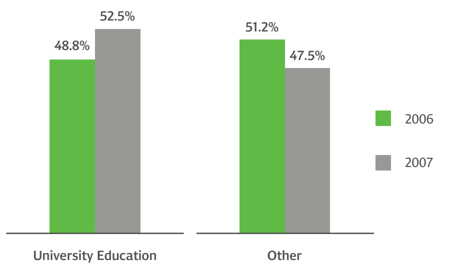
With 92 employees taking early retirement during the year, the workforce was further rejuvenated. These employees were on average older than 56 and 96% of them had no higher education qualifications.

Workforce Age Structure



The following figures denote the continuous effort made to rejuvenate the workforce: the average age of BES' employees is currently 37.2 years, which compares with 37.6 years in 2006, while the percentage of workers over 50 fell from 23% in 2000 to 13.9% at the end of 2007. On the other hand 52.5% of the employees now have university degrees.

Evolution of University Educated Workforce



BES Group's human resources management model emphasises development and motivation, enhancing the employees' skills through their permanent qualification. The school branch training programme is particularly important in this regard, as it allows both current and new employees to acquire new skills or recycle their knowledge through direct contact with the everyday commercial reality of a branch.

With career management being assumed as a strategic driver of employee motivation and retention, the definition of clear and objective criteria of access, advancement and promotion give the employees a concrete perspective of professional and personal development opportunities. In addition, the appraisal of individual performance versus business objectives, and its relation to the Objectives and Incentives System, are key elements in the recognition of merit, with a direct impact on employee promotion. The remunerations and benefits scheme also seeks to differentiate employees in accordance with their individual contribution to further the Group's objectives.

2.3 // BES' Share Price Performance

On December 31st, 2007 the share capital of Banco Espírito Santo was euro 2.5 billion, represented by 500 million ordinary shares with the nominal value of euro 5 each.

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

Main Stockmarket Indicators		Dec 06	Dec 07	Change
Stock Exchange Data				
01. No Shares Outstading	(Thousand)	500,000	500,000	-
02. Weigted average of Shares Outstanding	(Thousand)	417,222(1)	500,000	19.8%
03. Last Closing Price	(€)	13,62	15,00	10.1%
04. Market Cap	(M€)(01x03)	6,810	7,500	10.1%
Consolidated Financial Data				
05. Equity Attributable to Shareholders (2)	(M€)	4,736	5,273	11.3%
06. Equity Attributable to Odinary Shares (3)	(M€)	4,136	4,673	13.0%
07. Net Income	(M€)	420.7	607.1	44.3%
08. Net Income Attributable to ordinary shares	(M€)	387.2	573.6	48.1%
09. Gross Dividend of Ordinary Shares	(M€)	200.0	240.0(4)	20.0%
10. Pay Out Ratio of ordinary Shares	(%) (09/07)	47.5	39.5	-0.2
Per Share Data				
11. Book Value	(€) (06/01)	8,27	9,35	13.0%
12. Net Income	(€) (08/01)	0,77	1,15	48.1%
13. Gross Dividend	(€) (09/01)	0,40	0,48	20.0%
Price as Multiple of				
14. Book Value	PBV (03/11)	1.65	1.60	-
15. Net Income	PER (03/12)	17.59	13.07	-
Price Return on				
16. Net Income	(%) (12/03)	5.69	7.65	-
17. Dividend (Dividend Yield)	(%) (13/03)	2.94	3.20	-

(1) Weighted for the time of permanence following the capital increase (30 May 2006)
(2) Capital + Preference Shares + Share Premium - Own Shares + Other reserves and retained Earnings + Revaluation Reserves + Net Income
(3) Excluding the preference shares.
(4) Net income deducted from the dividens of the preferences shares.

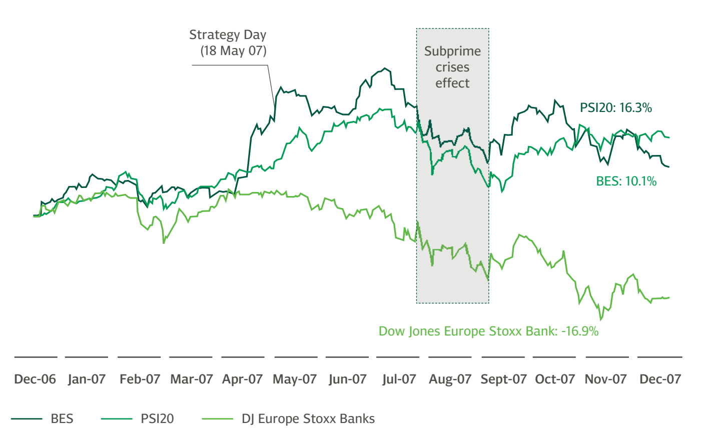
BES Shares performance

In 2007 the Portuguese equity market outperformed the main European markets, being only surpassed by the German DAX, which closed the year with a gain of 22.3%. The PSI 20 thus advanced by 16.3%, with volatility increasing from 9.2% in 2006 to 13.9% in 2007.

The BES shares gained 10.1% in the year, which contrasts with a devaluation of 16.9% in the European banking sector. Volatility was 32.1%, with the share price fluctuating between a minimum of euro 13.61 to a maximum of euro 17.98.

Concerning the market's valuation of the BES shares, the Bank's price earnings ratio (PER) was 13.07 at the end of 2007 (Dec. 06: 17.59), while the price book value (PBV) was 1.60 (Dec. 06: 1.65).

BES´ share price performance in 2007



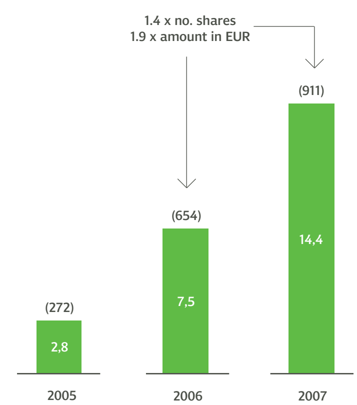
Fonte: Bloomberg

Liquidity

The average number of shares traded per day in 2007 was 911 thousand (654 thousand in 2006), corresponding to a volume of euro 14.4 million, which is nearly twice the average daily trading volume in 2006 (euro 7.5 million).

The annual trading volume of BES shares in 2007 was euro 3,667 million (euro 1,922 million in 2006), while capital turnover (the ratio of annual trading volume to stock market capitalisation at the end of the year) was 48.9% (28.2% in 2006).

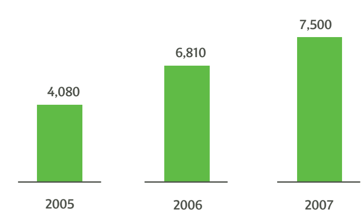
BES shares average trading per day (Thousand shares) Euro million



Stock market capitalisation

As of December 31st, 2007 BES' market capitalisation was euro 7.5 billion, the second largest among the Portuguese financial institutions listed on the Euronext Lisbon, and the fifth largest on the PSI 20. The Bank's weight in the market capitalisation of the PSI general index was 8.2%.

Evolution of BES Market Capitalisation (euro million) euro million



BES Share in Stock Market Indices

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

Index	Bloomberg ticker	Weight in 2006	Weight in 2007
Euronext Lisbon PSI Financials	PSIFIN	29.060%	31.159%
PSI-20	PSI20	9.410%	9.869%
PSI Geral	BVLX	8.588%	8.173%
Dow Jones EuroStoxx Mid (Price)	MCXE	0.728%	0.852%
Dow Jones EuroStoxx Banks Supersector (Price)	SX7E	0.403%	0.512%
Bloomberg Europe 500 Banks & Financial Services	BEBANKS	0.257%	0.501%
S&P Euro Financials GICS Sector	SEUFINL	0.316%	0.439%
Dow Jones STOXX Mid 200 (Price) – EUR	MCXP	0.349%	0.436%
S&P Europe 350 Banks Industry Group	SEBANKX	0.285%	0.433%
Bloomberg European Banks	BEUBANK	0.363%	0.405%
Bloomberg European Financials	BEFINC	0.193%	0.372%
Euronext 100	N100	0.314%	0.339%
WT International Midcap Dividend	WTIMDI	0.338%	0.325%
Dow Jones EUROPE STOXX Banks (Price)	SX7P	0.216%	0.292%
S&P Europe 350 Financials - GICS Sector Level	SPEURO40	0.168%	0.254%
BBG World Banks	BWBANK	0.192%	0.192%
WT International Financial Sector	WTIF	0.200%	0.172%
S&P Europe Economic Sectors GICS Sector Level	SPEU	0.109%	0.132%
S&P Euro Plus	SPEP	0.083%	0.103%
Global 1200 Financial Sector	SGFS	0.065%	0.102%
Dow Jones EURO STOXX (Price)	SXXE	0.094%	0.100%
Bloomberg European 500	BE500	0.059%	0.094%
Bloomberg Europe 500 Sectors	BE500E	0.059%	0.094%
WT Europe Dividend	WTEDI	0.087%	0.071%
Bloomberg Europe	BWORLDEU	0.069%	0.066%
WT Diefa	WTDFA	0.068%	0.054%
Dow Jones Stoxx 600 (Price)	SXXP	0.048%	0.053%

Source: Bloomberg

In September 2007 Banco Espirito Santo entered the FTSE4Good Index Series. As the only Portuguese bank included in the FTSE4Good, BES' inclusion reflects the reinforcement of its positioning as a socially responsible institution as well as independent recognition for its management model based on sustainability criteria. Created in 2001, the FTSE4Good is a series of tradable and benchmark indices for investors with social responsibility concerns.

Shareholder Structure

The Bank's shareholder structure did not change significantly when compared to 2006. The main shareholders as of December 31st, 2007 were as follows:

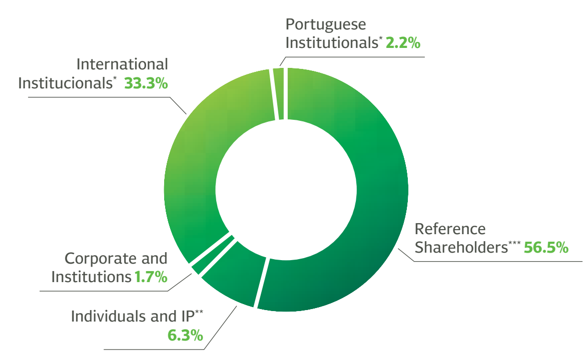
Shareholders	% Share Capital	
	Dec 06	Dec 07
BESPAR — Sociedade Gestora de Participações Sociais, S.A.	40.00	40.00
Crédit Agricole, S.A.A	10.81	10.81
Bradport, SGPS, S.A.*	3.05	3.05
Previsão - Sociedade Gestora de Fundos de Pensões, S.A.**	2.62	2.62
Hermes Pensions Management Ltd.	2.13	2.03
Portugal Telecom, S.G.P.S., S.A.	1.40	-

* Portuguese company owned by Banco Bradesco (Brazil)
* The voting rights of Previsão – Sociedade Gestora de Fundos de Pensões are attributable to Portugal Telecom

As of December 31st, 2007, BES had a free float of 43.5%, considering as reference shareholders Espírito Santo Financial Group, Crédit Agricole (both through BESPAR, and directly in the case of Crédit Agricole), Bradesco and Portugal Telecom (through Previsão – Sociedade Gestora de Fundos de Pensões). As a result of Portugal Telecom's sale of its direct stake in BES, the free float rose by 1.40% (42.1% in 2006).

As of December 31st, 2007, the Bank had 18,147 registered shareholders and the following shareholder structure:

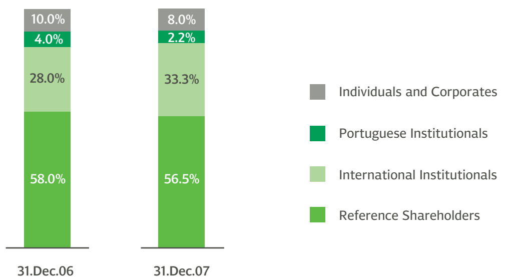
Shareholder Structure as of December 31st, 2007 (% of share capital)



(*) Institutional Investors refers to stakes held by asset management companies (e.g. mutual funds, pension funds, discretionary management), custodian banks, among other.
(**) IPs – Independent Professionals;
(***) Reference shareholders: BESPAR; Crédit Agricole; Bradport; Portugal Telecom (through Previsão).

The weight of foreign institutional investors in BES' share capital increased substantially, to around euro 2.5 billion, or 33% of the total, which is significantly higher than the 28% registered in December 2006.

Evolution of Shareholder Structure from 2006 to 2007 (% of share capital)



The awareness to BES shares was significantly reinforced in the international markets through a substantial increase in the number of contacts namely through one-on-one meetings with institutional investors and the Bank's participation in conferences organised by various investment banks.

In 2007 BES held meetings with around 200 institutional investors, and participated in the following conferences:

- Iberian Event, organised by Espírito Santo Investment in Madrid (January);
- European Banks Conference, organised by Morgan Stanley in London (March);
- Portuguese Conference, organised by Banco Santander in Lisbon (March);
- Portuguese Day, organised by UBS in Lisbon (July);
- European Financials Conference, organised by KBW in London (September);
- Iberian Banks Conference, organised by BPI in New York (November).

Dividends

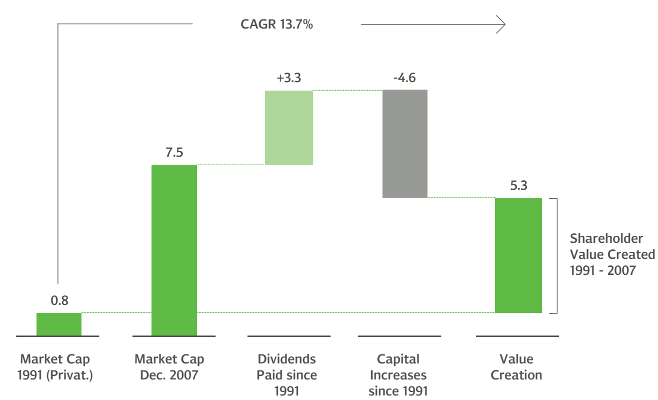
The Bank's objective is to pay dividends to its shareholders to the amount of at least 50% of its individual net income. However, this objective depends on financial conditions and results, as well as other factors deemed relevant by the Board of Directors.

In this context, and as described in the proposal for the distribution of the 2007 net income, BES' Board of Directors will submit at the General Shareholders' Meeting a proposal to pay a gross dividend per share of euro 0.48, which corresponds to a 20.0% increase versus the amount distributed in 2006. The dividend yield (gross dividend per share/share price) rose from 2.94% to 3.20% while the consolidated payout ratio was 39.5%, which compares with 47.5% in 2006. Excluding extraordinary results the pay-out ratio would be 43%.

Shareholder Value Creation

OBES' main priority is to create value for the shareholders. Over the last fifteen years its organic growth strategy has resulted in value creation in the amount of euro 5.3 billion, which corresponds to a CAGR of 13.7%. This is based on adjusting the 2007 market cap to reflect the present value of the dividends distributed and the capital increases carried out since 1991, comparing with the market cap in 1991.

Shareholder Value Creation since Privatisation



* Considers only cash entries.
Note: Amounts in euro billion, market cap considering close price of 31 Dec 07 (euro 15.00)

Own Shares

Transactions involving the Bank's own shares in 2007 related exclusively to transactions carried out within the scope of its Share Based Incentive System (SIBA) (disclosure required under article 66 of the Companies Code).

On December 31st, 2007, BES held euro 41,437,000 accounted in "Treasury Stock", corresponding to 3,484,262 shares traded within the scope of the Share Based Incentive System, which is duly explained in the Notes to the Financial Statements.

	Number	Unit Value (euros)	Total (euros)
Balance as at 31st Dec/2006	-	-	-
Transactions during the year*			
Purchases	2,183,350	10.21	22,294,827
Disposals	2,183,350	10.21	22,294,827
Balance as at 31st Dec 2007	-	-	-

* Includes open market and OTC transactions

2.4 // Milestones and Main Events in 2007

2.4.1 // Milestones

1869

Banco Espírito Santo's origins date back to 1869, the year José Maria do Espírito Santo e Silva opened his Exchange business ("Caza de Cambio").

1884-1915

José Maria do Espírito Santo e Silva sets up several banking houses: Beirão, Silva Pinto & Cª. (1884-1887), Silva, Beirão, Pinto & Cª. (1897-1911), J. M. Espírito Santo Silva (1911-1915), J. M. Espírito Santo Silva & Cª. (1915).

1916

Following the death of its founder, the firm was replaced by Espírito Santo Silva & Cª., set up by his heirs and former partners under the management of his eldest son, José Ribeiro Espírito Santo Silva.

1920

The Banking house is made into a public company under the name of Banco Espírito Santo (BES). BES inaugurates its first branch at Torres Vedras.

1932

Ricardo Espírito Santo Silva is appointed Chairman of the Bank's Board of Directors.

1937

BES merges with Banco Comercial de Lisboa, creating Banco Espírito Santo e Comercial de Lisboa (BESCL). With 33 branches spread all over the country, BESCL has the broadest geographical coverage by private sector banks.

1946

To expand its operations into the Azores, BES purchases the largest savings bank in these islands.

1955

On the death of Ricardo Espírito Santo, BESCL's Secretary General, Manuel Espírito Santo Silva succeeded as Chairman of the Board of Directors.

1966

Launch of pioneering products, namely personal loans and traveller's cheques.
BESCL acquires the Blandy Brothers banking house, operating in Funchal (Madeira).

1973

In a joint venture with the First National City Bank of New York BESCL sets up Banco Inter-Unido in Luanda, Angola.

1975

The Portuguese credit institutions and insurance companies are nationalised.

1976

Creation of the Espírito Santo Group, under the leadership of Manuel Ricardo Pinheiro Espírito Santo Silva.

1986

In the same year that Portugal joined the EEC, the Espírito Santo Group sets up Banco Internacional de Crédito in Lisbon, in a joint venture with Caisse Nationale du Crédit Agricole.

1991

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

1992

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

1995

Incorporation of Banco Espírito Santo do Oriente, in Macao.

1999

On July 6th, BESCL changes its name to Banco Espírito Santo by public deed.

2001

Incorporation of Banco Espírito Santo de Angola and Banco BEST – Banco Electrónico de Serviço Total.

2002

Start-up of Banco Espírito Santo dos Açores, owned by Banco Espírito Santo as majority shareholder and by Caixa Económica da Misericórdia de Ponta Delgada and Bensaúde Participações, SGPS.

2003

Integration of ES Dealer (brokerage) into Banco Espírito Santo de Investimento.
BES acquires a stake in Locarent (rent-a-car), a joint venture created by BES, CGD and Serfingest.

2004

Conclusion of the merger by incorporation of Euroges, Besleasing Mobiliária and Besleasing Imobiliária into a new company called Besleasing e Factoring, IFIC, S.A.

2005

In September BES announces the merger by integration of Banco Internacional de Crédito (BIC), which was concluded by public deed on December 31st, 2005.

2006

In January the Banco Espírito Santo Group launches a new corporate identity. In February the Group announces the acquisition of 50% of BES Vida Companhia de Seguros, and a capital increase to take place in May. Proceeds from the capital increase totalled euro 1.38 billion.

2.4.2 // Main Events in 2007

February

1st
BES Group reports 2006 consolidated results. Net income reached euro 420.7 million, a year-on-year increase of 50.0% and corresponding to a return on equity (ROE) of 14.7%.

March

28th
Standard & Poor's international rating agency upgrades BES and BES Investimento credit ratings to A/A-1 (stable outlook), from A-/A-2.

29th
BES' General Meeting of Shareholders approves the management report, the individual and consolidated accounts for 2006 and the respective net income application, including a proposal submitted by the Board of Directors to pay a dividend per share of euro 0.40. The Shareholders also elected Jean Yves Hocher as a member of the Board of Directors, replacing Michel Victor François Villatte who had renounced his mandate on February 7th, 2007.

April

12th
Banco Espírito Santo and the Expresso newspaper launch the "Sustainable Future" programme, setting May as the "month of sustainability", an initiative that will take place every year.

13th
Payment of dividends on 2006 results. The gross dividend of euro 0.40 per share corresponds to a payout ratio of 47.5% on a consolidated basis.

26th
BES Group reports first quarter 2007 results. Consolidated income reached euro 139.8 million, corresponding to a year-on-year increase of 33% and to return on equity (ROE) of 15.3%.

May

8th
Banco Espírito Santo announces the conclusion of the merger by incorporation of its Spanish subsidiary into the Bank. The objective is to achieve greater operating efficiency through the use of common structures and to increase activity in the corporate segment in Spain.

18th
In the sixth edition of its Strategy Day, BES announces to the market the upward revision of its strategic objectives for 2006-2010.

28th
Within the scope of its "Sustainable Future" programme, BES promotes a conference on the challenges faced by Humankind in the 21st century, with the participation of Kofi Annan, winner of the Nobel Peace Prize in 2001.

July

4th
BES signs protocols with CNIS - Confederação Nacional de Instituições de Solidariedade (the National Confederation of Social Solidarity Institutions) and with União das Misericórdias (Social Solidarity Union). With these two protocols BES aims to stand as the reference banking partner of social economy institutions, reinforcing its leading position in this area.

25th
BES Group releases its first half 2007 results. Consolidated net income reaches euro 366.8 million, corresponding to a year-on-year increase of 83% and to a ROE of 20.5%.

26th
BES announces that Patrick Coudène has renounced his position in the Board of Directors, and that Michel Goutorbe was designated, by co-optation, to replace him.

September

19th
BES launches the "BES BIODIVERSITY Prize", a national annual award to support projects and initiatives developed in Portugal in the area of biodiversity research, conservation and management.

21st
Banco Espirito Santo enters the FTSE4Good Index . As the only Portuguese bank in this index, BES' inclusion reflects the reinforcement of its positioning as a socially responsible institution.

October

10th
BES informs that the Vice-Chairman of the Board of Directors, Jean Gaston Pierre Marie Victor Laurent, renounced the position for which he was elected at the General Meeting of March 30th, 2004.

25th
BES Group releases third quarter 2007 results. Consolidated net income for the first nine months of 2007 was euro 487.8 million, corresponding to a year-on-year increase of 60% and to a ROE of 17.9%.

November

29th
Banco Espírito Santo is considered the best bank in Portugal, by The Banker magazine (Financial Times Group).

December

31st
BES Group reaches net income of euro 607.1 million in 2007, corresponding to a year-on-year increase of 44.3% and a ROE of 16.6%.

Prizes and Awards obtained in 2007

BANCO ESPIRITO SANTO

Bank of the Year 2007 in Portugal

Banco Espírito Santo was considered “Best Bank of the Year in Portugal” by The Banker magazine. The Banker recognizes the success of BES’ organic growth strategy – unique in Portugal – that translated into a two-fold increase in the market share, from 9% in 1992 to 20% in 2007 as well as high profitability, efficiency and financial soundness levels.

Best Custodian Bank in Portugal

Banco Espirito Santo was considered by the Global Finance magazine as the Best Custodian Bank in Portugal. The relationship with clients, service quality, competitive prices, adequate treatment of exceptions, technological platforms, business continuity plans and knowledge of local regulations and practices were amongst the criteria supporting this decision.

Winner in the "Best Trade Finance Banks and Providers" category

For the second year in a run the Global Finance magazine named BES the Best Trade Finance Bank and Provider in Portugal. Decisive factors in the attribution of this accolade were the quality of products and services and level of specialisation in the area of International Trade transactions, the competitiveness of the solutions offered and support to the clients at various levels.

FTSE4Good

In September 2007 BES joined the FTSE4Good index, an international benchmark index that tracks sustainable development best practices among listed companies. This inclusion reflects the Bank’s positioning as a socially responsible institution.

ESPIRITO SANTO Investment

Best Research of Iberian Companies

The quality of research produced by BES Investimento was once again recognised by the AQ Research magazine with the award for “Best recommendations for Iberian Companies”.

Global Renewables Portfolio Refinancing Deal of the Year 2007

Project Finance Magazine awarded this prize to distinguish the bank’s role as lead arranger in the financing of the Global Wind Parks Portfolio of the Babcock & Brown Wind Partners Fund.

European Rail Deal 2007

Prize awarded by Jane’s Transport Finance magazine for the bank’s role as lead arranger in the financing of CB Rail.

best

Best Transactional Platform for Portuguese Securities

Banco BEST earned this prize in the "2007 Investor Relations & Governance Awards ". The prize is jointly awarded by Deloitte and the Semanário Económico and Diário Económico Portuguese newspapers.

Best Consumer Internet Bank

Prize awarded by the Global Finance magazine.

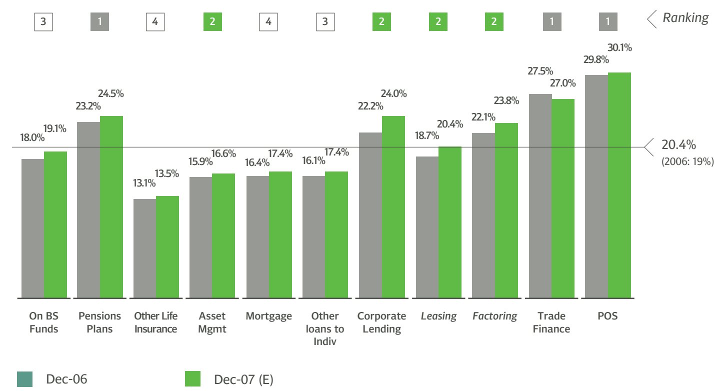
03
Strategy and Business Model

For Banco Espírito Santo Group the main pillar for development and strategic differentiation lies in the excellence of service and permanent focus on the needs of each client. Since its privatisation, its evolution was supported by the construction of a universal financial group serving all individual, corporate and institutional customer segments, offering a full range of financial products and services that meet their needs through distinctive approaches and value propositions. BES Group's positioning thus has at its core three basis elements: (i) profound knowledge of the needs of each customer segment, (ii) development of the offer in accordance with the needs identified, and (ii) proposing the solutions that best suit each customer segment.

BES Group's Multi-specialist Market Approach

Since its privatisation in 1992 BES Group has followed a clear and consistent strategy of organic growth in the domestic market, developing an approach to the market based on a multispecialist model. Through organic growth the Group achieved a clear position and strong commercial growth in the individual and corporate client segments. As a result, its average market share more than doubled between 1992 and 2007 – from 8.5% to 20.4% -, having advanced by 1.4 percentage points between 2006 and 2007.

Market share per product and average market share



The Group maintains as one of its strategic objectives to increase the domestic market share in both the individual and the corporate client segments. This reinforced positioning will ensure strategic autonomy, on the one hand, and a high level of value creation and profitability, on the other.

In May 2007 BES announced an upward revision of its medium-term targets for 2006-2010. In fact, due the Bank's particularly good performance it was considered opportune to revise the objectives established at the time of the capital increase concluded in 2006, which had as a timeframe the year 2009.

BES Group is thus set to pursue sustained growth in the domestic business in order to reach an average market share of 22% in 2010, complemented by an increased contribution of the international business to its financial performance. Efficiency will remain a strategic priority, with the cost to income projected to drop to below 45% in 2010. Net profit is thus expected to post a CAGR of 20% between 2006 and 2010, permitting to arrive at a return on equity of 19% at the end of the period. A strict capital discipline will be pursued so as to maintain a minimum Core Tier I ratio of 6%.

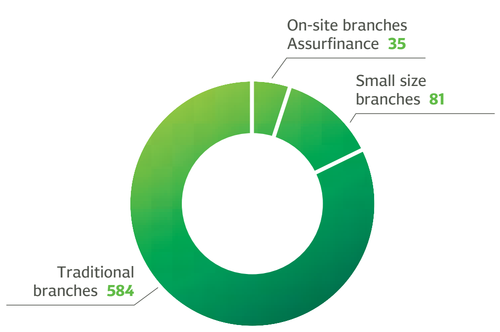
These objectives have as key assumptions, on the one hand, the gradual but sustained recovery of the Portuguese economy – with the consequent increase in domestic banking business, namely in customer loans and customer funds -, and on the other the persistence of favourable conditions for growth and development in the countries where BES Group is present, namely in the strategic triangle formed by Spain, Angola and Brazil.

3.1 // Retail Banking

The specialisation of the commercial approach to focus on the clients' financial needs led over the years to the creation of distinctive value propositions in retail, namely targeting the affluent segment (the BES 360 service) and the segment of small businesses and independent professionals (emphasising growth in sectors of activity with higher income generating potential and lower risk levels). After consolidating the approach to the higher value segments, considerable effort was put into innovating and improving the value proposition for the other individual customer segments. This effort was focused on (1) the standardisation of products and services and (ii) an approach that took into account the customer's life cycle.

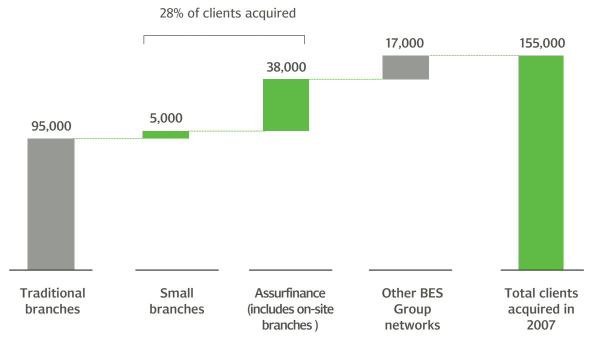
Distribution capacity is a key factor for the reinforcement of a competitive position in retail. The network of branches in Portugal was therefore expanded in 2007, in particular through the design of new formats that are both more efficient and more flexible – smaller branches and assurfinance on-site branches (in partnership with insurance agents within the scope of the Assurfinance programme). At the end of the year BES Group had a domestic network of 700 branches, with the new formats accounting for 17% of the total. The strong results delivered by these new branches confirm the potential identified in the areas where they were established: client financial involvement is 10% above the branches' business plan and break-even should be reached in their second year in operation.

BES Domestic Branch Network in 2007



Through this expansion strategy, allied to the initiatives taken to capture new clients, BES Group attracted 155,000 new individual clients since the beginning of 2007 (150,000 new clients in 2006). It should be stressed that this effort has allowed the Bank to rejuvenate the client base, especially by a strong contribution from clients that are less than 30 years old.

Client acquisition by type of branch in 2007 (no. of clients)

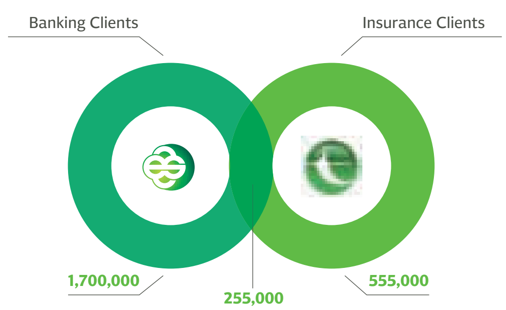


The consolidation of the segmented commercial approaches to address the financial needs of each segment with an increased level of specialisation also led to an increase in the number of loyal clients in 2007.

Assurfinance: A partnership of success between BES and Tranquilidade

The Assurfinance programme resulted from a partnership established between BES Group and Tranquilidade with the objective of fuelling client acquisitions among Tranquilidade clients that were not BES clients. This agreement allows the Tranquilidade agents to offer their clients a wide range of financial products (insurance and banking products) designed to meet their needs.

BES and Tranquilidade Client Base



This joint effort, which has resulted in an accumulated acquisition of over 94,000 clients, has been contributing to the performance of BES Group's retail banking activity.

Currently, approximately 46% of Tranquilidade's clients are already BES clients, which compares with roughly 30% at the start of the programme. The programme currently involves a total of 1,200 agents. In 2007 these agents captured around 38,000 new clients for BES and contributed with 16.5% to the Bank's total mortgage production, which compares with 15% in 2006 and 8% in 2000 (when the programme was set up).

The T-card, which links BES' financial offer with Tranquilidade's insurance offer is an important customer loyalty enhancing tool, with more than 43 thousand cards placed in 2007. These results stem from the cross selling and cross segment initiatives developed in 2007, such as the T-Card promotion (payment on credit permitted) for Auto Insurance holders.

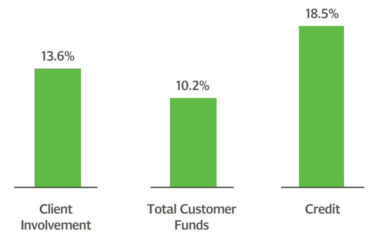
The Bank's client acquisition capacity was also further reinforced in 2007 by the introduction of a new concept of cooperative distribution, the "assurfinance on-site branches", of which there were already 35 by the end of the year.

BES 360: a reference in financial advisory services

The BES 360 service is characterised by high quality standards and guaranteed service levels. The affluent client is at the centre of the relationship with the Bank, benefiting from the permanent support of a specialised dedicated Account Manager, and an exclusive offer of products and solutions tailored to meet his needs. BES 360 offers a financial planning tool, the "360 Map", which traces the clients' entire financial life in order to map out the best way to achieve their financial objectives, subsequently producing a recommendation concerning the investments that best suit their profile. This is a pioneering service in the Portuguese market, which, while offering considerable advantages to the customer, further reinforces BES Group's already strong competencies in the area of financial advisory services. By the end of 2007, approximately 50,000 clients had already tried a session of the 360 Map, and of these, more than 75% strongly recommended it to a colleague or relative. These results attest to the uniqueness of the offer and service level provided by BES360.

In 2007 the loyal customer base in the BES 360 segment increased 9% year-on-year with the respective financial involvement rising by 14%.

Growth of BES 360 Segment (Affluent Clients)



Client involvement = Funds + Credit

Small Businesses: BES First Bank for Clients in the Small Businesses Segment (companies and respective partners)

The activity developed in 2007 in the small businesses segment focused on the reinforcement of BES' position as the first bank of its small business clients, promoting a banking relationship that includes not only the companies but also the respective partners. In order to reach this objective and enhance the value proposition for the segment, several initiatives were taken. These included redesigning and renovating the offer and approaching new client niches, with Cash Management and Protection/Security featuring as highlights of the renewed offer. The results achieved surpassed all expectations.

Client acquisition growth thus pursued at a high pace, particularly in sectors considered strategic, where the increase reached 28%. With more than 12,000 clients acquired in 2007, this was an all-time record. This growth dynamics went hand-in-hand with a strict monitoring of risk levels, resulting in a very positive performance in terms of the quality of the credit portfolio.

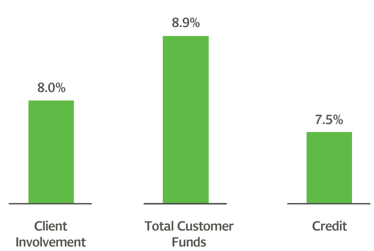
Among other measures to reinforce the competitive positioning as the everyday bank of choice of Clients in the Small Businesses segment, the cash management offer was reformulated. The renewed offer, which met with high acceptance and interest on the part of the clients, includes the following features:

- the "BES Negócios Tesouraria" accounts now permit to carry out the main banking transactions through the internet (BESnet Negócios), at no charge for the client. This development further reinforced this account as the core product in this segment. It is now held by approximately 50,000 clients, and subscribed by 80% of the new clients.
- a "Treasury Box" package, including an Electronic Funds Transfer at Point Of Sale terminal (EFTPOS terminal), was launched within the scope of the Points of Sale (POS) offer. Thanks to this and other retention initiatives the increase in the number of installed EFTPOS terminals was ten times higher than last year.

One of the main activity guidelines in 2007 was to reinforce the reach among the partners of small business clients, with the aim of leveraging growth and consolidation in this segment. Increased focus on a proactive approach to the needs of these clients thus resulted in a strong rise in acquisition levels of small businesses' partners (+42% vs 2006). The enhancement of the Protection/Security offer – an area where BES Group has been reinforcing its leadership and effective differentiation vis-à-vis the competition - was a key contributor to this result. The main initiatives taken in this area were:

- redesign of the Non Life Bancassurance Offer in the last quarter of 2007, resulting in a nearly two-fold increase in production;
- launch in September of an innovating protection solution, the "Global Protection Plan", which combines in a single product a retirement savings plan, a life insurance policy and an optional health insurance policy; the particular attractiveness of this solution for this specific group of clients, i.e., the partners in small businesses, where a safety net is usually deficient or even non existent, was patent in the number of subscriptions achieved, which surpassed 2,600.

Growth of Small Businesses Segment



Client involvement = Funds + Credit

Mass Market Segment – Greater Focus on the Client, enhanced commercial proactivity

2007 was the year for consolidating the repositioning of the commercial strategy and approach to the Mass Market Segment, with results that further reinforced BES' leading share in this market segment.

Below are some examples of the permanent flow of innovation and focus on the customers' life cycle that definitely contributed to these results.

- the BES 100% account (campaign "10-0"), offering a wide range of free daily banking bundle (with salary transfer or purchase of a Pension Plan);
- the Fixed Rate Mortgage Credit (particularly relevant in a year such as 2007, when the Euribor rose sharply)
- the White Card (credit card charging zero interest for ever); and
- the Global Protection Plan (Retirement savings Plan combined with life insurance covering the risk of death and disability).

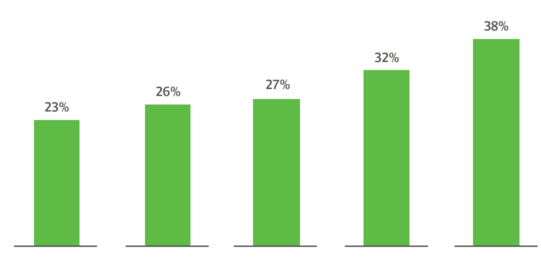
Client acquisition initiatives were stepped up, including the reinforcement of the Assurfinance programme, the cross-segment programme (which targets the employees of companies that are BES customers) and the programme of ethnical promoters.

Training plans were redefined, and a full revision was made of the branches' working tools, with the purpose of making them simpler, more flexible and integrated to ensure true customer focus, seamless commercial production, and enhanced proactivity at the frontline. The proactive exploitation of commercial opportunities was also enhanced on a multi-channel basis (branch, internet, phone, text messaging, e-mailing).
Customer funds thus increased by more than 10% in 2007, with sales growth surpassing 30% and the net customer base expanding by 10%.

Backed by the consolidation of segmented approaches, Retail Banking grew across the board:

- High customer funds growth, with off-balance sheet customer funds rising by 7.1%, underpinned by BES Group's strong positioning in investment solutions. The Retirement Savings Plans portfolio grew by 18.2%, raising the Bank's market share to 30% and reinforcing its leadership in this product. The discretionary asset management business registered an increase of 73%. On-balance sheet customer funds also exhibited vigorous growth, with term deposits rising by 15% year-on-year.
- Growth in customer loans, supported by an 8.1% increase in mortgage credit production (with 50% of the credit granted to low risk affluent clients). Other loans to individuals were up by 17.5%, with consumer credit rising by 31.8%, being concentrated in lower risk clients and supported by targeted communication campaigns.
- Sustained increase in cross-selling, a critical growth driver in retail banking. BES achieved a substantial rise in the sale of products (31%), namely credit cards (+16%), life insurance (+27%) and non life bancassurance (with home insurance and car insurance growing by respectively 38% and 26%). As a result of this performance, the product ownership rate increased on average by 0.16 products per client, an improvement that was felt across all retail subsegments.

Production Growth in Mass Market Segment



3.2 // Private Banking

BES Group develops its private banking activity in Portugal through a network of 29 Private Banking Centres. The offer for this segment is based on an integrated vision of the client, delivering investment solutions tailored to meet their financial and asset management needs. Building a relationship based on trust is essential in this activity, and this is ensured by private bankers with high technical and relational competencies. The steering guidelines of the private banking offer are independence in advisory services, asset allocation propositions adjusted to the clients' risk profile, and excellence in customer service.

With the level of customer requirements increasing in line with the ever greater sophistication of products and services, a number of commercial initiatives aimed at improving advisory and monitoring skills in the private banking segment were taken in 2007. Along these lines, the sub-segmentation of the private banking client base permitted an in-depth analysis of the specific needs of each sub-group and hence better adjust the offer to these groups' real needs. On the other hand, the reinforcement of the team of specialists permitted to improve the service provided, delivering the most complex financial solutions to the more demanding clients.

Private banking clients thus benefit from these new private bankers /experts teams, which have the expertise to monitor highly complex investment propositions.

The private banking offer was extended and reinforced through the launch of specialised products and services:

- The offer of unit linked products was reinforced through the inclusion of new products - Private Invest 30, 50, 80 and 100 -, and development of the offer of individual unit-linked products, which permit a customised management of the assets of wealthier clients.
- The offer of real estate funds was greatly enhanced, namely through the launch of closed-end funds devoted to urban redevelopment, with high potential return, and the creation of private real estate funds to manage the real estate assets of private banking clients.
- A financial advisory service ensured by a specialised investment banking team was made available to private banking clients. Among others, this advisory service assists on matters such as the management of business initiatives, succession issues, opportunity studies, and company evaluations.
- A new insurance offer providing a specialised and high quality monitoring service, and competitive prices, reinforced the global offer of insurance services.

The financial involvement of private banking clients grew by 13.6%, with assets under management representing 89% of the total. Banking income increased by 12.3% in this segment.

Private bankers also saw their organisation capabilities enhanced through the introduction of Customer Relationship Management (CRM) tools, with permit to improve client monitoring processes. Finally, the development of Know Your Customer (KYC) schemes effectively permitted a better knowledge of the clients.

3.3 // Corporate Banking and Institutional Clients

BES' positioning in the Corporate Banking segment has been consistent with the evolution of the business world's reality in recent years. Based on a central structure that supports the commercial network for the corporate segment, in 2007 BES multiplied and intensified initiatives to dynamise the commercial activity of the national and international economic agents that maintain financial relations with BES.

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

Middle Market

Through a large part of the year, growth in the SME business segment benefited from the recovery of the economy, and in particular of the exporting industry. This performance was also underpinned by the Group's strong foothold in this segment and consistent support to the internationalisation of Portuguese firms.

The consistency of this performance is the outcome of the strategy implemented since the creation of an autonomous structure dedicated the SME segment. In 2007, this strategy followed three major policy guidelines: (i) to increase the low risk customer base; (ii) to reinforce the product ownership rate in the customer base and (iii) to further improve the quality of the credit portfolio.

Establishing and maintaining a database of potential customers with a good risk profile has proved to be a priceless customer-acquisition tool, leading to the acquisition of 950 new active customers in 2007, which represents a year-on-year increase of 36%. On the other hand, the initiatives taken to boost customer loyalty and therefore to increase the share-of-wallet in the SME business segment permitted to raise BES' market share in this segment to 24% (up by 1.6 pp on last year) and to expand the loyal customer base by 9%.

In line with the Group's support and endorsement of innovation, innovating start-ups deserved special attention and a commercial network was specifically developed for incubators, universities and innovation centres. BES has had a pioneering role in Portugal in supporting Innovation and

Entrepreneurship, having created the BES National Innovation Contest, which had its 3rd edition in 2007, and promoting the development of companies through its subsidiary ES Ventures (venture capital).

Continuing to support the internationalisation of Portuguese companies, BES jointly organised with AICEP and AIP a 2nd edition of Fórum Missão Exportar (Export Mission Forum) – which served to promote the 10 markets showing greater potential for exports and investment by Portuguese companies -, also maintaining its programme of Business Missions abroad.

"Fórum Missão Exportar"

The second edition of the Fórum Missão Exportar was held in November 2007. The purpose of this event, which is organised by AIP, AICEP and BES, is to promote the internationalisation of Portuguese companies, expanding the national exporting base.

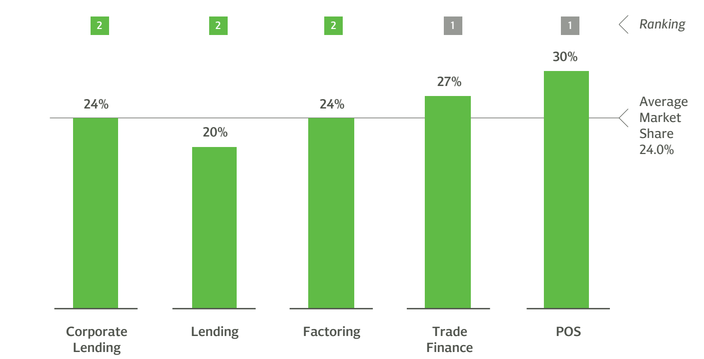
During the working sessions dedicated to the international markets, the companies participating in the forum could attend Banco Espírito Santo's presentations on the existing business opportunities in 10 strategic markets for Portuguese exports: Argentina, Angola, China, Brazil, Spain, US, India, Morocco, Poland and Russia.

The Bank also held individual meetings with these companies, where its teams of trade finance experts assisted in finding customised solutions to each case, with a view to increasing the contribution of foreign trade to these companies' turnover.

BES Group has a broad-based offer of products and services that encompasses all the needs of its corporate clients. These include not only traditional banking products and services, but also sophisticated solutions provided by dedicated expert teams. Revenues generated in derivative products (foreign exchange and interest rate risk hedging instruments) were up by 141% year-on-year. Financial advisory services, an investment banking service for medium-sized companies, continued to post very positive results, with revenues growing by 21%. Emphasis on trade finance services and support to the international operations of medium-sized companies was maintained – a year-on-year increase of 14% sustained BES' leadership in this business area, with a market share of 27%. In the area of human resources solutions, sales of life and capitalisation insurance products performed well, with the respective portfolios growing by 60% and 23%, respectively. The cross-selling of non-life insurance products with Companhia de Seguros Tranquilidade provides a very good complement to the banking offer, leading to revenue growth of 58%. In renting (vehicle hire and fleet management), more than 1,100 vehicles were placed in SME clients.

These results permitted to raise the weight of fees and commissions in banking income for the middle market segment from 7.8% in 2006 to 9.5% in 2007, which reveals the increasing diversification of revenue sources. This performance was underpinned by a profound knowledge of the clients achieved through the definition of optimum portfolio size, the corporate managers' focus on the client and the enhancement of sales support instruments.

BES Market Share in the Middle Market Segment



The clients continue to recognise and value the Bank's speed in decision-taking and the consistency of its credit policy, which is supported by high quality tools to assess risk and optimise risk/return. These tools have permitted to improve the credit-decision process, leading to a faster and more efficient response, and to improved risk levels and risk adjusted return. Underpinned by the referred initiatives aimed at reinforcing both the share-of-wallet in lower risk clients and the level of client acquisitions, the loan portfolio in the SME segment continued to grow significantly above the market's increase. In specialised credit, equipment leasing production grew by 31.6%, to euro 708 million, while real estate leasing production was up by 25.5%, reaching euro 653 million. In the factoring and confirming businesses, production volume was euro 3 705 million, growing by 6% year-on-year.

Large National Corporates

In the Large Corporates segment, significant advances were made in the banking relationship with the majority of clients, leading to an increase in product ownership rates. The Bank participated in important projects in areas such as the manufacturing industry, renewable energies, transport infrastructures, ports, logistics and the agribusiness. By supporting the acquisition of companies or assets by various economic groups, BES not only continued to support the growth and dynamics of the business community but also consolidated and reinforced its presence in the market.

Backed by its international network, BES Group also supported the

AICEP – Agência para o Investimento e Comércio Externo de Portugal (Portuguese Business Development Agency)
AIP – Associação Industrial Portuguesa (Portuguese Industrial Association)

internationalisation of its corporate clients, namely their investments in Europe (particularly in Spain), North Africa, Angola, Brazil and in the US.

Subsidiaries and Branches of Multinational Companies

BES Group has played a prominent role in supporting multinational companies in various sectors of activity that use their subsidiaries in Portugal as a platform to enter the Community of Portuguese Speaking Countries (CPLP), particularly Angola. The Group's know-how, local presence, cultural affinities, and global offer of products and services are competitive advantages perceived by these companies, contributing to highlight Portugal and the Group as major players in these countries' growth strategies.

Although the trend has persisted amongst multinational companies to increasingly centralise their cash management, there was an increase in both funding obtained from these companies and their financial involvement. This is basically explained by enhanced loyalty to the Bank, for which the development and increased sophistication of the offer, namely through innovative electronic payment means, was a key factor.

Multinational companies with branches and subsidiaries in Portugal find in BES a commercial team that is specialised by countries of origin and which, in close articulation with BES Group's international network, can provide a global range of products and services. BES thus positions as the main local bank for multinational companies with subsidiaries in Portugal.

Municipalities and Institutional Customers

Clients in the public sector (central and local government) and Social Solidarity Institutions have the support of expert teams based in Porto, Coimbra and Lisbon, which are backed by Banco Espírito Santo's network of more than 700 branches. BES develops its activity in this segment through the extension of long-term loans for investment projects and the provision of cash management services through electronic means. On the other hand, the Bank seeks to capitalise on the relationship with these clients through cross-selling actions targeting the employees of these institutions.

In the area of regional development, BES has a leading position within the scope of the Ministry for the Economy's Finicia programme – Axis III as the financing bank of 90% of the protocols established with the municipalities (38 protocols established so far).

As to social solidarity institutions, in 2007 Banco Espírito Santo signed protocols with CNIS (The National Confederation of Solidarity Institutions) and with the União das Misericórdias (Social Solidarity Union), offering them preferential commercial terms. This bet on an area with an important weight in the national economy – the so-called "social economy" - has made Banco Espírito Santo the reference partner in this sector.

3.4 // Investment Banking

BES Group's investment banking business, led by Banco Espírito Santo de Investimento, offers clients a wide range of specialised products and services, including advisory services in mergers and acquisitions, access to transactions in the capital markets (equities and debt), brokerage and portfolio management services, leveraged finance, project finance and private equity.

The investment banking business strategy is based on two main pillars: (i) maintaining a leading position in the Portuguese market and (ii) selective expansion of international activities, reinforcing the reach in the world's main financial centres and in markets with high growth potential to deliver an increasingly wide offer of products and services that adequately meet the needs of the clients.

In Portugal, BES Investimento remained a reference player in the various areas of investment banking, specifically in financial advisory services, capital markets, structured finance and private equity. In 2007 the Bank was market leader, by number and amount of operations, in Mergers and Acquisitions, maintained a prominent position in brokerage, and participated in all the main capital markets operations, namely the initial public offering of Martifer, SGPS, S.A. or the issue of exchangeable bonds of Portugal Telecom International Finance B.V.. In Project Finance, the Bank led the euro 1,690 million refinancing of Babcock & Brown Global Wind Partners, one of the largest operations ever carried out in the world in the renewable energies sector. In Private Equity, a new fund was launched, the first specialising in infrastructure investments in the Iberian market.

In the main geographies where the Bank operates, a significant effort was made to accelerate activity growth. In Brazil, the Bank took part in several capital markets operations, initiated Structured Credit activities and saw the work of its equity research team rewarded by the 7th place in the ranking of the Institutional Investor magazine. In Spain the Bank remained high up in the ranking of brokerage houses (6th place), while reinforcing Leveraged Finance and Capital Markets activities. Finally, in London, BES Investimento led important Project Finance operations, thus maintaining the prominent position achieved in previous years. As a result of the work developed, BES Investimento was the first Portuguese Bank in all the 2007 Project Finance League Tables (Dealogic, Thomson Financial and Infrastructure Journal), ranking prominently in the Renewable Energies and Wind Sectors (respectively 4th and 3rd).

The expansion of the international business also faced important developments in other markets. In Poland, an application was filed to open a branch in Warsaw, essentially to carry out Brokerage and Capital Markets activities, while the stake in Concórdia Espírito Santo Investment was increased to 75%. The aim is to increase this country's contribution to the investment banking business. A request was also made to open a branch in New York, to operate in the areas of project finance, fixed income, capital markets and mergers and acquisitions, capitalising on: (i) a direct presence and origination capacity in Brazil, (ii) the capital markets activity pursued in the Iberian Peninsula and Brazil, and (iii) the existing relations with reference clients in the project finance business, particularly in the infrastructures and renewable energies sectors.

3.5 // Asset Management

Espírito Santo Activos Financeiros (ESAF) is BES' subsidiary for the asset management business, operating in Portugal, Spain, Luxembourg and the United Kingdom. At the end of 2007 ESAF had total assets under managements (off-balance sheet funds and CDO contracts) in excess of euro 20 billion.

Mutual Funds

Total assets under management reached euro 4,994 million at the end of 2007. As part of the continuous effort to match the product offer to the clients' needs, a new fund was launched - Fundo Mobiliário ES Momentum – Fundo de Acções Internacionais -, the ES Portfolio Dinâmico fund was merged into the ES Estratégia Activa II fund and the group of Invest Funds was liquidated.

In Luxembourg, BES Group has four funds under management targeting clients with a wide range of risk profiles. At the end of 2007 the aggregate volume in these funds was euro 1,213 million. (i) The ES Fund, which has 8 compartments (shares and bonds), reached euro 514 million in December 2007. (ii) The Global Active Allocation Fund, targeting individual clients and institutions, posted excellent growth, with volume surpassing euro 100 million, corresponding to a year-on-year increase of 49%. (iii) The Caravela Fund SICAV, made up of 5 compartments, saw assets under management grow to euro 561 million, up by 8% on 2006. (iv) The SICAV European Responsible Consumer Fund, whose investments take into account ethical, environmental and social concerns, surpassed euro 30 million at year-end. This fund is sold in Portugal, Spain, Italy and Luxembourg.

Real Estate Funds

ESAF remained at the lead of the market of real estate funds, with a share of 12.3%. Total assets under management reached euro 1,289 million, represented by 20 mutual funds (2 open-end and 18 closed-end funds) targeting clients who wish to invest in real estate for a predetermined period of time.

A new open-end real estate fund was launched this year – the ES Logística – targeting investors looking for a diversified portfolio of real estate assets essentially linked to logistics and distribution.

Pension Funds

In Pension Funds, assets under management surpassed euro 2.8 billion, a year-on-year increase of 7%. Bearing in mind the characteristics of the market, the strategy of attracting new collective subscriptions to open-end pension funds was pursued in 2007.

Discretionary management

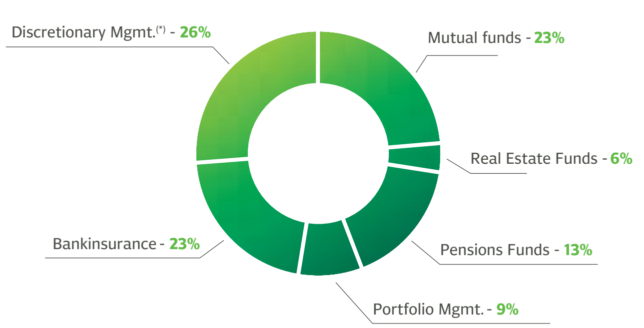
Pursuing the growth trend registered in the previous year, in 2007 total assets under management grew by 10%, with new mandates being obtained in both the individual and the institutional client segments. In the individual clients' discretionary management business volume growth reached 13.9% year-on-year.

Discretionary Portfolio Management

The Discretionary Portfolio Management Service, launched in 2006, positioned BES as a reference bank in financial advisory services, by extending to all clients services that traditionally were only available to those with substantial sums to invest. The clients thus benefit from a specialised asset management service with conservative targets and affording a higher return than traditional savings products.

Based on to these characteristics, the Discretionary Portfolio Management Service was very successful in 2007, ending the year with 28,000 placements and assets under management in excess of euro 1.8 billion, corresponding to a year-on-year increase of 70%.

Asset Management: Breakdown per Product



(*) Includes discretionary mgmt of institutional and individual clients

3.6 // International Activity

BES Group's international activity is developed in markets with cultural and economic affinities with Portugal, and its expansion is essentially oriented to the triangle formed by Spain, Angola and Brazil. The Group's international presence is mainly focused on specific areas where it holds competitive advantages, exploiting markets and/or business areas with high growth potential, leveraging on the experience obtained (and in some areas the leading position) in the domestic market.

Faced with the increasing globalisation and openness of the financial markets, BES Group's international expansion also reflects the need to obtain the economies of scale and operating efficiency gains afforded by a wider scope of operations. The Group's strategy is to serve local customers in target segments but also customers doing business on a trans-national scale.

Spain

2007 was a very representative year in the strategic path of BES Group in Spain. In structural terms, the most important step was the transformation of BES (Spain) into a Banco Espírito Santo branch. This change was fundamental to achieve the established objectives of strong growth in Spain, obtain synergies in the commercial and administrative areas within the Group and consequently achieve greater operational efficiency, capitalising in Spain the capacities recognisably displayed in Portugal. Private/affluent banking, and corporate banking, are the main business lines developed in Spain.

In the Private banking segment, a project was initiated in 2007 – the "Ruta BES" project – aimed at completely restructuring the branches' working posts in order to reduce the administrative workload and standardise the commercial activity. This project is being successfully implemented in all the branches.

In corporate banking, the business model where the Client is viewed from an Iberian perspective was consolidated. The offer targeting the needs of this Iberian Client is increasingly fine-tuned and adjusted to the economic trends shared by Portugal and Spain.

France

The Group's activity in France is carried out by Banque Espírito Santo et de la Vénétie, where Banco Espírito Santo holds a 40% stake. In 2007 the bank maintained its activity concentrated in the corporate banking business, particularly in the arrangement or participation in leveraged finance operations and real estate financing operations. In addition, the bank also provides financial services to the community of Portuguese residents in France who are BES clients in Portugal.

United Kingdom

In the United Kingdom BES Group's activity is focused in wholesale banking in the European markets, alongside investment banking, particularly project finance, which is developed on the international markets.

In wholesale banking, the business is concentrated in syndicated credit transactions, leveraged finance operations and commodities structured trade finance. The programme of Certificates of Deposits, which are placed with corporate and institutional clients, is also particularly important.

In project finance, BES Group is recognised as a major European player in the financing of international projects. As a result of the important operations led in 2007, the Group was the first Portuguese Bank in all the 2007 Project Finance League Tables, ranking fourth in the global renewables sector and third in the global wind sector.

BES Group has also developed an offer of products and services for Portuguese companies based in the UK as well as for the community of Portuguese residents in the country. Finally, it also offers mortgage loans for residential tourism in Portugal, essentially to British and Irish individual customers.

United States of America

Through Espírito Santo Bank, the Group develops international private banking activities in Latin America, where its main customers are the communities of residents of Portuguese origin. This activity is supported by a broad offer of investment products in the North-American financial markets.

Through its New York branch, BES Group carries out medium and long-term syndicated credit operations, trade finance operations, and more recently, project finance operations. Equally important is the issuance of commercial paper and Certificates of Deposit, which are placed with corporate and institutional investors.

Brazil

In Brazil, the Group develops investment banking activities through BES Investimento do Brasil, which resulted from a joint venture with Banco Bradesco. Though operating mainly in the capital markets (primary and secondary, equities and fixed income), the bank's area of financial services has gained an increasingly relevant position in the local market, in particular through participation in significant merger and acquisitions. In 2007 BES Investimento do Brasil reached 7th position by number of transactions in the Mergermarket M&A ranking for Brazil. In cash and risk management, the Bank's intervention in the local market with derivatives, swaps, options, and even structured products has led to significant growth in the portfolio of private assets.

In asset management, the management of hedge funds was initiated in 2007.

In securities brokerage, the business mainly targets institutional clients. A professional and dynamic equity research team has permitted to extend services to Brazilian companies in various sectors of activity, consolidating client acquisition efforts.

Project finance and private equity were recently included in the range of services provided. The enlargement of the offer thus permits a more aggressive market positioning, and an important step was taken through operations carried out with the Brazilian National Development Bank in the financing of infrastructure projects, and in the analysis of investments in various sectors, namely bioenergy, retail, wastewater systems, logistics and real estate.

Finally, BES Group also enjoys a strong foothold among Portuguese and Brazilian companies, with 200 clients already conquered in the corporate segment.

Angola

In Angola BES Group operates directly in the local market through Banco Espírito Santo Angola, which provides a global service to individual and corporate clients. In private banking BESA focuses its activity on the segment of affluent clients, supported by a network of 21 branches and 5 outlets distributed through 6 provinces. The corporate banking business mainly acts in this market by (i) enhancing commercial partnerships with medium sized companies operating in Angola, namely financing their investment projects, supporting their cash needs, or providing them technical and legal support, (ii) and supporting Portuguese companies and entrepreneurs that are expanding their activity to Angola. At the same time, BES Group also has a specialised team dedicated to supporting exports to Angola. BES Group also has an important role in supporting exports to Angola, having a specialised team for the purpose.

The area of investment banking has also been expanding, tracking business opportunities and participating in the execution of project and corporate finance operations. In particular, BES Group, through its local subsidiary, led the structuring, arrangement and placement of the largest public debt issue carried out in Angola.

In line with its pioneering role in offering financial solutions to its clients in the local market, at the beginning of 2008 BES Angola obtained an authorisation to set up one of the first investment firms in the country.

Macao

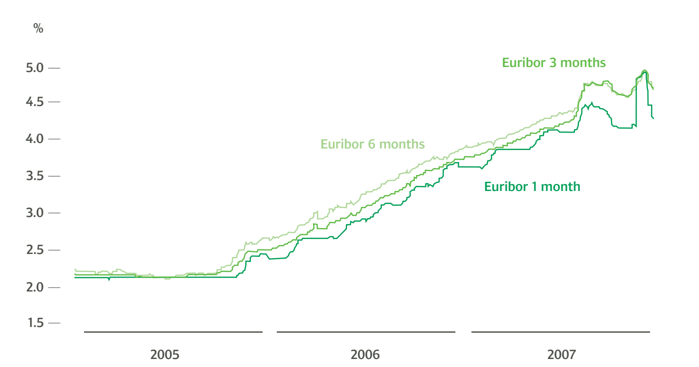
The Group is present in Macao through its subsidiary BES Oriente, whose main activity is to support the business operations developed by Group clients in the region, while seeking to seize business opportunities leveraged by the expressed intent of the People's Republic of China to consider Macao as a platform for economic cooperation between China and Portuguese speaking countries.

04
Economic Environment

4.1 // International Economic Situation

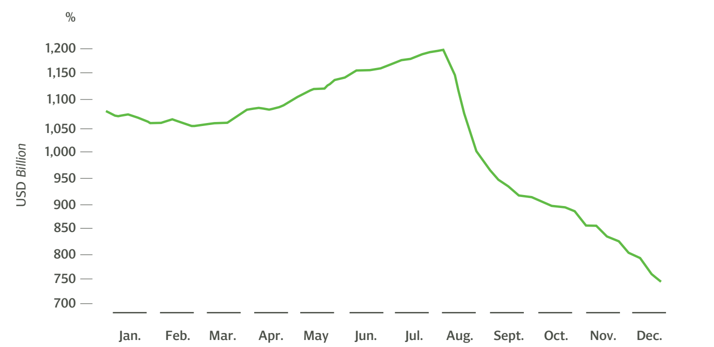
The world economy and the financial markets were marked in 2007 by the effects of the subprime mortgage credit crisis in the United States. From the end of July the adjustment of the housing market and the rising rate of defaulting loans in the US caused a significant devaluation of high risk securitised credit. Uncertainty concerning the real extension of this type of credit as well as the size of the losses to be incurred by the financial system in turn led to a strong deterioration in investor confidence levels, spurring a "flight to quality" and a drying up of liquidity in the money and credit markets. In the Euro Area, the 3-month Euribor rose from 3.725% to a peak of 4.953% in mid-December, subsequently sliding to 4.684% following large injections of liquidity in the money market by the European Central Bank (ECB). Immediately before these interventions, the spread between the 3-month Euribor and the rate of treasury bills for the same maturity had reached a maximum of 115 basis points, which represents a widening of 95 basis points relative to pre-crisis values. The yield on 10-year public debt securities fell from an all-year high of 4.677% (in July) to 4.307% while spreads on credit default swaps widened by some 50 basis points, reflecting higher uncertainty and a diminishing availability of credit.

Euribor Rates



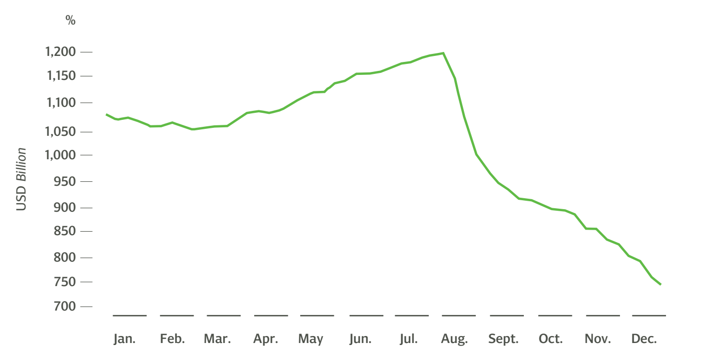
Source: Bloomberg

Spread between 3-month Euribor and Treasury bills



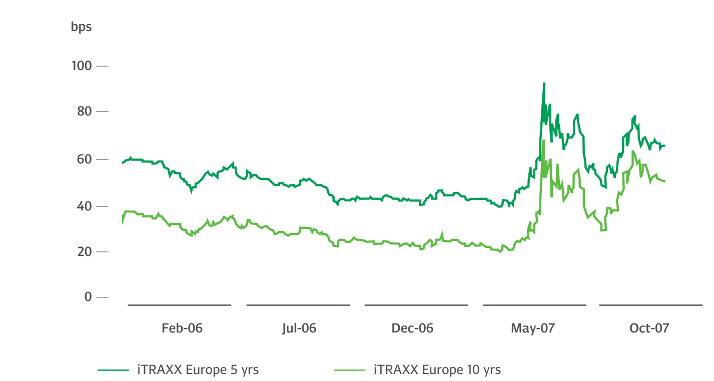
Source: Bloomberg

Outstanding Asset-backed commercial paper



Source: Bloomberg

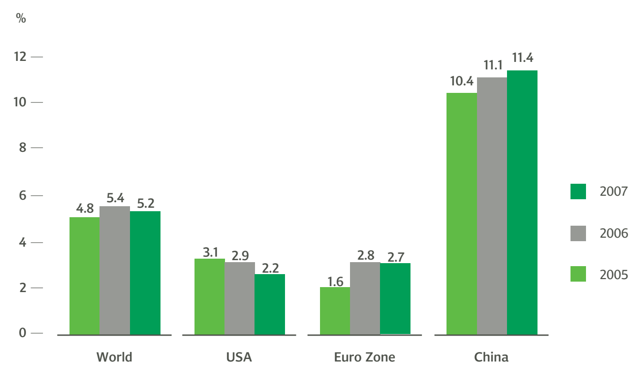
iTraxx indices – CDS Spreads (Euro, 5 years)



Source: Bloomberg

A more restrictive monetary and financial environment led in the last months of the year to a deceleration of activity in the main developed economies, causing their annual growth rate to drop from 3% to 2.6%. Nevertheless, driven by the favourable performance of the emerging and developing economies, which posted GDP growth of 7.8% (7.7% in 2006), the global economy registered another year of sharp growth, which is estimated at around 4.9% (5% in 2006).

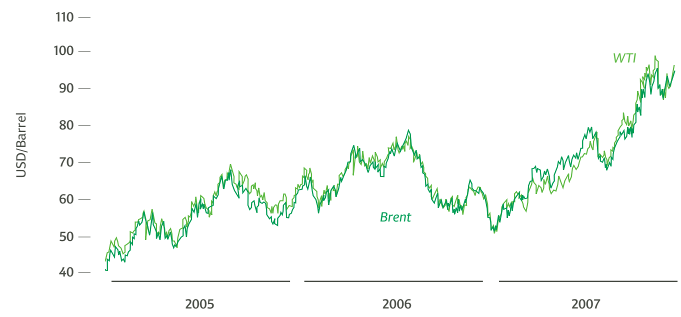
World GDP (in real terms)



Sources: IMF and European Commission

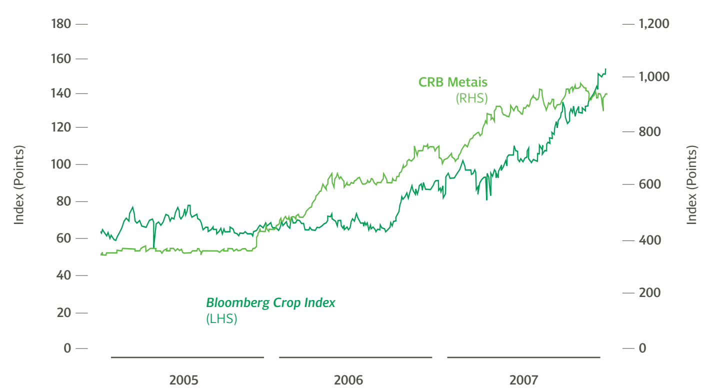
2007 also saw a substantial increase in the price of oil, reflecting the existing imbalance between the growth rates of supply and demand. The effects of this imbalance were further blown up by rising geopolitical risks, the depreciation of the USD and an increase in speculative demand. In average annual terms, the price of Brent rose from USD 65.4/barrel to USD 72.5/ barrel, hitting a peak of USD 94/barrel at the end of the 4th quarter. Non-energy raw commodities, and in particular food commodities, also suffered significant price increases. Strong demand, essentially caused by rising per capita income in emerging Asia and also by restrictions to supply - namely adverse weather conditions and the increasing conversion of farmland for biofuel crops -, led the Bloomberg Crop Prices index (corn, wheat and soybeans) to climb by 77% in the year.

Oil Price (USD/Barrel)



Source: Bloomberg

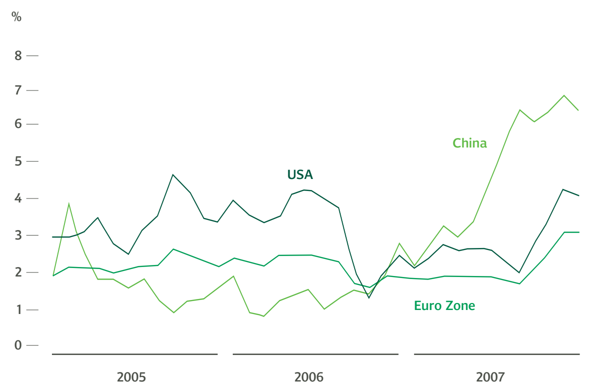
Bloomberg Crop Prices Index



Source: Bloomberg

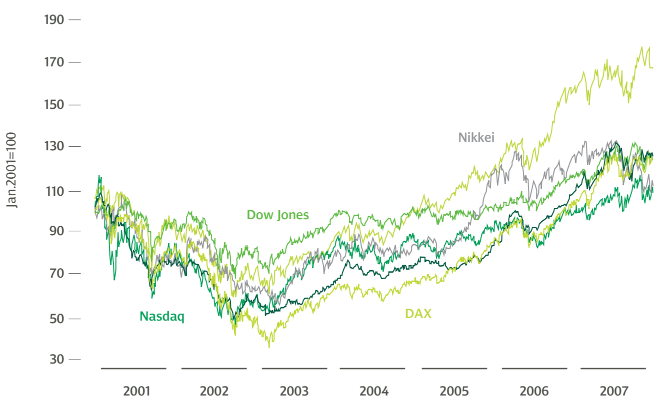
The rise in commodities prices intensified inflationary concerns, combining with the instability felt in the money and credit markets and fears of a slowdown in economic activity to penalise the performance of the equity markets. In the full year the Dow Jones, Nasdaq and S&P500 indices registered gains of respectively 6.43%, 9.81% and 3.53%, but fell by 4.54%, 1.82% and 3.82% in the 4th quarter. In Europe, the DAX, CAC 40 and IBEX 35 indices went up by 22.29%, 1.31% and 7.32% in the year, but performed less well in the last quarter: the CAC 40 retreated by 1.78% while the DAX and IBEX 35 rose by 2.62% and 4.16% only. In Brazil, the Bovespa index advanced by close to 44% in the full year but had a more moderate performance in the 4th quarter (+5.7%).

Inflation Rate



Source: Bloomberg

Stock Market Indices in 2007

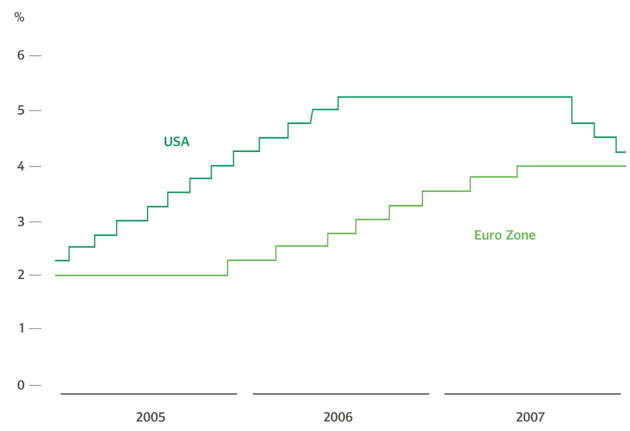


Source: Bloomberg

In the US, GDP growth maintained the decelerating trend observed in recent years, dropping from 2.9% to 2.2%, mainly on a 17% fall in residential investment. Private consumption growth, supported by the stabilisation of the rate of unemployment at 4.6% of the labour force, only slowed down slightly, from 3.1% to 2.9%.

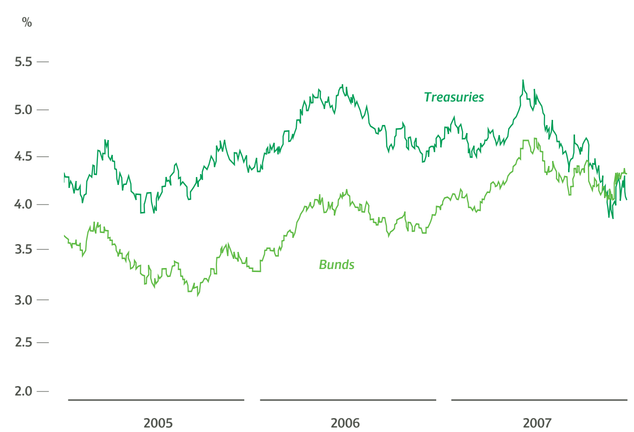
Deteriorating conditions in the money and credit markets and expectations of large mortgage write-offs by the main credit institutions exposed to subprime credit contributed to a significant weakening of the main confidence indices of the US economy, particularly in the 2nd half of the year. In the last three months of 2007 GDP growth was close to zero, while housing prices fell by 7% year-on-year and stock market indices experienced a sharp correction. Faced with this scenario, the Federal Reserve initiated in September a new downward cycle of interest rates, cutting the fed funds' target rate by 100 basis points, to 4.25%. The yield on 10-year US Treasuries, which in the first half of the year had risen from 4.704% to 5.026%, dropped to 4.025% in the second half.

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



Source: Bloomberg

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



Source: Bloomberg

In the Euro Area, GDP grew by 2.7% in 2007, slightly decelerating when compared to its 2.8% increase in 2006 but still rising above potential for the second year running. This good performance was essentially backed by robust growth rates in exports of goods and services (6%) and gross fixed capital formation (4.8%), which were particularly visible in the first three quarters of the year.

as well as from healthy balance sheets in the non-financial corporate sector. This situation allowed for a drop in the rate of unemployment, from 8.2% to 7.3% of the labour force, consequently leading to an acceleration in the disposable income of households, which grew by 2% after having risen by 1.1% in 2006. However, private consumption growth was still subdued, retreating from 1.9% to 1.6%.

The Euro Area economy was not immune to the impact of the subprime credit crisis. The turbulence felt in the money market and in particular in the credit market contributed to the deterioration of the main business confidence indices in the second half of the year, and, combined with the cooling of external activity, led to a sharper deceleration of GDP growth in the last quarter (from 0.8% to 0.4%, quarter-on-quarter). This fall in business confidence indices may also be attributed to the rise of the euro and its potential negative impact on the exporting sectors. In 2007 the euro rose against the dollar by close to 11%, to EUR/USD 1.4583, with a large part of that gain occurring in the 2nd half of the year. In nominal effective terms, i.e., considering a weighted average exchange rate against the currencies of the Euro Area's main trade partners, the Euro was up by 6.2% in 2007.

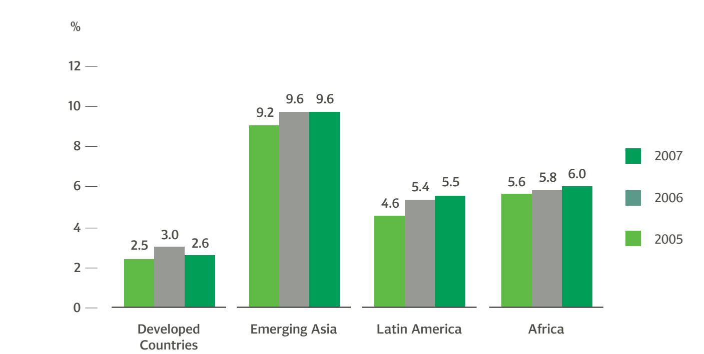
EUR/USD Exchange Rate

Source: Bloomberg

In short, the rise of interest rates in the money market, the lower availability of credit and consequent increase in credit spreads, the lacklustre performance of stock market indices and the rise of the euro, combined to create a more restrictive monetary and financial environment in the last months of 2007. In this context, and after having lifted the key refi rate to 4% (by an accumulated 50 basis points), the European Central Bank interrupted in September the rising cycle of interest rates initiated in December 2005. This decision was taken despite a year-on-year inflation of 3.1% (above the ECB's target) and the fact that both broad money supply (as measured by M3 monetary aggregate) and loans to the non-financial private sector continued to grow at a fast pace – respectively 11.5% and 11.1%, year-on-year, in December 2007.

2007 confirmed the decisive role played by the emerging and developing economies as growth engines of the world economy. On the whole these economies benefited from little direct exposure to subprime credit, as well as from the extremely favourable conditions lived in the commodities markets, the good behaviour of domestic demand (driven by the upward trend of per capita income) and also from a balanced macroeconomic situation. In this respect, it is worth stressing that the strong accumulation of external reserves (to an accumulated total of USD 4.1 trillion) significantly reduced these economies' vulnerability to adverse external shocks.

GDP Growth – Developed versus Emerging Economies



Sources: IMF and European Commission

Emerging Asia registered GDP growth of 9.6% in 2007 (the same as in 2006), supported by growth in China and India (respectively 11.4% and 8.7%) and also by the fast expansion of intra-regional trade. In China, the vigour of domestic demand compensated a slight deceleration of exports as well as the effects of the increase of reference interest rates by the monetary authorities in order to counter the rising trend of inflation, which by year-end had surpassed 6%. The Chinese currency (the renminbi) rose by 7% against the USD in 2007, reaching USD/CNY 7.3.

In Latin America, GDP grew by 5.5% in 2007 (5.4% in 2006). In Africa, GDP increased by 6%, slightly faster than in the previous year (5.8%).

4.2 // Economic Situation in Brazil

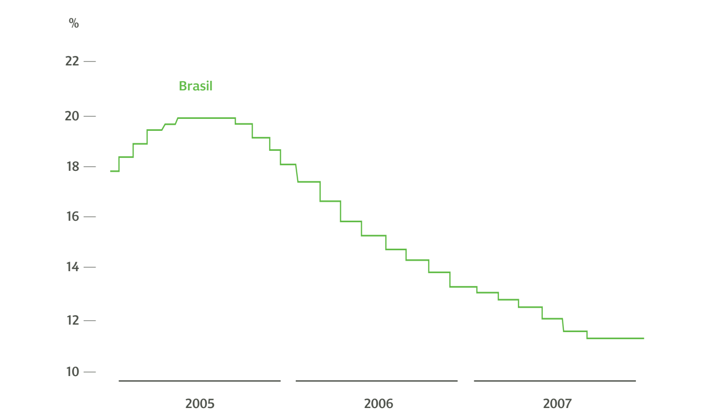
With GDP growing by 5.4% in 2007 (3.7% in 2006), and accelerating in the second half of the year, the Brazilian economy proved resilient to the impact of the subprime credit crisis. This performance was helped by persistently favourable conditions in terms of external demand and the price of commodities. Exports registered a nominal increase of 17%, to USD 161 billion, slightly accelerating when compared to 2006 (16.2%). Moreover, Brazil also continued to benefit from a more balanced macroeconomic situation. The primary fiscal balance reached a surplus of close to 4% of GDP (3.8% in 2006) while the year-on-year inflation rate remained stable during the first half of the year, at around 3%. Under these circumstances, the Central Bank pursued the downward cycle of key interest rates, reducing the Selic rate from 13% to 11.25% between January and September.

The stimuli to economic activity provided by external demand and the drop in real interest rates resulted in stronger internal demand, with private consumption growth rising from 4.6% to 6.2% and investment accelerating from 10% to 14.1%. The unemployment rate dropped in 2007 from 10% to 9.3% of the labour force. The vigour of domestic demand in turn spurred an increase in imports, whose nominal growth rose from 21% to 32%. The surplus in the balance of goods thus fell from USD 46 billion to USD 40 billion, pushing down the current account surplus from 1.3% to 0.3% of GDP. On the other hand, rising confidence in the Brazilian economy led to a strong increase in foreign direct investment, which grew from USD 18.8 billion to USD 35 billion in 2007. External reserves consequently climbed from USD 85.8 billion to USD 180 billion, contributing to sustain the good performance of the real, even in the climate of turmoil lived in the financial markets in the second half of the year. In full 2007, the Brazilian currency gained close to 17% against the US dollar, reaching USD/BRL 1.779, also advancing by 8% against the euro, to EUR/BRL 2.596. Brazil's sovereign risk registered a moderate increase, from 192 to 222 basis points.

EUR/BRL Exchange Rate

Source: Bloomberg

Selic Interest Rate



Source: Bloomberg

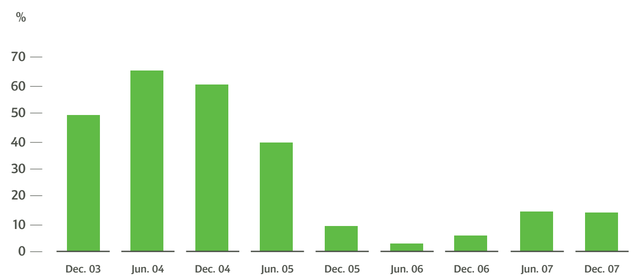
Under pressure from strong domestic demand and rising food commodity prices, the year-on-tear inflation tended to rise as from June, reaching 4.46% in December. As a result, and also citing increased uncertainties in the international economic situation, the Central Bank decided to break the downward cycle of key interest rates, maintaining the Selic rate unchanged as from September, at 11.25%.

4.3 // Economic Situation in Angola

The fundamentals that characterised the fast growing Angolan economy in 2006 were maintained in 2007, yielding another year of high real GDP growth (23%). GDP grew by 22% in the oil sector and by 25% in the non-oil sector. The rising price of oil (and consequent increase in oil export revenues), coupled with the results of the stabilising macroeconomic policies adopted in recent years, allowed for favourable results in the public accounts and for a surplus in the external accounts. The budget balance is thought to have registered a surplus of 2% of GDP, while the Balance of Goods reached close to 41% of GDP, thus sustaining the continued accumulation of foreign reserves, which totalled approximately USD 10.5 billion in 2007 (USD 8.6 billion in 2006).

Following the sharp decline of inflation between 2003 and 2006 (from 76.7% to 12.2%), the consumer price index slightly accelerated in the first half of 2007, its year-on-year growth rate rising up to 12.5% in July. This led the Angolan authorities to reverse the downward trend of reference interest rates observed in recent years. The rediscount rate, which had dropped in the course of 2006 from 95% to 14%, was increased ten times between October 2006 and August 2007, reaching 19.57% in this last month and remaining at this level until the end of the year. In addition, issues of Central Bank Securities (TBCs) were stepped up until July, with the respective interest rates rising accordingly. The yield on 182-days TBCs, which has slid from 10% to 6.12% in 2006, gradually rose in 2007, reaching 14.99% in October and subsequently stabilising until the end of the year.

Angola - Yield on Central Bank 182-day Securities (%)



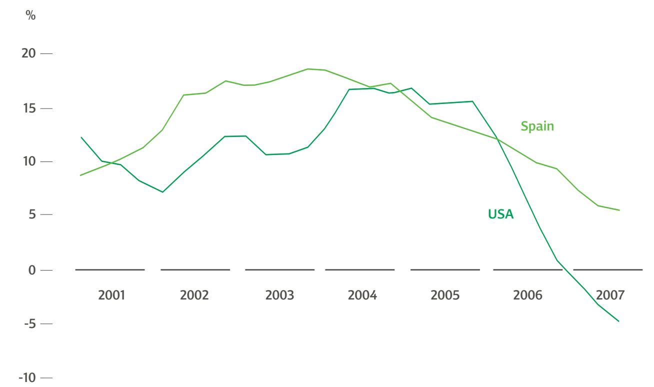
Fonte: BNA

In addition to the slight increase in interest rates, in May the authorities also permitted a one-off appreciation of the kwanza, which was trending around a stable USD/KZ 80 and continued to trend stably around USD/KZ 75. Together, these measures helped keep a lid on inflation, which by December had declined to 11.8%.

4.4 // Economic Situation in Spain

In 2007 the Spanish economy grew by 3.8%, just barely slowing down when compared to 2006 (3.9%). However, the pace of growth was not even throughout the year: there was a visible deceleration in the 2nd semester, when the GDP year-on-year growth rate dropped from 4% to 3.5%, in line with the deterioration in the main confidence indices. Private consumption rose by 3.4% in full 2007, which is 0.3 of a percentage point less than in 2006, decelerating in the 4th quarter to below 3% year-on-year. The growth rate of gross fixed capital formation dropped from 6.8% to 6%. This was due to slower growth in the construction sector (4.2% versus 6% in 2006) in so far as capital expenditure (including machinery and equipment and transport material) rose in the year by 11.7%, above its 10.4% increase in 2006.

Housing Prices **(year-on-year growth rate, %)**



Source: Bloomberg, Bank of Spain, Confidencial Imobiliário

The smaller contribution to growth of residential investment and private consumption is linked to an increase in real interest rates, not only through the ECB's lifting of reference rates but also as a result of the turbulence observed in the money and credit markets in the second half of 2007, which created a restrictive climate in terms of liquidity. On the other hand, a deterioration of expectations concerning the economy's future performance was also perceptible through various qualitative indicators. The level of household indebtedness is thought to have reached approximately 127% of disposable income in 2007, while house price growth maintained a downward trend, dropping year-on-year from 9% to slightly below 5%. This led to a growing perception among economic agents that the expansionary cycles of residential investment and private consumption were reaching an end. Household spending nevertheless continued to be supported by the favourable progress of the labour market – the unemployment rate dropped from 8.5% to 8.3% of the labour force -, and by the decline of the average annual inflation rate, from 3.4% to 2.8% (although by the end of the year rising energy and food prices triggered a new acceleration in consumer prices, with the year-on-year inflation standing slightly above 4%).

In this scenario, credit to the private sector, although still growing strongly, showed a clear decelerating trend throughout the year. In year-on-year terms, the growth of loans to the non-financial coprporations is thought to have dropped from 27% to de 18%, while growth in residential mortgage lending and consumer lending declined from 20% to 15% and from 18% to around 12%, respectively.

Despite these signs of a slowdown towards the end of the year, the still relatively strong growth of economic activity and employment supported a government surplus of 2.2% of GDP (1.8% in 2006). Nevertheless, the combined current and capital account balance deteriorated once again, from -8.1% to -8.7% of GDP, reflecting the still high contribution of domestic demand to growth.

4.5 // Economic Situation in Portugal

In 2007 the Portuguese economy pursued the trend for a gradual recovery observed over the last few years, with GDP growth rising from 1.3% to 1.9%. Although decelerating when compared to 2006, exports growth remained strong at 7.1%, on the contribution not only of exports of goods but also of services (which in addition to tourism also included transport services, consultancy, and merchanting and other trade related services). There was also a visible diversification in the geographic destination of exports, in particular to areas that maintained high growth rates in 2007, such as Africa (and Angola in particular), Asia and Latin America. However, the acceleration of GDP growth in 2007 was driven by the increased contribution of domestic demand, and especially of gross fixed capital formation, which, after having fallen for two consecutive years (-1.5% in 2005 and -0.8% in 2006) showed a year-on-year real rise of 3.2%. This performance was linked to the recovery of corporate investment, which is thought to have grown slightly above 4%, in line with the improvement of business confidence indices along the year.

Portugal - Main Economic Indicators	2001	2002	2003	2004	2005	2006	2007 E
GDP	2.0	0.8	-0.8	1.5	0.9	1.3	1.9
Private Consumptiom	1.3	1.3	-0.1	2.5	1.9	1.1	1.5
Public Consuption	3.3	2.6	0.2	2.6	3.2	-1.2	-0.3
Investment	1.2	-4.7	-8.3	2.5	-1.5	-0.8	3.2
Exports	1.8	1.5	3.9	4.0	2.1	9.2	7.1
Imports	0.9	-0.7	-0.8	6.7	3.5	4.6	5.4
Inflation (CPI)	4.4	3.6	3.3	2.4	2.3	3.1	2.5
Budget Balance (% of GDP)	-4.3	-2.9	-2.9	-3.3	-6.1	-3.9	-2.5
Public Debt (% of GDP)	53.6	55.5	56.8	58.2	63.6	64.8	64.4
Unemployment (% of Labour Force)	4.1	5.1	6.3	6.7	7.6	7.7	8.0
Current and Capital Account Balance (% of GDP)	-8.5	-6.0	-3.3	-5.7	-8.1	-8.6	-8.2

Sources: INE, Banco de Portugal, European Commissions, OCDE, ES Research.
E - Estimate

Private consumption expanded by 1.5% in 2007 (0.4 of a percentage point above its growth in 2006), although tending to weaken throughout the year, which is consistent with a deterioration in household confidence indices that was most noticeable in the second semester. Families tended to be more cautious in consumption expenditures, in part as a result of rising interest rates in a context of high indebtedness (close to 130% of disposable income). On the other hand the unemployment rate rose on average annual terms from 7.7% to 8% of the working population, although a reduction of 0.4 of a percentage point in the fourth quarter seemed to point to a gradual stabilisation of the labour market. In this scenario, the personal saving rate is thought to have dropped from 7.8% to 7.6% of disposable income.

Household sentiment was also penalised by rising fuel and food prices, which contributed to an average annual inflation rate of 2.5% (average inflation had reached 3.1% in 2006 but this figure was biased by a change in the method used for the statistical treatment of some components of the Consumer Price Index (CPI), as otherwise it would have been 2.5%). The prices of unprocessed food and energy goods were up by respectively 3% and 3.5% in the year. The Consumer Price Index registered a year-on-year increase of 2.7% in 2007, with the price of energy goods surging by 9.4%.

A restrictive fiscal policy was thus adopted in 2007 leading the general government deficit to fall from 3.9% to 2.5% of GDP, which brought forward by one year the Stability and Growth Programme's target of a deficit below 3% of GDP. At the same time, the strong growth of exports and the deceleration of imports contributed to bring down the combined current and capital account deficit (which provides a measure of the Portuguese economy's net external financing needs) from 8.6% to 8.2% of GDP.

The acceleration of GDP growth and the reduction of the "twin deficits" (fiscal and external) occurred against a difficult external environment, market by the subprime mortgage credit crisis. Although the Portuguese banking sector did not suffer from direct exposure to this type of high risk credit, a climate of faltering confidence in the international financial markets and a global squeeze on liquidity created harder funding conditions for financial and non financial institutions to obtain credit, as happened across many other economies.

Greater restrictiveness on lending criteria did not actually affect the annual growth of loans to the non-financial private sector, which in 2007 accelerated from 8.7% to 9.5%. This performance was mainly driven by the more robust expansion of loans to non-financial corporations, which grew year-on-year from 7.1% to just above 10%. Loans to individuals slightly retreated - from 9.9% to 9% - reflecting a weakening trend in mortgage lending growth, which dropped from 9.9% to 8.5%. Growth in consumer and other loans registered a small increase, from 10.1% to 10.5%.

Housing prices were up by 1.3% in 2007, slowing down somewhat when compared to 2006, when they had risen by 2.1%, but progressing in line with their average annual growth in the last five years (1.5%). This performance, which contrasts with the strong corrections occurred elsewhere in Europe in the housing market, is explained by the also diverging cyclical position of the Portuguese housing market, whose greatest period of expansion occurred in the second half of the 1990s.

The PSI-20 advanced by 16.27% in the whole year, although losing strength in the 4th quarter (+8.27%), thus matching the performance profile of the European equity markets in general.

05
Financial Management and Capital Markets

Within BES Group's medium and long term strategy, attracting customer funds and granting customer loans are extremely important for the sustained growth of its overall activity. Although the relative weight of on-balance sheet customer funds in the funding structure has remained stable, the ability to access the international financial markets has become a crucial aspect of the Group's financial management. Hence, the Group has over the years developed a sophisticated and dynamic structure allowing for the integrated management of market risks (interest rate, exchange rate, credit and equity) and a prudent management of liquidity risk. Business growth is thus also supported by this capacity to take advantage of expected economic trends. This ability to act in the financial markets has been used within the scope of BES Group's financial management and proprietary trading and also as an enhancement to the services provided to its clients.

The first half of 2007 was marked by great vitality in the global economy. The strong growth of liquidity led the European Central Bank to prolong the upward trend of interest rates, contributing to strengthen the euro against the dollar. Despite the rise in interest rates, the equity markets exhibited a healthy performance, with stock market indices registering large gains.

In the second half of the year the world economy and the financial markets suffered the effects of the US sub-prime mortgage crisis, namely a sharp deterioration in investor confidence and a shortage of liquidity in the monetary and credit markets (and consequent widening of credit spreads). This climate of instability in the markets became even more pronounced in the last quarter of the year, triggering sharp falls in the equity and interest rate markets and an immediate widening of credit spreads. The result was a strong liquidity crunch, particularly in medium and long term maturities and across all types of instruments, as well as a steep rise in short term interest rates, forcing the Central Banks to intervene by injecting plenty of liquidity into the market.

Against this scenario, capital markets results benefited from the decision taken at the beginning of the year to sell a large part of the risk positions, particularly in bonds and equities. This permitted not only to increase liquidity levels but also to substantially reduce market risk on the balance sheet prior to the onset of the crisis in the financial markets.

The Group also benefited from positions taken in emerging markets, particularly in Brazil - whose economic performance remained positive even in

Through its close involvement in the financial markets, namely the interest rate and foreign exchange markets, the Group has been able to offer to its clients, and in particular corporate clients, innovative solutions to manage financial risk, in accordance with each client's risk profile. Supported by BES Group's growing reach of the corporate segment, the risk management activity was substantially increased in 2007, achieving a significant diversification in the range of interest rate, currency and commodities products and solutions on offer.

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

The Group is actively involved in the international markets (i) issuing hybrid capital instruments, (ii) issuing debt – short term debt under commercial paper programmes (euro 2 billion Commercial Paper Programme and USD 1 billion U.S. Commercial Paper Programme) and medium and long term debt, mainly under the Euro Medium Term Notes programme (EMTN), and (iii) executing transactions involving collaterised debt, namely through the securitisation of assets and the issuance of mortgage bonds.

The good conditions lived in the capital markets during the first half of the year meant that by July the Group had already executed nearly all of its financial plan for 2007, namely the planned issues of medium and long term debt and also a securitisation of mortgage loans. This early execution allowed the Group to maintain surplus liquidity levels until the end of the year, even without resorting to the capital markets in the second half of the year.

In July 2007 BES Group executed with success its sixth mortgage backed securitisation transaction (Lusitano Mortgages no.6 Limited), and in December, pursuing its goal of diversifying the asset categories used in securitisation transactions, its first securitisation transaction of project finance loans (Lusitano Project Finance No.1 Limited), amounting to euro 1,079 million.

In November the Group established a Covered Bonds Programme under which BES will issue mortgage bonds up to a nominal aggregate amount of euro 10 billion. Given the market conditions at the end of the month the Bank decided to postpone its first issue of mortgage bonds from 2007 to the beginning of 2008.

BES Finance

As in many other major international financial groups, BES Group owns a company specialised in raising funds in the international markets. BES Finance is based on the Cayman Islands, and was established in 1997 with ordinary share capital fully subscribed by BES.

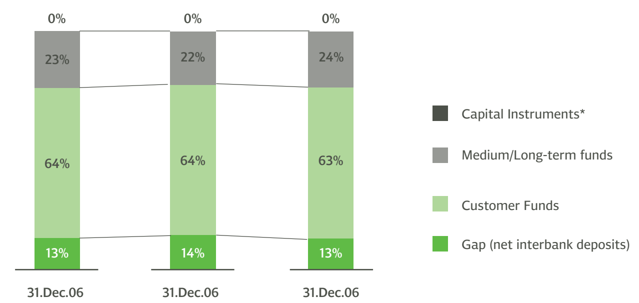
In February 1997 BES Finance set up a Euro Medium Term Notes Programme (EMTN), which is updated every year through the respective Prospectus. The EMTN allows the issuance of senior or subordinated notes up to a nominal aggregate amount of euro 20 billion. Currently, and in addition to BES Finance, BES and its branches in the Cayman Islands and Madeira can also issue debt under this programme. These bonds, which can be issued in any currency and at any maturity, are listed on the Luxembourg Stock Exchange. Senior bonds issued under the EMTN programme and outstanding as of December 31st 2007 totalled euro 6,811 million. Subordinated bond issues totalled euro 1,734 million at the end of 2007.

Pursuant to Decree-Law 193/2005, in 2007 the issues of debt made in euro under the EMTN programme started to be made directly by BES' head office in Portugal. Hence at the end of 2007 senior bonds issued by BES under the EMTN programme totalled euro 3,150 million.

Outside the scope of the EMTN programme, BES Finance issued preference shares totalling euro 600 million. These shares, which were placed with European institutional investors, are guaranteed by BES and listed on the Luxembourg Stock Exchange. In May 2007 BES Finance made a USD 1 billion issue of extendible notes in the North-American market outside the scope of the EMTN programme.

At the end of 2007 on-balance sheet customer funds represented by deposits and capital guaranteed securities represented 63% of the funding sources, with medium and long term funds and the Group's own funds accounting for respectively 24% and 13% of the total. Through the liquidity management policy implemented over the last few years, the liquidity gap has been consistently negative, representing a liquidity surplus. The short term liquidity surplus is managed at consolidated level, allowing the Group to closely monitor the risk of an increase in commercial activity, with credit growing at a higher pace than on-balance sheet customer funds.

Funding Structure



(*) Liquidity gap: cash and deposits with central banks, loans and advances to credit institutions repayable on demand, loans and advances to banks repayable up to one year less amounts owed to central banks and deposits from banks due up to one year. A negative liquidity gap thus indicates surplus liquidity.

Several transactions conducted in the international capital markets contributed to the positive performance in 2007, namely:

- medium and long term funding obtained, both through new issues of senior debt under the EMTN programme (euro 2 billion net inflow) and through medium and long term loans granted by international financial institutions;
- the securitisation transaction of residential mortgage loans amounting to euro 1.1 billion executed in July 2007 (Lusitano Mortgages No. 6 Limited).

In 2007 the Group made two issues of Extendible Notes, respectively a USD 1 billion issue in May, placed with US institutional investors and a euro 200 million issue in June, placed with European investors. Due to the liquidity crisis the investors opted for not extending the maturity of these notes.

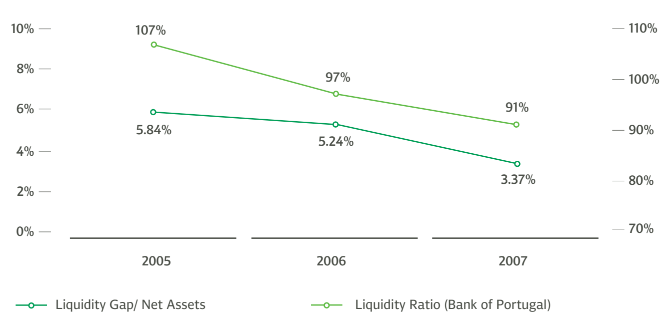
Although the Lusitano Project Finance No.1 Limited transaction carried out in December did not bring in immediate liquidity, the AAA rated class of securities (in the amount of euro 895 million) may be rediscounted with the European Central Bank and remains available in the Group's securities portfolio as an alternative source of liquidity.

Funding Sources	2005	2006	2007
*Gap (net interbank deposits)***	(2,932)	(3,096)	(2,302)
Cash and Equivalent with credit institutions	7,139	9,153	10,049
Short term deposits from credit institutions	4,207	6,057	7,747
Medium/long term funds	9,994	10,842	13,407
Euro Medium Term Notes & Extendible Notes**	7,252	8,980	11,000
Medium and long term deposits with credit institutions	2,742	1,862	2,407
On-balance sheet customer funds	27,873	31,995	35,920
Capital Instruments	5,398	7,063	7,509
TOTAL	40,333	46,805	54,533

(*) Liquidity gap: immediate liquidity and short term interbank credits deducted of the interbank debits up to one year, Negative liquidity gap indicated excess liquidity levels in a funding needs perspective.
(**) Excludes issues of extendible notes placed in the US and European markets for which the maturity extension was not exercised, amounting to euro 200 and 750 million respectively.

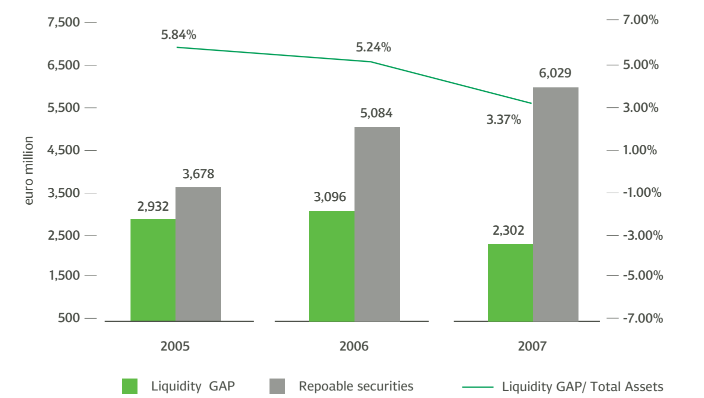
This prudent liquidity management policy, based on the diversification of funding sources and the extension of the maturity profile, has allowed the Group to maintain short term liquidity surpluses since 2002. At the end of 2007 the short term liquidity surplus represented 3.37% of total net assets.

Liquidity Gap (as % of Net Assets)



An additional source of liquidity is provided by the portfolio of securities that may be rediscounted either with the Central Bank or in the repos market.

Rediscountable Securities vs Liquidity Gap euro million



Source: Bloomberg

Ratings assigned to Banco Espírito Santo

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

Long Term	Long Term	Short Term	Outlook
Standard & Poor's	A	A 1	Stable
Moody's	Aa3	P-1	Stable
Fitch	A+	F1	Stable

Standard & Poor's: In March 2007 the agency revised upwards BES' rating to A/A-1, from A-/A-2, with stable outlook. This upgrading reflects BES stronger capital position following the capital increase concluded in May 2006, the strengthening of the Bank's franchise in the competitive Portuguese market as well as the resilience of asset quality ratios, particularly in the SMEs and Retail segments.

Moody's: Aa3 for long term debt and P1 for short term debt (stable outlook). The rating reflects the Group's increasingly strong and diversified positioning in the domestic market, its financial strength and good solvency levels.

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

06
Risk Management

6.1 // The Risk Function within BES Group

Risk management and control has always played a fundamental role in the balanced and sustained growth of the BES Group, contributing to optimise risk/return across the various business lines while simultaneously providing a consistently conservative risk profile in terms of solvency, provisioning and liquidity.

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

To support the decisions of the Executive Committee, BES Group has several specialised committees within its organisation that play a relevant role in the area of risk management and control:

Risk Committee: holds monthly meetings, attended by the Chairman of the Executive Committee, and is responsible for monitoring the evolution of the Group's integrated risk profile, and for proposing methodologies, policies and procedures to deal with all types of risk.

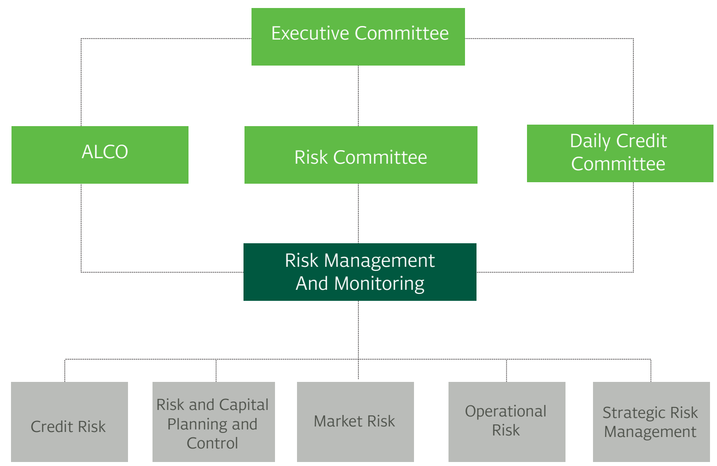
Daily Credit Committee: its meetings are attended by members of the Executive Committee and heads of departments; the main credit operations are submitted to and decided by this committee, in accordance with established risk policies, it also monitors the treasury position and the evolution of the financial markets;

ALCO (Assets and Liabilities Committee): holds monthly meetings, which are attended by the members of the Executive Committee, including its Chairman, and is responsible for managing market, interest rate and liquidity risk.

At an operating level, the management and monitoring of Risk is centralised at the Global Risk Department (GRD), whose activity reflects the principles underlying the best risk management practices. The GRD must ensure:

- independence relative to the other areas of the Group, specifically the commercial departments, and credibility with the management and supervisory bodies, shareholders, investors and regulators;
- the integrated and global management of all types of risk (credit, market, liquidity, interest rate and operational risk, at both domestic and international level);
- consistent incorporation of risk and capital concepts in the strategy and business decisions of the entire BES Group, ensuring full transversality in risk versus return direct comparisons and a single vision of risk.

The risk function is organised in such a way as to cover credit, market, liquidity, interest rate and operational risks.



The Credit Risk area is organised into several sub-teams, each specialising in the analysis and rating of specific segments: the Rating Desk, for top corporates (companies with turnover above euro 50 million), financial institutions, institutional clients, local and regional administration bodies, and Project Finance and Acquisition Finance operations; the Middle Market team, for the medium-sized companies segment (turnover between euro 25 million and euro 50 million); the Real Estate Projects team; the Analysis and Investments Unit; and the Micro-companies and Start-ups team.

The area of Risk and Capital Planning and Control is responsible for the planning and control of portfolios subject to credit risk through the coordinated monitoring of the following elements:

- Capital adequacy requirements and solvency: development and implementation of tools to calculate regulatory capital requirements for credit risks, in accordance with the new Basel II rules; monthly planning and control of regulatory capital requirements for credit risks and computation of BES Group's solvency.
- Non-performing loans and credit provisioning: monthly budgeting and monitoring non-performing loans; development of the methodology to calculate credit impairment losses; and planning and coordination of the process of determining monthly impairment losses and provisioning costs.
- Risk concentration: reporting on the major regulatory risks; definition of the internal methods to measure and control risk concentration by economic groups and activity sectors

The Market Risk area has as main functions to quantify, monitor and report on market risk (trading portfolios), balance sheet interest rate risk and liquidity risk.

The Operational Risk area has as main responsibilities to (i) ensure that there are procedures in place to standardise, systematise and regulate the frequency of actions to identify the main sources of risk; (ii) follow-up and monitor the performance of systems, processes and products/services against the operational risk sources identified; (iii) control key risk indicators (KRIs); (iv) analyse events occurred and resulting losses; (v) promote and monitor the implementation of actions to manage/mitigate operational risks, and (vi) report the corresponding relevant information to the appropriate level in the hierarchy.

The area of Strategic Management of Risk deals with the methodologies, evaluation models and risk policies applying to all categories of risks.

At operating level, it is subdivided into two units:

- The Research and Development (R&D) unit (i) develops, monitors and validates methodologies and models to identify and quantify the various categories of risk, namely, in the case of credit risk, the various PD , LGD and EAD models used by the Group; (ii) develops and implements decision support tools based on risk versus value; (iii) supports the integration by the various business areas of risk adjusted return concepts; and (iv) supports securitisation processes through the management of the rating allocation process and the selection of portfolios from the standpoint of risk transfer;
- The Risk policies/processes unit: (i) proposes risk policies to the various units of the Banco Espírito Santo Group; (i) participates in the assessment of the efficiency and effectiveness of decision-making processes and in the drafting of proposals to redefine such processes, quantifying the risk parameters required in a cost-benefit analysis; and (iii) analyses and proposes approval power limits for the various types of risk, at transaction, client ant portfolio level.

6.2 // The New Capital Accord (Basel II)

Fully recognising the challenges and opportunities that arise from application of the New Capital Accord, in 2003 the BES Group set a target to adopt the IRB Foundation approach for Credit Risk and the Standardised Approach for Operational Risk.

Since then the Group has invested heavily in the development of technical platforms and in the reinforcement of human resources competencies. Following the consolidation and fine-tuning of the internal risk analysis models, in particular of risk rating systems, and the strong development of information systems - which included centralising information at groupwide level - the introduction of risk metrics and criteria in the day-to-day decision-making processes was reinforced.

Over the last years, management practices, policies and procedures had to be adapted in order to ensure that risk assessment was explicitly considered in the decision-making process. These practices, policies and procedures were consistently adjusted across BES Group's branches and subsidiaries with the objective of standardising risk management through all the business areas of the Group.

In September 2006 BES Group submitted an informal application to the Bank of Portugal to apply the Foundation Internal Ratings Based Approach (IRB Foundation Approach) without internal estimates of LGD and CCFs to calculate regulatory capital requirements for credit risks, and the standardised approach to calculate regulatory capital requirements for operational risks. In the course of 2007 there were several interactions with the Bank of Portugal with the objective of validating not only the rating/scoring models, but also risk mitigation techniques and decision-making and management support processes based on these methodologies.

While pursuing these works throughout the current year, BES Group will also continue to develop determined efforts to obtain this certification as soon as possible.

6.3 // Credit Risk

Credit risk is the potential financial loss arising from the failure of an obligor or counterparty to honour its contractual obligation. As the major risk to which the Group is exposed within the scope of its lending activities, credit risk management and control is supported by a robust system that permits to identify, assess and quantify risk, and which is permanently being fine-tuned.

6.3.1 // Management Practices

The Group's credit portfolio management is carried out as an ongoing process that requires the interaction between the various teams responsible for the management of risk during the different stages of the credit process. This approach is backed by:

- the continuous development of the credit risk modelling system so as to reduce subjective criteria in the assessment of credit;
- the continuous improvement of decision procedures and circuits, stressing the independence of the risk function, the delegation of powers according to rating levels, and the systematic adjustment of prices, maturities and guarantees to the clients' credit rating.

PD: Probability of Default
LGD: Loss Given Default
EAD: Exposure at Default

LGD: Loss Given Default
CCFs: credit conversion factors

a. Internal Risk Rating Systems

Internal risk rating systems are divided into the following categories, according to their specific characteristics of development and use:

Risk segment	Description	Models
Start-Up's	Companies in business for less than 2 full years and turnover below euro 25 in the 1st year.	Scoring model
Small businesses and independent professionals	Companies with turnover below euro 1.25 million and individuals characterised as independent professionals.	Scoring model in two versions: for turnover up to euro 0.5 million and turnover above euro 0.5 million.
Medium sized companies	Companies with turnover between euro 1.25 million and euro 50 million, except when in sectors included under specific risk segments.	Rating model in two versions: for turnover up to euro 25 million and turnover between euro 25 million and euro 50 million.
Large companies	Companies with consolidated turnover above euro 50 million, except when in sectors included under specific risk segments.	Specific templates for the various industry sectors.
Real estate sector	Companies operating in real estate development and investment.	Templates for large real estate companies and specific real estate projects.
Financial institutions	Credit institutions and financial companies.	Template for banks, other financial institutions and leasing companies.
Holding companies	Companies that hold economic conglomerates but have no operational activity of their own.	Template for holding companies.
Institutional clients	Public-sector related entities	Template for institutional clients.
Local and regional administration	Regional and local government entities.	Template for municipalities.
Project Finance	Financing operation to a vehicle company that operates a specific asset in a particular business area, and generates cash flow to pay back the debt.	Project finance templates.
Acquisition finance	Financing operations linked to the acquisition of companies (LBOs, MBOs).	Acquisition finance template.

• Internal Rating Models for Corporate Credit Portfolios

Corporate Credit portfolios are approached differently, according to client and/or transaction size and industry sector, using different models specifically adapted to project finance, leveraged finance and real estate.

For Large Companies, Financial Institutions, Institutional Clients, Municipalities, Local and Regional Administration, and Specialised Finance (i.e. project and leveraged finance) credit ratings are assigned by a rating desk. The rating desk is currently organised into several teams: four teams specialised by industry sector, the teams that specialise in rating project finance transactions and Financial Institutions, and one team that validates the ratings submitted by the credit analysts in the London and New York branches and in BESI Brasil.

To assign internal risk ratings to these risk segments, classified as Low Default Portfolios, these teams use expert-based systems (templates) that include quantitative and qualitative variables strongly linked to the industry sector in question. Except for Specialised Finance, the rating methodology used by the Rating Desk includes a risk analysis of the maximum consolidation scope, identifying the status of each subsidiary within the respective conglomerate, an approach that may influence the final ratings assigned. The activity templates and rules based templates described were aligned to the best practices at one of the main international rating agencies.

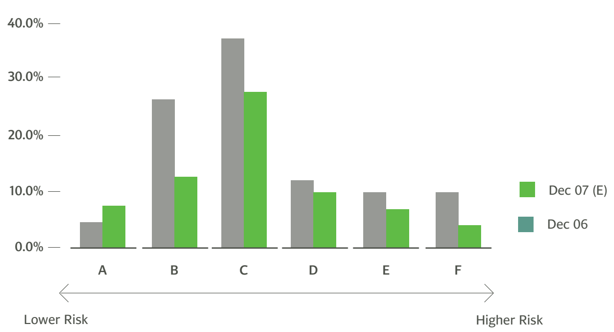
For the Middle Market segment (medium-sized companies) the Group uses statistical rating models, which combine financial information with qualitative data. The disclosure of risk ratings requires a previous validation by a team of risk analysts, who also take into account behavioural factors and, in the circumstances foreseen in the credit process regulations, draw up risk analysis reports expressing their opinion on the proposed operations.

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

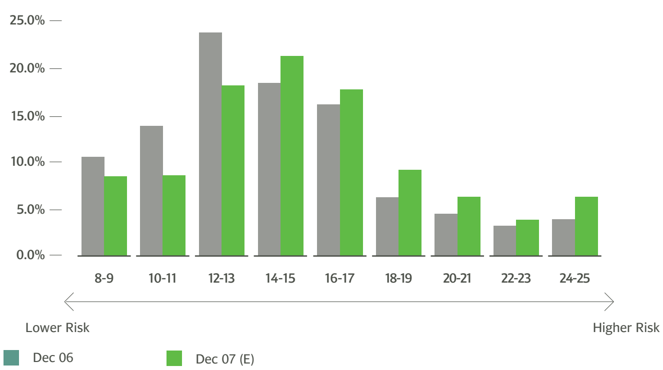
Specific rating models have also been implemented to quantify the risk inherent in the financing of start-ups.

Finally, in the real estate sector, given its characteristics (particularly in the case of small and medium-size companies real estate companies), ratings are assigned centrally by a specialised team, using quantitative and technical variables (property valuation), as well as qualitative variables. This team is also responsible for making the risk analyses included in specialised credit proposals (Construction Financing).

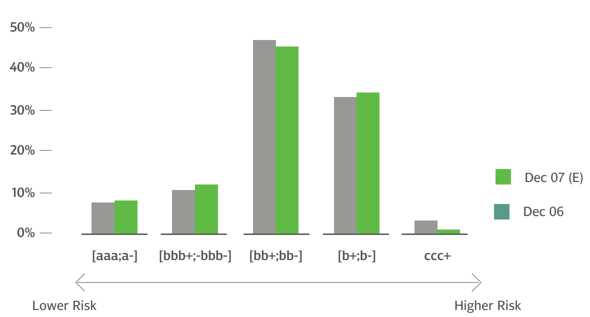
Credit Portfolio breakdown by risk rating in the Domestic Business Scoring Model for Small Businesses



Rating Model for Middle Market



Scoring Model for Large Companies



• Internal Scoring Models for Individual Client Portfolios

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

Besides estimating the probability of default, the Group also regularly monitors other parameters required for risk quantification and management, namely Loss Given Default (LGD) and Exposure at Default (EAD).

All the rating and scoring models described now play a key role, not only in the technical analysis of risk, but also in the credit risk approval and monitoring processes. These rating and scoring models were also applied in the preapproved loan campaigns launched by BES Group in the course of 2007.

In accordance with the new rules on regulatory capital requirements (Basel II) and following the best risk management practices, the validation and, as appropriate, the re-calibration of models, are carried out on an annual basis. The global internal validation exercise of the various rating and scoring models carried out by BES Group in 2007 showed that the models maintain a good capacity to discriminate risk and therefore remain valid.

b. Loan Granting

Within the scope of the vast set of initiatives taken in previous years, namely related to the global project of gradually revising and adapting the credit granting process in the various commercial segments, BES Group's credit granting process has suffered successive modifications, leading to the increasing integration of internal ratings and risk-adjusted return metrics in the credit decision process.

In 2007 this was already a reality in practically all the commercial segments, with rating/scoring classifications being directly incorporated into the definition of credit powers at the various decision-taking levels (in terms of both exposures and pricing).

Likewise, and in full agreement with the risk management practices and methodologies followed in Portugal, the global project to redesign, by segments, all the credit analysis, decision and monitoring processes currently used by BES (Spain), was, according to plan, implemented in the first quarter of 2007. This project seeks to address the demanding strategic challenge posed by the Iberia project, which aims to further reinforce the Group's position in Spain.

c. Credit Risk Monitoring

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

In this perspective, and with the aim of preserving BES Group's risk quality and standards, the credit risk monitoring function and its development continue to be considered as one of the top priorities of the risk management and control system. This function comprises the following processes:

• Detecting warning signals and monitoring clients

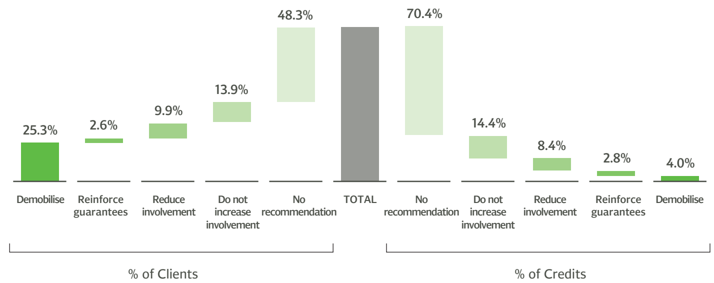
In addition to the rating/scoring models, and in close connection with the process of determining, analysing and assessing credit impairment, BES Group has in place a risk monitoring system supported by mechanisms to detect the multiple warning signals suggesting impairment indications.

On the basis of this warning signal system and on the frequency, severity and correlation of these signals the exposure of clients whose risk profile shows symptoms of deterioration is periodically identified, analysed and quantified, and the options considered with regard to the bank's commercial relationship with these customers. The system also permits to determine the level of active vigilance justified by and best suited to the client's profile and the real situation of the entity under analysis, and when applicable, the respective credit impairment level, and also the coverage provided by the risk mitigation instruments available for each contract/client.

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

In view of the difficult macroeconomic context lived in 2007, credit risk monitoring and control actions were naturally further intensified during the year. Hence this year the CCRA made an in-depth analysis and assessment of the specific situation of roughly 6,000 reported clients with an overall exposure or around euro 6.5 billion. On the basis of this assessment and taking into account their specific characteristics, the Committee issued strategic recommendations concerning 52% (i.e. 3,100) of these clients, whose overall exposure corresponded to 30% of the total liabilities under analysis. The chart below shows these clients' distribution according to the type of recommendation issued.

Committee for Credit Risk Analysis Recommendations (2007)
Distribution profile of the portfolio analysed



From all the recommendations issued, approximately 66% concerned Clients with business activities in Civil Construction, Property Development, Wholesale and Retail Trade, and the Textile Industry, thus broadly matching the industry sectors where difficulties were more acute.

• Global analysis of the risk profile of credit portfolios

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

d. The Recovery Process

The entire recovery process is developed based on the concept of "integrated client". Whether in a corporate or retail segment, each client is assigned a "recoverer" that monitors all this client's credits subject to recovery. In view of its nature and the volumes involved, credit to individual clients is in some phases treated in an automatic and industrialised fashion, while a customised approach is used to treat credit to corporate clients.

Throughout the process, the possibilities of reaching an agreement are weighed and legal action taken whenever required to recover the credits and defend the Group's rights. However, there is constant openness to consider solutions permitting a return to a non-default situation and therefore to retain the client.

6.3.2 // Credit Risk Analysis

a. Credit Portfolio

Loan Portfolio Breakdown

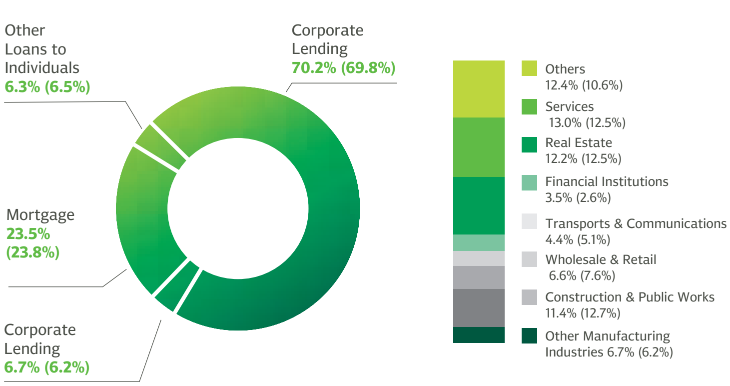
As of December 31st, 2007 the loan portfolio had increased by 16.9% year-on-year. This performance reflects, on the one hand, the policy established by the Group for the individual customer segment focused on low risk products, mainly residential mortgages (annual increase of 8.1%), and on the other, an approach to the Corporate segment supported by the Group's vast experience in the sector.

Loan portfolio breakdown	Dec 06		Dec 07		Chg %	
	Excluding securitisation	Including securitisation	Excluding securitisation	Including securitisation	Excluding securitisation	Including securitisation
Customer Loans (gross)	**35,752**	**40,546**	**43,161**	**47,389**	**20.7**	**16.9**
Mortgage	8,500	13,294	10,141	14,369	19.3	8.1
Other Loans to Individuals	2,309	2,309	2,714	2,714	17.5	17.5
Corporate Lending	24,943	24,943	30,306	30,306	21.5	21.5

Securitisation figures = outstanding balance of securitasion operations at year-end

In accordance with its policy of diversifying the corporate loan portfolio, in 2007 the BES Group once again ensured that concentration levels by industry sector remained within prudent limits.

Loan Portfolio Breakdown per Sector

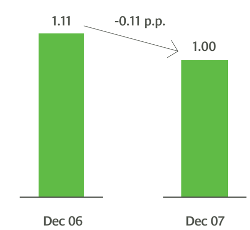


Quality of the Loan Portfolio

The risk profile of BES Group's lending activity improved significantly in 2007, consolidating the trend of the previous years for a reduction in the loan portfolio's risk. This favourable trend, which was backed by the constant fine-tuning of credit granting, monitoring and recovery policies and practices in place at BES Group, is reflected in the main risk indicators of the loan portfolio.

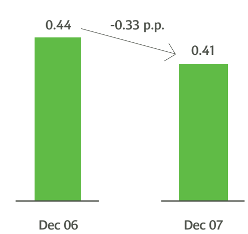
The ratio of overdue loans over 90 days to total loans was reduced by 11 bp, to 1.00%.

Ratio overdue loans over 90 days over customer loans
Overdue loans > 90 days / Customer loans (gross)



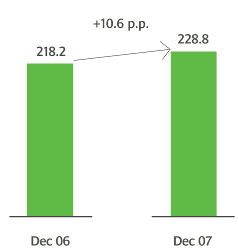
This improvement in the overdue loans ratio once again permitted to reduce the provisioning coverage of BES Group's loan portfolio. Accordingly, in 2007 the cost of impairment (net of credit recoveries written off from assets) was 0.41%, which is 3 bp less than the provisioning cost in the previous year.

Cost of credit Impairment
Provisions net of recoveries of credit written-off / Customer loans (gross)



It is important to stress that despite the reduction in the provisioning cost in the reporting year, the provisioning coverage of overdue loans was not affected, even increasing by 10.6 bp, to 228.8% (218.2% at the end of 2006).

Coverage of overdue credit Provisions for credit / Overdue loans > 90 days



The improvement in the loan portfolio's risk profile – as translated by the reduction of the loan loss ratio, the decline in the cost of impairment and the simultaneous increase in the provisioning coverage of overdue loans – was achieved in tandem with the growth of the loan portfolio. Moreover, it reflects the priority status attributed over the last years to the development of the Risk function and of decision support instruments.

Variable / Indicators	Dec 06	Dec 07	Change absolute	Change relative
(euro million)				
Customer Loans (gross)	35,752	43,161	7,409	20.7%
Overdue Loans	472.5	507.6	35.1	7.4%
Overdue Loans > 90 days	398.4	432.9	34.5	8.6%
Overdue & Doubtul Loans (BoP)[a]	495.0	604.2	109.2	22.1%
Provisions for Credit	869.3	990.4	121.1	13.9%
(%)				
Overdue Loans / Customer Loans (gross)	1.32	1.18	-0.14p.p.	
Overdue loans > 90 days / Customer loans (gross)	1.11	1.00	-0.11p.p.	
Overdue & Doubtful(a)/ Customer Loans (gross)	1.38	1.40	0.02p.p.	
Coverage of Overdue Loans	183.9	195.1	11.2p.p.	
Coverage os Overdue Loans > 90 days	218.2	228.8	10.6p.p.	
Coverage of Overdue & Doutful Loans	175.6	163.9	-11.7p.p.	
Provisions for Credit (Balance) / Customer Loans	2.4	2.3	-0.1p.p.	
Provision Charge (P&L Provisions for Credit / Customer Loans)	0.51	0.49	-0.02p.p.	
Net Provisions Charge (P&L Provisions for Credit net of recoveries* /Customer Loans)	0.44	0.41	-0.03p.p.	

(a) According to Bop Circular Letter no. 99/03/2003.
* Recorevery of credit written-off

b. Exposure to Emerging Markets

As of December 31st, 2007, the foreign currency exposure to emerging markets was euro 1,870 million, which represents 2.7% only of net consolidated assets.

BANK OF PORTUGAL		Dec 06		Dec 07				
		Net exposure				Net exposures		
Risk Countries	Risk Weight 2007	Total	in foreign currency	Gross exposure[1]	Guarantees and Deductions[2]	Total	in foreign currency	Struture
LATIN AMERICA		**1,770**	**334**	**2,566**	**181**	**2,385**	**546**	**59%**
Bahamas	0%	3	3	20	0	20	20	0%
Brazil	0%	1,533	97	2,165	34	2,131	292	53%
Mexico	10%	2	2	105	101	4	4	0%
Panama	10%	226	226	230	8	222	222	6%
Venezuela	25%	0	0	17	17	0	0	0%
Other		6	6	29	21	8	8	0%
EASTERN EUROPE		**3**	**3**	**4**	**1**	**3**	**3**	**0%**
Russia	10%	2	2	1	1	0	0	0%
Ucrania	25%	1	1	3	0	3	3	0%
Other		0	0	0	0	0	0	0%
ASIA - PACIFIC		**58**	**49**	**201**	**4**	**197**	**167**	**5%**
India	10%	7	7	37	1	36	36	1%
Macao	10%	43	34	80	0	80	50	2%
China	10%	8	8	7	0	7	7	0%
Turkey	25%	0	0	58	0	58	58	1%
Other		0	0	19	3	16	16	0%
ÁFRICA	**650**	**463**	**0**	**1,581**	**136**	**1,445**	**1,154**	**36%**
South Africa	10%	17	17	18	17	1	0	0%
Angola	10%	627	445	1,518	85	1,433	1,153	36%
Cape Verde	25%	1	1	26	25	1	1	0%
Morroco	10%	4	0	14	4	10	0	0%
Other	1	0	0	5	5	0	0	0%
TOTAL		**2,481**	**849**	**4,352**	**322**	**4,030**	**1,870**	**100%**
% NET ASSETS		4.2%	1.4%			5.9%	2.7%	

(1) Gross value, net of provisions for country risk
(2) Includes trade finance up to 1 year maturity

The following exposure to emerging markets, which is in line with the internationalisation strategy deployed by the Group, is worth highlighting:

- Net exposure to Brazil increased by euro 598 million, of which euro 250 million derived from the valuation of BES' holdings in Banco Bradesco and the remainder related to Banco Espírito Santo de Investimento business growth in this country. It is worth noting that in 2007 the Bank of Portugal considered Brazil as exempt from risk and subject to no recommended exposure limit.

- Net exposure to Angola increased by euro 806 million – besides the acquisition of Angolan public debt, this is related to BES' strong business growth, namely in the credit portfolio. It is equally worth referring that in 2007 Angolan risk was upgraded from 25% to 10%.

6.4 // Market Risk

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

6.4.1 // Management Practices

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

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which Value at Risk (VaR) valuation criteria is used. BES Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

To improve on the VaR assessment, other initiatives have been developed, namely back testing, which consists of comparing the losses foreseen by VaR with actual losses. These exercises allow the model to be fine-tuned and its prediction capacity improved. As a complement to the VaR model, stress testing is also carried out – allowing the Group to assess the impact of higher potential losses than those considered using the VaR.

6.4.2 // Analysis of Market Risk

Consolidated value at risk (VaR) in December 2007 (relating to trading positions in equities, interest rate instruments, commodities, as well as FX positions) totalled euro 24.5 million, which compares with euro 24.1 million at year-end 2006. This value (euro 24.5 million) corresponds to 0.6% of BES Group's consolidated Tier I capital.

Value at Risk 99% at 10 days	Dec 07	Max 2007	Average 2007	Dec 06
Equity	21.1	16.4	9.3	13.6
Commodities	2.1	2.6	2.9	-
Interest Rate	4.4	5.7	8.5	5.0
FX	11.2	16.8	12.7	15.1
Diversification Effect	-14.3	-13.5	-12.5	-9.6
TOTAL	**24.5**	**28.0**	**20.9**	**24.1**

As a complement to risk measurement, simulated extreme scenarios are also analysed. The analysis of worst case scenarios, based on 20% change in risk factors, and assuming the remote possibility of a perfect correlation between the worst possible scenario for the various categories of risk, determines that the maximum loss in a VaR of euro 24.5 million could, in the most extreme conditions, reach euro 115.8 million or 2.9% of consolidated Tier I Capital as of December 31st.

VaR versus Extreme Scenarios	2007				2006	
	Value at Risk	% of Tier 1	Extreme Scenario	% of Tier 1	Extreme Scenario	% of Tier 1
Equity	21.1	0.5%	72.7	1.8%	54.4	1.5%
Commodities	2.1	0.1%	6.7	0.2%	-	-
Interest Rate	4.4	0.1%	23.7	0.6%	12.4	0.3%
FX	11.2	0.3%	12.6	0.3%	103.7	2.8%
TOTAL	**24.5**	**0.6%**	**115.8**	**2.9%**	**170.6**	**4.5%**

6.5 // Interest Rate Risk

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

6.5.1 // Management Practices

Monitoring on-balance sheet interest rate risk is extremely important. At internal level, this task is performed by the ALCO Committee, namely through the monitoring of net interest income and using repricing tables.

6.5.2 // Analysis of Interest Rate Risk

In accordance with Basel II (Pillar 2) recommendations and Bank of Portugal Instruction 19/2005, the Group's exposure to on-balance sheet interest rate risk is calculated on the basis of Bank of International Settlements (BIS) methodology, classifying all Assets, Liabilities and off balance sheet items, excluding those from trading, using repricing schedules.

The model used is similar to the duration model, using a stress testing scenario corresponding to a parallel shift of 200 bp in the yield curve for all interest rate levels.

Interest rate risk measurement basically consists of determining the effect of changes in interest rates on equity and net interest income. In December 2007 interest rate risk, measured as its impact on BES Group's shareholders' equity, was euro 216 million, which compares with euro 500 million at year-end 2006.

6.6 // 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 the portfolio without incurring in exaggerated losses.

6.6.1 // Management Practices

The purpose of liquidity management is to maintain adequate liquidity levels to meet the Group' short term funding needs. Liquidity management, which is centralised in the trading room, focuses on maintaining surplus liquidity in the short term, supported by medium and long term funding operations in the international capital markets. This prudent liquidity management policy is implemented through a Financial Plan, which is approved on an annual basis and revised whenever necessary, resulting in the diversification of funding sources and maturities.

An additional source of liquidity is provided by the significant amount maintained in the portfolio of securities that may be rediscounted either with the European System of Central Banks or in the repos market. At the end of 2007 BES Group increased its portfolio of securities rediscountable with the European Central Bank. Moreover, the Group intends to continue to perform asset securitisation transactions in order to increase the liquidity of its credit portfolio.

6.6.2 // Analysis of Liquidity Risk

Liquidity risk is analysed on a daily basis by the Financial Department, which monitors actual and forecast cash flows within a short-term timeframe, and from a medium and long term perspective, at the monthly meetings of the ALCO.

The liquidity control reports produced every day permit, not only to identify negative mismatches, but also to carry out the necessary hedging operations. The assessment and control of liquidity risk is the responsibility of the Risk Department, thus ensuring that this liquidity management function is conducted separately.

In accordance with the ALCO directives and as established in the Financial Plan, liquidity risk is assessed on a fortnightly basis by determining static gaps projecting the liquidity position for the following 12 months. Every month a stress scenario is produced based on regulatory reporting, while extreme scenarios are also used to make quarterly liquidity forecasts.

The liquidity ratio is calculated in accordance with the rules of Bank of Portugal's instruction 1/2000. A liquidity risk of 91% at the end of 2007 (97% at the end of 2006) shows that BES group maintains comfortable liquidity levels against an adverse market environment.

6.7 // Operational Risk

Operational risk may be defined as the risk of losses or of a negative impact on the relationship with the Clients or other stakeholders, resulting from inadequate or negligent application of internal procedures, staff behaviour, information systems or external events. Operational risk also includes the risk of fluctuations in volumes/businesses, revenues/prices or costs due to changes in the business environment and/or the business strategy. Legal risk is also included in this definition. Legal risk represents the risk of losses arising from non compliance with regulations in force (due to inadequate document retention, failure to change processes as required by new legislation and/or differences in the interpretation of the law) or resulting from legal action.

To manage operational risk, there are a set or procedures in place that standardise, systematise and regulate the frequency of actions viewing the identification, monitoring, control and mitigation of this risk.

These processes are part of a management model comprising two broad areas: the first concerns the collection and treatment of information, using tools that permit to identify and monitor risk; the second uses the information that has been duly processed for the efficient management of risk, monitoring the more critical situations and implementing the risk management strategy.

In 2007 the focus was maintained on the following aspects of the management model implemented:

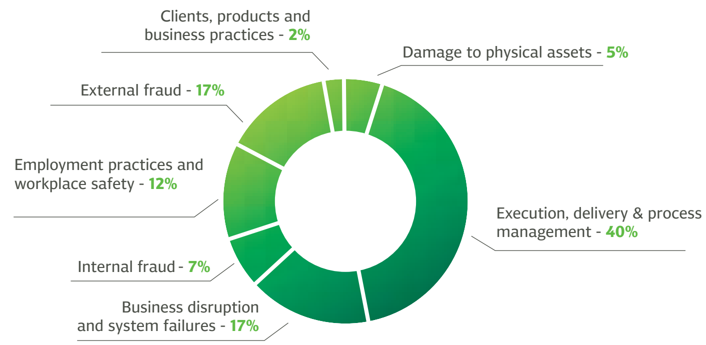
- Risk identification focused on priority risks (high criticality), definition of scenarios and in-depth analysis of factors liable of affecting BES Group's risk profile;
- Monitoring identified risks and trends, using perfectly aligned indicators and controls;
- Mitigation actions aligned to priority risks (such as the development/reinforcement of business continuity plans);
- Analysis of loss events data to determine trends; review of near misses and analysis of losses external to the organisation (when available);
- Sound corporate governance model, reporting aligned to main concerns.

The management of operational risk is supported by a structure within the organisation exclusively dedicated to designing, monitoring and maintaining the model. This structure includes in its composition representatives from relevant departments, branches and subsidiaries, who ensure the application of the established procedures in their areas of competence and play a key role in the effective day-to-day management of operational risk.

The following areas and functions also play an important part in the implementation of the model:

- the Internal Control System's management, executed by the Compliance Department, for its important role in guaranteeing that the processes are well documented, detecting specific risks and verifying the controls implemented, ascertaining the rigour of control design and identifying required steps for improvement and full effectiveness; there is continuous reporting to and from the operational risk management;
- the Internal Audit, which tests the efficacy of risk management and controls, identifies required steps for improvement and assesses their implementation;
- the Security Coordination area, with responsibility for data security, the security of people and property and business continuity.

Breakdown of operational risk events by type of loss (2005, 2006 and 2007)



07
Financial Analysis

7.1 // Financial Analysis of BES Group

The expansion of the branch network, namely in Portugal, persistently high client acquisition levels, the accelerating growth of the loyal customer base, an improved pace in the sale of products, revenue diversification in corporate banking, and the increased weight of the Assurfinance channel's contribution to the retail business were the key contributors to the performance achieved by BES Group in 2007.

Key aspects of the results achieved and activity developed:

- The year's net income totalled euro 607.1, which represents a year-on-year increase of 44.3%;
- Return on equity (ROE), at 16.6%, was higher than in 2006;
- Solvency remained at comfortable levels, with the Core Tier I ratio standing at 6.6%;
- Efficiency improved, the Cost to Income dropping to 47.5%, from 52.3% in 2006;
- The activity continued to progress at a brisk pace, raising the average market share to 20.4% (+1.4 p.p.).

7.1.1 // Activity

Commercial activity was strong across the main business areas:

- loans to customers, including securitisations, increased by euro 6.8 billion (+16.9%),
- total customer funds were up by euro 4.7 billion (+9.4%), underpinned by on-balance sheet customer funds, which grew by euro 3.9 billion, or 12.3%,
- the contribution of the international area continued to report strong growth levels: loans to customers rose by 38.4% and total customer funds by 18.0%.

Activity Indicators	Dec 06	Dec 07	Chg %
Total Assets[1]	**84,628**	**93,819**	**10.9**
Net Assets	**59,139**	**68,355**	**15.6**
customer Loans (including securitised)	**40,546**	**47,389**	**16.9**
Loans to Individuals	15,603	17,083	9.5
- Mortgage	13,294	14,369	8.1
- Other Loans to Indiviaduals	2,309	2,714	17.5
Corporate Lending	24,943	30,306	21.5
Total Customer Funds (A+B)	**49,632**	**54,305**	**9.4**
On- Balance Sheet Customer Funds(A)	31,995	35,920	12.3
- Deposits and similar[2]	26,732	29,675	11.0
- Debt securities placed with Clients[3]	5,263	6,245	18.7
Off- Balance Sheet Customer Funds(B)	17,637	18,385	4.2

(1) Net Assets + Asset Management + Other Off Balance Sheet Liabilities + Securitised non consolidated credit
(2) Includes customer funds and certificates of deposit
(3) Includes funds related to consolidated securitisations

Corporate lending grew by 21.5%, allowing the Group to reinforce its competitive position in this segment. This performance was backed by the gradual improvement of economic activity, specifically in exports – an area where BES Group has a firm foothold, with a market share in trade finance that has trended consistently around 28%.

In loans to individuals, mortgage loans grew by 8.1%, while other loans to individuals increased by 17.5%, as a result of the launch of innovative collateralised credit products and the growth of consumer loans.
During the year the Group executed (i) the sixth mortgage backed securitisation transaction in the amount of euro 1.1 billion, and (ii) the first securitisation transaction of a portfolio of Project Finance loans in the amount of euro 1,079 million. Insofar as the Group holds the majority of the risks and benefits associated to these transactions, they are both included in the consolidated financial statements.

Customer funds levels were good, with on-balance sheet funds increasing by 12.3%. Reflecting the crisis in the markets during the second half of the year, off-balance sheet funds made moderate progress (+4.2%), with portfolio management and private discretionary portfolio management showing the best performance.

Off-Balance Sheet Funds	Dec 06	Dec 07	Chg %
Mutual Funds	5,540	4,966	-10.4
Real Estate Funds	1,469	1,289	-12.3
Pension Funds	2,608	2,800	7.4
Bankinsurance	4,647	4,933	6.2
Portfolio Management	1,103	1,867	69.3
Discretionary Management & Other	2,270	2,530	11.5
TOTAL	**17,637**	**18,385**	**4.2**

The international business continued to expand steadily, backed by an increasingly consolidated presence in Angola, the activity in Spain and the already traditional positions in the United Kingdom, France, the USA, Brazil and Macao. The loan portfolio grew by 38.4%, to euro 7.6 billion, which corresponds to 16.1% of the consolidated credit portfolio (Dec. 06: 13.6%). Total customer funds were up by 18.0%, to euro 14.7 billion, while total assets reached euro 25.8 billion.

International Banking Business	Dec 06	Dec 07	Chg %
Total Assets(1)	21,551	25,750	19.5
Customer Loans (including securitised)	5,497	7,607	38.4
Total Customer Funds	12,477	14,718	18.0

(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities + Securitised non consolidated credit

7.1.2 // Liquidity Management and Transformation Ratio

In a context of strong lending growth, and despite the events surrounding the subprime mortgage crisis and its implications in terms of liquidity in the international financial markets, BES Group's liquidity management was supported by concerted action by the main business units. Yet, notwithstanding this balanced funding policy, funding growth lower than credit growth led to a slight deterioration in the transformation ratios, namely of customer funds into credit, which rose to 117%, from 109% in December 2006. On the other hand, long-term funding (through the Euro Medium Term Notes programme) has permitted to keep the total transformation ratio at around 90%.

Transformation Ratio		Dec 06	Dec 07
CUSTOMER LOANS			
Customer Loans (gross)		35,752	43,161
Impairment		869	990
Customer Loans (net)	**A**	**34,883**	**42,171**
CUSTOMER FUNDS			
Deposits and similar*	**B**	**26,732**	**29,675**
Debt Securities placed with clients*		5,263	6,245
On-Balance Sheet Funds	**C**	**31,995**	**35,920**
Euro Medium Term Notes		8,980	11,029
On-Balance Sheet Funds	**D**	**40,975**	**46,949**
TRANSFORMATION RATIOS			
Loans to Deposits	**A/B**	**130%**	**142%**
Loans to On-Balance Sheet Customer Funds	**A/C**	**109%**	**117%**
Loans to Total On- Balance Sheet Funds	**A/D**	**85%**	**90%**

* Includes debt securities issues under consolidated securitisation transactions

7.1.3 // Capitalisation and Capital Adequacy Ratios

Own funds totalled euro 7,509 million at year-end, an increase of euro 446 million on the previous year that reflects, on the one hand, the increase in retained earnings (income of the year retained for self-financing) and in revaluation reserves, and on the other the reduction in subordinated debt through the liquidation of two issues.

a. Own Funds Composition

euro million

Own Funds Composition	Dec 06	Dec 07	Change (absolute)
Capital	3,100	3,100	0
Ordinary Shares	2,500	2,500	0
Preference Share	600	600	0
Share Premium	669	669	0
Own Shares	(64)	(41)	23
Revaluation Reserves	512	647	135
Other Reserves and Retained Earnings	98	291	193
Minority Interests	87	141	54
Subordinated Debt	2,240	2,095	-145
Net Income	421	607	186
TOTAL	**7,063**	**7,509**	**446**

Revaluation reserves of euro 647 million correspond to potential gains in the portfolio of "Assets available for sale", which are recognised at fair value, with changes, including foreign exchange fluctuations, being recognised under reserves, net of deferred tax liabilities. 45% only of the amount of these potential gains is considered as eligible TIER II capital. The main equity exposures in the available for sale portfolio continued to show significant potential gains, which amounted to euro 838,8 million at the end of 2007 (euro 641,5 million at the end of 2006).

euro million

Main Equity Exposures	Gross Potential Gains	
	Dec 06	Dec 07
Banco Bradesco	496.1	661.7
Portugal Telecom	66.3	76.0
EDP	68.0	70.5
Bradespar	8.3	22.0
B. Marrocaine Com. Exterieur	2.8	8.6
TOTAL	**641.5**	**838.8**

b. Solvency

The Group's solvency ratios are strong, capable of supporting further business growth in the medium term and standing significantly above the minimum requirements of the Bank of Portugal: the Core Tier I ratio and the solvency ratio reached respectively 6.6% and 11.5%.

Tier I capital reached euro 3,941 million (up by euro 190 million on December 2006), with the weight of preference shares standing at 15%.

euro million

Risk Weighted Assets and Regulatory Capital (Bank of Portugal)		Dec 05	Dec 06	Dec 07	Change	
					Abs.	Rel. (%)
Net Assets	(1)	59,139	68,355		9,216	15.6
Risk Weighted Assets	(2)	44,738	52,856		8,118	18.1
Risk Weighted	(2)/(1)	76%	77%			
Regulatory Capital requirements	(3)	3,579	4,228		649	18.1
Risk Weighted Assets		3,332	3,871		539	16.2
Trading Portfolio		247	357		110	44.7
Existing Regulatory Capital	(4)	5,839	6,067		228	3.9
TIER I		3,751	3,953		202	5.4
Core Tier I		3,151	3,486		335	10.6
Other Elements		600	467		-133	-22.2
TIER II		2,277	2,119		-158	-6.9
Deductions		(189)	(5)		....	....
Excess Regulatory Capital	(4) - (3)	2,260	1,839		-421	-18.6
Solvency Ratio	**[4/(12,5 x 3)]**	**13.1%**	**11.5%**		**-1.6**	**p.p.**
TIER I Ratio		**8.4%**	**7.5%**		**-0.9**	**p.p.**
Core TIER I		**7.0%**	**6.6%**		**-0.4**	**p.p.**

The decline in the solvency ratios when compared to the end of 2006 resulted, on the one hand, from the increase in risk weighted assets (+18.1%) due to business expansion, particularly in the credit and trading portfolios, and on the side of regulatory capital, from self-financing and also from the substantial reduction (euro 157 million) in actuarial differences outside the corridor that are deductible to Tier I, due to profits made from pension fund assets.

It should also be mentioned that as from 2007 minority interests (below 10%) in financial institutions are deducted to Tier I (they were previously deducted from total own funds), leading in 2007 to a euro 140 million reduction in Tier I capital and to a negative impact of 26 basis points in the Tier I ratio.

7.1.4 // Results

The BES Group reached consolidated net income of euro 607.1 million in 2007, corresponding to a year-on-year increase of 44.3%.

This result includes the following non-recurrent items: (i) gains with Bradesco shares in the amount of euro 62.8 million net of taxes, in the second quarter; and (ii) early retirement charges in the fourth quarter (impact of euro 14.4 million, net of charges). Excluding these items, net income in the period would be euro 558.7 million, corresponding to a year-on-year increase of 32.8% on a comparable basis.

euro million

Activity Results	2006	2007	Change Abs.	Change Rel. (%)
Net Interest Income	829.5	953.7	124.2	15.0
+ Fees & Commissions	587.7	643.4	55.7	9.5
= **Commercial Banking Income**	**1,417.2**	**1,597.1**	**179.9**	**12.7**
+ Capital markets & Other Results	287.6	404.1	116.5	40.5
= **Banking Income**	**1,704.8**	**2,001.2**	**296.4**	**17.4**
- Operating Costs	891.3	950.7	59.4	6.7
= **Operating Income**	**813.5**	**1,050.5**	**237.0**	**29.1**
- Net Provisions	241.9	262.9	21.0	8.7
Credit	181.6	213.2	31.6	17.4
Securities	6.9	18.7	11.8	....
Other	53.4	31.0	-22.4	-42.0
= **Income before Taxes**	**571.6**	**787.6**	**216.0**	**37.8**
- Taxes	135.4	152.5	17.1	12.6
= **Income after Taxes**	**436.2**	**635.1**	**198.9**	**45.6**
- Minority Interests	15.5	28.0	12.5	81.2
= **Net Income**	**420.7**	**607.1**	**186.4**	**44.3**

These were the main factors that supported BES Group's performance in 2007:

- strong growth in all areas of activity, especially in customer funds and customer lending;
- a proactive commercial stance, relying on adjusted product offers and pricing policies for each segment, allowed commercial banking income to grow more than last year (12.7% versus 11.1% in 2006);
- adequate positioning on the domestic and international capital markets led to a 40.5% year-on-year increase in capital markets and other results;
- control of operating costs through the implementation of rationalisation and integration measures: costs increased by 6.7%, despite the increase in costs related to both early retirements and the international activity expansion (+13.4%);
- a selective credit policy and risk control have permitted a gradual reduction of the cost of risk, which dropped to 49 basis points of the loan portfolio (51 basis points in 2006);
- solvency and liquidity maintained at prudent levels, minimising the risk of impact on the activity of the international financial crisis, in particular in the second half of the year.

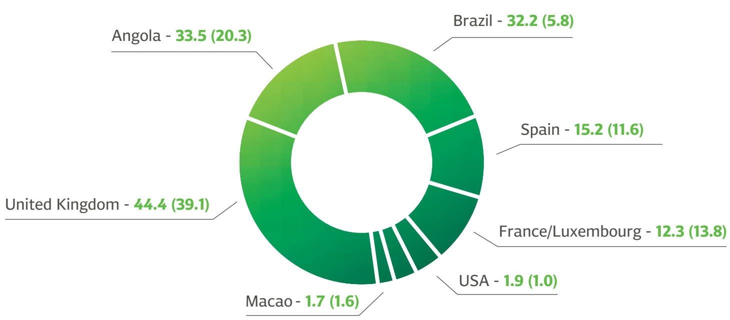
euro million

Income from Domestic and International Activity	Domestic Activity 2006	Domestic Activity 2007	Domestic Activity Chg %	International Activity 2006	International Activity 2007	International Activity Chg %
Net Interest Income	724.5	792.9	9.4	105.0	160.8	53.1
+ Fees & Commissions	463.8	502.0	8.2	123.9	141.4	14.1
= **Commercial banking Income**	**1 ,188.3**	**1 294.9**	**9.0**	**228.9**	**302.2**	**32.0**
+ Capital markets & Other Results	224.4	313.0	39.5	63.2	91.1	44.2
= **Banking Income**	**1,412.7**	**1 607.9**	**13.8**	**292.1**	**393.3**	**34.6**
- Operating Costs	745.3	785.2	5.4	146.0	165.5	13.4
= **Operating Income**	**667.4**	**822.7**	**23.3**	**146.1**	**227.8**	**55.9**
- Net provisions	219.0	236.2	7.8	22.9	26.7	16.3
Credit	162.3	184.8	13.9	19.3	28.4	47.3
Securities	7.2	18.7	....	- 0.3	0.0	....
Other	49.5	32.7	-33.9	3.9	- 1.7	....
= **Income before Taxes and Minorities**	**448.4**	**586.5**	**30.8**	**123.2**	**201.1**	**63.2**
- Taxes	115.8	112.3	-3.0	19.6	40.2	....
= **Income after taxes**	**332.6**	**474.2**	**42.6**	**103.6**	**160.9**	**55.3**
- Minority Interests	5.1	8.6	68.1	10.4	19.4	85.9
= **Net Income**	**327.5**	**465.6**	**42.1**	**93.2**	**141.5**	**51.9**

The expansion of the international activity was pursued at a good pace with positive effects on commercial banking income growth, which increased by 32.0% (23.1% in 2006).

The contribution of the international business to consolidated net income reached euro 141.5 million, or 23% of the total, having increased by 51.9% year-on-year. The highest contributions originated in the UK (euro 44.4 million), Angola (euro 33.5 million), and Brazil (euro 32.2 million), while the improvement in Spain is also worth highlighting.

International activity contribution to consolidated net income — euro million

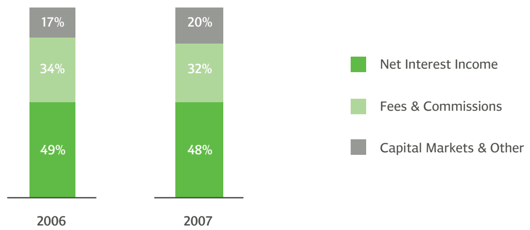


The strategic triangle formed by Spain, Angola and Brazil was responsible for 57% of total income generated by the Group's units abroad, and for 13% of consolidated income.

a. Banking Income

Banking income grew by 17,4%, fuelled by the good performance not only of Banco Espírito Santo but of all the Group's operating units in general, in particular BES Investimento, BES Angola, and Besleasing e Factoring. The structure of banking income maintained its traditional balance with respect to revenue-generating sources.

Banking Income Breakdown



b. Net Interest Income and Net Interest Margin

Net interest income grew by 15.0% (12.0% in 1007), to euro 953.7 million. The sustained progress achieved continues to be underpinned by activity growth, in particular in the international area where the increase was 53.1%.

euro million

Net Interest Income	2006	2007	Change (abs.)
Revenues (Interests received)	**2,301**	**3,149**	**848**
Customer Loans	1,673	2,278	605
Other Placements	628	871	243
Costs (Interests Paid)	**1,471**	**2,195**	**724**
Customer Funds *	1,036	1,625	589
Other Funds	435	570	135
Net Interest Income	**830**	**954**	**124**

* Deposits and Debt Securities

Interest revenues exceeded the previous year's total by euro 848 million, with revenue from customer loans increasing the most. Interest costs were up by euro 724 million, of which euro 589 million were costs related to customer funds.

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

euro million

Net Interest Income and Net Interest Margin	2006			2007		
	Average Volume	Rate (%)	Revenues/ Costs	Average Volume	Rate (%)	Revenues/ Costs
Placements	**45,377**	**5.07**	**2,301**	**53,701**	**5.86**	**3,149**
Customer Loans	33,354	5.01	1,673	39,109	5.83	2,278
Other Placements	12,023	5.22	628	14,592	5.97	871
Borrowed Funds	**44,590**	**3.24**	**1,471**	**52,664**	**4.09**	**2,195**
Customer Funds*	34,673	2.99	1,036	42,075	3.86	1,625
Other Funds	9,917	4.38	435	10,589	5.38	570
ALM	**787**			**1,037**		
Result / Margin		**1.83**	**830**		**1.78**	**954**

* Deposits and Debt Securities

The net interest margin was 1.78% in 2007, decreasing by 5 basis points year-on-year mainly as a result of a drop in the margin on financial assets caused by the following factors:

- fierce competition, particularly in mortgage loans, fuelled by "zero spread" campaigns launched by the main banking groups;

- changes in the legislation on the rounding off of interest rates on loans to individuals and companies (respectively Decree-law 240/06 of 22 December and Decree-law 171/07 of 8 May);
- increased prudence in the management of monetary investments following the sub-prime crisis, directing liquidity surpluses to shorter term placements.

As for liabilities, it is worth emphasising that the execution of the 2007 financial programme was nearly completed before the onset of the financial crisis, which significantly increased the cost of issuing bank debt. Allied to the Group's strength, this permitted to minimise the effects of the subprime crisis and to consolidate the gradual recovery of the margin on funds.

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

euro million

Price versus Volume Effect	Volume Effect	Price Effect	Volume/ Price Effect	Change
Interest Earning Assets	422	360	66	848
Interest Bearing Liabilities	270	384	70	724
Net Interest Income	**152**	**-24**	**-4**	**124**

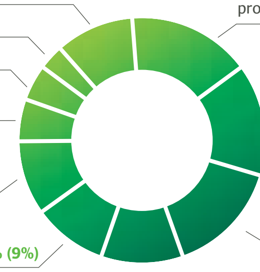
The increase in volume (euro 152 million) backed the performance of net interest income, while the price effect explained a reduction of euro 24 million.

c. Fees and Commissions

In the development of its activity, BES Group invests and takes steps to improve service quality, to adjust the offer to the various segments of individual and corporate clients, and to promote cross-selling as part of the proactive performance of the commercial networks.

Fees and commissions totalled euro 643.4 million in 2007, a year-on-year increase of 9.5%. This improvement was backed, on the one hand, by international business growth, where fees and commissions grew by 14.1% and on the other by the good performance reported in several areas: securities trading (+50.9%), in line with the recovery of the equity markets in the first half of the year, bancassurance (13.1%) and asset management (+11.1%).

Breakdown of Fees and Commissions



The reduction in collection fees and card related commissions is explained by intensive competition in these areas. The contribution of investment banking was quite significant, with related fees and commissions increasing by 13.2%.

d. Capital Markets Results and Other

Capital markets results and other reached euro 404.1 million, which compares with euro 287.6 million in 2006 and corresponds to a year-on-year increase of 40.5%[1].

euro million

Capital Markets Results and Other	2006	2007	Chg (abs)
Interest Rate & FX	**89.4**	**38.5**	**-50.9**
Equity	**169.2**	**325.1**	**155.9**
Trading	127.6	275.1	147.5
Dividens	41.6	50.0	8.4
Other	**29.0**	**40.5**	**11.5**
Total	**287.6**	**404.1**	**116.5**

The second half of the year was marked by the events surrounding the subprime crisis and its implications for the international financial markets. Following an intervention by the FED in September, the markets slightly picked up, with spreads gradually shrinking and volatility abating.

But by the end of October the announcement of new write-offs, combined with the disclosure of results by reference financial institutions again plunged the markets into a climate of instability, causing sharp falls in the equity and interest rate markets and immediately triggering a widening of credit spreads as well as a new reduction in liquidity levels, particularly in the medium and long-term segment and in all types of instruments.

(1) Includes an extraordinary gain of EUR 85.5 million on the sale of Banco Bradesco shares.

Accordingly, the results arising from exposure to interest and exchange rates reflect the unfavourable effect of the re-pricing of assets due to the widening of spreads, although this was partially compensated by the adequate positioning of the Group in the foreign exchange markets.

In regard to the stock markets and notwithstanding the strong devaluation felt in the latter part of the year, the Group benefited from having taken tactical positions, specifically in the Portuguese and Brazilian markets.

The “other results” also include euro 21.8 million corresponding to the 50% stake in BES Vida - Companhia de Seguros, already deducted of the euro 4.4 million amortisation of the in-force value. This was the first full year in which of BES Vida’s results were consolidated by the Group.

e. Operating Costs

Operating costs totalled euro 950.7 million, rising year-on-year by 6.7%. Excluding costs with early retirements (euro 26.1 million in 2007 vs euro 6.5 million in 2006), operating costs would increase by 4.5%.

euro million

Domestic and International Operating Costs	Domestic		International		Consolidated	
	Amount	Chg %	Amount	Chg %	Amount	Chg %
Staff Costs	410.5	3.7	91.6	11.1	502.1	5.0
(excluding early retirements)	(384.4)	(-1.2)	(91.6)	(11.1)	(476.0)	(0.9)
Admin Costs	316.5	9.1	62.3	15.3	378.8	10.1
Depreciations	58.2	-2.3	11.6	22.0	69.8	1.1
Total	785.2	5.4	165.5	13.4	950.7	6.7

The increase in operating costs was influenced by the international business, whose expansion required (i) a reinforcement of human resources, (ii) increased external supplies and services, and (iii) greater investments, leading to 13.4% increase of in operating costs. In the domestic activity, notwithstanding the opening of 77 new branches and the refurbishment of 125 older branches, operating costs were up by 5.4% only. Excluding the extraordinary charges related to early retirements, the domestic operating costs would increase by 2.7%

While total staff cost increased by 5.0%, there was a reduction of 1.2% in domestic staff costs (excluding early retirements) despite the increase in the number of employees required by the enlargement of the branch network.

euro million

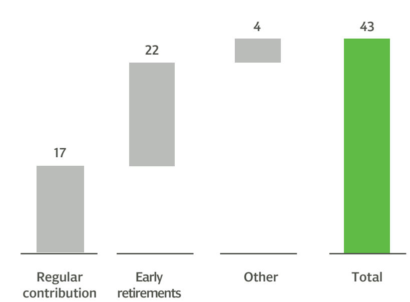
Staff Costs	2006	2007	Chg %
Salaries	397.0	439.1	10.6
Pensions and post retirement benefits	81.2	63.0	-22.4
Total	478.2	502.1	5.0

Costs related to long-term and post retirement benefits (pensions, health care and seniority bonuses) were reduced by 22.4%, notwithstanding the effect of early retirement costs (year-on-year increase of euro 19.6 million). This reduction was basically driven by lower amortisation of actuarial differences backed by the good performance of the pension funds in 2006 and 2007 (with annual returns of respectively 12.6% and 13.8%). Actuarial deviations outside the corridor dropped by euro 162 million, which will reflect favourably on their future amortisation.

The annual contribution to the pension funds also benefited from their good performance, amounting to euro 43 million, which is the lowest in the last ten years.

euro million

Contribution to the Pension Funds



euro million

Actuarial differences on the balance sheet with amortisation in the future	Dec 06	Dec 07
Initial Balance	**672**	**469**
Changes of the year	- 203	- 145
Final Balance	**469**	**324**
of which:		
inside the corridor	213	230
outside the corridor	256	94

Total post retirement liabilities are fully covered, either through the value of pension fund assets, or through the balance sheet. It should be stressed that the change of assumptions had no impact in terms of increasing liabilities.

euro million

Coverage of post-retirement liabilities	Dec 06	Dec 07
Liabilities for post- retirement benefits	**2,001**	**2,081**
Coverage / Financing	**2,138**	**2,344**
Value of Plan Assets at the end of the period	2,029	2,234
Value on balance sheet	109	110
Coverage	**107%**	**113%**

Other administrative costs increased by 10.1%, which is in line with the general levels of activity growth achieved by the Group in 2007. Depreciation and amortisation registered a small increase of 1.1% (2006: -14.1%), resulting from investment linked with the expansion of the network of branches and the expansion of the international activity.

f. Productivity and Efficiency

Activity growth and consequent increase in banking income, combined with costs control, continued to translate into sustained improvements in the Group's productivity and efficiency ratios: operating costs as a percent of average net assets decreased to 1.53%, from 1.72% in December 2006.

Produtivity and Efficiency Indicators	2006	2007	Change
Cost to Income (incl. markets)	52.3%	47.5%	-4.8 p.p.
Cost to Income (ex- markets)	62.9%	59.5%	-3.4 p.p.
Operating Costs / Average Net Assets	1.72%	1.53%	-0.19 p.p.
Total Assets * per Employee euro thousand)	10,081	10,520	4.4%

* Net assets + Asset management + Other off-balance sheet liabilities + Securitised credit

Efficiency levels also continued to improve, with the cost to income dropping to 47.5%, from 52.3% in 2006. Excluding market results, the cost to income dropped by 3 bp, to 59.5%.

g. Provisioning

As in previous years, and in line with current national and international macroeconomic conditions, the Group continued to adopt a prudent policy of risk coverage via provisions. The provision charge in the year was euro 262.9 million, of which 81% were credit provisions.

In relation to the securities portfolio, impairment losses totalled euro 18.7 million which, considering the devaluations in the bond and equity markets which took place during the second half of the year, translates an asset management policy that privileges quality and prudence in investments.

Other provisions for risks and charges totalled euro 31.0 million, of which euro 23.4 million were intended to cover the costs of the merger by incorporation of BES Spain into BES.

euro million

Provision Charges	2006	2007	Chg (abs)
Credit	181.6	213.2	31.6
Securities	6.9	18.7	11.8
Other risks and charges	53.4	31.0	(22.4)
TOTAL	**241.9**	**262.9**	**21.0**

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

7.1.5 // Profitability

The 2007 net income of euro 607.1 million resulted in a Return on Equity (ROE) of 16.6% and a Return on Assets (ROA) of 0.98%, both ratios having improved when compared to 2006. Excluding extraordinary items, the year's ROE would have been 15.2%.

%

Results and Profitability	2006	2007	Change p.p.
Rate of Interest Earning Assets	5.07	5.86	0.79
- Rate of Interest Bearing Liabilities	3.24	4.09	0.85
= Net Interest Margin	**1.83**	**1.78**	**-0.05**
+ Return on Fees and Commissions	1.30	1.20	-0.10
+ Return on Capital Markets and Other Results	0.63	0.75	0.12
= Business Margin	**3.76**	**3.73**	**-0.03**
- Weighting of Operating Costs	1.96	1.77	-0.19
- Weighting of Provisions	0.53	0.49	-0.04
- Weighting of Minorities and Other Costs	0.33	0.34	0.01
= Return on Interest Earning Assests	**0.93**	**1.13**	**0.20**
x Weighting of Interest Earning Assets	0.88	0.86	-0.02
= Retun on Assets (ROA)	**0.81**	**0.98**	**0.17**
x Placements Multiplier	18.01	17.00	-1.01
= Return on Equity (ROE)	**14.66**	**16.59**	**1.93**

The improvement in profitability levels is underpinned by strong commercial growth allied to selective risk management.

2007 represents a benchmark of the Group's performance over the recent 3-year period, in which remarkable progress was achieved in the following areas:

(a) Activity and Size – total assets increased to euro 93.8 million (1.5 times more than in December 2004), with the average market share rising from 17.7% to 20.4%, supported by a network of 754 branches (1.2-fold increase);

(b) Profitability – the 2007 net earnings - euro 607.1 million – represent a 4-fold increase over 2004 (under IFRS), with ROE growing from 6.4% to 16.6% in the period and ROA reaching 0.98% (2.6 times more than in 2004);

(c) Asset Quality – the ratio of overdue loans over 90 days to gross loans dropped from 1.6% to 1.0% in the period, with the corresponding provisioning coverage reaching 229% (+64 p.p.); at the same time the provisioning charge in the income statement dropped to 49 basis points (79 basis points in 2004);

(d) Efficiency and Productivity – consistent improvements were achieved in the period: the Cost to Income dropped by 14.5 p.p., to 47.5%; costs as a percent of net assets declined to 1.01% only (1.44% in 2004), and total assets per employee registered a 1.3-fold increase, to euro 10.5 million;

(e) Solvency – the Core Tier ratio increased to 6.6%, from 5.0% at the end of 2004; likewise, the TIER I ratio rose in the period from 6.7% to 7.5%.

(f) Stock Market Indicators – the price return on net income increased to 7.7%, from 6.9% in 2004, driving a 1.4-fold increase in net assets per share, which reached euro 9.35; the stock market capitalisation increased 1.9 times in the period, to euro 7.5 billion.

7.2 // Financial Analysis of Banco Espírito Santo

As disclosed in due time, the merger by incorporation of Banco Espírito Santo, S.A. (Spain) into Banco Espírito Santo, S.A. took place on April 1st, 2007. This operation represented another step forward in the implementation of the Iberia Project, under which BES maintains a direct presence in Spain through a Branch. This project aims to promote an Iberian approach to the activity of clients operating in the two countries, fostering growth in the Spanish market, improving profitability and driving synergies within the Group. At the same time the use of shared structures permitting to offer the Group's differentiating skills to the clients in this new market should translate into greater operating efficiency.

7.2.1 // Main activity highlights and business indicators

KEY Indicators	SYMBOL.	2004	2005	2006	2007
BALANCE (euro million)					
Total Assets [(1)]	AT	43,370	59,643	68,773	80,015
Net Assets	AL	33,179	44,643	50,537	58,020
Interest Earning Assets (average)	$\overline{AF}$	26,487	29,787	38,147	44,327
Capital and Reserves (average)	$\overline{KP}$	1,821	1,821	2,753	3,419
INCOME STATEMENT (euro million)					
Net Interest Income	RF	398.7	412.9	627.2	723.9
+ Fees and Commissions	SB	342.8	327.9	394.8	404.2
= Commercial Banking Income	PBC	741.5	740.8	1,022.0	1,128.1
+ Capital Markets and Other Results	ROF	271.2	260.4	176.6	367.1
= Banking Income	PB	1,012.7	1,001.2	1,198.6	1,495.2
- Operating Costs	CO	554.4	547.4	663.0	724.1
- Provisions and Taxes	PVI	254.4	263.7	278.1	276.4
= Net Income	RL	203.9	190.1	257.5	494.7
PROFITABILY (%)					
Net Interest Margin	RF / $\overline{AF}$	1.51	1.39	1.64	1.63
+ Return on Fees and Commissions	SB / $\overline{AF}$	1.29	1.10	1.03	0.91
+ Return on Capital Markets Results and Others	ROF / $\overline{AF}$	1.02	0.87	0.46	0.83
= Business Margin	PB / $\overline{AF}$	3.82	3.36	3.14	3.37
- Weighting of Operating Costs	CO / $\overline{AF}$	2.09	1.84	1.74	1.63
- Weighting of Provisions Taxes	PVI / $\overline{AF}$	0.96	0.89	0.73	0.62
= Return of Financial Assets	RL / $\overline{AF}$	0.77	0.64	0.68	1.12
x Weighting of Interest Earning Assets	AF/ $\overline{AL}$	0.86	0.87	0.86	0.85
= Return on Assets (ROA)	RL / $\overline{AL}$	0.66	0.56	0.58	0.94
x Placements Multipliers	AL / $\overline{KP}$	16.96	18.73	16.12	15.32
= Return on Equity (ROE)	RL / $\overline{KP}$	11.20	10.44	9.35	14.47

(1) Net Assets + Asset Management + Securitised

* Balance Sheet data for 2007 includes BES (Spain) which was converted into a BES subsidiary in 01/04/2007;Balance Sheet data for 2005 and 2006 reflect, respectively, the integration of BIC done in 30/12/2005 and Crediflash in 30/05/2006;2004 data are presented according to NCA

7.2.2 // Activity

In line with the strategic framework in place over the last few years, BES reported a strong commercial performance with major structural changes in 2007.

euro million

Activity Indicators	Dec 06	Dec 07	Chg %
Total Assets[1]	**68,773**	**80,015**	**16.3**
Net Assets	**50,537**	**58,020**	**14.8**
Customer Loans (including securitised)	**33,089**	**40,313**	**21.8**
Loans to Individuals	14,650	16,690	13.9
- Mortgage	12,629	14,091	11.6
- Other Loans to Individuals	2,021	2,599	28.6
Corporate Lending	18,439	23,623	28.1
Total Customer Funds (A+B)	**38,953**	**45,077**	**15.7**
On-Balance Sheet Customer Funds	26,302	30,031	14.2
- Deposits and similar[2]	22,730	26,592	17.0
- Debt Securities place with Clients[3]	3,572	3,439	-3.7
Off-Balance Sheet Customer Funds (B)	12,651	15,046	18.9

(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities + Securitised Credit.
(2) Includes customer funds and certificates of deposit
(3) Includes funds related to consolidated securitisation transaction

Credit continued to increase at a good pace, rising by 21.8%, including securitised loans. On-balance sheet customer funds grew by 14.2%, being outperformed by off-balance sheet customer funds, which were up by 18.9%, driven by the performance of portfolio management and the integration of customer funds from the Branch in Spain.

Corporate loans grew by euro 5.2 billion, corresponding to a year-on-year increase of 28.1% that was strongly influenced by the incorporation of BES (Spain).

With mortgage loans accounting for 35% of the loan portfolio, corporate credit remains the most representative component overall, with almost 59% of the loan book, reflecting BES' strong and long-standing foothold in the Portuguese corporate fabric. In 2007 BES performed its sixth mortgage backed securitisation operation, in the amount of euro 1.1 billion.

The quality of BES' credit portfolio is underpinned by the systematic fine-tuning of risk management and the ability consistently shown by all participants in the process of risk assessment.

Asset Quality	Dec 06	Dec 07	Change	
			Abs.	Rel. (%)
(euro million)				
Customer Loans (gross)	27,504	33,364	5,860	21.3%
Overdue Loans	402	443	41	10.3%
Overdue Loans > 90 days	360	398	38	10.6%
Overdue & Doubtful Loans (Banco de Portugal) [a]	456	566	110	24.2%
Provisions for Credit	755	884	129	17.1%
(%)				
Overdue Loans / Customer Loans (gross)	1.5	1.3	-0.2 p.p.	
Over Loans >90 days / Customer Loans (gross)	1.3	1.2	-0.1 p.p.	
Overdue & Doubtful Loans(a)/ Customer Loans (gross)	1.7	1.7	0.0 p.p.	
Coverage of Overdue Loans	187.9	199.5	11.6 p.p.	
Coverage of Overdue Loans > 90 days	209.8	222.1	12.3 p.p.	
Coverage of Overdue & Doubtful Loans	165.6	156.2	-9.4 p.p.	
Provisions for Credit (Balance) / Customer Loans	2.7	2.6	-0.1	

(a) according to BoP Circular Letter no. 99/03/2003.

The ratio of overdue loans over 90 days (1.2% in December 2007 versus 1.3% in December 2006) and the corresponding provision coverage (222% in December 2007 versus 210% in December 2006) reflect the quality of the credit portfolio. This improvement stems from the fact that while total overdue loans increased by euro 41 million, the provision charge in the year was euro 129 million.

7.2.3 // Results and Productivity

BES closed the year with net income of euro 494.7 million, corresponding to a year-on-year increase of 92.1%.

The euro 190.5 million increase in capital markets results, which accounted for 64.2% of the growth of banking income, was a major contributor to the year's results. Capital markets results are strongly influenced by gains in Banco Bradesco shares (euro 85.5 million).

Net interest income rose by 15.4%, driven by activity growth and a careful management of the rising trend of market interest rates.

The lacklustre performance of fees and commissions is influenced by the Bank's promotion campaigns of certain credit and funding products where no fees were charged.

euro million

Income Statement	2006	2007	Change	
			Abs.	Rel. (%)
Net Interest Income	**627.2**	**723.9**	**96.7**	**15.4**
+ Fees and Commissions	394.8	404.2	9.4	2.4
= Commercial Banking Income	**1,022.0**	**1,128.1**	**106.1**	**10.4**
+ Capital Markets and Other Results	176.6	367.1	190.5	107.9
= Banking Income	**1,198.6**	**1,495.2**	**296.6**	**24.7**
- Operating Costs	663.0	724.1	61.1	9.2
= Operating Income	**535.6**	**771.1**	**235.5**	**44.0**
- Net Provisions	199.4	219.6	20.2	10.1
Credit	136.2	170.1	33.9	24.9
Securities	6.5	13.8	7.3	....
Others	56.7	35.7	-21.0	-37.0
= Income before Taxes	**336.2**	**551.5**	**215.3**	**64.0**
- Taxes	78.7	56.8	-21.9	-27.8
= Net Income	**257.5**	**494.7**	**237.2**	**92.1**

Other provisions for risks and charges totalled euro 35.7 million, including a provision charge of euro 23.4 million to cover the costs of the merger by incorporation of BES Spain into BES and a provision charge of euro 12.3 million related to the devaluation of property received by way of recoveries of bad debts, assets and sundry contingencies.

The increase in operating costs was mainly driven by the incorporation of BES (Spain). On a comparable basis this increase was substantially lower (+4.0%), with a corresponding improvement in productivity and efficiency indicators.

Productivity and Efficiency Indicators	2006	2007	Change
Cost to Income (with Capital Markets)	55.3%	48.4%	-6.9 p.p.
Cost to Income (without Capital Markets)	64.9%	64.2%	-0.7 p.p.
Total Assets(1) per Employee (€,000)	11,284	11,790	4.5%

(1) Net Assets + Asset Management + Securitised Credit

7.2.4 // Activity of the International Branches

BES has international branches, of which the more important, on account of their scope and contribution to further the Group's international strategy, are the branches in Spain, London and New York.

Spain

As one of the springboards for BES Group's international expansion, the Branch in Spain has been consolidating the Iberian commercial strategy, seizing the opportunities that arise from the fact that Spain is Portugal's main trading partner. Given the increasing interdependence that exists between the two countries, the Group's operation in Spain must clearly entail an integrated approach to the Portuguese and Spanish clients that develop their activities in both countries.

The area of corporate banking is therefore particularly important and has been reinforced through the application in Spain of the domestic business model, which included opening of 8 corporate centres in the main Spanish provinces. The strategy pursued has already borne fruit in terms of the segment's financial involvement, which reached euro 3.1 billion in 2007.

Private/affluent banking, developed through a network of 25 branches, is another business area of the branch in Spain. In 2007 this segment continued to focus on the improvement of customer service quality, with financial involvement reaching euro 5.6 billion. Assets under management totalled euro 2.4 billion.

Customer loans increased by 25.7% year-on-year, reaching euro 1.9 billion, while customer funds were up by 65.4%, to euro 3.5 billion. The year's net income, excluding the provision for the merger, was euro 1.0 million.

London

The London Branch is an important hub for BES Group's international growth. The branch concentrates its activity in wholesale banking in the European market, and, in cooperation with BES Investimento, holds a significant position in project finance. Accumulated experience over the last years has allowed it to diversify its business lines, which include participating in leveraged finance and structured trade finance operations and placing savings products with institutional investors based in London. Through its dynamic performance, the London branch has reinforced its contribution to the development of BES group's international strategy. Customer funds were up by 17% year-on-year, with net earnings rising by 22%, to euro 40.4 million.

New York

Operating in the American market since 1996, the New York Branch concentrates its activity in wholesale banking, particularly in the US and Brazil. The branch has had a crucial role in terms of obtaining funds from American institutional and corporate clients, which increased by 56% in 2007. Targeting clients in the medium and large companies segments, the New York branch has increasingly specialised its product offer, namely in credit, where it focuses in trade finance operations, including structured trade finance and syndicated loans. In 2007 the branch posted net earnings of euro 7.0 million, corresponding to a year-on-year increase of 205%.

7.2.5 // Proposed distribution of Banco Espírito Santo net income

Under the terms of Article 376 (paragraph 1, section b) of the Companies Code, and in compliance with Article 30 of the Bank's articles of association, the Board of Directors proposes that the following distribution of the year's net income be submitted at the General Shareholders' Meeting:

euros

for legal reserve	50,000,000.00
for distribution to shareholders	240,000,000.00
for other reserves	204,699,432.31
Net income	**494,699,432.31**

The proposed dividend on the 2007 net income corresponds to a gross value per share of euro 0.48, and to a dividend yield of 3.20% at the year-end closing price.

7.3 // Financial Analysis of the Main Business Units

7.3.1 // Banking

Banco Espírito Santo de Investimento, S.A.

Head Office: Rua Alexandre Herculano, 38, 1269 -161 Lisboa - Portugal
Share Capital: EUR 70 million; BES Group holding: 100%

BES Investimento had a very good performance in 2007, with an increasing number of transactions being carried out in the international markets. Banking income grew by 22.8%, to euro 201.5 million, of which 64% was generated outside Portugal. Net income reached euro 73.0 million, corresponding to a year-on-year increase of 21.7%. This good result translated into a return on equity (ROE) of 30%, while the Cost to Income was 43%, down by 2 p.p. on 2006.

All business areas in general made very good progress, namely (i) mergers and acquisitions - participation in 40 transactions for an overall amount of euro 16 billion; (ii) project finance and securitisation – 50 transactions concluded; (iii) leveraged finance - 17 transactions concluded; (iv) capital markets (fixed income and equity); (v) brokerage - the Group ranked 6th in the Madrid stock exchange, with a market share of 6%, and in 2nd in the Euronext Lisbon, with a market share of 11.3%, and (vi) private equity.

In qualitative terms, the activity developed by BES Investimento in 2007 also deserved high international recognition. Among others, the bank was awarded the following prizes and accolades:

- "Global Renewables Portfolio Refinancing Deal of the Year 2007" by Project Finance magazine, for the role as Mandated Lead Arranger in the financing of the wind farms portfolio of BBW – Babcock & Brown Wind Partners Fund, with assets in Australia, Germany, France, Spain and the US.
- "European Rail Deal 2007" by Jane's Transport Finance magazine, for the role as lead arranger in the financing of CB Rail, a Rolling Stock Leasing Company with assets in Germany, Holland, Belgium and Denmark.
- 1st position in the Thomson Financial and Infrastructure Journal project finance league tables for Portugal;
- 3rd position and 4th positions in the Infrastructure Journal's league tables, respectively in the Global Wind Sector and Global Renewables Sector.

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	4,589,762	5,466,677	19.1%
Capital and Reserves	183,815	277,088	50.7%
Customer loans (gross)	1,406,360	1,469,569	4.5%
Customer Deposits	1,341,983	1,184,017	-11.8%
Banking Income	164,139	201,520	22.8%
Net Income	60,014	73,028	21.7%

Banco Espírito Santo dos Açores, S.A.

Head Office: Rua Hintze Ribeiro, 2–8, 9500 - 049 Ponta Delgada - Portugal
Share Capital: EUR 17.5 million; BES Group holding: 57.53%

2007 marked the start of a new phase for BES Açores. The Bank planned and initiated the expansion of its network in the region, opening three new branches - Fajã de Baixo and Candelária in S. Miguel Island and Madalena in Pico Island – and beginning the works for other branches to be opened in 2008.

The Bank continued to develop several commercial initiatives during the near, namely establishing protocols with a number of companies and institutions and supporting social solidarity causes.

In the emigration area, BES Açores signed a protocol with the House of the Azores of New England, one of various initiatives aimed at promoting closer ties with the Azorean emigrants.

Customer deposits increased by 15.6%. Customer loans were up by 15.7%, with residential mortgage credit rising by an impressive 23.3%.

BES Azores reported net assets of euro 428 million in 2007, and net income of euro 5.0 million, corresponding to year-on-year increases of respectively 10.2% and 25.4%

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	388,546	428,031	10.2%
Capital and Reserves	27,453	28,786	4.9%
Customer loans (gross)	283,971	328,685	15.7%
Customer Deposits	243,369	281,406	15.6%
Banking Income	12,617	16,122	27.8%
Net Income	4,015	5,033	25.4%

Banco Espírito Santo Angola, S.A.R.L.

Head Office: Rua Guilherme Pereira Inglês n.º 43 – 1º, CP 6459 Luanda – Angola
Share Capital: $US 10 million (EUR 7 593 thousand); BES Group holding: 79.96%

BES Angola has been asserting a position as the institution with the best profitability and efficiency levels in the Angolan market, while projecting an image of strength, confidence and excellent customer service. Having completed six years in operation, the Bank currently has 20 branches (of which 14 in Luanda) and 5 desks in companies or institutions, located in six of the country's provinces, aiming for full coverage of all provincial capitals in the near future. In addition, it has two corporate centres in Luanda.

Customer funds reached euro 829 million in 2007, having increased by 64.0% when compared to the previous year. Customer loans, at euro 578 million, show a year-on-year increase of 151.5% that was supported by increased activity levels, mainly in the corporate segment. The Bank took various initiatives to reinforce its positioning in this segment, addressing not only local companies but also supporting Portuguese companies on missions to Angola. In investment banking, BES Angola co-led the structuring of a US$ 3.5 billion issue of Treasury Bonds by the Republic of Angola.

Net income reached euro 51 million, corresponding to a year-on-year increase of 50%.

Despite an increase in operating costs linked to significant activity growth, BES Angola shows a high level of efficiency, with a cost to income of 37.4%.

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	604,097	1,303,134	115.7%
Capital and Reserves	33,825	51,320	51.7%
Customer loans (gross)	229,952	578,363	151.5%
Customer Deposits	505,233	828,597	64.0%
Banking Income	58,932	86,585	46.9%
Net Income	34,011	50,975	49.9%

Espírito Santo Bank

Head Office: 1395 Brickell Avenue, Miami, Florida 133131, US
Share Capital: $US 16 973 thousand (EUR 12 296 thousand); BES Group holding: 98.45%

The activity of ES Bank continued to make good progress: the profile of the credit portfolio tended to concentrate on lower risk segments (mortgage credit to individual clients, commercial real estate and credit endorsed by Export Credit Agencies), while deposits grew by 9.6%, in local currency.

Operating results improved, underpinned by the increase in the net interest margin, the growth of fees and commissions and control of operating costs. However, an extraordinary payment of US$ 5 million related to the bankruptcy of ESBankest did not yet allow for the efforts develop to reflect positively on net income.

Thanks to good market conditions and its diversified offer of products the broker/dealer ES Financial Services posted better results than last year.

Assets under management reached US$ 885 million, having increased by US$ 107 million since the beginning of 2007.

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	330,994	284,449	-14.1%
Capital and Reserves	26,262	21,069	-19.8%
Customer loans (gross)	258,237	227,105	-12.1%
Customer Deposits	228,943	216,627	-5.4%
Net Income	(1,328)	(3,465)	-

Banco Espírito Santo do Oriente, S.A.

Head Office: Av. Dr. Mário Soares, n.º 323, Edifício Banco da China, 28tº A e E-F, Macao, China;
Share Capital: MOP 200 million (EUR 18 961 thousand); BES Group holding: 99.75%

NThe Macao Special Administrative Region (MSAR) is expected to post GDP growth in 2006 close to 15%, driven by tourism and gambling/entertainment industries strong development, the major infrastructure projects promoted in the territory, and also the exceptional terms of agreements negotiated with China's central government (namely the Closer Economic Partnership Agreements (CEPA) and individual visas) and several Chinese provinces. The development of the MSAR has also been underpinned by strong demand for commercial and residential property, maintaining growth rates in the construction industry at an exceptional level.

Set in a fast growing regional economy, the Macao Special Administrative Region should GDP growth of 15% in 2007. The operations carried out by the Bank in the territory during the year unequivocally confirm the sustained growth observed in the gambling/entertainment industry, as well as in the real estate and public works sectors, being also supported by Macao's increasingly important role as a platform for economic cooperation between China and the Portuguese speaking countries.

In addition, the areas of investment banking and capital markets also gave a significant contribution to the origination of important infrastructures and renewable energies transactions concluded in Southeast Asia, as well as in obtaining deposits from local institutional entities

Banco Espírito Santo do Oriente posted considerable growth in 2007, with total assets rising by 67.5 % year-on-year, Net income reached euro 1,723 thousand, with customer loans and customer funds soaring respectively 141 % and 195%.

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	95,516	159,966	67.5%
Capital and Reserves	26,508	24,351	-8.1%
Customer loans (gross)	48,492	116,943	141.2%
Customer Deposits	11,094	32,699	194.7%
Banking Income	3,573	3,697	3.5%
Net Income	1,575	1,723	9.4%

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

Head Office: 45, Avenue Georges Mandel, 75116 Paris, France
Share Capital: EUR 52 154 thousand; BES Group holding: 40.00%

Supported by good performance across all its business areas, and in particular in structured finance and real estate financing operations, Banque Espírito Santo et de la Vénétie registered a 16.6% year-on-year increase in recurrent banking income.

The results of its traditional activities in corporate banking and banking services to the Portuguese resident community in France (BES clients in Portugal) were in line with the previous year's.

Net income for the year grew by 37%, to euro 11.2 million, while the cost to income dropped to 45.1%, from 47.1% in 2006.

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	1,216,063	1,282,358	5.5%
Capital and Reserves	75,058	80,234	6.9%
Customer loans (gross)	931,102	1,022,234	9.8%
Customer Deposits	165,127	179,750	8.9%
Banking Income	32,661	36,803	12.7%
Net Income	8,208	11,245	37.0%
Cost to Income	47.1%	45.1%	2.0p.p.

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

Head Office: Rua Alexandre Herculano, 38, 1250 - 011 Lisboa - Portugal
Share Capital: EUR 63 million; BES Group holding: 66.00%

Banco BEST operates primarily in the area of electronic banking. At the end of 2007 the volume of assets under management had reached euro 1,121 million, which represents a year-on-year increase of 43%. The bank maintained its leading position in the distribution of foreign investment funds, with a market share of 27%. The number of investment funds available for subscription reached 1,477 from 37 of the most important investment firms at national and international level.

Banco BEST considerably reinforced its offer of trading products and services, having launched two new trading platforms:

- The Best Trading Pro service – advanced real time trading platform where more than 15,000 financial instruments, including shares, CFDs (Contracts for Difference), Futures and Forex (exchange crosses) may be traded online, and
- OTC Warrants – trading of warrants over an extended timetable, in partnership with Citigroup.

The growth in business permitted by the launch of these two new platforms had visible results: Banco BEST was domestic market leader in online derivatives trading, with a share of 31%, also earning the market's recognition, through the award of national and international prizes:

- "Best Transactional Platform for Portuguese Securities" - IRG Awards sponsored by Deloitte and two financial newspapers;
- "Best Consumer Internet Bank", named by Global Finance Magazine.

At the end of the year the bank had 50,000 clients, having acquired 250 new clients in the private banking segment. Underpinned by business growth, the year's net income reached nearly euro 2 million.

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	323,617	409,932	26.7%
Capital and reserves	23,227	19,499	-16.1%
Customer Deposits	246,806	374,871	51.9%
Banking Income	10,771	16,387	52.1%
Net Income	(1,574)	1,965	....
Assets under Management (euro million)	782	1,121	43.4%

7.3.2 // Asset Management

Espírito Santo Activos Financeiros, SGPS, S.A.

Head Office: Av. Álvares Cabral, 41, 1250 - 015 Lisboa - Portugal
Share Capital: EUR 11 750 thousand; BES Group holding: 85.00%

Espírito Santo Activos Financeiros (ESAF) develops its asset management business through specialised companies based in Portugal, Spain, Luxembourg and the United Kingdom.

Despite the difficult economic environment in 2007, assets under management reached an historical record of euro 20 billion, thus enhancing the company's visibility amongst European asset managers.

In the discretionary management business, volume under management totalled euro 10.9 billion, with the private discretionary portfolio growing by 14% year-on-year. In the area of investment funds, the year was marked by the restructuring of the product offer, entailing the launch of new funds and the merger or liquidation of others. Hence two new real estate funds were launched in 2007, respectively the Fundo de Investimento Mobiliário ES Momentum and the Fundo de Investimento Imobiliário ES Logística.

In Luxembourg, assets under management were euro 1.2 billion, remaining flat when compared to 2006. The Active Allocation Fund was particularly successful, surpassing euro 100 million. In Spain, total assets under management were in excess of euro 2.2 billion.

Within the scope of business internationalisation, in the last quarter of 2007 a new company was set up in the UK - ESAF Alternative Asset Management Limited – which will manage funds targeting national and international institutional clients

Net income for the year grew by 20%, to euro 27.6 million, largely underpinned by good market conditions in the first half of the year.

euro thousand

Consolidated figures	2006	2007	Chg
Net assets	85,200	110,097	29.2%
Capital and Reserves	34,523	50,256	45.6%
Banking Income	45,129	51,114	13.3%
Net Income	22,911	27,556	20.3%
Assets under Management (euro million)	19,647	20,067	2.1%

7.3.3 // Seguros

BES Vida - Companhia de Seguros, S.A.

Head Office: Avenida Columbano Bordalo Pinheiro, 95 – 11º, 1070 – 061 Lisboa - Portugal
Share Capital: EUR 250 million; BES Group holding: 50.00%

BES Vida's performance reflects the strategic guidelines established for the company, namely to consolidate its position as the leading provider of pensions. Total production was euro 1,563.9 corresponding to a year-on-year increase of 21.1%. In Retirement Savings Plans, where production reached euro 594.5 million (+15.3%), the company was once again market leader, with a share of 34.7%.

Traditional products increased to euro 59.6 million (+10.4%), corresponding to a market share of 7.1% (6.9% in 2006), while capitalisation products production reached euro 909.8 million (+26.1%), raising the market share to 13.3% (12.0% in 2006). Mathematical provisions grew by euro euro 811.1 million, or 13.0%, totalling euro 811.1 million at year-end.

BES Vida posted net income for the year of euro 52.2 million, representing a year-on-year drop of 54.6%. However, this corresponds to an increase of 23.4% when compared to the net income of euro 42.3 million that BES VIDA would post in 2006 if extraordinary items that affected its results in that year were excluded, namely the sale of the broker channel's portfolio, for euro 50 million, and the capital gains on the sale of BES securities (euro 42 million).

Operating costs dropped by 26.9%, to euro 17.6 million, not only because there had been extraordinary expenses in 2006 (expenses required to change the company's headquarters and corporate image, those incurred in the sale of the broker channel and also the reinforcement of the pension fund in that year) but also due to the reduction in service fees agreed with Tranquilidade and ESGEST.

Equity dropped by euro 56.4 million, to euro 272.9 million, essentially through the reduction in the fair value reserve as a result of the rise in interest rates and the fall registered in all financial markets in general, with an impact on the bond and equity portfolios.

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	6,842,137	7,647,855	11.8%
Capital and reserves	329,285	272,854	-17.1%
Gross Premia	586,900	515,834	-12.1%
Indemnities	653,620	725,360	11.0%
Operating Costs	24,082	17,615	-26.9%
Net Income	115,048	52,218	-54.6%

BES - Companhia de Seguros, S.A.

Head Office: Avenida Columbano Bordalo Pinheiro, 75 - 11º, 1070 - 061 Lisboa - Portugal
Share Capital: EUR 15 million; BES Group holding: 25.00%

BES Seguros pursued its activity in the area of non-life insurance products against a scenario of near stagnation in this market (growth was 0.5% only).

In bancassurance, where it sells non-life insurance products to the individual clients of BES Group, the company expanded its offer with a Credit Protection Insurance product, which protects loan instalment payments against certain risks. An operational telephone platform (BESdirecto Seguros) was also implemented, for servicing purposes and for the sale on non-life insurance.

In terms of production, BES Seguros sold 55,205 home, car and health insurance contracts in 2007, reaching a portfolio of some 340,000 outstanding contracts. Underpinned by the launch of the new credit protection product, gross premium volume grew by 17.7%, to euro 73.1 million. Indemnities net of reinsurance dropped by 1.6%, to euro 41 million, essentially through a good technical performance, in particular in health insurance. A sound technical result and control of operating costs allowed BES Seguros to post net income for the year of euro 4.7 million, which represents a year-on-year increase of 6.7%.

At 92.1%, the combined ratio, net of reinsurance, remained at an excellent level, even improving when compared to 2006 (94.5%). Shareholder's equity, which rose by 1.3%, to euro 24.5 million, is negatively influenced by the revaluation reserve (euro -0.7 million) due to the depreciation of the bond and equity portfolios as a result of the poor performance of the financial markets

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	88,919	108,662	22.2%
Capital and Reserves	24,135	24,455	1.3%
Gross Premia	62,188	73,171	17.7%
Indemnities, net of reinsurance	41,697	41,016	-1.6%
Net Operating Costs	12,105	12,476	3.1%
Net Income	4,425	4,723	6.7%

Note: Figures under IFRS

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

Head Office: Avenida Álvares Cabral, 41 – 3º, 1250 - 015 Lisboa - Portugal
Share Capital: EUR 5 million; BES Group holding: 23.00%

In commercial terms, the year was marked by a constant concern in ensuring loyalty in the existing customer base, on the one hand through the provision of high quality service and the design of innovative solutions addressing the market's needs, and on the other by investing in the exploration of new distribution channels with a potential for future development.

Total gross premiums issued reached euro 26,0 million, with net premium volume growing by 5.9% to euro 24,5 million.
In line with the trend in previous years, the accident record further deteriorated, increasing pressure on profitability. Approximately 535,000 new cases were filed during the year and roughly 1,585 thousand calls were taken, corresponding to year-on-year increases of respectively 15% and 17%.

The cost control policy was pursued, mainly focusing on accident costs, while the streamlining programme of fixed structural costs initiated in 2006 was also continued. Despite the turmoil observed in the financial markets, particularly in the second half of the year, the investment policy adopted allowed for an improvement in financial results. The company closed the year with net income of euro 1,211 thousand, corresponding to a year-on-year increase of 12%.

On the international front, Europ Assistance's Brazilian subsidiary once again performed well, nearly doubling its results in 2006. Its subsidiary in Argentina once again posted positive results, while the Chilean subsidiary, now in its second year in operation, already turned out a profit.

euro thousand

Consolidated figures	2006	2007	Chg
Net assets	29,164	31,401	7.7%
Capital and reserves	8,996	9,623	7.0%
Gross Premia	25,468	25,966	2.0%
Net Income	1,082	1,211	11.9%

7.3.4 // Specialised Credit

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

Head Office: Av. Álvares Cabral, 27 – 1º, 1269 -140 Lisboa - Portugal
Share Capital: EUR 49 114 thousand; BES Group holding: 89.36%

The leasing and factoring industries continued to consolidate their role in the financing of the Portuguese economy, to which the company's activity gave an important contribution. Beasleasing e Factoring's equipment leasing production increased by 31.6% in 2007, to euro 708 million, while real estate leasing production rose by 25.5%, to euro 653 million. In the factoring and confirming businesses, production volume was euro 3,705 million (+6.0%), representing credit under management of euro 1,462 million (+ 9.7%). With total production growing by 11.3% year-on-year, to euro 5,066 million, the company consolidated its position in both business segments, where it maintained the second largest share of the domestic market.

Net income for the year was euro 15.1 million, representing an increase of +14.2% and corresponding to return on equity of (ROE) 20%. Strong business growth and the year's net income translate greater efficiency and productivity: total assets per employee increased while the cost to income dropped to 29.7%, which compares with 31.0% in 2006.

The company's strict loan granting policy permitted to improve the ratio of overdue loans to total loans from 0.60% to 0.52%, while a prudent provisioning policy led to an increase in the provisioning ratio of overdue loans over 90% from 220% to 256%.

euro thousand

Consolidated figures*	2006	2007	Chg
Net assets	3,244,268	4,001,937	23.4%
Capital and Reserves	72,784	75,852	4.2%
Customer Loans (gross)	3,140,359	3,917,558	24.7%
Product Lease / Factor	43,763	49,103	12.2%
Net Income	13,244	15,117	14.1%
Property Leasing			
New contracts (no.)	647	678	4.8%
Amount	520,603	653,122	25.5%
Equipment Leasing			
New contracts (no.)	7,824	7,886	0.8%
Amount	537,866	707,779	31.6%
FACTORING			
Portfolio of receivables (gross)	3,494,409	3,704,917	6.0%
Portfolio of credit under management	1,332,865	1,462,062	9.7%

Note: Figures under AAS

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

Head Office: Lagoas Park Edifício 11 – 3º Piso, 2740 - 244 Porto Salvo - Portugal
Share Capital: EUR 5 250 thousand; BES Group holding: 45.00%

Locarent posted its first-time net profit in 2007. This milestone for the company was attained through a strict management of operating and structural costs and the achievement of pre-established commercial targets.

In fact, in a year when the number of natural contract terminations was quite significant, the company's fleet reached 14,000 vehicles under management.

In addition, Locarent also ranked in second place in the Portuguese market of renting/vehicle hire operators.

The results obtained in 2007 were underpinned by the permanent and fruitful efforts targeting the distribution networks of the banking groups that are Locarent's shareholders.

The company now faces new strategic challenges, namely to achieve control of operational business components. This will entail the systematisation and standardisation of processes with a view to optimising efficiency and the quality of customer service.

euro thousand

Consolidated figures	2006	2007	Chg
Net Assets	216,036	291,074	34.7%
Capital and Reserves	5,354	3,064	-42.8%
Fixed Assets	196,899	330,185	67.7%
Net Income	(940)	1,107	....

08
Final Note

Declaration of Conformity

In accordance with Article 245 (1-c)) of the Securities Code, the Board of Directors of Banco Espírito Santo, S.A. hereby declares that:

(a) the individual financial statements of Banco Espírito Santo, S.A. (BES) for the years ended December 31st, 2006 and 2007 were prepared in accordance with the Adjusted Accounting Standards (AAS), as determined by Bank of Portugal Notice no. 1/2005, of February 21st, 2005;
(b) the consolidated financial statements of Grupo Banco Espírito Santo, S.A. (BES Group) for the years ended December 31st, 2006 and 2007 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in the European Union and transposed into Portuguese legislation through Decree-Law no. 35 /2005 of February 17th;
(c) to the extent of their knowledge the financial statements referred in (i) and (ii) provide a true and appropriate image of the assets, equity and earnings of respectively BES and BES Group.
(d) the annual report describes faithfully the evolution of the businesses, the performance and the financial position of BES and BES Group in 2007;

Note of Recognition

The Board of Directors wishes to express its recognition for the trust shown by Clients, Employees, Shareholders and Supervision Authorities in BES and in the Group's financial institutions: the trust of our Clients was crucial for the Group to maintain a significant growth pace in the main business areas; the trust of our Shareholders in BES Group's business project was decisive for the consolidation of the Group's prominent position in the Portuguese financial market; the involvement and commitment of our Employees were critical for the performance achieved in 2007 and will be vital for the Group to meet its strategic objectives.

To the governmental and supervision authorities, the Board of Directors also wishes to address a word of recognition for their cooperation and the confidence shown in Banco Espírito Santo Group.

Lisbon, February 26th, 2008

The Board of Directors

António Luís Roquette Ricciardi
Ricardo Espírito Santo Silva Salgado
Mário Mosqueira do Amaral
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
José Manuel Ferreira Neto
Manuel de Magalhães Villas-Boas
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Mário Martins Adegas
Luís António Burnay Pinto de Carvalho Daun e Lorena
Lázaro de Mello Brandão
Ricardo Abecassis Espírito Santo Silva
Bernard Henri Georges De Witt
José Manuel Ruivo da Pena
Jean Frédéric de Leusse
Amílcar Carlos Ferreira de Morais Pires
Bernard Delas
Miguel António Igrejas Horta e Costa
Nuno Maria Monteiro Godinho de Matos
Alberto Alves de Oliveira Pinto
João Eduardo Moura da Silva Freixa
Jean-Yves Hocher
Michel Goutorbe

02

CANDIDA HÖFER b. 1954
Alemanha
Mosteiro da Batalha I
2006
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FINANCIAL STATEMENTS NOTES TO THE
FINANCIAL STATEMENTS

BES 07