ELGER ESSER
1967, Stuttgart, Germany
*Baie de la Somme, France*, 2005
Chromogenic Process (C-Print)
mounted on Diasec • 181 x 242 cm
Edition 3/7

Courtesy Sonnabend Gallery

# BES 08
## Annual Report

BANCO ESPIRITO SANTO

# INDEX

## 01



## 02



## 03

## Key Indicators

| | 2004* | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| **ACTIVITY** (EUR million) | | | | | |
| Total Assets [1] | 61,603 | 71,687 | 84,628 | 93,819 | 98,825 |
| Net Assets | 43,052 | 50,222 | 59,139 | 68,355 | 75,187 |
| Customer Loans (gross) | 31,398 | 35,451 | 40,546 | 47,389 | 51,964 |
| Total Customer Funds | 38,754 | 43,558 | 49,632 | 55,445 | 55,698 |
| Own Funds | 4,622 | 5,398 | 7,063 | 7,509 | 7,482 |
| **PROFITABILITY** (%) | | | | | |
| Return on Equity (ROE)[5] | 6.4 | 13.5 | 14.7 | 16.6 | 9.8 |
| Return on Assets (ROA)[5] | 0.37 | 0.61 | 0.81 | 0.98 | 0.56 |
| **SOLVENCY** (%) | | | | | |
| Bank of Portugal [2] | | | | | |
| - Total | 12.1 | 12.3 | 13.1 | 11.5 | 11.3 |
| - TIER I | 6.7 | 6.2 | 8.4 | 7.5 | 7.1 |
| - CORE TIER I | 5.0 | 4.7 | 7.0 | 6.6 | 6.1 |
| **ASSET QUALITY** (%) | | | | | |
| Overdue Loans > 90 days / Customer Loans (gross) | 1.64 | 1.33 | 1.11 | 1.00 | 1.09 |
| Coverage of Overdue Loans > 90 days | 165.3 | 196.6 | 218.2 | 228.8 | 219.0 |
| Credit provisions reserve / Customer loans | 2.71 | 2.62 | 2.43 | 2.29 | 2.38 |
| Cost of Risk [3] | 0.79 | 0.69 | 0.51 | 0.49 | 0.57 |
| **PRODUCTIVITY / EFFICIENCY** | | | | | |
| Operating Costs / Total Assets (%) | 1.44 | 1.20 | 1.05 | 1.01 | 1.01 |
| Assets per Employee [4] (€,000) | 8,441 | 9,444 | 10,855 | 10,520 | 10,479 |
| Cost to Income (%) | 62.0 | 56.0 | 52.3 | 47.5 | 53.0 |
| Cost to Income (ex-markets) (%) | 71.2 | 66.5 | 61.9 | 59.5 | 58.2 |
| **BRANCH NETWORK** | | | | | |
| Retail Network | 646 | 639 | 669 | 757 | 803 |
| - Domestic | 607 | 600 | 623 | 700 | 743 |
| - Foreign | 39 | 39 | 46 | 57 | 60 |
| **RATINGS** | | | | | |
| **Long Term** | | | | | |
| STANDARD AND POOR'S | A - | A - | A - | A | A |
| MOODY'S | A 1 | A 1 | A 1 | Aa3 | Aa3 |
| FITCHRatings | A+ | A+ | A+ | A+ | A+ |
| **Short Term** | | | | | |
| STANDARD AND POOR'S | A 2 | A 2 | A 2 | A 1 | A 1 |
| MOODY'S | P 1 | P 1 | P 1 | P 1 | P 1 |
| FITCHRatings | F1 | F1 | F1 | F1 | F1 |

(1) Net Assets + Asset management + Other off-balance sheet liabilities + Securitised credit.
(2) 2008 data calculated according to the IRB Foundation method.
(3) Provisions for credit / Customers Loans (gross).
(4) Considering staff of the financial companies BES Group.
(5) Average Equity and average Net Assets.
(*) Figures under IFRS.

## Results and Profitability

| | Symbol | 2004* | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| **AVERAGE BALANCE** (EUR million) | | | | | | |
| Interesting Earning Assets | $\overline{AF}$ | 39,240 | 41,139 | 45,377 | 53,701 | 61,788 |
| Capital and Reserves | $\overline{KP}$ | 1,890 | 1,844 | 2,642 | 3,457 | 3,779 |
| Net Assets | $\overline{AL}$ | 41,425 | 45,924 | 51,696 | 62,189 | 71,418 |
| **INCOME STATEMENT** (EUR million) | | | | | | |
| Net Interest Income | RF | 697.0 | 740.6 | 829.5 | 953.7 | 1,086.2 |
| + Fees and Commissions | SB | 549.6 | 555.1 | 610.5 | 643.4 | 636.2 |
| = Commercial Banking Income | PBC | 1,246.6 | 1,295.7 | 1,440.0 | 1,597.1 | 1,722.4 |
| + Capital Markets and Other Results | ROF | 184.4 | 242.0 | 264.8 | 404.1 | 165.7 |
| = Banking Income | PB | 1,431.0 | 1,537.7 | 1,704.8 | 2,001.2 | 1,888.1 |
| - Operating Costs | CO | 887.5 | 861.2 | 891.3 | 950.7 | 1,001.6 |
| = Operating income | RB | 543.5 | 676.5 | 813.5 | 1,050.5 | 886.5 |
| - Net Provisions | PV | 322.3 | 320.6 | 241.9 | 262.9 | 375.8 |
| = Income before Taxes and Minorities | RAI | 221.2 | 355.9 | 571.6 | 787.6 | 510.7 |
| - Taxes | I | 46.7 | 65.8 | 135.4 | 152.5 | 83.5 |
| - Minority Interests | IM | 22.9 | 9.6 | 15.5 | 28.0 | 24.9 |
| = Net Income | RL | 151.6 | 280.5 | 420.7 | 607.1 | 402.3 |
| **PROFITABILITY** (%) | | | | | | |
| Net Interest Margin | RF / $\overline{AF}$ | 1.78 | 1.80 | 1.83 | 1.78 | 1.76 |
| + Return on Fees and Commissions | SB / $\overline{AF}$ | 1.40 | 1.35 | 1.35 | 1.20 | 1.03 |
| + Return on Capital Markets and Other Results | ROF / $\overline{AF}$ | 0.47 | 0.59 | 0.58 | 0.75 | 0.27 |
| = Business Margin | PB / $\overline{AF}$ | 3.65 | 3.74 | 3.76 | 3.73 | 3.06 |
| - Weighting of Operation Costs | CO / $\overline{AF}$ | 2.26 | 2.09 | 1.96 | 1.77 | 1.62 |
| - Weighting of Provisions | PV / $\overline{AF}$ | 0.82 | 0.78 | 0.53 | 0.49 | 0.61 |
| - Weighting of Minorities and Other Costs | (IM+I) / $\overline{AF}$ | 0.18 | 0.18 | 0.33 | 0.34 | 0.18 |
| = Return on Interesting Earning Assets | RL / $\overline{AF}$ | 0.39 | 0.68 | 0.93 | 1.13 | 0.65 |
| x Weighting of Interest Earning Assets | $\overline{AF}$/ $\overline{AL}$ | 0.95 | 0.90 | 0.88 | 0.86 | 0.87 |
| = Return on Assets (ROA) | RL / $\overline{AL}$ | 0.37 | 0.61 | 0.81 | 0.98 | 0.56 |
| x Placements Multiplier | $\overline{AL}$ / $\overline{KP}$ | 17.38 | 22.16 | 18.01 | 17.00 | 17.32 |
| = Return on Equity (ROE) | RL / $\overline{KP}$ | 6.36 | 13.54 | 14.66 | 16.59 | 9.76 |

(*) Figures under IFRS.

## Bank of Portugal Reference Indicators

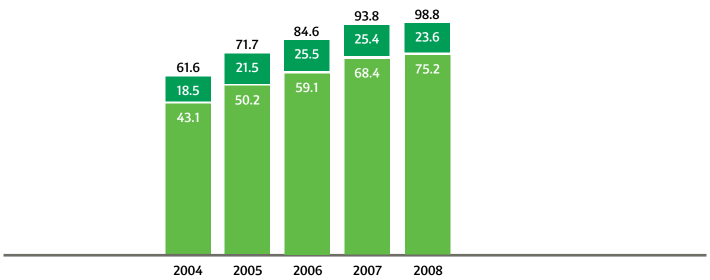
The table below lists the reference indicators established by Bank of Portugal Instruction no. 16/2004, for both December 2008 and 2007.

| | 2007 | 2008 |
|---|---|---|
| **SOLVENCY** | | |
| Regulatory Capital / Risk Weighted Assets [a] | 11.5% | 11.3% |
| Tier I Capital / Risk Weighted Assets [a] | 7.5% | 7.1% |
| **ASSET QUALITY** | | |
| Overdue and Doubtful Loans[b] / Customer Loans | 1.4% | 1.6% |
| Overdue and Doubtful Loans Net of Provisions[c] / Customer Loans Net of Provisions[c] | -0.9% | -0.8% |
| **PROFITABILITY** | | |
| Income before taxes and Minorities / Average Equity[d] | 16.5% | 10.8% |
| Banking Income[e] / Average Net Assets | 3.2% | 2.6% |
| Income before taxes and Minorities / Average Net Assets | 1.3% | 0.7% |
| **EFFICIENCY** | | |
| General Admin Costs[e]+Depreciation/Banking Income[e] | 47.5% | 53.0% |
| Staff Costs/Banking Income[e] | 25.1% | 27.6% |

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

## Total Assets

EUR billion

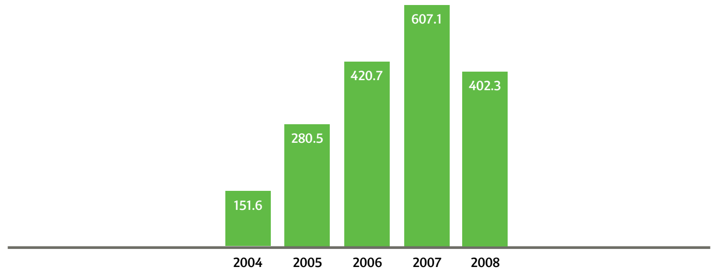



(1) Asset and liabilities off-balance items

Net Assets (1)
Off-balance Sheet Items

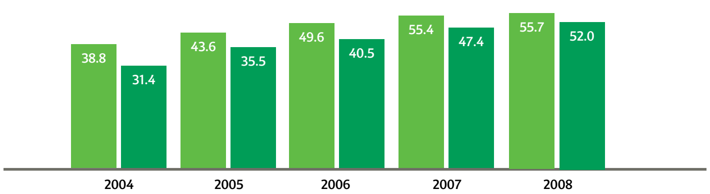
## Net Income

EUR million




## Business with clients (2)

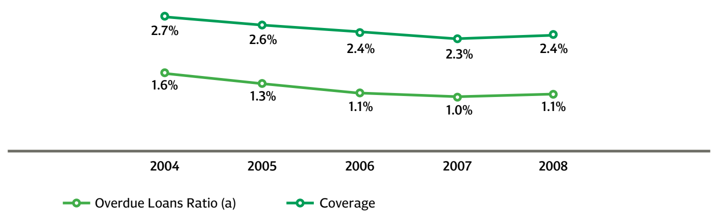
EUR billion




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

Total Costumer Funds
Customer Loans

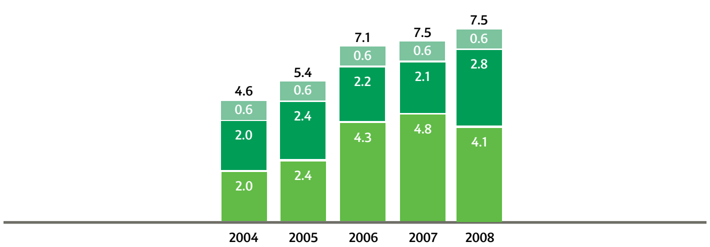
## Asset Quality




(a) Overdue loans > 90 days / Gross loans to customers

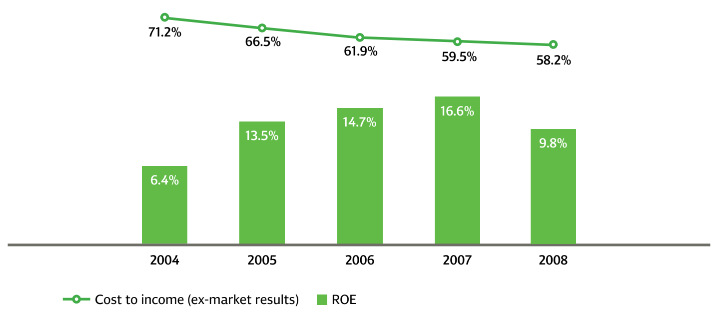
## Own Funds

EUR billion




Equity
Subord. Debt
Pref. Shares

## Profitability and Effinciency



ISAAC JULIEN
1960, London, United Kingdom
*True North Series, Ice Project Work No. 8*, 2007
Transparency (Duratrans)
by chromogenic process
mounted on lightbox • 123 x 247 x 7 cm
Edition 1/6 + 1 AP

Courtesy Isaac Julien and Victoria Miro Gallery, London; Copyright the Artist

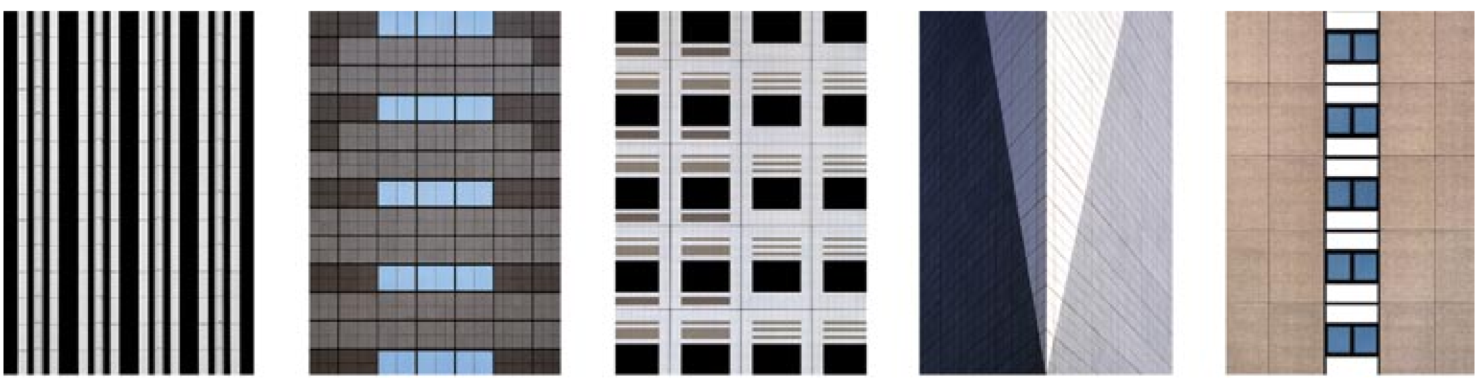
# 01
# MANAGEMENT REPORT

BANCO ESPÍRITO SANTO

# INDEX

# 01

## MANAGEMENT REPORT 07



ROLAND FISCHER
1958, Saarbrücken, Germany
*F11*, 2004
Chromogenic Process (C-Print)
Mounted on Dibond and Plexiglas
5 x (50 x 35 cm) - Edition 7/11

Courtesy of the Artist

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

Dear Shareholders,

2008 was marked by the intensification of the international financial crisis, which developed into a widespread confidence crisis affecting the financial system and economic activity at global level. The aggravation of liquidity and solvency risks precipitated the bankruptcy or loss of independence of some of the largest financial institutions in the United States and Europe and led to an extreme reluctance on the part of banks to expose themselves to the money and credit markets.

By the second half of the year the US and a number of European countries had already gone into recession, triggering a sharp drop in both commodities prices (the Brent oil price fell by 55% in the year, to USD 42/barrel) and inflation. According to the International Monetary Fund (IMF), the Developed Economies GDP, which had grown by 2.7% in 2007, decelerated to 1.0% in 2008 and could be expected to contract by 2.0% in 2009.

However, several emerging economies, although naturally slowing down when compared to 2007, still maintained a healthy growth pace in 2008, with GDP rising by 6.3%. This was the case of Brazil and Angola, in both of which BES Group operates, where growth is estimated to have reached respectively 5.4% and 16.0%.

The Portuguese economy closed the year in sharp deceleration, largely through the downfall of exports and investment, but also as a result of increasingly restrictive financing conditions.

For the equity markets, the year was one of the worst ever. In the US, the S&P500 index fell by 38.5%, while in Europe the DJ Euro Stoxx 50 lost 44.4%. In Portugal the PSI20 plunged by 51.3%. Amidst this general downfall, bank stocks were the most penalised: the DJ Europe Stoxx Banks index, which measures the performance of European banks, plummeted by 64.8%.

The BES share price, although dropping by 55.5% in 2008, outperformed the European banks index by 9%.

The subprime crisis that broke out by mid-2007 developed into a huge confidence crisis that affected not only the interbank market but also the relationship between banks and their clients – by imposing a naturally more restrictive framework on loan granting - and between banks and their shareholders – who saw the return on their investments significantly shrink in 2008. Under these circumstances, the world witnessed direct State interventions in the financial systems, either through forced increases of banks share capital or the issuance of guarantees, in an effort to stabilise the market, uphold confidence and obtain liquidity.

Faced with this difficult environment, BES Group pursued in 2008 its strategic path led by prudence, strength and stability.

Since its reprivatisation in 1991 Banco Espírito Santo's trajectory has been driven by organic growth complemented by international expansion to countries having cultural and economic affinities with Portugal. This strategy has permitted to maintain a consistent commercial approach to the domestic market while acting with prudence in the international markets.

In 2008 BES Group posted the third largest net income in its history, EUR 402.3 million. This result reflects the good performance of its business, with commercial banking income growing by 7.8% versus a 5.4% increase in operating costs. The international area lifted its contribution to consolidated income from 23.3% in 2007 to 35.6% in 2008. The good results achieved by the international business were underpinned by the good performance of BES Angola, which contributed with EUR 48.2 million, while the United Kingdom operation and BES Investimento do Brazil also achieved significant results, of respectively EUR 41.7 million and EUR 29.8 million.

2008 once again confirmed the strong franchise of Banco Espírito Santo, which maintained robust activity growth leading to new gains in the domestic business market share, which advanced to 20.7%, and in particular in the corporate segment, where the Group's share reached 23.8%.

Customer loans increased by 9.7% year-on-year, with corporate loans extended by Banco Espírito Santo growing by 13.4%, or EUR 4 billion, reflecting the Bank's strategic positioning in this important segment.

On balance sheet customer funds were up by 3%, supported by the good performance of deposits, which increased by 11%, or EUR 2.6 billion, thus contributing to strengthen the Bank's balance sheet.

Total assets, including off balance sheet funds, reached approximately EUR 100 billion, which represents a 5.3% increase as well as their highest value ever. On balance sheet assets grew by 10% year-on-year.

BES' results were also supported by cost containment, with costs increasing by 5.4% only (below the increase in commercial banking income), despite the extension of the domestic branch network and the international investments. This allowed the cost to income, excluding trading results, to drop from 59.5% in 2007 to 58.2% in 2008. The total cost to income, at 53%, reflects the severe impact of the international financial crisis on trading results (which were nevertheless positive).

As regards credit quality, and once again in a year marked by strong economic deceleration, BES' prudent risk selection policy permitted to maintain the ratio of overdue loans over 90 days under control, at 1.1%, which compares with 1.0% in the previous year. Moreover, the respective coverage by provisions remains at a comfortable 219%. Finally, total provisions for credit rose from 2.29% to 2.38% of customer loans, one of the highest levels in Iberia.

With the scarcity of liquidity being the key note in 2008, BES maintained its ability to access the international funding markets, further asserting the strength of its brand equity. The Bank was able to obtain funding in excess of EUR 5.8 billion, thus surpassing the year's refinancing needs in the amount of EUR 3.8 billion. In addition, BES carries in its balance sheet EUR 8.7 billion in rediscountable securities (of which EUR 4.6 billion are eligible for rediscount with the European System of Central Banks), which accommodate by twice and a half the amount to be refinanced in 2009.

BES Group closed the year with a Core Tier I ratio of 6.1%, under the IRB Foundation method which it has adopted and is due for certification by the Bank of Portugal. This places the Bank in a comfortable solvency position, while mirroring the prudence stance that characterises it at all levels, and in particular with regard to capital. Nevertheless, and bearing in mind both the international financial crisis and the recommendations of the Bank of Portugal, the Board of Directors of Banco Espírito Santo decided to propose to the Annual General Meeting a capital increase with preferential subscription rights of up to EUR 1.2 billion.

The aim of the capital increase is, on the one hand, to meet the new capital ratios requirements, and on the other to strengthen the competitive positioning of BES Group and allow for sustained business growth.

In 2009 the Bank will celebrate its 140th anniversary. Having its origins in the 19th century and a history spanning three centuries, the Bank always surmounted the crises that crossed its path. BES will remain faithful to its founding principles, contributing to the sustained development of Portugal and of the countries where it operates and doing everything in its power to continue to deserve the trust of its clients.

Its is inspired by this spirit and this mission, and driven by an incessant search for solutions permitting to deliver the best service to its Clients, contribute towards the fulfilment of its Employees and create value for its Shareholders that the whole BES team conduct their work.

We end by expressing our recognition to the governmental and supervision authorities for their constant cooperation and confidence in the Banco Espírito Santo Group.

Ricardo Espírito Santo Silva Salgado
**Chairman of the Executive Committee**

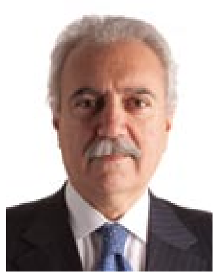
Alberto Oliveira Pinto
**Chairman of the Board of Directors**

# BES Group


Ricardo Espírito Santo Silva Salgado

Chairman


José Manuel Pinheiro Espírito Santo Silva


António José Baptista do Souto


Jorge Alberto Carvalho Martins


José Maria Espírito Santo Silva Ricciardi

## 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 2008-2011 four-year mandate is as follows:

### Board of Directors

Alberto Alves de Oliveira Pinto (Chairman)
Ricardo Espírito Santo Silva Salgado (Vice-Chairman)
Jean-Frédéric de Leusse (Vice-Chairman)
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Luís António Burnay Pinto de Carvalho Daun e Lorena
Ricardo Abecassis Espírito Santo Silva
José Manuel Ruivo da Pena
Amílcar Carlos Ferreira de Morais Pires
Bernard Delas
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Bernard Octave Mary[1]
Michel Joseph Paul Goutorbe
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Megre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca

1 Bernard Octave Mary was co-opted by the Board of Directors on October 31st, 2008, to replace Gilles Roland Maurice Jacquin de Margerie, who had been co-opted by the Board of Directors on July, 2008, to replace Jean-Yves Hocher.


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

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

## Executive Committee

Ricardo Espírito Santo Silva Salgado (Chairman)
José Manuel Pinheiro Espírito Santo Silva
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

José Manuel Ruivo da Pena (Chairman)
Luis António Burnay Pinto de Carvalho Daun e Lorena
João de Faria Rodrigues

## Certified Auditor (ROC)

KPMG & Associados, SROC, S.A., represented by Inês Maria Bastos Viegas Clare Neves Girão de Almeida

## Company Secretary

Eugénio Fernando Quintais Lopes

## 2.2 Milestones and Main Events in 2008

### 2.2.1 Milestones

Having its origins in the 19th century, Banco Espírito Santo Group's confident entry into the 21st century is backed by the principles it inherited and which continue to mark its identity and its culture.

Group remained faithful to the founding principles of the Espírito Santo brand, namely a permanent contribution to the economic, cultural and social development of Portugal and the countries where it operates.

BES Group's milestones are the clear manifestation of a legacy built up through a consistent strategy and a balanced and stable management.

› 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.

› 1936 - Banco Espírito Santo becomes the leading private bank in Portugal.

› 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 June the Group purchases 50% of BES Vida Companhia de Seguros.

› 2007 - The merger by incorporation of the Spanish subsidiary is concluded.

## 2.2.2 Main Events in 2008

### January

**22**
NGO wins the first edition of BES' Biodiversity Prize.

BES PRÉMIO BIODIVERSIDADE

**25**
BES issues EUR 1.25 billion under its covered bonds programme.

**28**
BES Group reports 2007 consolidated results. Net income reached EUR 607.1 million, a year-on-year increase of 44.3% and corresponding to a return on equity (ROE) of 16.6%.

### March

**14**
Under a joint venture with ESAF, BES Angola sets up BESAACTIF, the first fund management firm to operate in Angola.

**31**
BES' General Meeting of Shareholders approves the management report, the individual and consolidated accounts for 2007 and the respective net income application, including the payment of a dividend per share of EUR 0.48. The General meeting also elected the new corporate bodies for 2008-2011, reinforcing the number of independent Board members in line with the best corporate governance practices.

### April

**4**
BES informs the market about Crédit Suisse's 2.70% qualified holding in BES.

**13**
Payment of dividends on 2007 results. The gross dividend of EUR 0.48 per share corresponds to a payout ratio of 39.5% on a consolidated basis.

**29**
BES Group reports first quarter 2008 results. Consolidated income reached EUR 145.9 million, corresponding to a year-on-year increase of 4% and to return on equity (ROE) of 14.8%.

ES Concessões and Mota-Engil Concessões jointly set up ASCENDI, a company whose object is to win road, railroad and airport concessions, to achieve geographical diversification and reinforce international joint ventures.

### May

**14**
Banco Espírito Santo, in partnership with the Portuguese Football Federation, launched a programme called "Become a National Team Member", a unique initiative in within the BES sponsorship scope of the National Team.


### June

**4**
Moody's international rating agency rates BES' long term debt at Aa3 and short term debt at P1 (stable outlook). The rating assigned by Moody's reflects the Group's increasingly strong and diversified positioning in the domestic market, its financial strength and international expansion plan.

**20**
The Group organises the annual edition of its Strategy Day, an event dedicated to investors and analysts.

### July

**1**
BES informs that Jean-Yves Hocher renounced his position in the Board of Directors for which he had been elected at the General Meeting of March 2008, and that Gilles Roland Maurice Jacquin de Margerie was appointed by cooptation to replace him.

**17**
BES makes its second issue of covered bonds, in the amount of EUR 1.25 billion.

**30**
BES Group releases first half of 2008 results. Consolidated net income totals EUR 264.1 million, corresponding to a year-on-year drop of 28.0% and to ROE of 13.2%.

### September

**9**
Inauguration of the BES Arte & Finança Centre, a multipurpose space located at the Marquês de Pombal square, in Lisbon. As the first business lounge and art centre in the country, BES Arte & Finança provides a wide range of services and hosts BES' collection of contemporary photography, one of the most significant in the Iberian Peninsula.

### October

**14**
Standard & Poor's international rating agency reaffirms its A/A-1 rating (stable outlook) for Banco Espírito Santo and BES Investimento.

**29**
BES Group releases third quarter 2008 results. Consolidated net income for the first nine months of 2008 was EUR 334.8 million, corresponding to a year-on-year decline of 31.4% and to an annualised ROE of 10.9%.

### November

**7**
The Board of Directors decides to co-opt Bernard Octave Mary to replace Gilles Roland Maurice Jacquin de Margerie, who renounced his position as non executive member of the Board of Directors.

**21**
Fitch Ratings international agency reaffirms its long term A+ rating (stable outlook) for Banco Espírito Santo.

### December

**31**
Completion of the merger by incorporation of Besleasing e Factoring into BES.

BES Group posts net income of EUR 402.3 million in 2008, corresponding to a year-on-year drop of 33.7% and to ROE of 9.8%.

## 2.2.3 Prizes and Awards obtained in 2008

### BANCO ESPÍRITO SANTO

**"Best bank in Portugal"**

The Global Finance magazine considered Banco Espírito Santo the best bank operating in Portugal in 2008. "We [the magazine] recognize these banks for their outstanding accomplishments. Global financial markets are extremely difficult and conditions in each market may have differed but the winning banks were all noteworthy in their dedication to satisfying their customers' needs."

**"Best Custodian Bank in Portugal in 2008"**

For the second year running, Banco Espírito Santo was considered by the Global Finance international magazine as the "Best Custodian Bank in Portugal". This distinction translates the international recognition afforded to the Group's capabilities in terms of securities services.

**"Best Trade Finance Bank" in Portugal**

For the third consecutive year, Banco Espírito Santo was distinguished by the international magazine Global Finance as the Best Bank in Portugal in the Trade Finance Area. This prize distinguishes the best banks working in this area in 67 countries and 4 different regions and is based on the volume of transactions, international presence, sales structure, technological platform as well as pricing policy of the institutions.

**"Top Rated" and "Best in Class"**

In the annual survey conducted by the Global Custodian magazine BES won the "Top Rated" status (the highest classification awarded by this reputed magazine) for the domestic market and the "Commended" status for cross-border Clients. BES was also considered the "Best in Class" in the following categories: Reporting, Corporate Actions, Proxy Voting, Tax Reclaims, Settlements and Technology.

***FTSE4Good***

In September 2007 BES entered the FTSE4Good Index Series, an international benchmark that reflects the performance of listed companies with the best sustainable development practices. BES' inclusion reflects the reinforcement of its positioning as a socially responsible institution.

### BANCO ESPÍRITO SANTO DE INVESTMENTO

**"Best Investment Bank in Portugal"**

BES Investimento was considered by World Finance as the best investment bank in Portugal.

### BANCO ESPÍRITO SANTO ANGOLA

**"Best Bank in Angola"**

BES Angola was elected Best Bank in Angola by Global Finance and EMEA Finance, and Best Bank in Sub-Saharan Africa by World Finance.

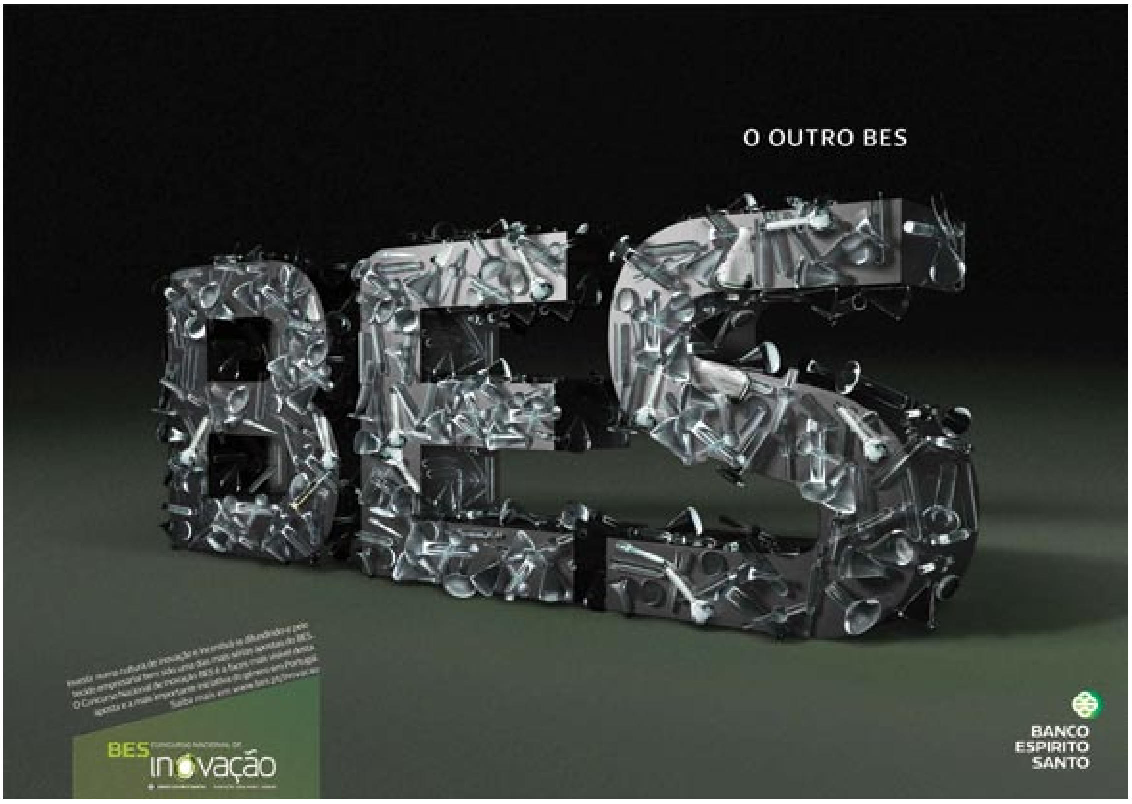
**"Bank of the Planet"**

Banco Espírito Santo Angola received a distinction Bank of the Planet, awarded by the International Committee of the Planet Earth Development, coordinated by the UN through UNSECO. The Bank of the Planet award is attributed to a banking institution that has made the highest effort to support the awareness concerning the environmental protection and sustainability.

### ESPÍRITO SANTO INFORMÁTICA

**"CMMI2 Certification"**

Espírito Santo Informática (ESI), the firm in charge of BES Group's information technology services, obtained the CMMI 2 certification (the international software industry standard) from the United States' Software Engineering Institute. This certification represents an important milestone in the Group's strategic plan for its area of Information Systems.


O OUTRO BES
BES
BES inovação
BANCO ESPIRITO SANTO


O OUTRO BES
BES
BES PRÉMIO BIODIVERSIDADE
BANCO ESPIRITO SANTO

## **2.3** Profile of BES Group

### **2.3.1** Geographical Presence and Distribution Network

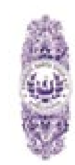
The BES Group pursues a strategy of organic growth in the domestic market complemented by an international presence focused on markets with cultural and/or economic affinities with Portugal, as well as markets showing high potential in specific areas where the Group holds particular skills.

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


1869-1884

1897-1911

1911-1915



1911-1915

BES' international operations are developed through 25 platforms:
**6 Subsidiaries and Associated Companies:** BES Angola, BES Oriente (Macao), BES Investimento do Brazil (Brazil), 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.

In Portugal, BES operates through a retail network of 743 branches, complemented by 29 Private Banking Centres and 28 Corporate Centres.



1937-1964

1965-1990

1990-2005

2006

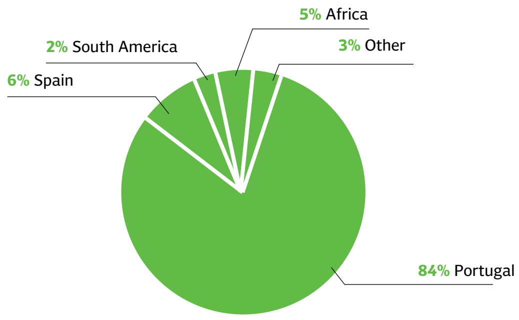
## 2.3.3 Human Resources

Banco Espírito Santo has a long-standing policy of valorising its human resources as an asset in which it permanently invests. For BES, this pledge to its employees also entails a pledge to their skills and training.

On December 31st, 2008, BES Group had 9,431 employees distributed by four continents. Of these, 7,942 (84.2%) worked in Portugal and 1,489 (15.8%) were based abroad.

| Workforce geographical distribution | 2007 | 2008 |
|---|---|---|
| **Portugal** | 8,196 | 7,942 |
| **Rest of Europe** | 600 | 717 |
| Spain | 512 | 602 |
| UK | 48 | 55 |
| Other European countries | 40 | 60 |
| **Africa** | 376 | 433 |
| **South America** | 159 | 168 |
| **North America** | 133 | 150 |
| **Asia** | 17 | 21 |
| **Total** | 9,481 | 9,431 |

**Workforce geographical distribution**



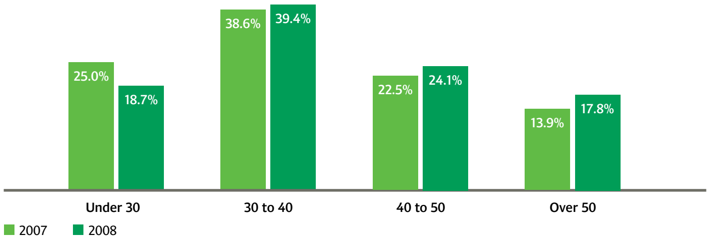

The workforce in Portugal was slightly reduced following the withdrawal of E.S.Contact Center from the consolidation scope. Around 50% of this company's employees were reallocated to ACE – Prestação de Serviços, a Group company.

In the commercial areas and despite the opening of new branches, the number of employees did not change significantly overall. This was mainly due to the cost-cutting effort developed all over the year which included the implementation of important staff redeployment projects, namely the "back to the Client project", which requalified employees from the central services to work in the retail network.

Moreover, 44 employees retired during the year. The average age of these employees was 60 years.

The average age of the staff slightly increased in 2008, to 38.3 years, from 37.2 years in 2007, leading to an increased concentration in the intermediate age brackets (between 30 and 50 years old). This was due, on the one hand, to the significant reduction in the number of temporary workers, and on the other to the fact that less employees retired in 2008 than in the previous year.

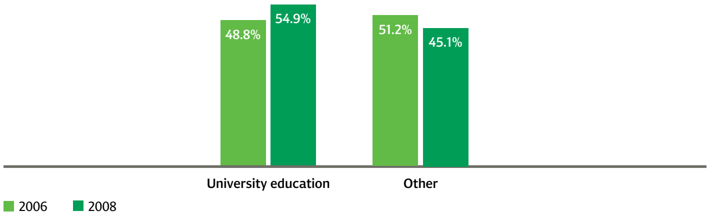
**Workforce Age Structure**




Staff rejuvenation and qualification remains a priority of Human Resources management. Hence, of all the new employees hired in 2008, 78% were admitted to work in the commercial areas, and of these, 80% were younger than 30 years, and 77% of the latter were university educated.

In terms of qualifications, there has been a visible increase in the percentage of university-educated employees, which has risen from 48.8% in 2006 to 54.9% in 2008.

**Staff qualifications**




Recognising that career management is a strategic driver of employee motivation and retention, BES Group has always sought to establish clear and objective criteria for staff admission, advancement and promotion.

On the one hand, an individual appraisal system measures individual performance aligned to business objectives. On the other, the Objectives and Incentives System, which assesses the performance of the various structures and employees against the objectives established for each department, permits to evaluate teamwork performance. Both systems are vital for business success.

In addition, the Group has developed a broad-based and innovating training programme that covers the needs of all its employees (the Sustainability Report provides comprehensive information on this programme).

One of the most important initiatives taken in this area concerns the "BES University" project, which is supported by partnerships with renowned universities and institutes and relies on the active involvement of BES' senior management in the design and execution of all its programmes and actions. This project makes a clear bet on two fundamental groups of people: (1) young graduates with high potential and (2) employees with significant professional expression but no degree. These two groups are addressed by two different programmes: the Executive Master's degree in Management & Banking and the Banking Management Degree.

In the Annual Survey jointly conducted by the Exame magazine and Heidrick & Struggles, "the best company to work for", BES Group is the only financial Portuguese company ranking among the top 5 best companies to work for in Portugal.

| Ranking | Firm | Sector of Activity |
|---|---|---|
| 1 | Microsoft Portugal | IT |
| 2 | Remax | Real Estate |
| 3 | Accenture | Services |
| **4** | **Banco Espírito Santo** | **Financial** |
| 5 | Grupo Lena | Construction |

Source: Exame/Heidrick&Struggles

## 2.4 The BES Shares

On December 31st, 2008 the share capital of Banco Espírito Santo was EUR 2.5 billion, represented by 500 million ordinary shares with the nominal value of EUR 5 each, listed on the NYSE Euronext.

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

### Main Stockmarket Indicators

| | | Dec. 07 | Dec. 08 |
|---|---|---|---|
| **Stock Exchange Data** | | | |
| 01. No. Shares Outstanding | (thousand) | 500,000 | 500,000 |
| 02. Weighted Average of Shares Outstanding | (thousand) | 500,000 | 500,000 |
| 03. Last Closing Price | (euro) | 15.00 | 6.69 |
| 04. Market Cap | (euro million)(01x03) | 7,500 | 3,345 |
| **Consolidated Financial Data** | | | |
| 05. Equity Attributable to Shareholders (1) | (euro million) | 5,273 | 4,499 |
| 06. Equity Attributable to Ordinary Shares (2) | (euro million) | 4,673 | 3,899 |
| 07. Net Income | (euro million) | 607.1 | 402.3 |
| 08. Net Income Attributable to Ordinary Shares | (euro million) | 573.6 | 368.8 |
| 09. Gross Dividend of Ordinary Shares | (euro million) | 240.0 | 80.0 (3) |
| 10. Pay Out Ratio of Ordinary Shares | (%) (09/07) | 39.5 | 19.9 |
| **Per Share Data** | | | |
| 11. Book Value | (euro) (06/01) | 9.35 | 7.80 |
| 12. Net Income | (euro) (08/01) | 1.15 | 0.74 |
| 13. Gross Dividend | (euro) (09/01) | 0.48 | 0.16 |
| **Price as Nultiple of** | | | |
| 14. Book Value | PBV (03/11) | 1.60 | 0.86 |
| 15. Net Income | PER (03/12) | 13.07 | 9.07 |
| **Price Return On** | | | |
| 16. Net Income | (%) (12/03) | 7.65 | 11.03 |
| 17. Dividend (Dividend Yield) | (%) (13/03) | 3.20 | 2.39 |

(1) Capital + Preference Shares + Share Premium - Own Shares + Other Reserves and Retained Earnings + Revaluation Reserves + Net Income.
(2) Excluding the Preference Shares.
(3) Proposal to be presented at the AGM on the 16th of March 2009: a 0,16 euros dividend per share.

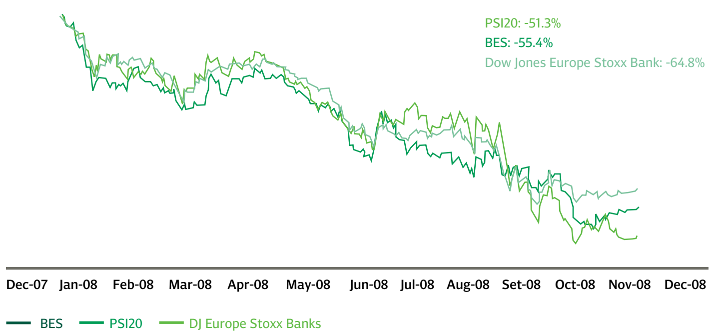
### BES Shares performance

2008 was an exceptionally difficult year for the capital markets in general and for the equity markets in particular. The continuous unfolding of the financial crisis had visible consequences on the real economy along the year, leading to the sharp devaluation of the main stock market indices in the world: in the US the S&P500 fell by 38.5%, in Europe the DJ Euro Stoxx 50 lost 44.4%, and in Portugal the PSI20 went down by 51.3%.

Being at the very epicentre of the crisis, the banking sector was naturally penalised during the year. In this very difficult scenario and with the DJ Europe Stoxx Banks index plunging by 64.4%, the BES shares lost 55.4%, outperforming the sector by 9.0%. This relatively better performance reflects to a certain extent the market's positive judgement of BES' exposure to the risks that triggered the current international financial crisis. Volatility was 175.1%, with the share price fluctuating between a minimum of EUR 5.51 in December and a maximum of EUR 15.16 in January.

Relative market valuations were therefore severely penalised in 2008. The Bank's price earnings ratio (PER) was 9.07 at the end of 2008 while its price book value (PBV) was 0.86, which compares with respectively 13.07 and 1.60 at the end of 2007.

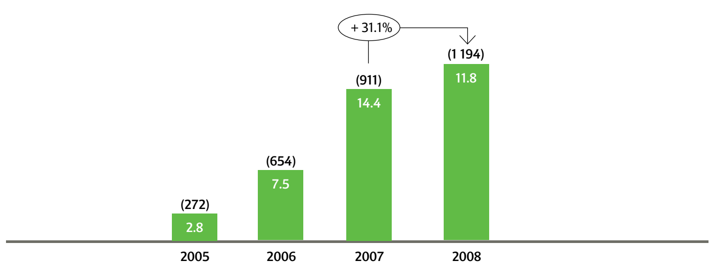
**BES share price performance in 2008**




### Liquidity

Against adverse market conditions, the liquidity of the BES share increased. The average number of BES shares traded per day in 2008 was 1 194 thousand, which is 31.1% more than in 2007, when 911 thousand shares were traded daily. As a result of the decline in the share price, the average daily trading volume dropped to EUR 11.8 million, from EUR 14.4 million in 2007.

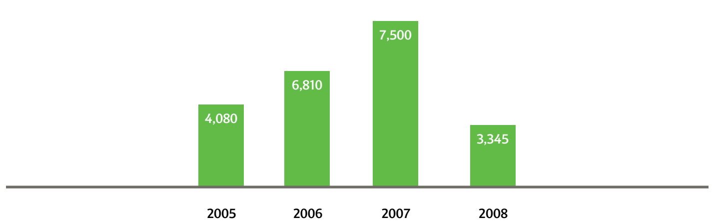
**BES shares average trading per day** (thousand shares) EUR million




### Stock market capitalisation

With stock market indices falling all around, and bank stock indices in particular, BES' market capitalisation also declined: at year-end the Bank was worth EUR 3,345 million in the stock exchange. Even so, BES' market capitalisation was the fourth largest in the PSI 20, advancing one place when compared to 2007 (when it ranked in 5th place), and the second largest among the Portuguese financial institutions.

**Evolution of BES Market Capitalisation** EUR million



### BES Share in Stock Market Indices

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

| Index | Bloomberg ticker | Weight in 2007 | Weight in 2008 |
|---|---|---|---|
| Euronext Lisbon PSI Financials | PSIFIN | 31.16% | 34.84% |
| PSI-20 | PSI20 | 9.87% | 8.60% |
| PSI Geral | BVLX | 8.17% | 6.35% |
| Dow Jones EuroStoxx Mid (Price) | MCXE | 0.85% | 0.71% |
| Dow Jones EuroStoxx Banks Supersector (Price) | SX7E | 0.51% | 0.60% |
| Bloomberg Europe 500 Banks & Financial Services | BEBANKS | 0.50% | 0.56% |
| S&P Europe 350 Banks Industry Group | SEBANKX | 0.43% | 0.49% |
| S&P Euro Financials GICS Sector | SEUFINL | 0.44% | 0.46% |
| Bloomberg European Banks | BEUBANK | 0.41% | 0.40% |
| Dow Jones STOXX Mid 200 (Price) – EUR | MCXP | 0.44% | 0.40% |
| Bloomberg European Financials | BEFINC | 0.37% | 0.37% |
| Dow Jones EUROPE STOXX Banks (Price) | SX7P | 0.29% | 0.34% |
| WT International Midcap Dividend | DIMIV | 0.33% | 0.34% |
| Euronext 100 | N100 | 0.34% | 0.27% |
| S&P Europe 350 Financials - GICS Sector Level | SPEUR040 | 0.25% | 0.27% |
| WT International Financial Sector | DRFIV | 0.17% | 0.23% |
| BBG World Banks | BWBANK | 0.19% | 0.17% |
| S&P Europe Economic Sectors GICS Sector Level | SPEU | 0.13% | 0.11% |
| Global 1200 Financial Sector | SGFS | 0.10% | 0.10% |
| Dow Jones EURO STOXX (Price) | SXXE | 0.10% | 0.09% |
| S&P Euro Plus | SPEP | 0.10% | 0.08% |
| WT Europe Dividend | DEBIV | 0.07% | 0.08% |
| Bloomberg European 500 | BE500 | 0.09% | 0.07% |
| Bloomberg Europe 500 Sectors | BE500E | 0.09% | 0.07% |
| WT Diefa | DWMIV | 0.05% | 0.06% |
| Bloomberg Europe | BWORLDEU | 0.07% | 0.06% |
| Dow Jones Stoxx 600 (Price) | SXXP | 0.05% | 0.04% |

Source: Bloomberg

It is worth noting that in 2008 BES increased its weight in the large majority of the bank stock indices in which it is included, which essentially reflects its better performance relative to the sector's average.

BES is since September 2007 included in the FTSE4Good Index Series, and remains the only Portuguese bank featuring in this index. BES' inclusion reinforces its positioning as a socially responsible institution while providing 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 2007. The main shareholders as of December 31st, 2008 were as follows:

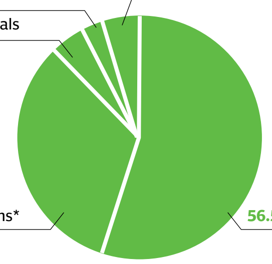
| Shareholders | % of ordinary shares Dec. 07 | % of ordinary shares Dec. 08 |
|---|---|---|
| BESPAR - Sociedade Gestora de Participações Sociais, S.A. | 40.00 | 40.00 |
| Crédit Agricole, S.A. | 10.81 | 10.81 |
| Bradport, SGPS, S.A. (1) | 3.05 | 3.05 |
| Credit Suisse Group | - | 2.70 |
| Previsão - Sociedade Gestora de Fundos de Pensões, S.A. (2) | 2.62 | 2.62 |
| Fundo de Pensões BES | - | 2.22 |
| Hermes Pensions Management Ltd. | 2.03 | 2.02 |

(1) A firm incorporated under the Portuguese laws, wholly owned by Banco Bradesco (Brazil).
(2) The voting rights of this firm are attributed to Portugal Telecom.

As of December 31st, 2008, BES had a free float of 43.5%, considering as reference shareholders the Espírito Santo Financial Group (through BESPAR), Crédit Agricole, Banco Bradesco (through Bradport) and Portugal Telecom (through Previsão – Sociedade Gestora de Fundos de Pensões).

As of December 31st, 2008, the Bank had 19,865 registered shareholders and the following shareholder structure:

Shareholder Structure as of December 31st, 2008; (% of share capital)




(*) 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; Bradesco (through Bradport); Portugal Telecom (through Previsão, Sociedade Gestora de Fundos de Pensões).

The weight of institutional investors in BES' share capital slightly declined, from 35.5% in 2007 to 32.9% in 2008. This decline may in part be explained by the re-allocation in 2008 of most institutional investors' portfolios to lower risk assets, thus reducing the weight of equities.

In 2008 BES maintained active contacts with institutional investors, namely through one-on-one meetings, participation in conferences organised by various investment banks, its annual Strategy Day (an event dedicated to investors and analysts), and other initiatives that permitted to uphold interest in the Bank in the domestic and international markets at a very good level in a difficult year for the financial institutions.

In 2008 BES participated in the following conferences:

- Iberian Event, organised by Espírito Santo Investment in Madrid
- European Banks Conference, promoted by Morgan Stanley in London
- Portuguese Conference, conducted by Banco Santander in Lisbon
- South European Banks Conference, conducted by HSBC in London
- European Financials Conference, promoted by KBW in London
- Iberian Small & Mid Caps Conference, organised by BPI in Sintra, Portugal
- Citigroup Small & Mid Cap Conference, organised by Citigroup in Frankfurt
- Nordic Symposium, organised by Citigroup in Stockholm
- Portuguese Equities Forum, organised by MIllennium BCP in New York

### 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.

(1) Hermes Pensions Management, the BES Pension fund and Credit Suisse Group were not included under the reference shareholders as both are institutional investors.

In this context, and as described in the proposal for the distribution of the 2008 net income, BES' Board of Directors will submit at the General Shareholders' Meeting a proposal to pay a gross dividend per share of EUR 0.16, which corresponds to a 67% decrease versus the amount distributed in 2007. The dividend yield (gross dividend per share/share price) declined from 3.20% to 2.39%, with the consolidated pay-out ratio standing at 19.9% (39.5% in 2007).

**Own Shares**

In accordance with article 66 of the Companies Code, BES states that transactions involving the Bank's own shares in 2008 related exclusively to transactions carried out within the scope of its Share Based Incentive System (SIBA).

| | Number | Price (EUR) | Total (EUR) |
|---|---|---|---|
| **Balance as at 31st Dec 2007** | - | - | - |
| Transactions during the year(*) | | | |
| - Purchases | 1,005,181 | 11.54 | 11,598,726 |
| - Disposals | 1,005,181 | 11.54 | 11,598,726 |
| **Balance as at 31st Dec 2008** | - | - | - |

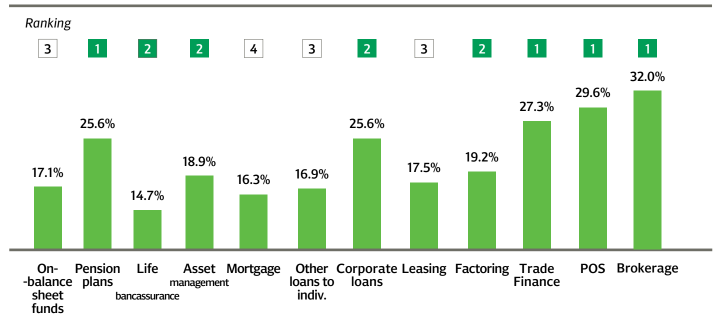
(*) Includes stock exchange and OTC transactions

On December 31st, 2008, BES held EUR 29,838,000 accounted in "Treasury Stock", corresponding to 2,479,081 shares traded within the scope of the Share Based Incentive System, which is duly explained in the Notes to the Financial Statements.

## 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, the Group's 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 basic factors: (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.

**Market Share per product and average market share**

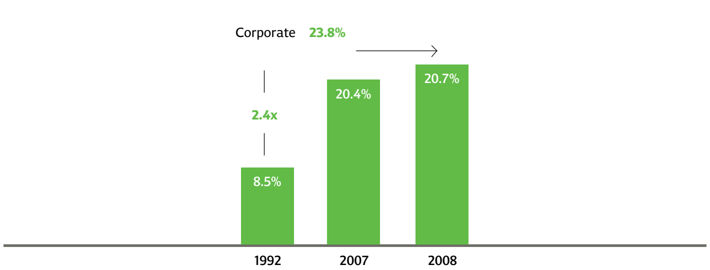



**BES Group's Multi-specialist Market Approach**


* Included in the Retail Network

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 backed by a solid franchise and strong commercial growth in the individual and corporate client segments, the Group has reached an historical value of total assets – close to EUR 1 billion in 2008 – as well as consecutive market share gains. Its average market share more than doubled between 1992 and 2008 – from 8.5% to 20.7% -, having advanced by 1.7 percentage points between 2006 and 2008.

**Market share per product and average market share**



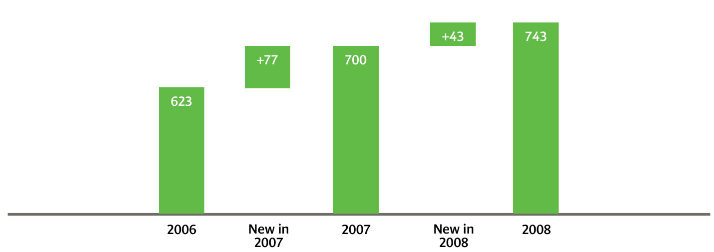

The sustained growth of the domestic business, translated by an increasing market share, is complemented by the progressive expansion of the international business, in particular to markets having cultural and economic affinities with Portugal. This growth is backed by a strategic focus on the reinforcement of the Group's efficiency levels, and a strict capital discipline.

### 3.1 Retail Banking

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

Distribution capacity is a key factor for the reinforcement of a competitive position in retail. The process of reinforcing the branch network in national territory included since 2006 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).

**Growth of domestic branch network**




At the end of 2008 BES Group had a domestic network of 743 branches, with the new formats accounting for 23% of the total. The activity developed by these branches has strongly supported client acquisition levels: in 2008 the new branches contributed with 17% to new client acquisitions and were responsible for 25% of client financial involvement growth.

This expansion strategy, allied with various client acquisition initiatives, allowed the Group to capture more than 157 000 new clients in 2008 (155, 000 new clients in 2007). It should be stressed that this effort has permitted to rejuvenate the client base, especially by a strong contribution from clients that are less than 30 years old.

The consolidation of the segmented commercial approaches to address the financial needs of each segment through a higher level of specialisation also led to an increase in the number of loyal clients in 2008.

**Assurfinance: A partnership of success between BES and Tranquilidade**

The Assurfinance programme resulted from a partnership established between BES Group and *Companhia de Seguros 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.

The Assurfinance programme mobilises 1 864 agents which in 2008 attracted around 38 000 new clients to BES and contributed with 13% to total mortgage production. Moreover, the T-card, which links BES' financial offer with Tranquilidade's insurance offer is an important customer loyalty enhancing tool, with more than 33,000 cards placed in 2008.

These results stem from the cross selling and cross segment initiatives developed in 2008, such as: (i) the T-Card promotion (payment on credit permitted) for Auto Insurance holders, (ii) increased focus on selective client acquisition and bonding, particularly in the BES 360 segment, and (iii) expanding the available offer, namely with saving and investment products.

The Bank's client acquisition capacity was also further reinforced in 2008 by the introduction of a new concept of cooperative distribution, the "assurfinance on-site branches", of which there were already 41 by the end of the year.


**BES 360: a reference in financial advisory services**

The BES 360 service is a distinctive proposition for the affluent segment, featuring high quality standards, permanent monitoring by a dedicated specialised account manager and an exclusive offer and solutions adapted to these clients' specific requirements. 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 2008, approximately 75,000 clients had already tried a session of the 360 Map, and of these, more than 75% would strongly recommend it to a colleague or relative. These results attest to the uniqueness of the offer and service level provided by BES 360.

During the year, a number of strategic initiatives were taken to further reinforce the value proposition offered to the 360 segment:

- Creation of BES 360 Centres: these are dedicated areas uniquely prepared to deliver a high quality service to the affluent segment and displaying all the excellence that characterises the 360 offer. At the end of the year the BES 360 network already had 30 units;
- Welcome Solutions offer: designed for the non resident affluent client segment, this service features an exclusive offer (namely the BES Golden key account that benefits from exclusive partnerships in the non financial area), a specific website and branches dedicated to the segment;
- Launch of the Number 1 Account: service account offering a wide range of financial and non financial exclusive benefits, namely an innovative insurance package covering, among others, healthcare, travel, at home medical care and home repairs;
- Launch of PPR Dinâmico: a retirement plan that automatically adjusts the allocation of assets in accordance with market opportunities and the client's life cycle.

In 2008 the number of new BES 360 clients increased by 22% year-on-year, allowing the total customer base in the segment to surpass the 200,000 clients threshold.

**Small Businesses: Profitable growth with BES as 1st Banking Partner**

In 2008 BES reinforced its position as the first bank of its small business clients and of the partners in their firms. To reach these goals in an extremely competitive market, several initiatives were taken at the level of the offer and the commercial approach, based on 4 principles:

- selective growth in pre-defined sectors;
- adequate and risk-adjusted pricing policy;
- development of packaged offers, particularly at the cash management level;
- an integrated approach to companies/partners, particularly in the area of retirement protection.

Client acquisition growth thus pursued at a high pace, particularly in sectors considered strategic, where the increase reached 34% year-on-year. This growth was supported by the continuous enhancement of the value propositions designed for the segment, with new offers being launched during the year, namely for teaching establishments and small trades.

Thanks to the development of regularly monitored new price discrimination tools, growth went hand in hand with a rise in credit margins, better quality of the guarantees provided and an increase in the weight of Clients with higher scorings. In a difficult market environment, this strict risk monitoring policy also resulted in a decline in net overdue credit events when compared to 2007.

In terms of the offer, we emphasise the launch of cash management packages capable of enhancing the customers' loyalty to BES as their 1st bank, namely:

- reinforcement of the value proposition of the BES *Negócios Tesouraria* Premium Accounts, through the introduction of a mechanism that cancels their monthly fee above a certain number of salaries processed and domiciled at BES. During the year the number of companies with salaries processed through BES increased by 16%, reflecting their growing loyalty to the bank and leading to an increase in the number of employees with salaries domiciled at BES.
- Introduction of Flat Fee EFTPOSs (Electronic Funds Transfer at Point Of Sale) linked to Treasury Accounts, which pay a fixed monthly fee covering all the costs of the associated products. Launched in August, the BES *Negócios Comércio* and BES *Negócios Restauração* accounts met with strong acceptance, accounting for one third of all EFTPOS terminals installed in 2008, and making it a record year in terms of growth in the installed park of EFTPOS (+18% year-on-year).

The Business/Partners integrated approach was reinforced, with significant results: client attraction among Partners was up by 37% year-on-year.

In terms of product ownership, the Bank took advantage of the Partners' poor safety net to promote the Protection/Safety offer. 2008 was a year of strong growth in this area, namely in retirement savings plans (+36%), BES Negócios Plans (+59%) and Health Insurance (+122%). Reflecting the Bank's systematic emphasis on the importance of adequate protection on retirement, scheduled contributions to pension plans surpassed for the first time more than half of the total contributions (51% vs 36% in 2007)).

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

The activity developed in 2008 further emphasised two strategic priorities: greater focus on the client and enhanced commercial proactivity. As a result of this approach BES reinforced its market share as the first bank in this segment.

To achieve greater focus on the client, several initiatives were taken to improve service quality and maintain a permanent flow of innovation, bearing in mind the client's life cycle:

- Launch of innovative savings solutions - BES Poupança Crescente and BES Sobe e Segue, which encourage regular saving. These new launches were backed by mass media campaigns featuring Cristiano Ronaldo, which gave them great public awareness and significantly contributed to funding growth in the segment.
- Launch of innovative everyday solutions, namely the BES 100% service account offering a 10% discount on the main household bills.
- Launch of innovative solutions to attract new clients, such as the *Cartão Selecção* card, under a partnership with the Portuguese Football Federation (FPF). Portuguese holders of this card become members of the National Football Team, enjoying many other advantages such as exclusive prizes and discounts on tickets to the national team matches. By year-end, more than 400 000 Portuguese had joined this initiative.
- Launch of innovative solutions for emerging segments, namely a phone line for the Eastern Union communities in their native languages. This service was distinguished by the Slovo newspaper as one of the 10 most important events in 2008 for Immigration to Portugal.

As regards steps taken to enhance commercial proactivity, among others, the training plans were redesigned and the branches' working tools were fully revised in order to make them simpler, more flexible and integrated to ensure true customer focus, seamless commercial production, and high 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 in the segment thus increased by more than 10% in 2008, with sales growth surpassing 25% and the net customer base expanding by more than 10%.

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

- Increased customer funds acquisition efforts, yielding a 21.7% year-on-year increase in on-balance sheet funds of Retail clients, including a 63.6% rise in on-balance sheet term placements. Growth was equally strong in Financial Life Bancassurance: pension plans production rose by 21.3% (upholding the Group's leading position in this important product, with a market share of 28.8%) and production of Capitalisation Products advanced by 21.4%. Good results were also achieved in long-term saving solutions: production of BES Plans (programmed savings solutions) increased by 35.2% and a total of EUR 700 million in BES Subordinated Bonds was placed through various Group entities.
- Very selective increase in credit: mortgage credit grew by 2.9% year-on-year, with 55% of the year's production coming from the affluent segment. At the same time, the evolution of the pricing policy in part reflects the increase in the cost of funding in the financial sector. Other loans to individuals grew by 3.2% year-on-year, which compares with 17.5% in 2007. The affluent clients segment was responsible for a large share of consumer loans production (40% in 2008). In the small business segment, the pricing schedule was also adjusted to prevailing market conditions.
- Sustained increase in cross-selling, a critical growth driver in retail banking. BES Group achieved a substantial rise in the sale of products (+25% year-on-year). The innovative service account offer launched in the second half of the year, including the "The Number 1 Account", features new benefits for the clients, namely in healthcare and travel assistance services. It is also important to highlight the performance of service accounts (+28%), life and disability insurance (+96%) and non life bancassurance where new policies sold grew by 30% (with car insurance and health insurance production rising by 28% and 97%).

## 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.

In 2008 the business was naturally influenced by the overall international environment. Thus the prevailing market conditions gave rise to new requirements, particularly in the second half of the year, calling for the reinforcement of advisory and commercial monitoring initiatives, on the one hand, and to the strengthening of cross-selling and external attraction policies. The need to protect the portfolios under management from potential devaluations deserved particular attention. To this end, the product management and development teams focused on reducing the portfolios' risk, while turning to the growing primary and secondary markets for structured products.

A Private Banking Division was created within Banco Espírito Santo de Investmento, taking advantage of its multiple competences to complement the traditional private banking offer with products and services that are particularly sought and valued by the larger or more sophisticated clients, such as discretionary management, brokerage, private equity, structured credits, bond portfolios, structured portfolios, derivatives and financial advisory services.

As regards client acquisition efforts, there was an intensification of "member-get-member" initiatives, both at home – taking advantage of the increasing interconnection between the Private Banking Centres and the Corporate Centres - and at international Private Banking level, where these initiatives were directed to Portuguese residents abroad.

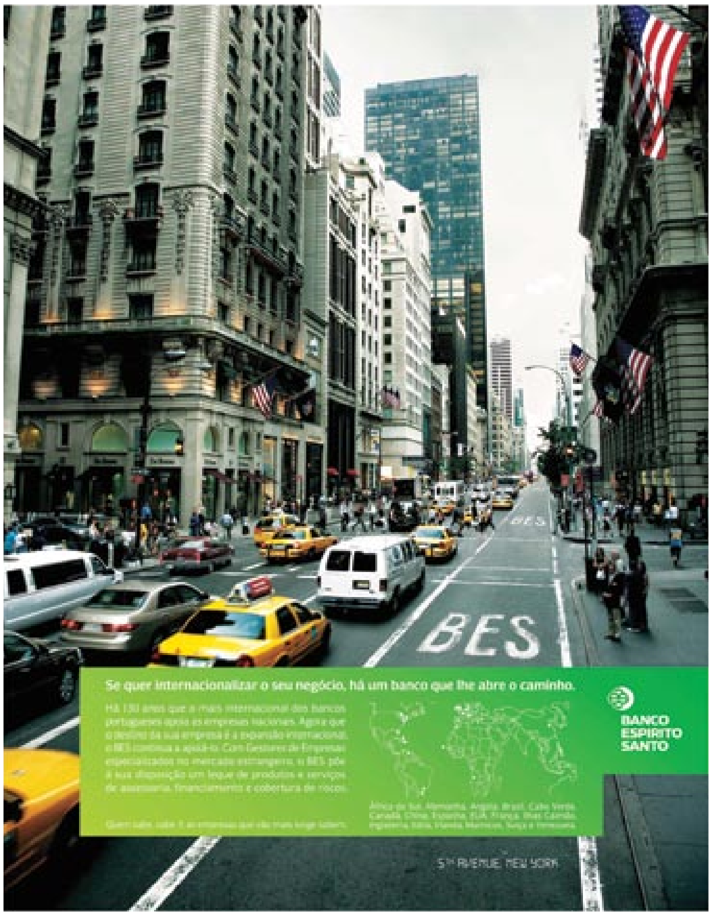
BES Group's Private Banking business was quite dynamic in 2008, despite the adverse market conditions. Market volatility led to a significant increase in demand for on balance sheet products, with the volume of term deposits rising by 25.3% year-on-year. Assets under management surpassed EUR 7.2 billion.

## 3.3 Corporate Banking and Institutional Clients

The Banco Espírito Santo Group has a long-standing vocation to support and add value to the activity of the Portuguese companies. The Group's positioning in this segment is based, on the one hand, on the high quality of the service delivered by specialised teams, and on the other on the Bank's permanent commitment to search for adequate solutions for each client, where the promotion of innovation and support to the internationalisation of the Portuguese companies plays a very important role.

As regards the support provided to the internationalisation of the Portuguese companies, a new unit – the **International Premium Unit** - was created in 2008 within the Corporate Banking Department. Working closely with the International Department, the new unit supports and encourages the internationalisation of Iberian companies into new markets, counting with a team of experts fully dedicated to monitoring companies with the potential to export to or invest in these markets. In the new unit, a group of bankers with geographical specialisation in international trade and a strong track record in corporate banking work in coordination with the Banco Espírito Santo's units abroad to monitor the clients' international transactions from origination to execution. Thus the wide geographical coverage and international experience of BES Group are offered as unique competitive advantages to the client.

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




## 2008 Export Mission - Portuguese Exports

During the working sessions dedicated to the international markets, the companies participating in the forum could attend Banco Espírito Santo's presentations on business opportunities in 13 strategic markets for Portuguese exports:
Angola, USA, Brazil, Morocco, Russia, Algeria, China, Mozambique, South Africa, United Arab Emirates,
India, Venezuela, Libya

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

**Middle Market**

2008 saw a reinforcement of BES' positioning as the SMEs' bank in Portugal. Although the growth pace of corporate loans weakened, BES maintained a strong level of support to investment, with credit growing by 13.4% year-on-year. This performance was underpinned by BES' leading role within the scope of the first two PME Investe credit lines promoted by the Government in partnership with the national banks, with a share of around 30% (EUR 500 million in new credit granted to more than 800 companies).

These results are the fruit of a strategy focused on support to investment, innovation and the internationalisation of the Portuguese companies.

The recognition afforded to BES as the reference bank in supporting the internationalisation efforts of the Portuguese companies – for the third year running BES was elected "The Best Trade Finance Bank" in Portugal by the Global Finance magazine – allowed it to reinforce its lead of the domestic trade finance market, with a share of 27.3%. BES' support to the exporting companies, in particular, resulted in a 16% increase in documentary credit fees.

Other initiatives to support the internationalisation of the Portuguese companies included the intensification of the programme of Business Missions to markets with higher growth potential (5 missions organised in 2008 with 150 participants from the business community) and the organisation, in cooperation with the AICEP and the AIP, of the third Portugal Exportador Forum – Missão Exportar 2008, which divulged the 13 markets with greater export/investment potential for the Portuguese companies.

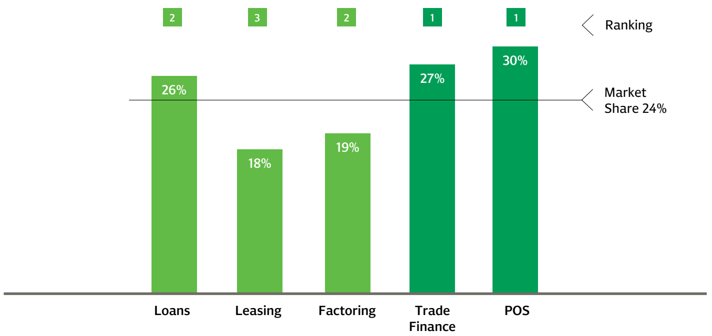
The Bank's endorsement of Innovation takes the following forms: (i) promotion of modernisation and technological advances through its National Innovation Contest, a pioneering initiative in Portugal that builds a bridge between the university and the business worlds; (ii) support to innovating start-ups (backed by partnerships with the main innovation and entrepreneurship centres in Portugal), through an offer adapted to these company's life cycle, and through ES Ventures (venture capital), which specialises in promoting innovative companies with a high growth potential.

BES Group invests on the competitiveness of its broad-based offer of products and services and the excellence of the service provided. Its teams specialising in the various areas of corporate banking seek financial solutions to match each specific case and allow the clients to pursue the strategies they designed. Despite the difficult market conditions, this strategy has allowed the Group to attain positive results in 2008:

- Revenues generated in derivative products (foreign exchange and interest rate risk hedging instruments) were up by 174% year-on-year.
- Financial advisory services, an investment banking service for medium-sized companies, lifted revenues by 21%.
- In the area of human resources solutions, sales of life insurance products performed well, with the respective portfolio growing by 49%.
- The cross-selling of non-life insurance products continues to provide a very good complement to the banking offer, leading to revenue growth of 14%.

In November BES launched a pioneering service in the Iberian banking market: **BESnetwork** is an international internet banking portal designed for companies doing business in Portugal, Spain, or in both countries. In time this service will be extended to other international operations.

**BES Market Share in the Middle Market Segment**




1 AICEP – Agência para o Investimento e Comércio Externo de Portugal (Portugal's investment and foreign trade promotion agency)
2 AIP – Associação Industrial Portuguesa (Portuguese Industrial Association)

The establishment of long-standing partnership relations combined with knowledge of the Clients permit to maintain the Bank's speed in decisiontaking and the consistency of its credit policy, which the Clients recognise and appreciate. The definition of the optimum size of portfolios managed by corporate bankers, focus on the client, high quality tools to assess risk and optimise risk/return, and the continuous development of sales support instruments, have permitted to enhance the credit-decision process, leading to a faster and more efficient response, and to improved risk levels and risk adjusted return. All these efforts are framed by a policy of strict reciprocity in capturing funds, and complemented by cross-selling and cross-segment initiatives.

In specialised credit (Leasing and Factoring), although production declined when compared to 2007 (-5.3%), activity growth allowed the credit portfolio to increase by EUR 280 million.

On December 31st, 2008, the merger by integration of Besleasing e Factoring into BES was concluded. This integration will permit a more efficient approach to the business, namely as it will provide a basis for reciprocal bargaining with the clients, as well as synergies and economies of scale.

The constant updating of a database of potential customers with a good risk profile continues to prove a priceless customer-acquisition tool, leading to the acquisition of 680 new active clients in 2008. The initiatives taken to boost customer loyalty permitted to raise BES' market share in the SMEs segment by 24%.

**Corporate Banking**
The Corporate Banking Department, created in September 2008 as a result of an internal reorganisation process, is divided into three areas: (i) Top Corporates; (ii) Large Companies; (iii) International Premium Unit. Its commercial activity is based on the permanent monitoring of the Clients in articulation with the Investment Bank, thus steadily supporting the dynamism and growth of the business community and the consolidation of their presence in the national and international markets.

The formation of teams of commercial bankers organised by business sector clusters permits a degree of specialisation that translates into the high quality standards of the service provided to the Clients. It is thanks to this quality that a growing numbers of companies, namely multinational companies, have been using their subsidiaries in Portugal as a platform to enter other international markets, namely in the Community of Portuguese Speaking Countries.

The capabilities of the International Premium Unit to assist companies strongly geared to international expansion reinforce the positioning of Banco Espírito Santo as the reference bank in the support to the internationalisation of Portuguese companies and as the main local bank for multinational companies operating in Portugal.

In a word, the specialisation of the commercial teams, coordinated work with the investment bank and with BES Group's international network, plus the development and increasing sophistication of the offer, namely through innovative electronic payment means, were key factors that allowed Banco Espírito Santo to reinforce its position in this segment.

**Municipalities and Institutional Clients**
Institutional Clients (municipalities, municipal companies, universities, hospitals and social solidarity institutions) have the support of expert teams based in Porto, Coimbra and Lisbon. BES develops its activity with 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 72% of the protocols established with the municipalities (54 protocols established so far).

As to social solidarity institutions, Banco Espírito Santo signed protocols with CNIS (The National Confederation of Solidarity Institutions) and with the União das Misericórdias Portuguesas (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, developed by Banco Espírito Santo de Investimento (BES Investimento), offers 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, acquisition finance, project finance and private equity.

BES Investimento is set to assert a position as a reference bank in the South Atlantic axis - Iberian Peninsula, Brazil and Angola – supported by distribution platforms in the world's main financial centres. 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 in markets with high growth potential to deliver an increasingly wider offer of products and services that adequately meet the needs of the clients.

The 2008 results were affected by the extremely difficult climate lived in the capital markets. Bearing in mind this environment, BES Investimento continued to develop its activity with significant achievements.

In **Portugal**, BES Investimento remained a reference player in the various areas of investment banking, specifically in financial advisory services, capital markets, project finance and private equity. In 2008 the Bank was market leader, by number of operations, in Mergers and Acquisitions, regained its leading position in brokerage (only interrupted in 2007), and was Joint Global Coordinator & Bookrunner of the IPO of EDP Renováveis (EUR 1,567 million), the largest carried out in Europe in 2008. In project finance, BESI led several financing operations, namely in the renewable energies and transport (road concessions) sectors. In private equity, subscription of the Espírito Santo Infrastructure Fund I, which targets investments in infrastructures in the Iberian market, was closed. Among other investments, the fund has taken a minority stake in Iberwind, the company that purchased part of Enersis' wind assets in Portugal.

Despite the economic difficulties felt in the geographies where BES Investimento operates, a significant effort was made to develop the business. In **Brazil**, BESI particularly reinforced its intervention in the project finance market, advising on and structuring several important infrastructure projects, namely the financing of Line 4 of the São Paulo underground, which was named by the Project Finance International magazine as "America's Infrastructure Deal of the Year 2008". In **Spain**, BES Investimento improved its standing in the ranking of brokerage houses, advancing to 5th position with a market share of 5.6%. Through the **London** branch, BESI also led important project finance operations which allowed it to maintain the prominent position achieved in previous years.

The expansion of BES Investimento's international activity also knew important developments in other markets. In **Poland**, BESI formally opened a branch in April, initiated brokerage activities in July, and in October increased its stake in Concórdia Espírito Santo Investment to 85.4%. Overall, the aim is to bolster this country's contribution to the investment banking business in the medium to long term. The request was granted to open a branch in **New York**, which will 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. The New York branch opened for business on December 31st, 2009. In Angola, the opening of an investment bank and brokerage house is under consideration.

## 3.5 Asset Management

*Espírito Santo Activos Financeiros* (ESAF) is BES' subsidiary for the asset management business, operating in Portugal, Spain, Brazil, Angola, Luxembourg and the United Kingdom. At the end of 2008 ESAF had total assets under management (off-balance sheet funds and CDO contracts) in excess of euro 18.6 billion.

**Mutual Funds**

Total assets under management reached EUR 4,748 million at the end of 2008. Operating in an extremely complex market environment, ESAF sought to match the product offer to the clients' needs, launching several Special Investment Funds ("FEIs"), namely the Espírito Santo Premium, which mainly targets opportunities in the credit market, and the *Espírito Santo Rendimento Dinâmico*, an equity fund. Three new flexible funds were also launched during the year - *Espírito Santo Plano Prudente*, *Espírito Santo Plano Crescimento* and *Espírito Santo Plano Dinâmico* – aiming to offer the clients an asset allocation service with three different risk tiers.

In Luxembourg, BES Group has five funds under management targeting clients with a wide range of risk profiles. At the end of 2008 the aggregate volume in these funds was EUR 818 million: (i) The ES Fund, which has 8 compartments (shares and bonds), reached EUR 347 million in December 2008; (ii) The Global Active Allocation Fund, targeting individual clients and institutions, with volume of EUR 73 million (iii) The Caravela Fund SICAV, made up of 5 compartments; (iv) The SICAV European Responsible Consumer Fund, which is sold in Portugal, Spain, Italy and Luxembourg and whose investments take into account ethical, environmental and social concerns; (v) and finally, a new fund launched in 2008 – the Espírito Santo Rockefeller Global – Energy Fund – under a joint venture formed between the Espírito Santo Group and the North-American Rockefeller fund manager to manage and sell a special investment fund exclusively dedicated to the energy sector.

**Real Estate Funds**

On 31 December 2008 ESAF had an overall volume under management in real estate funds of EUR 1,142 million. In open-end real estate funds, ESAF, through Gespatrimónio Rendimento and Espírito Santo Logística, remained market leader, with total volume of EUR 844 million. In closed-end and special investment funds, volume was respectively EUR 189 million and EUR 37 million. Assets under management were represented by 25 mutual funds (2 open-end, 18 closed-end and 8 special investment funds) the last two targeting clients who wish to invest in real estate for a predetermined period of time.

**Pension Funds**

In Pension Funds, assets under management totalled EUR 2,608 million, representing a year-on-year drop of 6.9%. In this regard, we note the launch of the first, and so far the only, open-end pension fund that can invest exclusively in equities - the *Espírito Santo Multireforma Acções*.

**Discretionary Management**

Reflecting the very difficult market conditions during the year, 2008 saw a reversal in the growth trend of assets under management seen in previous years. Hence when compared to 2007 there was a reduction in volume under management in both the individual and the institutional client segments.

**Portfolio Management**

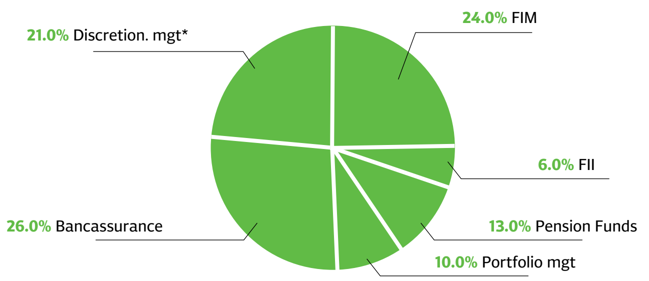
The Portfolio Management Service, launched in 2006, allows all the Group's clients to benefit from an advisory service characterised by a conservative management of assets and a higher target return than that of traditional savings products.

At the end of 2008 the number of Clients using this service already exceeded 20,000, with private banking clients representing approximately 52% of assets under management.

2008 was characterised by high volatility across all the main markets, at domestic and international level, calling for the adoption of more conservative investment policies. The measures adopted permitted to achieve a slight increase in assets under management, from EUR 1,867 million at the end of 2007 to EUR 1,968 million on December 31st, 2008 (+5%).

At the end of the year a of foreign currency Portfolio Management service was launched that permitted to widen the offer and diversify the Clients' investment options.

**Asset Management: Product Breakdown**




(*) Includes discretionary management of institutional, individual and other 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**

Through its Branch in Spain, BES develops activities in affluent banking, corporate banking and private banking.

2008 was a year of consolidation, namely at the organisational level, involving the implementation of a new structure of territorial managers that enhances focus on advisory services, permitting a closer reach of each region, greater agility and better knowledge of the clients. The commercial teams were reinforced during the first half of the year and a new branch was opened in Madrid, whose pioneering new image will subsequently be replicated in all the other Spanish branches.

In Affluent and Private Banking, the economic environment and market volatility led clients to prefer on-balance sheet products rather than to place their assets under management.

In corporate banking, the Group consolidated its integrated approach to the Iberian Peninsula companies, launching an innovating service – the BESnetwork, an Iberian Portal for Companies – which permits to execute transactions through the internet in the same way, whether in Portugal, in Spain or between the two countries. Also in this area, credit spreads were adjusted to the prevailing cost of funding. In view of the poor market conditions in the world and more specifically in Spain, credit grew at a more moderate pace this year.

Finally, cost cutting initiatives carried out in 2008 included the optimisation of the operational and IT/Communications platforms.

**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 2008 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.

In 2008 the Bank prepared and launched a 3-year strategic plan, aimed at diversifying the expertise achieved in the existing business lines into new sector-specific niches, and setting up advisory teams to back up corporate and private banking activities

**United Kingdom**

The **London** Branch focuses it activity in wholesale banking in the European market, where it concentrates on syndicated credit transactions, leveraged finance operations and commodities structured trade finance, and in close articulation with BES Investimento, in project finance operations, thus contributing to enhance awareness to BES Group in the international markets. Within the scope of its funding policy, deposits from clients and financial institutions, and the issuance and placement of certificates of deposit are particularly important. The Branch is self-sufficient in terms of funding and participates as a fund raiser for BES Group. The branch has been extremely selective in its activity as a specialised credit unit, and increasingly so in view of the current adverse environment. The London branch also supports Portuguese companies, or companies related to Group clients, and as an ancillary activity, provides services to the UK resident Portuguese community, and offers a range of financial products to British and Irish clients.

**United States of America**

Through **Espírito Santo Bank**, based in Miami, the Group develops international private banking activities in Latin America, where its main customers are the communities of Portuguese residents in the American continent.

The **New York** branch concentrates its activities in wholesale banking, mainly in the US and Brazil. The branch has had a crucial role in obtaining funds from American institutional and corporate clients while also actively promoting the placement of the certificates of deposit and commercial paper programmes. In addition, it also arranges medium and long-term syndicated credit operations and trade finance operations for medium-sized and large companies, as well as, more recently, project finance operations, in cooperation with BES Investimento. Despite the market's poor performance, the branch achieved an increase in results, reinforcing its position as a driver for the Group's international strategy. Despite its location, the New York Branch did not take part in the high risk transactions that unsettled the US banking sector.

**Brazil**

In Brazil, the Group develops investment banking activities through BES Investimento do Brazil, which resulted from a joint venture with Banco Bradesco. 2008 was a year marked by wide market fluctuations which called for changes in BESI Brazil's commercial organisation and methods.

The Clients Division was split from the Capital Markets area and made into an independent unit working in close cooperation with the other product and support areas, as much in the origination of new operations as in client prospecting, attraction and bonding. Hence despite the difficult market conditions, the local team of Senior Bankers was able to achieve a significant increase over 2007 in the total volume of revenues generated with clients. The main contributors to these results were the Risk Management, Project Finance and Corporate Finance areas, which posted expressive growth in 2008.

In the Capital Markets and Fixed Income area, the prevailing market conditions had the effect of subduing the interest of foreign investors for Brazilian securities, with a direct impact on the turnover of the capital and credit markets.

In the local markets there was an increase in the number of operations, namely there were more short term transactions and less long-term and equity transactions. In the international capital market, the Brazilian companies, even in the face of a deepening crisis, were able to issue debt instruments in the first half of the year permitting to raise USD 6 billion (a year-on-year increase of 54%), to which BESI Brazil contributed with USD 455 million, leading Eurobond transactions in the financial sector.

In Risk Management, BESI Brazil has been strengthening its important role of advising clients on the best solutions to hedge their risks (essentially interest rate and foreign exchange risks), making a total of 2.1 billion reais in swap operations, 25.6 million reais in Non-Deliverable Forward transactions and 475,0 million reais in option transactions.

In Proprietary Trading, BESI Brazil maintained a conservative posture, adding low risk value, intervening in all the markets available in Brazil (foreign exchange, interest rate and equity) and trading in high liquidity and easy pricing instruments.

Fixed Income Distribution of BESI Brazil certificates of deposit in the local market reached at its peak 1.6 billion reais (1.4 billion reais at the end of 2007), thus considerably widening the pool of investors.

In 2008 the Project Finance area in Brazil reinforced its strategy and consolidated its position as a local player providing advisory and financial structuring services for infrastructure projects. BESI Brazil won the public tender launched by *FURNAS Centrais Elétricas S.A.* - one of the largest companies in the Brazilian energy sector - to provide advisory services in several projects to operate hydro power transmission lines and generation plants.

Throughout the year BESI Brazil concluded its first transactions as financial agent for the funds made available by BNDES - Banco Nacional de Desenvolvimento Econômico e Social for infrastructure projects, also participating in the structuring of projects financed by the IADB – Interamerican Development Bank.

In addition to its advisory role, BESI Brazil also started to participate in the financing of infrastructure projects, namely by providing short-term funding for these projects and subsequently replacing it by long-term financing. All in all, the bank concluded 15 operations in 2008, including the financing of Line 4 of the São Paulo underground, which was named by Euromoney as the Latin America Deal of the Year and by the Project Finance International magazine as the Americas Infrastructure Deal of the Year.

The area of Corporate Finance once again excelled in 2008, having consolidated its new team and diversified the range of its operations. The area's results surpassed by more than 122% the previous year's income, thanks to the conclusion of 8 operations in the Brazilian market totalling over 6 billion reais.

In the Private Equity area, the year was marked by the incorporation of ES Capital Brazil, held in equal parts by BES Investimento do Brazil and ES Capital de Portugal.

The Asset Management business in Brazil is developed by BESAF - *BES Activos Financeiros*, for which 2008 was marked by two important events: i) increase in the stake held by the shareholder ESAF – *Espírito Santo Activos Financeiros*, aiming for greater synergies with one of its asset management international arms; and ii) acquisition of the funds managed by the asset management area of Banco WestLB, which were incorporated into BESAF's portfolio in the second half of the year (in August).

BESAF shifted its commercial focus to target in particular the external distributors. At the end of 2008 BESAF had approximately 444 million reais under management, distributed by open-end and exclusive funds.

BES Securities, operating in the Brazilian Secondary Market of Shares, posted a 17% year-on-year increase in intermediation activities, even though the volume traded in the Bovespa declined significantly when compared to 2007. Its strategy of integration with the other BESI brokers permitted to diversify the client base and the range of products: BES Securities is now in a position to offer direct market access (DMA) to European and North-American clients, and the main European funds now feature in its portfolio.

**Angola**

In Angola BES Group operates directly in the local market through Banco Espírito Santo Angola (BESA), which provides a global service to individual and corporate clients.

In the course of 2008 BESA consolidated its position as a reference universal service bank in the Angolan market, posting very high profitability and efficiency levels ever since its creation and projecting an image of strength, confidence and excellent customer service. BESA's performance during the reporting year was recognised by the Global Finance, EMEA Finance and World Finance magazines, which awarded it the prizes for respectively Best Bank in Angola and Best Bank in Sub-Saharan Africa. Alongside this positioning, BESA has gradually increased its market shares in both customer loans and customer funds.

In retail banking, BESA operates through a network of 22 branches and 6 outlets distributed through 6 provinces, and a private banking centre in Luanda to serve its affluent clients.

In corporate banking BESA is supported by two corporate centres in Luanda, focusing its activity on (i) establishing commercial partnerships of mutual added value with the large and medium sized companies operating in Angola, namely by financing the investment or cash needs of these companies and providing them technical and legal support; and (ii) backing up foreign companies and entrepreneurs, namely from Portugal, Spain or Germany, who are expanding their activity into Angola. At the same time, BES Group also plays an important role in supporting exports to Angola, having set up a multidisciplinary 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 asset management, BESA and ESAF jointly set up the first fund management firm in Angola, BESAACTIF, Sociedade Gestora de Fundos de Investimento, which aims to offer pioneering financial solutions to its clients in the local market. Also in 2008, the firm obtained the authorisation to launch a closed-end real estate fund with the duration of five years, with subscriptions surpassing expectations.

**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 with Portuguese speaking countries.

The Macao Special Administrative Region (MSAR) is expected to post GDP growth of around 10% over the next few years, supported by the development of the tourism and gambling/entertainment industries, the execution of major infrastructure projects and the fact that Macao is used as a platform for economic cooperation between China and the Portuguese speaking countries.

# Economic Environment

## 4.1 International Economic Situation

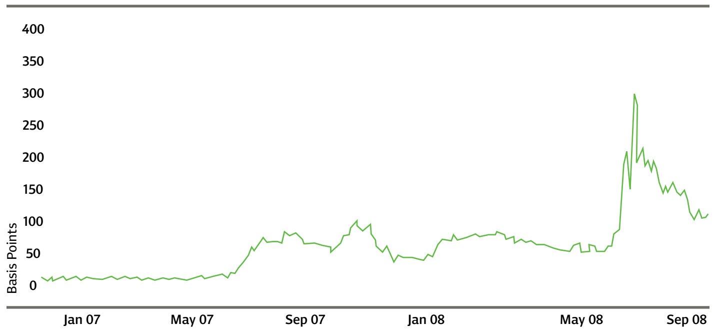
2008 was marked by the continued unfolding of the subprime mortgage credit crisis in the United States and its gradual transformation into a widespread confidence crisis, with reflexes on the financial system and on economic activity at global level.

Enhanced perception of liquidity and solvency risks precipitated the bankruptcy or loss of independence of several financial institutions in the United States and Europe, leading to an almost total reluctance on the part of banks to expose themselves to the money and credit markets. The private sector's unavailability to provide liquidity was particularly visible between the end of the third quarter and the beginning of the fourth, notwithstanding the authorities' aggressive interventions aimed at ensuring the regular functioning of the markets. In the Euro Area, the 3-month Euribor rose from 4.684% to a high of 5.393% in October, closing the year at 2.892%, after the European Central Bank (ECB) had progressively cut interest rates and made strong injections of liquidity into the money market. This climate of aversion to risk was also mirrored by the behaviour of the spread between the Euribor and the 3-month Treasury Bills, which rose from 88 basis points to a peak of 350 basis points, also in October, before correcting to 124 basis points towards the end of the year (comparing to the summer of 2007 when it stood at around 20 basis points this is still quite high. In this context of increased demand for safe haven assets, the yield on 10-year government bonds tended to decline as from the second half of 2008, dropping from 4.681% in June to 2.951% at the end of the year.

**Euribor and Libor rates (USD)**

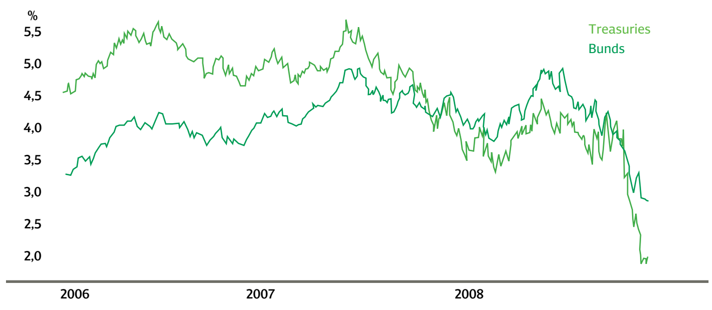

Source: Bloomberg

**Spread between 3-month Euribor and Treasury bills**




Source: Bloomberg

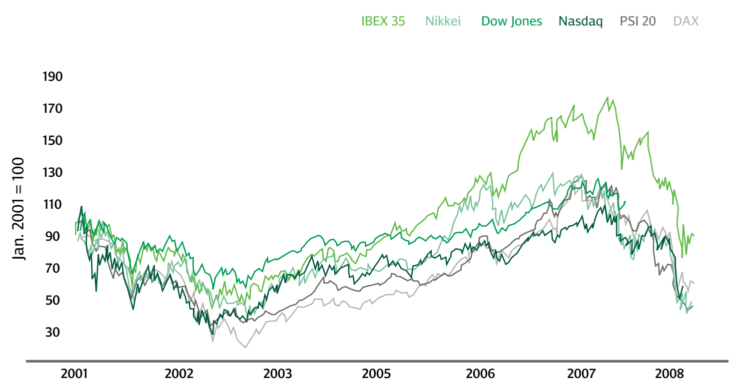
**Yield on 10-year government bonds (%)**




Source: Bloomberg

Rising uncertainty, essentially associated to the financial sector, combined with expectations of a slowdown of economic activity, strongly penalised the main stock market indices: in the US, the Dow Jones, Nasdaq and S&P500 indices fell by respectively 33.8%, 40.5% and 38.5%, while in Europe the DAX, CAC40, IBEX and PSI-20 retreated by 40.4%, 42.7%, 39.4% and 51.3%.

**Stock Market Indices**

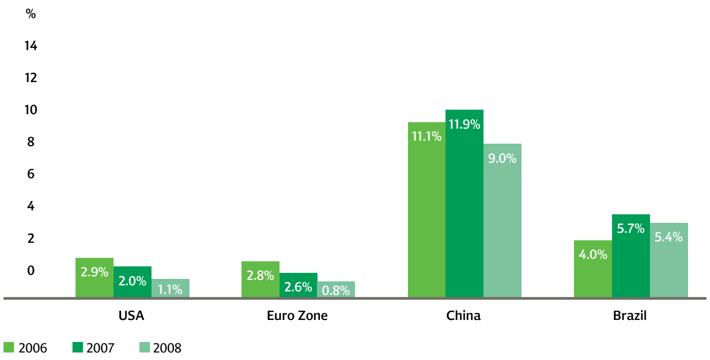



Source: Bloomberg

High volatility also plagued the commodities markets. In the first half of the year the price of oil showed a steep upward trend, reaching close to USD 150/barrel in July. This rise was driven by strong demand from the emerging markets, difficulties in expanding the global supply, and in particular by an increase in demand of a speculative nature. Expectations of a slowdown in demand, and later on the growing likelihood of a global recession scenario pulled the rug from under speculative demand, leading to a sharp downward correction in the barrel price, which closed the year slightly above USD 40.

The same correction trend was seen at the level of the non-energy commodities, thus contributing to a significant decline in inflation (and inflation expectations) at the end of the year.

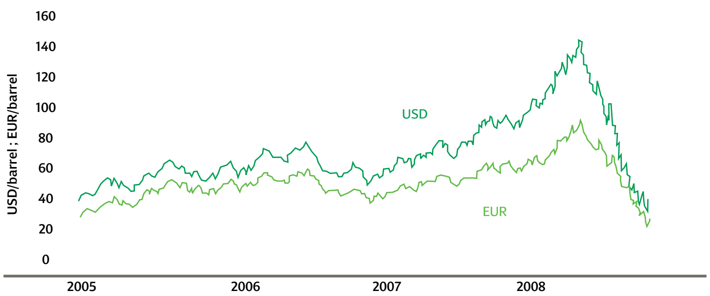
**GDP Growth - Main Economic Areas**




Source: Bloomberg

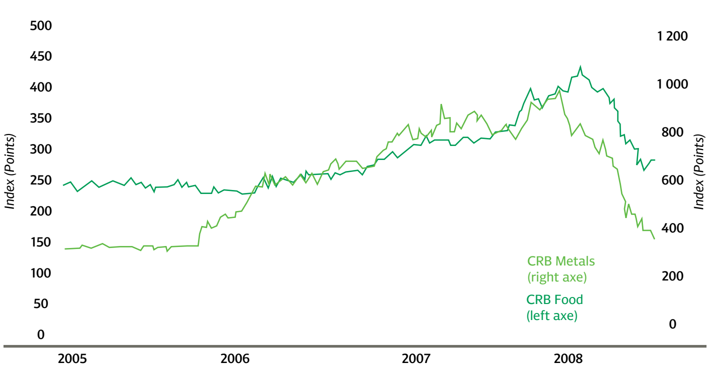
A more restrictive monetary and financial environment, the drying up of liquidity in the capital markets, rising commodities prices and inflation in the first half of the year, and last but not least, a significant deterioration in the economic agents confidence indices fed a deceleration, or even contraction, of activity in the main developed economies. Although maintaining better growth prospects than Europe and the United States, the emerging markets were not left unscathed by the global deterioration in confidence levels, which affected not only economic activity but above all their financial markets. In Brazil the Bovespa index fell by 41.2%, while in China the Shanghai Composite Index plunged by 65.4%.

**Oil Price (USD and EUR/Barrel)**



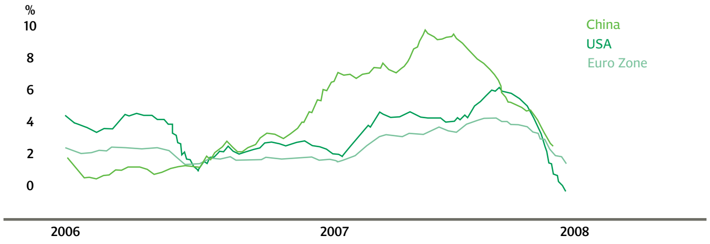

Source: Bloomberg

**Commodity Research Bureau Indices**




Source: Bloomberg

**Inflation Rate (%)**




Source: Bloomberg

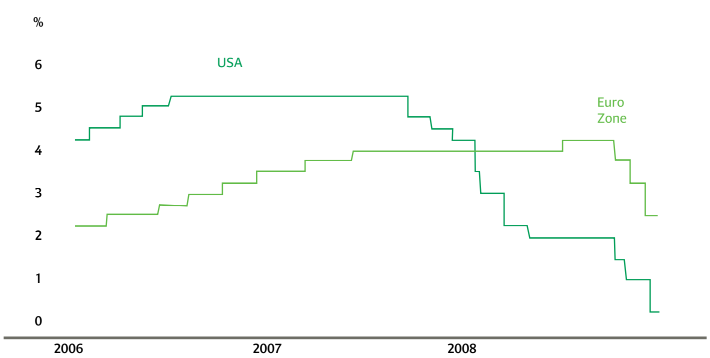
## United States

In 2008 the North-American economy was marked by strong instability in the financial markets and a sharp deterioration in the economy's working conditions.

The financial crisis that broke out in the summer of 2007 as a result of the subprime phenomenon gained new contours in the course of 2008, slashing the confidence of market players to very low levels and critically intensifying liquidity and solvency problems in the financial system. The response of the governmental authorities was incisive, with the Federal Reserve continuously trimming the fed funds target rate, on the one hand, and amplifying liquidity injections in the financial markets, on the other. Since the beginning of the year the Fed cut the reference rate ten times, twice outside its regular meetings, bringing it down from 4.25% to between 0% and 0.25%. Additionally, it implemented several liquidity injection programmes to address the difficulties felt by the financial institutions, which required expanding its balance sheet by around 150%. At the same time, the North American Treasury submitted to Congress a USD 700 billion programme to purchase the more problematic assets from companies in distress, the Troubled Assets Relief Program (TARP), which in its final form was used to reinforce the solvency of financial institutions and help the auto industry.

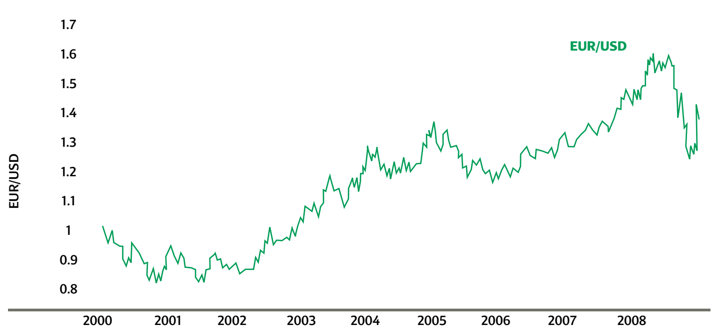
Although in the whole of 2008 the North American economy achieved positive growth (1.1%), the year was marked by its entry into recession, with activity contracting in the last two quarters. This retraction occurred across the various activity sectors, being particularly acute in the labour market, except in areas such as education, health and the public administration, where employment increased. In 2008 the North American economy lost more than 2.5 million jobs, its worst performance since World War II. The unemployment rate rose from 4.9% to 7.2%. The deterioration of the labour market, which was felt in every month of the year, took its toll on the behaviour of families, with private consumption retreating in the third quarter, for the first time since 1991. The correction of the housing market was pursued, with the sector's main indicators falling down and home prices tumbling by around 25%. Finally, the inflationary risks facing the North American economy up until the middle of summer (the year-on-year increase in prices actually reached 5.6% in July) faded away in the following months through the degradation of the economic situation and the correction in the price of commodities, and in December the year-on-year increase in prices was close to zero (0.1%).

**Reference Interest Rates (Fed Funds Target Rate and Refi Rate)**



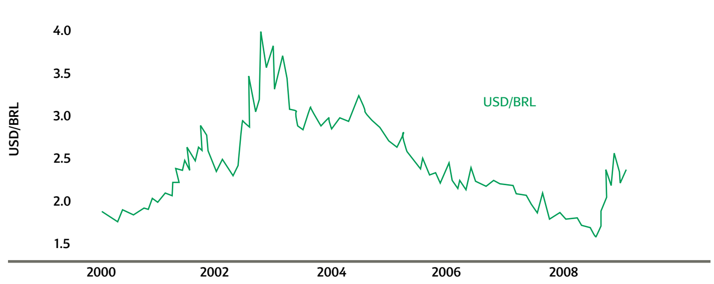

Source: Bloomberg

**EUR/USD Exchange Rate**




Source: Bloomberg

**USD/BR Exchange Rate**




### Euro Area

The Euro Area suffered an expressive weakening in 2008, with GDP rising by 0.8%, after growing by 2.6% in 2007. However, it should be stressed that quarter-on-quarter growth was only positive in the first quarter (0.7%, largely driven by good weather conditions that gave a strong stimulus to the construction sector), with activity contracting in the other quarters, and ever more so as the year advanced. In fact, economic performance was increasingly influenced by a combination of factors, of which we could name greater restrictiveness in financing conditions, the negative wealth effect arising from the devaluation of the equity and housing markets, the cooling down of the real estate market, and the sharp intensification of a climate of general uncertainty among all players. There was a clear deterioration in business and consumer sentiment, with the respective indicators reaching historically low levels in the last months of the year. Hence the downturn was essentially dragged by internal demand – which rose by 0.7% only, after growing by 2.4% in 2007. Exports and imports also exhibited a decelerating trajectory throughout the year, the first penalised by the slowing down of global trade and the rise of the euro in the first half of the year, and the second performing in line with the deceleration of internal demand.

Despite this economic performance, the unemployment rate remained flat when compared to 2007, at 7.5% of the working population, although tending to worsen towards the latter part of the year (8.1% in the 4th quarter). In terms of prices, the average inflation rate increased from 2.1% to 3.4% as a result of the sharp rise in the price of oil in the international markets, and of non processed food, particularly during the first half of the year. However, the year-on-year inflation rate dropped significantly in the last quarter, reaching 1.6% in December.

The turmoil in the money and credit markets, by leading to a sharp deterioration in confidence levels and a strong increase in aversion to risk, contributed to reduce the availability to provide liquidity, mainly in the last quarter of the year. More to the point, this meant higher spreads on loans to financial and non financial institutions, penalising those companies with greater financing needs. Likewise, the financing of families' consumption and investment also became scarcer, thus weakening private demand. Against this more restrictive monetary and financial environment, the ECB, after lifting in July the key refi rate by 25 basis points, to 4.25% (in order to face increasing inflationary risks, mainly related to the rise in oil prices in the international markets), slashed it by an accumulated 175 basis points between October and November, when it reached 2.5%. In 2008 the euro devaluated by 4.3% against the US dollar, closing the year at EUR/USD 1.3917. It is worth noting that the European currency had risen during the first half of the year, reaching a high of EUR/USD 1.5990 in April, although this was followed by a clear downward correction in the second half of the year.

### Brazil

As regards the Brazilian economy, 2008 may be divided into two distinct periods: the first from January to September and the second from October to December.

At the end of 2007 the Brazilian economy showed high growth rates. Driven by internal demand, rising household income and the expansion of credit, this growth accelerated during the first nine months of 2008. However, a growth pace well above potential GDP, allied to the commodities price shock in the first half of the year, soon caused inflation to shoot up, forcing the central bank to initiate in April a monetary squeezing process that was pursued until September.

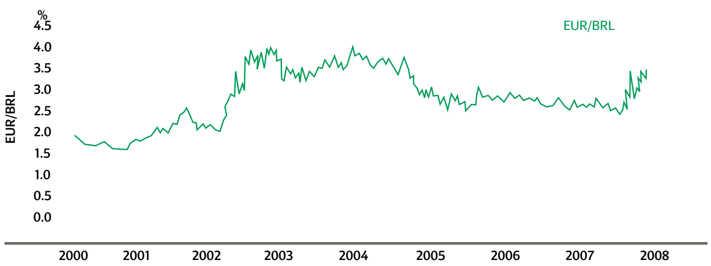
The monetary authority diagnosis proved correct, but the members of the Monetary Policy Committee, along with all other economic agents, were surprised by a confidence crisis with no precedent at global level, which included a contraction of credit, the bankruptcy of major banks, and a sharp fall in asset prices. Unpredictability and lack of confidence led businessmen and consumers alike to rapidly revise their investment and consumption decisions, and economic activity lost speed.

The Brazilian industry grew by 6.4% until September, but suffered a sharp retraction in the fourth quarter. GDP is thus expected to have retreated by 1% in that period, after 12 consecutive quarters of growth. Even so, GDP grew 5.4% in 2008, close to its level in 2007, of 5.7%. Inflation also showed signs of strong decompression at the end of the year, dropping from a monthly average of 0.52% up to September to 0.36% in the fourth quarter.

This rapid reversal of the macroeconomic scenario led the central bank to interrupt the upward trend of interest rates and to discuss in its October meeting a reduction of the base rate as soon as in December. The Selic rate closed the year at 13.75% (11.25% in December 2007). The Broad Consumer Price Index points to an official inflation of 5.9% in 2008, above the 4.5% target, but trending below the 6.5% ceiling.

The exchange rate was another variable that showed a very disparate behaviour between the two referred periods. The Brazilian currency kept rising throughout a large part of the year, even trading at USD/BRL 1.56 in August 2008, but subsequently fell rapidly as the international crisis deteriorated, touching a low of USD/BRL 2.60 after September. The North American currency closed the year at USD/BRL 2.34, having gained 31.9% since the end of 2007.

**EUR/BRL Exchange Rate**




Source: Bloomberg

This movement went against the consensus expectation that a sharp depreciation of the Real would be unlikely given the strength of the Brazilian external accounts. Even with a rising current account deficit, Brazil's investment grade rating, the high capital flows into the country and its net creditor position in foreign currency due to its high stock of international reserves and low external debt, reinforced a perception of the external sector as being little vulnerable. Even in face of the shock, the structure of the balance of payments was not seriously affected. The trade balance closed the year with a surplus of USD 24.7 billion.

By November, the current account was running a deficit of USD 25.8 billion, easily financed by a foreign direct investment flow of USD 36.9 billion in the period. Finally, international reserves reached USD 207.5 billion in December (USD 180.3 billion in 2007). The main change in the dynamics of the balance of payments occurred as from September in short term capital flows, with a considerable outflow from portfolio and fixed income investments and a reduction in the rollover rate for foreign investments.

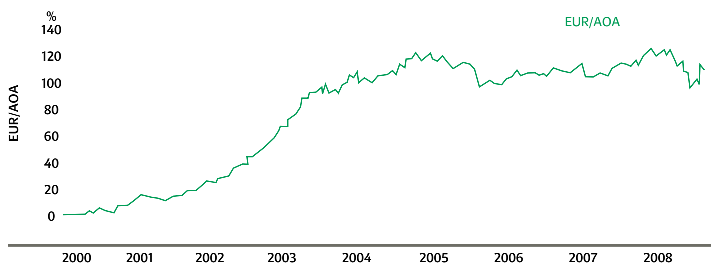
On the other hand the depreciation of the Brazilian currency contributed to reduce the public debt. The persistence of expressive surpluses up to November (5.1% of GDP) resulting from the strong growth of income from taxes exceeding public expenditure, combined with the central bank's creditor position in dollars, allowed the public sector's debt to drop from 42% of GDP in 2007 to 34.9% in November 2008.

In a word, 2008 saw both positive and negative developments, but it proved the advances made by the Brazilian economy over the last few years: growth above the world average, inflation contained within the established thresholds, reduction of the public debt and relatively solid external position, despite all the volatility in the international scenario.

**Angola**

Angola maintained strong economic growth in 2008, with GDP rising by 16% in real terms. The oil sector grew by around 13% while the non oil sector increased by 19%. The Angolan economy is giving more and more signs of sectoral diversification beyond oil, with construction, services and agriculture showing the highest growth potential. In fact, the success and speed of this diversification remains one of the main challenges for the Angolan economy in the coming years.

**EUR/KZ Exchange Rate**




Source: Bloomberg

The rising price of oil in the course of 2008 and the increase in production, 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 10% of GDP, while the balance of goods reached close to 56% of GDP, thus sustaining the continued accumulation of foreign reserves, which totalled approximately USD 20.4 billion in 2008 (USD 11.3 billion in 2007).

Inflation fell sharply between 2003 and 2007. In 2008 the consumer price index remained sensibly at the previous year level, at around 12%. Hence the monetary authorities kept the rediscount rate unchanged at 19.6%, which is practically 6 percentage points above its minimum value, in 2006.

Having slightly declined up to mid-2008, the yield on Treasury Bills once again went up to reach close to 15% in October. These securities continue to be supported by strong demand due to the existing high liquidity and scarcity of alternative applications in the Angolan currency.

To facilitate the desired reduction in the growth pace of prices, the Angolan authorities maintained the evolution of the kwanza linked to that of the US dollar. This option is to a large extent supported by the strong accumulation of currency reserves over the last few years which provide the necessary amount of capital permitting to support a stable exchange rate at around USD/AOA 75. However, the devaluation of the US dollar versus the main international currencies had the effect of dragging down the value of the kwanza against several currencies, namely the euro, the Brazilian real and the Chinese renminbi.

**Spain**

The Spanish economy grew by 1.2% in 2008, in sharp deceleration when compared to 2007 (+3.7%). Over the year there was a clear deterioration in economic activity, particularly in the second semester, following the intensification of the international crisis and the turmoil felt in the money and credit markets, which led to a further squeeze on liquidity. Private consumption rose by 0.1% in the whole year, 3.3 percentage points below its increase in the previous year, and including a drop of 1.3% in the fourth quarter. Worsening labour conditions, increased restrictions on lending on the part of the financial institutions and the negative wealth effect associated to the devaluation of the real estate market weighed heavily on the evolution of household spending, one of the main growth drivers of the Spanish economy in the last decade. Gross capital formation contracted by 1.6%, after increasing by 5.3% in 2007. This performance was underpinned by the slump of the construction industry (-5.3% versus +3.8% in the previous year), in so far as expenditure in capital goods (including machinery and equipment and transport material), although decelerating when compared to 2007 (+10%), with a variation of -1.1% year-on-year.

At the same time the various qualitative indicators pointed to a deterioration in expectations of future economic growth. Family indebtedness remained stable in 2008 at around 127% of disposable income, while housing prices pursued the downward trend of recent years, retreating by 2.8%. Family expenditure continued to be strongly influenced by a weakening labour market – the unemployment rate rose from 8.3% to 11.2% of the working population -, as well as by an increase in the average annual inflation rate - from 2.8% to 4.1% -, driven by rising energy and food prices.

Under these circumstances, loans to the private sector followed a clear decelerating trend over the year: in terms of year-on-year growth rates, loans to non financial companies are thought to have dropped from 17.4% to slightly below 10%, residential mortgage loans from 13.2% to 5% and consumer loans from 11.2% to 5%.

In view of the signs of recession emerging in the second half of the year, and after three years running a budget surplus, in 2008 Spain once again posted a public accounts deficit (3.8% of the GDP), caused by a drop in non financial revenues and an increase in expenditure, namely with the Social Security and with unemployment allowances. The combined current and capital account balance further deteriorated, going from -8.1% to -8.7% of GDP, in line with the performance of internal demand and the international economic environment.

## 4.2 Economic Situation in Portugal

Although not directly exposed to the subprime credit phenomenon, the Portuguese economy suffered in 2008 from the impacts of the confidence crisis in the international financial system, the rise in commodities prices (in the first half of the year) and the deceleration of external demand. In this context, annual GDP growth dropped from 1.9% to 0%, with quarter-on-quarter growth sliding twice in the second half of the year.

This evolution resulted essentially from the sharp deceleration of exports, whose year-on-year growth rate fell from 7.5% to 0.4%, and the decline of investment, which registered a variation of -0.5% only after increasing by 3.1% in the previous year. The cooling down of exports is explained by the poor economic performance of countries such as Spain, the United Kingdom, the United States, Germany and France, with which Portugal maintains privileged commercial relations. In the first three the impact of the financial and real estate crises was particularly fast and acute, leading to a sharper adjustment of their internal demand. Germany, whose private consumption proved more resilient, was hardest hit through its important exporting sector. It should however be noted that Portuguese exports to a number of less traditional destinations remained strong, namely to Angola and the Maghreb countries, and to a lesser extent to certain economies in Asia and Latin America. The deceleration of exports affected goods and services alike, in the last case reflecting the reduction in net exports of tourism services, which were strongly affected by the depressed climate lived in the United Kingdom and the sharp depreciation of the pound, which reached near parity with the euro towards the end of the year.

Gross fixed capital formation was especially conditioned by a more restrictive monetary and financial environment (leading to a general upsurge in spreads on loan to companies and families) and by worsening expectations with regard to demand, visible in the progressive slide throughout the year of business confidence indicators. Residential and public sector investment are reckoned to have suffered real drops in 2008, compensated by a slight increase in companies' capital expenditure.

Real growth rates (%), except when indicated

| Portugal - Main Economic Indicators | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008E |
|---|---|---|---|---|---|---|---|---|
| PIB | 2.0 | 0.8 | ( 0.8) | 1.5 | 0.9 | 1.4 | 1.9 | 0.0 |
| Private Consumption | 1.3 | 1.3 | ( 0.1) | 2.5 | 2.0 | 1.9 | 1.6 | 1.4 |
| Public Consumption | 3.3 | 2.6 | 0.2 | 2.6 | 3.2 | ( 1.4) | 0.0 | 0.3 |
| Investment | 1.2 | ( 4.7) | ( 8.3) | 2.5 | ( 1.5) | ( 0.3) | 3.1 | ( 0.5) |
| Exports | 1.8 | 1.5 | 3.9 | 4.0 | 2.0 | 8.7 | 7.5 | 0.4 |
| Imports | 0.9 | ( 0.7) | ( 0.8) | 6.7 | 3.5 | 5.1 | 5.6 | 2.3 |
| Inflation (IPC) | 4.4 | 3.6 | 3.3 | 2.4 | 2.3 | 3.1 | 2.5 | 2.6 |
| Bugget Balance (% of PIB) | ( 4.3) | ( 2.8) | ( 2.9) | ( 3.4) | ( 6.1) | ( 3.9) | ( 2.6) | ( 2.2) |
| Public Debt (% of PIB) | 52.9 | 55.5 | 56.9 | 58.3 | 63.6 | 64.7 | 63.6 | 65.9 |
| Unenmployment (% of Labour Force) | 4.1 | 5.1 | 6.4 | 6.7 | 7.6 | 7.7 | 8.0 | 7.6 |
| Current and Capital Account Balance (% of GDP) | ( 8.5) | ( 6.0) | ( 3.3) | ( 5.7) | ( 8.3) | ( 9.3) | ( 8.2) | ( 10.3) |

Sources: INE. Bank of Portugal. Finance Ministry. European Commission. OECD. ES Research
E – Estimate

Private consumption slightly decelerated, the respective year-on-year growth rate dropping from 1.6% to 1.4%. The fact that private consumption still outpaced GDP growth suggests a new reduction in the household savings ratio, to around 5.5% of GDP. Even with consumer confidence indices deteriorating, household spending was likely supported in the second half of the year by the deceleration in prices and the drop in interest rate. Average annual inflation rose from 2.5% to 2.6% in 2008, but at year-end the year-on-year growth rate of prices was 0.8% only. The annual inflation rate dropped from 8% to 7.6% of the working population, reflecting its slightly above potential increase in the two previous years. However, in the last quarter of 2008 the jobless rate was already exhibiting a fast rising trend (for 7.8%), in line with the stagnation of activity in the second half of the year.

Tighter lending criteria restrained the year-on-year growth of loans to the private non financial sector, which retreated from 9.9% to around 7.1%. This moderate increase was underpinned by a sharp deceleration in loans to individuals – from 9% to 4.6% - with mortgage lending growth sliding from 8.5% to 4.3% and consumer and other loans falling from 11.3% to 6.1%. Growth of loans to non-financial corporations remained relatively flat, at around 11%, although being stronger in the first half of the year and decelerating in the second.

The General Government deficit was once again reduced in 2008, dropping from 2.6% to 2.2% of GDP. At the same time, the deceleration of exports allied to the sustained increase in imports caused the combined current and capital account deficit (which provides a measure of the Portuguese economy's net external financing needs) to increase from 8.2% to around 10% of GDP.

# Financial Management and Capital Markets

Attracting customer funds and granting customer loans are of extreme importance for the sustained growth of BES Group's 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 a sophisticated and dynamic structure has been developed over the years 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 the clients.

As from the second half of 2007 the world economy and the financial markets began to suffer the effects of the subprime credit crisis in the US, leading to a sharp deterioration in investor confidence and a liquidity crunch in the international markets. The situation has since grown increasingly worse and in 2008 the instability lived in the financial markets all but paralysed activity in the international capital markets, particularly in the last four months of the year. The strong deterioration of market conditions after the bankruptcy of Lehman Brothers on September 15th led the European governments to announce in October a set of measures to re-establish market confidence, which included an increase in the level of deposit guarantees, the granting of state guarantees for bank issued debt and the possibility of capital injections into banks.

The activity developed by the Group in the financial markets is underlined by the integrated management of all market risks. In 2008 capital market results were significantly conditioned by the instability and volatility lived in the financial markets.

In a year in which credit instruments were greatly penalised – with the equity markets tumbling down and investors showing strong aversion to the emerging economies – it was by resorting to interest rate instruments that the Group was able to substantially offset the negative impact on capital market results.

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, this activity was substantially increased in 2008, achieving a significant diversification in the range of interest rate, currency and commodities products and solutions on offer.

In line with a prudent liquidity management policy – of foremost importance in the context of volatility and instability lived in 2008 – the Group actively promoted the diversification of its funding sources as well as applications in higher liquidity assets, while increasing the assets eligible for rediscount with the Central Banks, in particular the European Central Bank (ECB) and the Federal Reserve (Fed).

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 (EUR 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 under its programme established in November 2007 (EUR 10 billion Covered Bonds Programme).

Despite the difficult environment, BES Group took advantage of the few windows of opportunity that appeared in the international capital markets up to July 2008, and placed the following medium and long term debt:

- two issues of covered bonds totalling EUR 2.5 billion under its Covered Bonds Programme, in January and July;
- one issue of bonds exchangeable into ordinary shares of Bradesco in the amount of USD 1.0 billion, in February;
- one issue of senior debt of EUR 1.25 billion under the EMTM programme, in May.

Echoing the various measures approved by the European and North-American governments to reinforce financial stability and increase liquidity in the financial markets, the Portuguese government announced in October the following plan:

- the granting of State guarantees to Portuguese banks, to be used until December 2009, for financing up to EUR 20 billion;
- the increase of coverage by the Deposit Guarantee Fund from EUR 25,000 to EUR 100,000;
- a plan for recapitalization of the financial institutions in Portugal.

This set of measures allowed the reopening of the primary market for medium term debt at the end of the year, for both the non-financial and the financial sectors, the latter through the use of guarantees given by the respective governments to issue debt in the international capital markets.
Despite the fact that the Bank obtained the approval of the guarantee by the Portuguese Government in November 2008, BES made its first debt placement only on January 2009: an EUR 1.5 billion issue guaranteed by the Portuguese Republic.

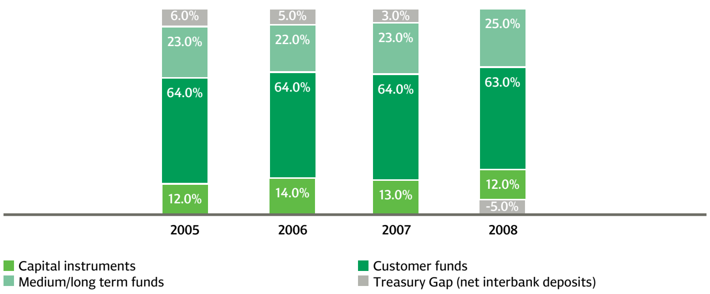
The short term excess liquidity that characterised the Group from 2001 to September 2008 was conditioned by the deterioration of liquidity conditions, which for the first time had a strong effect on companies, leading to the greater use of approved credit lines and a reduction in deposits with the Group.

Meanwhile, the growth of on-balance sheet customer funds, although strong in the individual clients segment, was quite modest overall, in so far as, contradicting the market trend, the conversion of off-balance sheet to on-balance sheet funds was quite reduced, only translating the small decline in assets under management registered in 2008 in investment funds and bancassurance products.

In addition, and without compromising its prudent liquidity management policy, the Group has created a short term liquidity position which allowed it to benefit from the abrupt drop in short term interest rates occurred since late October.

At the end of 2008 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 25% and 12% of the total. The short term liquidity surplus is managed at consolidated level, taking into account the assets that may be rediscounted, in particular with the central banks, 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**




EUR thousand

| Funding Sources | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Medium / long term funds | 9,994 | 10,842 | 13,407 | 15,375 |
| Euro medium term notes & extendible notes | 7,252 | 8,980 | 11,000 | 13,442 |
| Medium and long term deposits with credit institutions | 2,742 | 1,862 | 2,407 | 1,933 |
| On-balance sheet customer funds | 27,873 | 31,995 | 37,060 | 38,189 |
| Capital instruments | 5,398 | 7,063 | 7,509 | 7,482 |
| **Total** | **40,333** | **46,805** | **55,673** | **64,889** |
| Treasury gap (net interbank deposits) | 2,932 | 3,096 | 2,302 | (3,843) |
| Cash and equivalent with credit institutions | 7,139 | 9,153 | 10,049 | 6,716 |
| Short term deposits from credit institutions | 4,207 | 6,057 | 7,747 | 10,559 |
| % of total assets | 6% | 5% | 3% | -5% |

(*) Treasury gap: immediate liquidity and short term interbank credits deducted of the interbank debits up to one year.

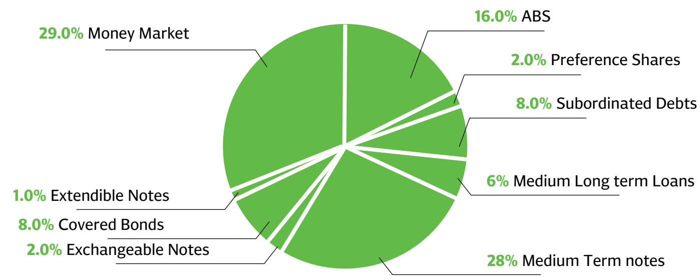
To monitor its liquidity levels, and in particular the liquidity gap, the Group has established the following guidelines:

- it should not exceed 5% of assets;
- it should not represent more than 100% of assets eligible for rediscount with the ECB or 50% of assets eligible for rediscount in the repos market;
- it should not represent more than 50% of money market lines (estimated at EUR 10 000 million);
- the year's refinancing needs should be covered by the amount available in rediscountable assets.

In line with a prudent liquidity management policy, the Group seeks on the one hand to diversify funding sources and on the other to extend the maturity profile.

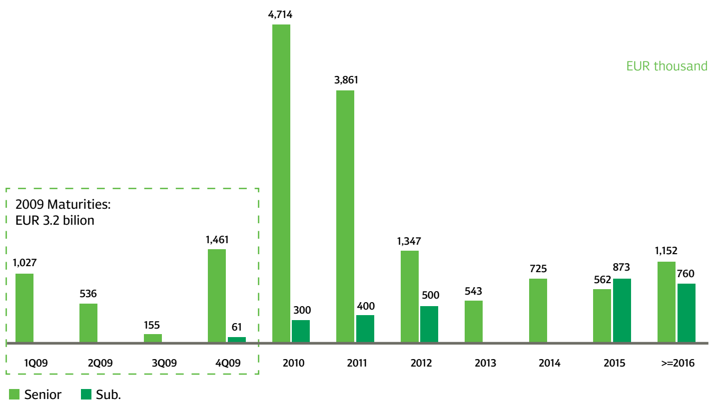
In 2008 the Group proved its flexibility and capacity to adapt to volatile environments, using two new instruments to obtain funds in the international markets, namely covered bonds and exchangeable bonds.

**Funding Instruments**




Despite the Group's policy of extending the maturities of funds raised in the capital markets, the current situation of volatility prevented it from placing issues with maturities of more than 2 or 3 years. As a result, the amounts redeemable in 2010 and 2011 are higher than usual, and this may remain the trend in the near future.

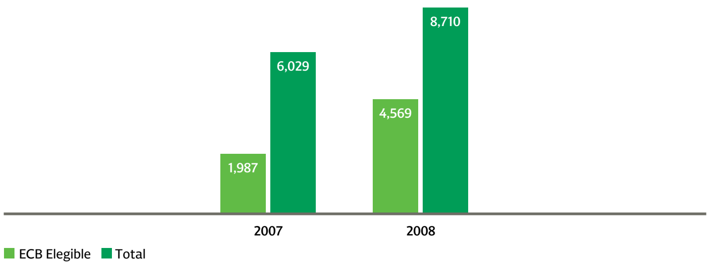
**Maturity Profile**



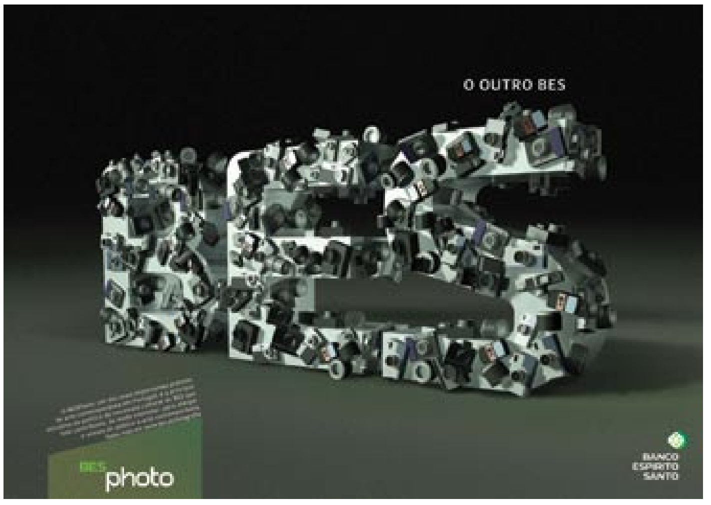

An additional source of liquidity is provided by the portfolio of securities that may be rediscounted either with the Central Bank or in the repos market. As part of a contingency plan outlined by the Group, the securities portfolio eligible for rediscount was consistently reinforced. In addition, a structuring plan of credit securitisation operations was also drawn up to permit to monetise illiquid assets carried in the balance sheet.

In September 2008 BES Group executed its seventh mortgage backed securitisation transaction, in the amount of EUR 1.9 billion, the AAA rated class of securities (in the amount of EUR 1,425 million) being rediscountable with the ECB.

**Rediscountable securities** EUR million








## Rating 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. In 2008 all the three main international rating agencies reaffirmed their ratings for BES.

| Agency | Long Term | Short Term | Outlook |
|---|---|---|---|
| Standard & Poor's | A | A 1 | Stable |
| Moody's | Aa3 | P1 | Stable |
| Fitch | A+ | F1 | Stable |

Standard & Poor's: In October 2008 Standard & Poor's reaffirmed BES credit rating at A/A-1 (stable outlook), based on the bank's good financial performance, namely in terms of profitability and efficiency, and adequate capital ratios. In 2009, following the revision of the Portuguese Republic's rating, S&P downgraded BES' outlook to negative.

Moody's: Aa3 for long term debt and P1 for short term debt (stable outlook). The rating reflects the fact that BES has a strong and diversified domestic franchise and overall good financial profile, and reflects the challenges of its international expansion.

FitchRatings: A+ for long term debt and F1 for short term debt (stable outlook). The stable outlook reflects the good progress of the Bank's activity despite the difficult environment.

# Risk Management

## 6.1 The Risk Function within BES Group

Risk management and control have always played a fundamental role in the balanced and sustained growth of 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 Group's 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 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 policies, methodologies, and procedures to deal with all types of risk.

**Daily Credit Committee**: its meetings are attended by members of the Executive Committee; 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 (Asset and Liability 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:

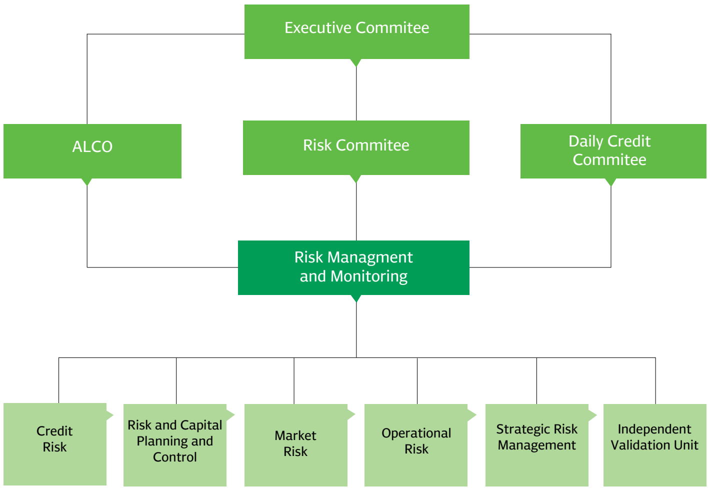
- independence relative to the other areas of the Group, specifically the commercial departments, and credibility with the management and supervisory bodies, shareholders, investors and regulators;

- the integrated and global management of all types of risk (credit, market, liquidity, on-balance sheet 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, on-balance sheet interest rate, foreign exchange and operational risks.

**Organisation of the risk function within BES Group**




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 1.25 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 credit 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), on-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 and monitors 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.

The Internal Validation Unit, which works in close cooperation with the area of Strategic Management of Risk, has as main responsibilities to:

- Validate on a continuous basis the risk models and parameters used to calculate capital adequacy requirements for credit risk (PD, LGD and CCF), at both quantitative and qualitative level.
- Validate the new credit risk models developed by the area of Strategic Management of Risk and fine-tune the existing models.
- Identify opportunities to improve credit risk models.
- Work with the Bank of Portugal and the Audit Department on the validation of the credit risk models used by BES Group.

## 6.2 Basel II (New Prudential Framework)

Using the facility available under the new prudential framework defined by Decree-laws 103/2007 and 104/2007, which transposed the principles commonly designated as "Basel II" into Portuguese law, BES Group set as an objective to use the internal models based in the Internal Ratings Based – IRB (Foundation) method for credit risk and the Standardised Approach- TSA for operational risk.

After a long period of theoretical, strategic and technical preparation, and in direct collaboration with the Bank of Portugal, of the several entities and structures of BES Group to adapt to the new requirements adopted, the Group presented the formal application to the use of IRB Foundation and TSA methods on November 28th, 2008.

Currently, BES Group is at the final phase of the certification process by the Bank of Portugal to use the referred methods to treat credit and operational risk.

## 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.

(1) PD: Probability of Default
(2) LGD: Loss Given Default
(3) EAD: Exposure at Default

### 6.3.1 Management Practices

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.

**a. Internal Risk Rating Systems**

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

**Corporate Portfolios**

| Risk Segment | Description | Models |
|---|---|---|
| Start-Ups | Companies in business for less than 2 full years and turnover below EUR 25 million in the 1st year. | Scoring model. |
| Small businesses and independent professionals | Companies with turnover below EUR 1.25 million and individuals characterised as independent professionals. | Scoring model in two versions: for turnover up to EUR 0.5 million and turnover above EUR 0.5 million. |
| Medium sized companies | Companies with turnover between EUR 1.25 million and EUR 50 million, except when in sectors included under specific risk segments. | Rating model in two versions: for turnover up to EUR 25 million and turnover between EUR 25 million and EUR 50 million. |
| Large companies | Companies with consolidated turnover above EUR 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 |

**Individual Clients Portfolios**

| Portfolio | Description | Model |
|---|---|---|
| Mortgage loans | Model for clients and New clients (less than 6 months) | Origination Scoring |
| | Model for operations with more than 6 months | Behavioural Scoring |
| Consumer Credit | Model for clients and New clients (less than 4 months) | Origination Scoring |
| | Model for operations with more than 6 months; | Behavioural Scoring |
| Current accounts | Module for New clients (less than six months), module for new accounts of old clients, and module for introduction of ceilings in accounts older than 6 months | Ceiling Origination Scoring |
| | Model for operations with no ceiling, with more than 6 months | Behavioural Scoring Accounts with no ceiling |
| | Model for operations with ceiling, with more than 6 months | Behavioural Scoring Accounts with ceiling |
| Loan Accounts | Clients for clients (with more than 6 months) | Origination Scoring |
| | Model for operations with more than 6 months | Behavioural Scoring |
| Financings | Clients for clients (with more than 6 months) | Origination Scoring |
| | Model for operations with more than 6 months | Behavioural Scoring |
| Cards | Model for clients and New clients (less than 6 months) | Origination Scoring |
| | Model for operations with more than 12 months | Behavioural Scoring |

- **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, 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 BES Investimento do Brazil.

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.

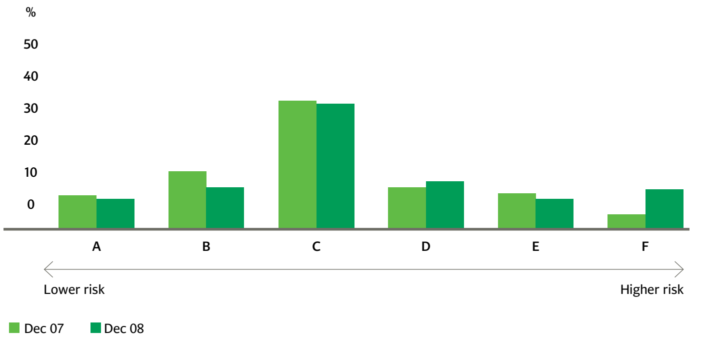
In the Small Businesses segment, ratings are determined not only on the basis of financial and qualitative analysis, but also according to the track record of the company and respective partners.

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

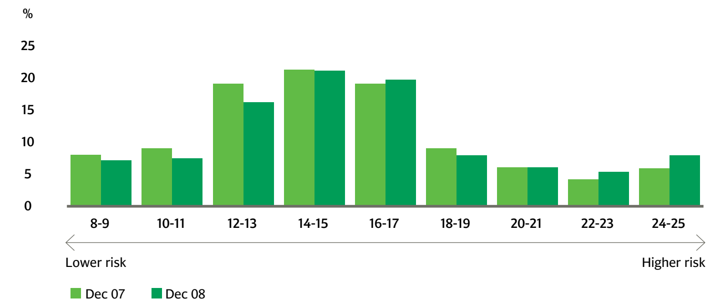
Finally, in the real estate sector, given its characteristics (particularly in the case of small and medium-sized real estate companies), ratings are assigned centrally by a specialised team, using quantitative and technical variables (property valuation), as well as qualitative variables. This team 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**

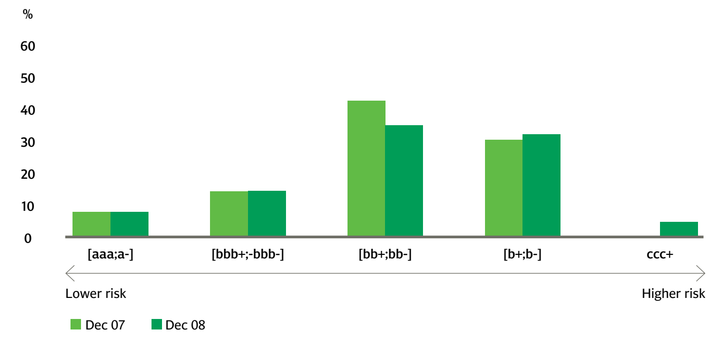
**Scoring Model for Small Businesses**




**Rating Model for Middle Market**




**Rating 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 pre-approved loan campaigns launched by BES Group in the course of 2008.

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 used for the main credit portfolios, carried out by BES Group in 2008, showed that the models maintain a good capacity to discriminate risk and therefore remain valid.

**b. Loan Granting**

The vast set of initiatives taken over the previous years, namely within the scope of the global project of revising and adapting the credit granting process in the various commercial segments, combined with the near full coverage of credit exposures by internal rating/scoring classifications, have allowed for the loan granting process at BES Group to be currently supported by the widespread use of risk-adjusted return metrics.

Across nearly all the commercial segments, rating/scoring classifications are now directly incorporated into the definition of credit powers at the various decision-taking levels in terms of both exposures and pricing.

The use of rating/scoring classifications was also introduced for purposes of establishing portfolio ceilings that limit credit granting by both product and segment, and in particular restrict the amounts lent when higher risks are involved. Compliance with the established ceilings is monitored on a regular monthly basis by the risk committee.

**c. Credit Risk Monitoring**

The set of monitoring and control activities currently established at BES Group aim to quantify and control the evolution of credit risk, in order to allow early definition and implementation of concrete 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 context, and with the central aim of preserving BES Group's risk quality and standards, the credit risk monitoring function and its development are objectively 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 and 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, as well as the adequateness of 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.

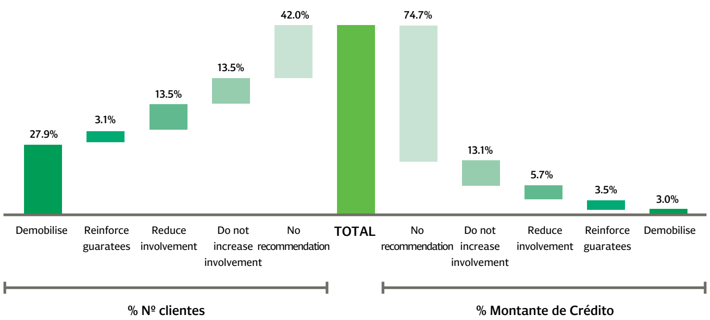
In a macroeconomic environment that was already expected to be difficult but which became increasingly so in the second half of the year, credit risk monitoring and control actions were naturally maintained very strict during the year.

Hence in 2008 the CCRA made an in-depth analysis and assessment of the specific situation of roughly 5 400 clients (of these, 2 300, or roughly 42%, were for the first time reported in 2008) with an overall exposure or around euro 6 250 million (of which 30% corresponded to the first time reported clients).

On the basis of this assessment and taking into account the specific characteristics of each case, the Committee issued recommendations concerning 58% of these clients (i.e. slightly above 3,100, of which 36% were first time reported clients), whose overall exposure corresponded to 25% of the total liabilities under analysis.

The chart below shows the breakdown of clients according to the type of recommendation issued. Note that although the number of clients deserving defensive recommendations is quite expressive (44.5% of the clients analysed), their credit exposure is significantly lower (slightly above 12%).

**CCRA Recommendations 2008** (Distribution profile of the portfolio analysed)




Clearly mirroring the growing difficulties experienced by a number of industry sectors, and broadly in line with the results of the previous year, from all the recommendations issued in 2008, approximately 60% concerned Clients with business activities in three sectors only: Property Development, Civil Construction, and Wholesale and Retail Trade.

**• 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, whereas 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, 2008 the loan portfolio had increased by 9.7% year-on-year. Corporate lending growth remained strong (+13.4%), with mortgage loans decelerating in line with the general trend in the housing market (year-on-year increase of 2.9% in 2008 versus 8.1% in 2007, including securitised credit). Other loans to individuals, up by 3.2%, grew at a much slower pace than last year (17.5%).

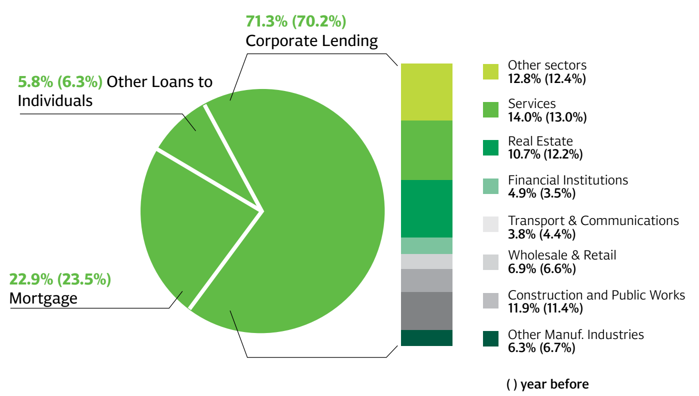
**Loan Portfolio Breakdown** EUR million

| | Dec 07 | | Dec 08 | | Change (%) | |
|---|---|---|---|---|---|---|
| | Excluding securitisations | Including securitisations | Excluding securitisations | Including securitisations | Excluding securitisations | Including securitisations |
| **Total Loans (gross)** | **43,161** | **47,389** | **48,198** | **51,964** | **11.7** | **9.7** |
| Mortgage | 10,141 | 14,369 | 11,021 | 14,787 | 8.7 | 2.9 |
| Individuals (other) | 2,714 | 2,714 | 2,802 | 2,802 | 3.2 | 3.2 |
| Corporate | 30,306 | 30,306 | 34,375 | 34,375 | 13.4 | 13.4 |

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

In accordance with the policy of diversifying the loan portfolio, in 2008 it was once again ensured that concentration levels by industry sector remained within prudent limits.

**Loan Portfolio Breakdown**




**Credit Quality**

Improved credit risk control has been achieved through the systematic development of the credit risk modelling, continuous improvement of decision procedures and circuits, focus on lower risk client segments and products, and the reinforcement of the recovery support structure.

EUR million

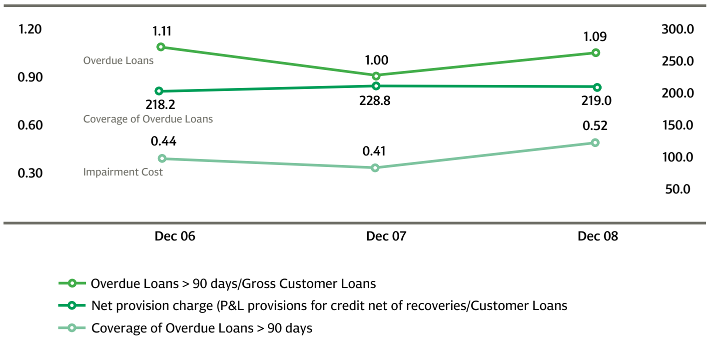
| | Dec 07 | Dec 08 | Change Absolute | Change (%) |
|---|---|---|---|---|
| Gross Loans | 43,161 | 48,198 | 5,037 | 11.7 |
| Overdue Loans | 507,6 | 636.9 | 129,3 | 25.5 |
| Overdue Loans > 90 days | 432,9 | 524.2 | 91,3 | 21.1 |
| Overdue and Doubtful (BoP)[a] | 604,2 | 762.0 | 157,8 | 26.1 |
| Provisions for Credit | 990,4 | 1,148.1 | 157,7 | 15.9 |
| (%) | | | | |
| Overdue Loans/Gross Customer Loans | 1.18 | 1.32 | + 0.14 p.p. | |
| Overdue Loans > 90 days/Gross Customer Loans | 1.00 | 1.09 | + 0.09 p.p. | |
| Overdue and Doubtful Loans Ratio[a] | 1.40 | 1.58 | + 0.18 p.p. | |
| Coverage of Overdue Loans | 195.1 | 180.3 | - 14.8 p.p. | |
| Coverage of Overdue Loans > 90 days | 228.8 | 219.0 | - 9.8 p.p. | |
| Coverage of Overdue and Doubtful Loans (BoP) | 163.9 | 150.7 | - 13.2 p.p. | |
| Provisions for Credit (Balance)/Total Gross Loans | 2.29 | 2.38 | + 0.09 p.p. | |
| Provision charge (P&L provisions for credit/customer Loans) | 0.49 | 0.57 | + 0.08 p.p. | |
| Net provision charge (P&L provisions for credit net recoveries /customer Loans) | 0.41 | 0.52 | + 0.11 p.p. | |

(a) According to the definition given in Bank of Portugal's Circular Letter no. 99/03/2003

Nevertheless, the economic crisis that has been unfolding at both domestic and international level has led to an increase in overdue loans over 90 days, with loan loss ratios slightly deteriorating: the ratio of overdue loans over 90 days to total customer loans reached 1.09%, while the respective coverage ratio stood at 219%, which under present circumstances is a very comfortable level.

Bearing in mind the current context of crisis, the credit provision charge was increased to 0.52% of the loan portfolio, from 0.41% in 2007 (considering the provision charge net of recoveries).

**Asset Quality**




**b. Exposure to Emerging Markets**

As of December 31st, 2008, the foreign currency exposure to emerging markets as determined under the Bank of Portugal risk assessment criteria was EUR 2 062 million, which represents 2.7% only of net consolidated assets.

EUR million

| BANK OF PORTUGAL Risk countries | Risk Weight 2008 | Dec 2007 Net exposure Total | Dec 2007 Net exposure in foreign currency | Dec 08 Gross exposure [1] | Dec 08 Guarantees and Deductions [2] | Dec 08 Net exposure Total | Dec 08 Net exposure in foreign currency | Dec 08 Structure |
|---|---|---|---|---|---|---|---|---|
| **LATIN AMERICA** | | **2,385** | **546** | **2,112** | **351** | **1,761** | **552** | **46%** |
| Bahamas | 0% | 20 | 20 | 26 | - | 26 | 26 | 1% |
| Brazil | 0% | 2,131 | 292 | 1,547 | 56 | 1,491 | 282 | 39% |
| Mexico | 10% | 4 | 4 | 101 | 94 | 7 | 7 | 0% |
| Panama | 10% | 222 | 222 | 229 | 7 | 222 | 222 | 6% |
| Venezuela | 25% | - | - | 188 | 185 | 3 | 3 | 0% |
| Other | | 8 | 8 | 21 | 9 | 12 | 12 | 0% |
| **EASTERN EUROPE** | | **3** | **3** | **11** | **1** | **10** | **9** | **0%** |
| Poland | 0% | - | - | 5 | - | 5 | 5 | 0% |
| Ukraine | 25% | 3 | 3 | 4 | - | 4 | 4 | 0% |
| Other | | - | - | 2 | 1 | 1 | - | 0% |
| **ÁSIA - PACÍFICO** | | **197** | **167** | **270** | **6** | **264** | **220** | **7%** |
| India | 10% | 36 | 36 | 41 | - | 41 | 41 | 1% |
| Macao | 10% | 80 | 50 | 122 | - | 122 | 78 | 3% |
| China | 10% | 7 | 7 | 11 | - | 11 | 11 | 0% |
| Turkey | 25% | 58 | 58 | 64 | 3 | 61 | 61 | 2% |
| Other | | 16 | 16 | 32 | 3 | 29 | 29 | 1% |
| **AFRICA** | | **1,445** | **1,154** | **2,078** | **248** | **1,830** | **1,281** | **47%** |
| South Africa | 10% | 1 | - | 13 | 10 | 3 | 3 | 0% |
| Angola | 10% | 1,433 | 1,153 | 1,921 | 182 | 1,739 | 1,200 | 45% |
| Cape Verde | 25% | 1 | 1 | 69 | 30 | 39 | 39 | 1% |
| Morroco | 10% | 10 | - | 13 | 3 | 10 | - | 0% |
| Other | | - | - | 62 | 23 | 39 | 39 | 1% |
| **TOTAL** | | **4,030** | **1,870** | **4,471** | **606** | **3,865** | **2,062** | **100%** |
| **% NET ASSETS** | | **5.9%** | **2.7%** | | | **5.1%** | **2.7%** | |

(1) Gross amounts net of provisions for country risk
(2) Includes Trade Finance less than 1 year

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

- Net exposure to Angola increased by EUR 306 million as a result of BES Angola's business growth; and
- Net exposure to Brazil dropped by EUR 640 million, of which EUR 549 million derived from the valuation of BES' holding in Banco Bradesco and the remainder is related to Banco Espírito Santo de Investimento business growth in this country.

Both overall and individual exposures are considerably below the maximum limit permitted by the Bank of Portugal, which recommends maximum exposure corresponding to 30% of own funds.

## 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 commodities 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 extreme potential losses.

### 6.4.2 Analysis of Market Risk

Consolidated value at risk (VaR) in December 2008 (relating to trading positions in equities, interest rate instruments, commodities, as well as FX positions) totalled EUR 47.3 million, which compares with EUR 24.5 million at year-end 2007. This value (EUR 47.3 million) corresponds to 1.2% of BES Group's consolidated Tier I capital.

EUR million

| Value at Risk 99% at 10 days | Dec 08 | Max. 2008 | Avg. 2008 | Dec 07 |
|---|---|---|---|---|
| Equity | 9.2 | 9.2 | 15.8 | 21.1 |
| Commodities | - | - | 1.1 | 2.1 |
| Interest Rate | 32.6 | 32.6 | 13.3 | 4.4 |
| FX | 25.0 | 25.0 | 22.4 | 11.2 |
| Diversification effect | ( 19.6) | ( 19.6) | ( 19.0) | ( 14.3) |
| **Total** | **47.3** | **47.3** | **33.6** | **24.5** |

As a complement to risk measurement, simulated extreme scenarios are also analysed. All risk factors were subject to extreme scenario testing, based on the most positive and the most negative 10-day shifts occurred in the last 20 years. As of December 31st, 2008 we found that the risk factors to which BES Group is more exposed lie in European yield curves, North American exchange rates and European indices.

| | External Scenario | Loss |
|---|---|---|
| Interest rate risk | 20% parallel shift in the yeld curve - Europe | 61.1 |
| | 15% Yield curve twist - Europe | 20.4 |
| | 24% Yield curve twist - North America | 10.3 |
| | 25% parallel shift - North America | 2.3 |
| FX risk | 18% change in North American countries | 59.3 |
| | 34% change in emerging Europe countries | 15.6 |
| | 35% change in African countries | 6.3 |
| Equity risk | 24% change in European indices | 37.4 |
| | 50% of South American indices | 22.4 |

EUR million

## 6.5 On-balance sheet Interest Rate Risk

On-balance sheet 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

On-balance sheet interest rate risk is monitored at internal level by the ALCO Committee, namely by monitoring the net interest margin 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 interest rate sensitive 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 basis points 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 2008 interest rate risk, measured as its impact on BES Group's shareholders' equity, was EUR 85 million, which compares with EUR 216 million at year-end 2007.

## 6.6 Liquidity Risk

Liquidity risk arises from the present or future inability to pay liabilities as they mature without incurring in exaggerated losses.

Banks, by virtue of their business of providing long term loans and receiving short term deposits, are subject to liquidity risk.

In recent years most banks have increasingly resorted to obtaining funds from market sources instead of from their traditional sources (retail deposits), especially in countries where savings are typically scarce due to economic stagnation, as is the case in Portugal.

It is therefore crucial for banks to maintain a prudent and sound management of their Liquidity Risk, particularly in times of market turmoil, such as the ones currently lived.

### 6.6.1 Management Practices

Liquidity risk management, which is centralised in the Financial Department, focuses on maintaining surplus liquidity in the short term and involves the following tasks:

- Drawing up an annual Financial Plan based on the approved budget. Based on projected funding needs, an annual plan of debt issues and securitisations is drawn up. This plan is monitored on a regular basis and revised in the course of the year, as necessary.

- Monitoring and controlling liquidity risk, a vital task for BES Group. The aim is to maintain adequate liquidity levels to meet the Group's short term funding needs, and make sure that it refinances its current activity in due time, optimising cost and maturities. Several tools are used for this purpose, namely liquidity gaps and liquidity ratios.

- Carrying out stress tests based on extreme but plausible scenarios where additional funding is required, with the aim of pre-empting any constraints liable of affecting the Group's liquidity.

### 6.6.2 Analysis of Liquidity Risk

Although not immune to the adverse conditions recently lived in the markets, BES Group has been able to overcome difficulties and constraints and to maintain reasonable levels of liquidity.

The diversification of the funding profile by type of investor, geographical areas, products and instruments plays an important role in mitigating liquidity risk. Throughout the current context of crisis, the funding structure has been kept well diversified.

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. In the course of 2008 the portfolio of securities rediscountable with the European Central Bank increased.

The liquidity ratio is calculated in accordance with the rules of Bank of Portugal's instruction 1/2000. A liquidity risk of 87% at the end of 2008 (91% at the end of 2007) shows that BES group maintains comfortable liquidity levels against a very adverse market environment.

## 6.7 Operational Risk

Operational risk may be defined as the risk arising from the occurrence of events with a negative impact on earnings or capital resulting from inadequate or negligent application of internal procedures, staff behaviour, information systems or external events. Legal risk is also included in this definition.

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 collects and processes information, using tools that permit to identify and monitor risk; the second uses the information that has been duly processed for an effective management of risk, monitoring the more critical situations and implementing the risk management strategy.

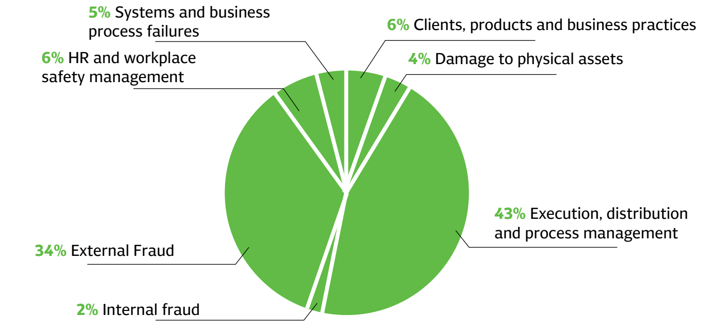
In 2008 the focus was maintained on the following aspects of the management model implemented:
- risk identification focused on priority risks (high criticality), definition of scenarios and in-depth analysis of factors liable of affecting the risk profile of BES Group's entities;
- monitoring identified risks and trends using indicators and controls seamlessly aligned to these risks and trends;
- 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 and reporting aligned to main concerns.

As a process in permanent evolution, important steps were taken in 2008 to ensure the continuous improvement of operational risk management. In addition, the Group has submitted the formal application to apply the Standard method to calculate regulatory capital requirements for operational risk.

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. Given this important role, their training and updating was considered a priority in 2008.

The following areas and functions also play an important part in the implementation of the model:
- the management of the Internal Control System, 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 safety of people and property and business continuity.

**Breakdown of operational risk events by type of loss (2006, 2007 and 2008)**



# Financial Analysis

## 7.1 Financial Analysis of BES Group

2008 was a particularly troublesome year for the activity and results of the financial sector. The risks that brought about the profound financial crisis unfolding at global level had severe effects on the world's financial sector, originating bankruptcies, governmental interventions (namely nationalisations and mechanisms for the recapitalisation of companies), and a sharp fall in earnings or large-scale losses in a significant number of international banks.

Under these circumstances, the merit that underlines BES Group's performance should be highlighted:

- net income for the year totalled EUR 402.3 million, down by 34% but representing the third largest result in the history of the Group;
- return on equity (ROE) was 9.8%;
- solvency, as measured by the Tier I ratio (IRB Foundation), stood at 7.1%;
- productivity and efficiency continued to progress well, with the Cost to Income, excluding market results, dropping to 58.2% (2007: 59.5%);
- the average market share is estimated to have increased to 20.9% (Dec.07: 20.7%).

### 7.1.1 Activity

2008 once again confirmed the strength and the franchise of the BES Group, which maintained robust activity growth leading to new market share gains. Hence steady progress was made in the following business areas:

- customer loans increased by EUR 4.6 billion (+9.7%) including securitisations;
- on-balance sheet customer funds increased by EUR 1.1 billion (+3.0%), with deposits growing by EUR 2.6 billion (+11%); and
- total assets reached almost EUR 100 billion (up by 5.3%).

EUR million

| Activity Indicators | Dec 07 | Dec 08 | Chg % |
|---|---|---|---|
| **Total Assets [1]** | **93,819** | **98,825** | **5.3** |
| **Net Assets** | **68,355** | **75,187** | **10.0** |
| **Customer Loans (including securitised)** | **47,389** | **51,964** | **9.7** |
| Loans to Individuals | 17,083 | 17,589 | 3.0 |
| - Mortgage | 14,369 | 14,787 | 2.9 |
| - Other Loans to Individuals | 2,714 | 2,802 | 3.2 |
| Corporate Lending | 30,306 | 34,375 | 13.4 |
| **Total Customer Funds (A+B)** | **55,445** | **55,698** | **0.5** |
| On-Balance Sheet Customer Funds (A) | 37,060 | 38,189 | 3.0 |
| - Deposits and similar | 29,675 | 29,910 | 0.8 |
| Deposits | 23,775 | 26,387 | 11.0 |
| Certificates and Deposits | 5,900 | 3,523 | -40.3 |
| - Debt securities placed with Clients [2] | 7,385 | 8,279 | 12.1 |
| Off-Balance Sheet Customer Funds (B) | 18,385 | 17,509 | -4.8 |

(1) Net Assets + Asset management + Other Off-Balance Sheet Liabilities + Securitised non consolidated credit.
(2) Includes funds related to consolidated securutusations C25.

Corporate loans maintained strong growth (+13.4%), although decelerating from the 2007 levels (+21.5%). in line with the market trend, mortgage loans growth slowed to 2.9% (2007FY: 8.1%). Other loans to individuals also showed signs of slower growth (+3.2% vs +17.5% in 2007FY).

In September 2008 BES Group executed its seventh mortgage backed securitisation transaction, in the amount of EUR 1.9 billion, which is included in the financial statements on account of the Group holding the majority of the risks and benefits associated to this transaction.

Funding activities were conditioned by the devaluation of debt and equity securities across all markets in general, which affected in particular the asset management business and other off balance sheet forms of funding, with assets under management dropping by 4.8%.

EUR million

| Off Balance Sheet Funds | Dec 07 | Dec 08 | Chg % |
|---|---|---|---|
| Mutual Funds | 4,966 | 4,748 | -4.4 |
| Real Estate Funds | 1,289 | 1,142 | -11.4 |
| Pension Funds | 2,800 | 2,608 | -6.9 |
| Bankinssurance | 4,933 | 5,190 | 5.2 |
| Portfolio Management | 1,867 | 1,968 | 5.4 |
| Discretionary Management and Other | 2,530 | 1,853 | -26.8 |
| **TOTAL** | **18,385** | **17,509** | **-4.8** |

However, this drop was offset by on balance sheet customer funds, which were responsible for driving up total customer funds by 0.5%, to EUR 55.7 billion. This increase was supported by deposits (+11.0) and debt securities placed with clients (+12.1%), which more than made up for the reduction in funds obtained through the sale of certificates of deposit.

The Group's international units continued to perform well, namely BES Angola, now with 28 branches, which increased net assets to more than EUR 3.5 billion, underpinned by customer funds and customer loans growth of respectively 103% and 104%.

Overall, i.e., considering all the Group's units abroad (in Angola, Spain, the United Kingdom, France/Luxembourg, the US, Brazil and Macao), customer loans increased by 27.6% (6.2% in the domestic business), while customer funds were down by 15%, due to the performance of the asset management business and the non renewal of the certificates of deposit issued by the London branch.

EUR million

| International Banking Business | Dec 07 | Dec 08 | Chg % |
|---|---|---|---|
| Total Assets [1] | 25,750 | 26,994 | 4.8 |
| Customer Loans (including securitised) | 7,607 | 9,703 | 27.6 |
| Total Costumer Funds | 14,718 | 12,504 | -15.0 |

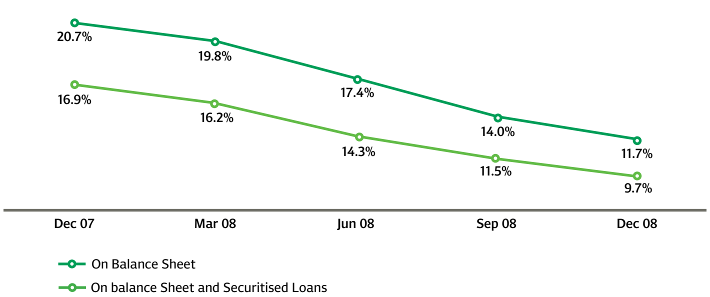
(1) Net Assets + Asset management + Other Off-Balance Sheet Liabilities + Securititsed non consolidated credit.

## 7.1.2 Liquidity Management and Transformation Ratio

The inactivity of the asset securitisation market, the institutional investors' aversion to acquiring debt securities, and fears about the resilience of the world financial system, presented new challenges to financial management and constrained activity growth.

Under the circumstances, a number of measures were taken to deal with the weakening growth pace of assets, namely of customer loans, whose growth rate gradually decelerated from 20.7% in December 2007 to 11.7% at the end of 2008.

**Customer loans (Year-on-Year evolution)**




Notwithstanding the strategy and the measures implemented, the transformation ratios maintained the previous trend, which pointed to the increasing leveraging of credit. Hence the transformation ratio of total on balance sheet funds into credit increased to 91%, from 88% in December 2007, while that of deposits into loans, at 178%, remained practically flat when compared to the previous year (177%).

EUR million

| Transformation Ratio | | Dec 07 | Dec 08 |
|---|---|---|---|
| **CUSTOMER LOANS** | | | |
| Customer Loans (gross) | | 43,161 | 48,198 |
| Impairment | | 990 | 1148 |
| **Customer Loans (net)** | A | **42,171** | **47,050** |
| **CUSTOMER FUNDS** | | | |
| **Deposits** | B | **23,775** | **26,387** |
| **Deposits and similar** | C | **29,675** | **29,910** |
| Debt Securities placed with clients (1) | | 7,385 | 8,279 |
| **On-Balance Sheet Customer Funds** | D | **37,060** | **38,189** |
| Euro Medium Term Notes (2) | | 11,029 | 13,442 |
| **On-Balance Sheet Funds** | E | **48,089** | **51,631** |
| **TRANSFORMATION RATIOS** | | | |
| **Loans to Deposits** | A/B | **177%** | **178%** |
| **Loans to Deposits and similar** | A/C | **142%** | **157%** |
| **Loans to On-Balance Sheet Customer Funds** | A/D | **114%** | **123%** |
| **Loans to On-Balance Sheet Funds** | A/E | **88%** | **91%** |

(1) Includes debt securities issues under consolidated securitization transactions.
(2) Includes e exchangeable bonds.

## 7.1.3 Capitalisation and Capital Adequacy Ratios

At EUR 7,482 million at year-end, own funds remained practically flat when compared to the previous year (EUR 7,509 million), reflecting the drop in fair value reserves - down by EUR 913 million, essentially through the devaluation of strategic holdings -, which were in part (by EUR 333 million) restated through self-financing, i.e., through and increase in Other Reserves and Retained Earnings.

### a. Own Funds Composition

EUR million

| Own Funds Composition | Dec 07 | Dec 08 | Change (absolute) |
|---|---|---|---|
| Capital | 3,100 | 3,100 | - |
| Ordinary Shares | 2,500 | 2,500 | - |
| Preference Shares | 600 | 600 | - |
| Share Premium | 669 | 669 | - |
| Own Shares | (41) | (30) | 11 |
| Revaluation Reserves | 647 | (266) | (913) |
| Other Reserves and Retained Earnings | 291 | 624 | 333 |
| Minority Interests | 141 | 154 | 13 |
| Subordinated Debts | 2,095 | 2,829 | 734 |
| Net Income | 607 | 402 | (205) |
| **Total** | **7,509** | **7,482** | **(27)** |

The main equity exposures in the available for sale portfolio show potential losses of EUR 179.5 million. In accordance with the current prudential framework, these losses are deducted from Core Tier I, adjusted by deferred taxes assets, while 45% of gross potential gains in securities are eligible as Tier II capital.

EUR million

| Main Equity Exposures in the Available for Sale Portfolio | Gross Potential Gains and Losses | |
|---|---|---|
| | Dec 07 | Dec 08 |
| Banco Bradesco | 661.7 | ( 20.5) |
| Portugal Telecom | 76 | ( 91.2) |
| EDP | 70.5 | ( 75.8) |
| B. Marocaine Com. Exterieur | 8.6 | 8 |
| **Total** | **816.8** | **( 179.5)** |

The evolution of the fair value reserves had a negative impact on the Tier I ratio, while compensated by the issuance of EUR 780 million of subordinated debt, increasing its total amount at year-end to EUR 2,829 million.

### b. Solvency

As referred before, BES Group set as an objective to use as from 2008 the internal models based on the Internal Ratings Based – IRB (Foundation) method for credit risk and the Standardized Approach - TSA for operational risk, having submitted the formal application to use these methods on November 28th, 2008.

The solvency ratio as measured under the IRB method was 11.3% (11.5% in Dec. 07), with Tier 1 and Core Tier 1 standing at respectively 7.1% and 6.1% (7.5% and 6.6% in Dec. 07). Hence all solvency ratios stood significantly above the minimum requirements of Bank of Portugal.

EUR million

| Risk Weighted Assets and Regulatory Capital (Bank of Portugal) | | Dec 07 | Dec 08 | | Bank of Portugal Minimum |
|---|---|---|---|---|---|
| | | Basel I | Basel II Standard | Basel II IRB [1] | |
| Net Assets | (1) | 68,355 | 75,187 | 75,187 | |
| I Risk | (2)/(1) | 77% | 79% | 74% | |
| **Risk Weighted Assets** | **(2)** | **52,856** | **59,711** | **55,705** | |
| Banking Book | | 48,392 | 53,791 | 49,987 | |
| Trading Book | | 4,464 | 2,878 | 2,878 | |
| Operational Risk | | - | 3,042 | 2,840 | |
| **Regulatory Capital** | **(3)** | **6,067** | **6,277** | **6,273** | |
| **TIER I** | **(4)** | **3,953** | **3,948** | **3,946** | |
| Core Tier I | (5) | 3,486 | 3,412 | 3,412 | |
| Other | | 467 | 536 | 534 | |
| **Additional and Deductions** | | **2,114** | **2,329** | **2,327** | |
| **Core TIER I** | **(5)/(2)** | **6.6%** | **5.7%** | **6.1%** | **5.0%** |
| **TIER I** | **(4)/(2)** | **7.5%** | **6.6%** | **7.1%** | **6.0%** |
| **Solvency Ratio** | **(3)/(2)** | **11.5%** | **10.5%** | **11.3%** | **9.0%** |

(1) Calculated under IRB Foundation.

In 2008, the Tier I capital was influenced by the actuarial deviations caused by the expected return of pension plan assets which increased the deduction by EUR 133 million; the capital was further influenced by the existence of negative fair value reserves namely in the strategic holdings, which caused an increase of EUR 214 million in deductions from Tier I.

Within the scope of prudential recommendations from the Bank of Portugal, the following changes had material impact on the calculation of regulatory capital:

- treatment of potential gains and losses in fixed income securities held in the available for sale portfolio, that are no longer deducted from Tier I and Tier II, respectively. (Notice 6/2008)
- transitory period for actuarial deviations registered in 2008, except for those originated by the expected return on pension plan assets, which will be phased out during the period between 2009 and 2012 (Notice 11/2008);
- abolition of the 10% limit of assets for deferred taxes (Notice 9/2008);
- increase in the weight of preferred shares in Tier I from 20% to 35%.

The pension fund and medical assistance responsibility of BES Group is fully funded and totalled around EUR 2 billion, while the year's contribution to the pension funds amounted to EUR 538 million.

At the end of January 2009 BES' Board of Directors announced that it would propose to the Annual General Meeting, to be held on March 16th, a capital increase with preferential subscription rights of up to EUR 1.2 billion. This capital increase aims at the improvement of capital ratios to levels above the minimum regulatory requirements recently disclosed by the Bank of Portugal (to be enforced up to the end of September 2009), allowing to strengthen the competitive positioning of BES Group and to pursue sustained business growth.

## 7.1.4 Results

BES Group's 2008 net income reached EUR 402.3 million, the third largest result in the history of the Group and corresponding to a return on equity (ROE) of 9.8%.

EUR million

| Activity Results | Dec 07 | Dec 08 | Change | |
|---|---|---|---|---|
| | | | Abs. | Rel. (%) |
| Net Interest Income | 953.7 | 1,086.2 | 132.5 | 13.9 |
| + Fees and Commissions | 643.4 | 636.2 | (7.2) | (1.1) |
| **= Commercial Banking Income** | **1,597.1** | **1,722.4** | **125.3** | **7.8** |
| + Capital Markets and Other Results | 404.1 | 165.7 | (238.4) | (59.0) |
| **= Banking Income** | **2,001.2** | **1,888.1** | **(113.1)** | **(5.7)** |
| - Operationg Costs | 950.7 | 1,001.6 | 50.9 | 5.4 |
| **= Operating Income** | **1,050.5** | **886.5** | **(164)** | **(15.6)** |
| - Net Provitions | 262.9 | 375.8 | 112.9 | 43.0 |
| Credit | 213.2 | 274.4 | 61.2 | 28.7 |
| Securities | 18.7 | 58.1 | 39.4 | .... |
| Other | 31 | 43.3 | 12.3 | 39.7 |
| **= Income Before Taxes** | **787.6** | **510.7** | **(276.9)** | **(35.2)** |
| - Taxes | 152.5 | 83.5 | (69) | (45.3) |
| **= Income After Taxes** | **635.1** | **427.2** | **(207.9)** | **(32.7)** |
| - Minority Interests | 28 | 24.9 | (3.1) | (11.2) |
| **= Net Income** | **607.1** | **402.3** | **(204.8)** | **(33.7)** |

These were the main factors that affected consolidated net income in 2008:

- good performance of the commercial banking income, a measure of recurrent revenues, that reached EUR 1 722.4 million (+7.8%);
- cost growth slowed to 5.4% only, which is particularly relevant since it reflects cost discipline in a phase of expansion of the international operations and of the domestic branch network;
- credit provision charge of EUR 274.4 million (+28.7%);
- capital markets and other results dropped to EUR 165.7 million (-59%) due to the impact of the financial crisis.

### Activity Results: Domestic and International Business

The expansion of the international activity was pursued at a good pace with positive effects on commercial banking income growth, which increased by 28.8% (2.9% in the domestic operations).

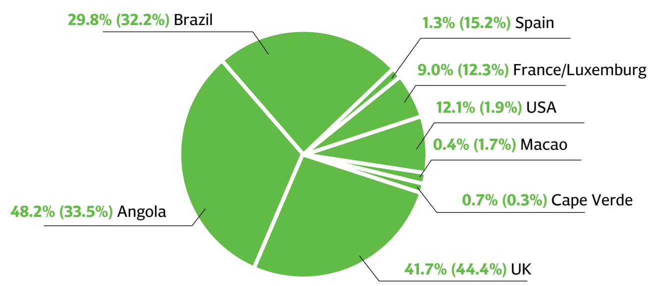
EUR million

| Income Statement – Domestic and International Breakdown | Domestic Activity | | | International Activity | | |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | Var % | 2007 | 2008 | Var % |
| Net Interest Income | 792.9 | 833.1 | 5.1 | 160.8 | 253.1 | 57.4 |
| + Fees and Commissions | 502.0 | 499.9 | (0.4) | 141.4 | 136.3 | (3.6) |
| **= Commercial Banking** | **1,294.9** | **1,333.0** | **2.9** | **302.2** | **389.4** | **28.8** |
| + Capital, Markets & Others | 313.0 | 103.3 | (67.0) | 91.1 | 62.4 | (31.5) |
| **= Banking Income** | **1,607.9** | **1,436.3** | **(10.7)** | **393.3** | **451.8** | **14.9** |
| - Operating Costs | 785.2 | 816.9 | 4.0 | 165.5 | 184.7 | 11.6 |
| **= Operating Income** | **822.7** | **619.4** | **(24.7)** | **227.8** | **267.1** | **17.3** |
| - Net Provisions | 236.2 | 304.2 | 28.8 | 26.7 | 71.6 | .... |
| Credit | 184.8 | 199.3 | 7.9 | 28.4 | 75.1 | .... |
| Securities | 18.7 | 58.1 | .... | 0.0 | 0.0 | .... |
| Other | 32.7 | 46.8 | 43.1 | (1.7) | (3.5) | .... |
| **= Income Before Taxes and Minorities** | **586.5** | **315.2** | **(46.3)** | **201.1** | **195.5** | **(2.8)** |
| - Taxes | 112.3 | 50.6 | (54.9) | 40.2 | 32.9 | (18.5) |
| **= Income After Taxes** | **474.2** | **264.6** | **(44.2)** | **160.9** | **162.6** | **1.1** |
| - Minority interests | 8.6 | 5.5 | (36.4) | 19.4 | 19.4 | 0.0 |
| **= Net Income** | **465.6** | **259.1** | **(44.4)** | **141.5** | **143.2** | **1.2** |

Despite a significant increase in the provision charge, from EUR 26.7 million in 2007 to EUR 71.6 million in 2008, net income from the international area reached EUR 143.2 million, which is slightly higher than in the previous year (EUR 141.5 million). With income from the domestic business dropping by 44%, the contribution of the foreign operations to consolidated net income rose to 36%, from 23% in 2007.

All the geographies where the Group operates yielded positive results, and in particular Angola, with EUR 48.2 million (+44%), followed by the United Kingdom (EUR 41.7 million) and Brazil (EUR 29.8 million).

**International activity contribution to consolidated net income** EUR million

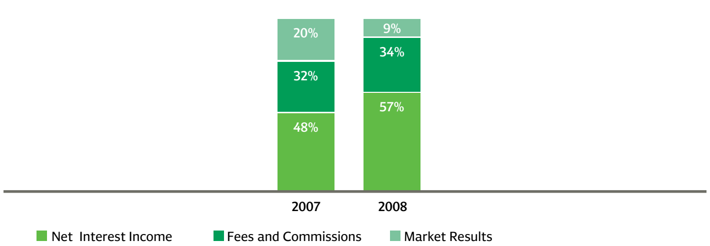



### a. Banking Income

Commercial banking income, i.e., income of a more recurrent nature, performed well, growing by 7.8%, to EUR 1,722.4 million. Capital markets and other results, which are more vulnerable to fluctuations in market conditions, dropped by 59%, being responsible for a 5.7% drop in total banking income.

The structure of banking income shows a shift in the relative contribution of its revenue-generating sources: while net interest income gained weight, rising from 48% to 57%, trading results declined to 9% only, from 20% in 2007.

**Banking Income Breakdown**




### b. Net Interest Income and Net Interest Margin

Net interest income in 2008 benefited from both the volume effect and the relatively stable net interest margin.

Interest revenues exceeded the previous year's total by EUR 620 million, driven by the increase in interest on customer loans. Interest costs were up by EUR 488 million, of which EUR 328 million were costs incurred in the money and capital markets and EUR 160 million derive from the increase in interest paid on deposits.

EUR million

| Net Interest Income | Dec 07 | Dec 08 | Change (Absolute) |
|---|---|---|---|
| **Revenues (Interests Received)** | **3,149** | **3,769** | **620** |
| Customer Loans | 2,278 | 2,905 | 627 |
| Other Placements | 871 | 864 | ( 7) |
| **Costs (Interests Paid)** | **2,195** | **2,683** | **488** |
| Customer Funds | 537 | 697 | 160 |
| Other Funds | 1,658 | 1,986 | 328 |
| **Net Interest Income** | **954** | **1,086** | **132** |

The average balance of deposits increased by 16.0% while the average balance of customer loans rose by 16.7%, contributing to drive up net interest income by EUR 132 million, to EUR 1,086 million.

EUR million

| Net Interest Income and Net Interest Margin | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Average Volume | Rate (%) | Revenues/ Costs | Average Volume | Rate (%) | Revenues/ Costs |
| **Placements** | **53,701** | **5.87** | **3,149** | **61,788** | **6.10** | **3,769** |
| Customer Loans | 39,109 | 5.83 | 2,278 | 45,658 | 6.36 | 2,905 |
| Other Placements | 14,592 | 5.97 | 871 | 16,130 | 5.36 | 864 |
| **Borrowed Funds** | **53,701** | **4.09** | **2,195** | **61,788** | **4.34** | **2,683** |
| Customer Funds | 19,583 | 2.74 | 537 | 22,715 | 3.07 | 697 |
| Other Funds | 33,081 | 5.01 | 1,658 | 39,031 | 5.09 | 1,986 |
| ALM | 1,037 | - | - | 42 | - | - |
| **Result / Margin** | | **1.78** | **954** | | **1.76** | **1,086** |

The relative net interest margin experienced a small reduction of 2 basis points, to 1.76%, mainly due to:

- focus on loans to lower risk segments, combined with re-pricing policy to incorporate the liquidity premiums caused by the international capital markets funding constraints;
- widespread increase in funding induced by the international financial crisis, with a particular impact on the average rate on "Other Customer Funds", which rose from 5.01% to 5.09%.

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:

EUR million

| Price versus Volume Effect | Volume Effect | Price Effect | Volume/Price Effect | Change |
|---|---|---|---|---|
| Interest Earning Assets | 474 | 127 | 19 | 620 |
| Interest Bearing Liabilities | 330 | 137 | 21 | 488 |
| **Net Interest Income** | **144** | **(10)** | **(2)** | **132** |

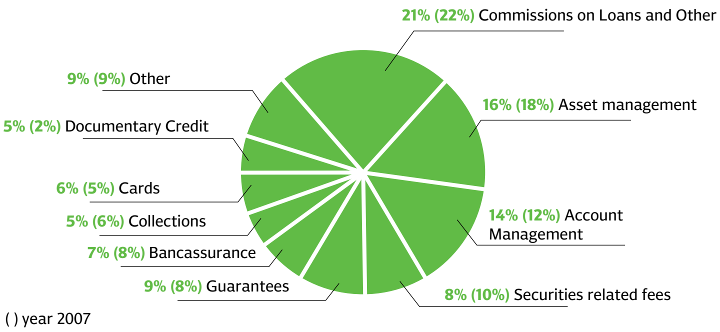
The increase in volume (EUR 144 million) backed the performance of net interest income, while the price effect explained a reduction of EUR 10 million.

### c. Fees and Commissions

Fees and commissions, although somewhat recovering in the fourth quarter, registered a slight year-on-year drop of 1.1%, to EUR 636.2 million.

The strongest increases in fees and commissions were in documentary credits (+176.7%), as a result of BES' support of exporting firms, account management (+12.2%), cards (+10.5%), and guarantees provided (+7.5%).

**Breakdown of Fees and Commissions**




( ) year 2007

High competitive pressure in the domestic market led to a reduction in commissions on collection services due to the decline in the average volume of bills discounted throughout the year. Loan fees were negatively affected by the change of the legislation on commissions applicable to the early amortisation of mortgages as well as by the slowdown of credit growth, especially in corporate and project finance. Fees and commissions on securities transactions, asset management and bancassurance – which depend most on the markets' performance – naturally declined when compared to the previous year.

**d. Capital Markets and Other Results**

The financial markets' turmoil in 2008, particularly following the bankruptcy of Lehman Brothers in September, conditioned significantly the Bank's results.

Nevertheless, the Group managed to generate positive trading results of EUR 165.7 million, which compares with EUR 404.1 million in 2007.

At macroeconomic level, the year saw the US, the UK and the Euro Area all entering recession, alongside a sharp reduction in consumption and an increase in unemployment. This situation led to

- a level of market volatility never seen before, particularly in the equity markets;
- a total lack of confidence in the financial system in general;
- the drying up of liquidity, especially in the last months of the year;
- the sharp devaluation of the emerging economies currencies;
- a steep fall in commodities prices;
- a very strong devaluation of the main stock market indices;
- a marked reduction in the reference interest rates in the Euro Area and the US; and
- the widening of credit spreads in all activity sectors in general, and in particular in the financial sector, which towards the end of the year also extended to sovereign spreads.

In view of this scenario, market results were strongly penalised by the credit component, and it was through interest rate instruments that the Group was able to offset in part the losses absorbed in the current year.

EUR million

| Capital Markets Results and Other | Dec 07 | Dec 08 | Absolute Change |
|---|---|---|---|
| Interest rate & FX | 38.5 | 114.5 | 76.0 |
| Interest rate | 18.4 | 262.2 | 243.8 |
| Credit | (29.7) | (144.5) | (114.8) |
| FX & other | 49.8 | (3.2) | (53.0) |
| Equity | 325.1 | 114.3 | (210.8) |
| Trading | 275.1 | 22.5 | (252.6) |
| Income for securities | 50.0 | 91.8 | 41.8 |
| Other Results | 40.5 | (63.1) | 103.6 |
| **Total** | **404.1** | **165.7** | **(238.4)** |

The "other results" were also affected by the proportional appropriation of the loss posted by BES Vida (EUR -37.8 million) due to the recognition of impairments in its securities portfolio.

**e. Operating Costs**

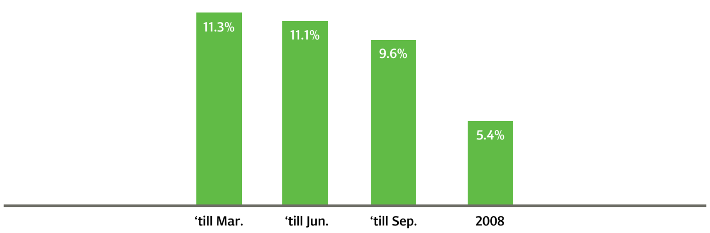
Operating costs increased by 5.4% only, having reached EUR 1,001.6 million. This cost containment is a result not only of the integration and rationalisation programmes implemented in the Spanish operation and the merger of Besleasing e Factoring into BES, but also due to cost cutting measures in the areas of advertising, variable remunerations and other administrative costs. Nevertheless the Bank managed to continue the expansion of the retail network, which reached 803 units at the end of the year (an 11% increase in the average number of branches).

EUR million

| | Domestic | | International | | Consolidated | |
|---|---|---|---|---|---|---|
| | Amount | Var % | Amount | Var % | Amount | Var % |
| Staff Costs | 417.7 | 1.7 | 103.4 | 12.9 | 521.1 | 3.8 |
| Admin Costs | 334.5 | 5.7 | 68.1 | 9.2 | 402.6 | 6.3 |
| Depreciations | 64.7 | 11.2 | 13.2 | 13.9 | 77.9 | 11.7 |
| **Total** | **816.9** | **4.0** | **184.7** | **11.6** | **1,001.6** | **5.4** |

Thanks to the various measures taken in the course of 2008, costs growth significantly decelerated, dropping from 11.3% in the first quarter to 5.4% in the full year.

**Operating costs deceleration in 2008** (accumulated year-on-year growth)




The Group's post-retirement liabilities were recalculated at an adjusted discount rate of 5.75%.

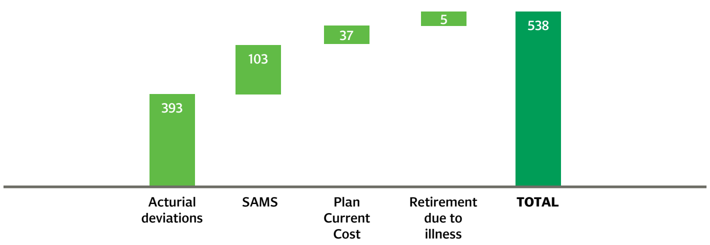
Total post retirement liabilities, totalling EUR 2,065 million, are fully covered, either through the value of pension fund assets (EUR 2,057 million), or through liabilities recognised in the balance sheet (EUR 13 million).

EUR million

| Coverage of post-retirement liabilities | Dec 07 | Dec 08 |
|---|---|---|
| **Liabilities for post retirement benefits** | **2,081** | **2,065** |
| **Coverage / Financing** | **2,344** | **2,070** |
| Value of Plan Assets at the end of the period | 2,234 | 2,057 |
| Values on balance sheet | 110 | 13 |
| **Coverage** | **113%** | **100%** |

The Group's contribution to the pension funds totalled EUR 538 million. On balance sheet actuarial deviations outside the corridor reached EUR 765 million and will be amortised over a period of 15 years.

**Pension Fund Contributions** EUR million




EUR million

| On balance sheet actuarial differences with amortisation in the future | Dec 07 | Dec 08 |
|---|---|---|
| **Initial Balance** | **469** | **328** |
| Changes of the year | (141) | 643 |
| **Final Balance** | **328** | **971** |
| of which: | | |
| inside the corridor | 234 | 206 |
| outside the corridor | 94 | 765 |

As a result o a restrictive policy concerning discretionary spending, other administrative costs increased by 6.3%, which is below the general levels of activity growth achieved by the Group in 2008.

Depreciation and amortisation were up by 11.7% due investments in expanding the international activity and the domestic branch network.

### f. Productivity and Efficiency

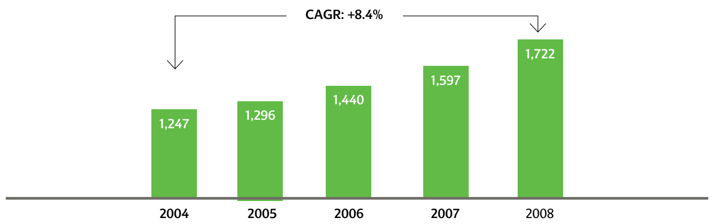
Activity growth combined with a moderate increase in costs continued to translate into productivity gains, with operating costs as a percent of average net assets decreasing from 1.53% in December 2007 to 1.40% in December 2008.

| Productivity and Efficiency Indicators | Dec 07 | Dec 08 | Change |
|---|---|---|---|
| Cost to Income (incl. markets) | 47.5% | 53.0% | 5.5% |
| Cost to Income (exc. markets) | 59.5% | 58.2% | (1.3%) |
| Operating Costs/Average Net Assets | 1.53% | 1.40% | (0.13%) |

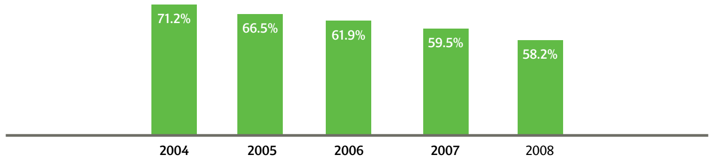
Three factors had a negative impact on the Cost to Income ratio: the decrease in trading results, the international expansion and the domestic branch network extension. Nevertheless, Cost to Income excluding trading results improved from 59.5% (2007) to 58.2% (2008).

By consolidating its capacity to generate revenues of a recurrent nature, while keeping the increase in costs under control, the Group has substantially improved efficiency levels.

**Evolution of Commercial Banking Income** EUR million




**Evolution of Cost to Income (excluding markets)**




### g. Provisions

Provisions increased by 43%, to EUR 375.8 million. The sharp devaluation of both the equity and the bond markets reduced fair value reserves and caused potential losses in certain investments in the available for sale portfolio. Thus, a EUR 58.1 million impairment loss was recognised.

The credit provisioning charge reached EUR 274.4 million (2007: EUR 213.2 million), reflecting an increasingly prudent risk assessment policy.

EUR million

| Provision Charges | Dec 07 | Dec 08 | Absolute Change |
|---|---|---|---|
| Credit | 213.2 | 274.4 | 61.2 |
| Securities | 18.7 | 58.1 | 39.4 |
| Other risks and Charges | 31.0 | 43.3 | 12.3 |
| **TOTAL** | **262.9** | **375.8** | **112.9** |

Thus, in line with the current context of crisis, the provisioning charge increased from 0.49% of the loan portfolio in 2007 to 0.57% in 2008, with total provisions for credit rising from 2.29% to 2.38%.

Provisions for other risks and charges totalled EUR 43.3 million, which includes the provisions for operational restructuring, for incorporation of Besleasing & Factoring into BES as well as for impairment losses in property received in lieu of payment of bad loans.

## 7.1.5 Impacts from the Period of Financial Turmoil

As has been extensively described throughout this report, the financial crisis assumed gigantic proportions within the world's financial sector. In a first phase, the financial crisis coincided with a general and substantial increase in the price of commodities, and especially of oil. This was followed in the second half of 2008 by a downfall in prices as news about the inevitable spreading of the crisis to the other economic sectors emerged.

The world economy has thus entered a cycle of recession in spite of the more or less concerted efforts and programmes for economic revival that the various governments kept announcing.

In this context, and although it is difficult to set a precise boundary isolating the effects provoked by the financial crises from other effects, it is possible to summarise the implications of the crisis for the following aspects of management:

• Liquidity and Financial Management
• Pension Funds
• Equity
• Results

**a. Liquidity and Financial Management**
The impacts on liquidity, the capacity to resort to funding from the international financial markets, and the strategy pursued by the Group to ensure a level of liquidity considered adequate for cash and financial management, are described and quantified in chapter 05 of this report.

**b. Pension Funds**
The devaluation of equity and debt securities had an impact on the profitability of the Pension Funds, which instead of the expected positive return of 5.8% registered a negative return of 28.0%. As a result the value of the Pension Funds dropped by EUR 612.3 million instead of increasing by EUR 114.9 million.

Considering also the increase in pension liabilities, a total of EUR 663.0 million in actuarial and financial losses were determined, requiring the Group to make contributions in the amount of EUR 537.9 million. Actuarial deviations booked on the balance sheet increased from EUR 328.1 million to EUR 971.2 million, of which EUR 765.5 million surpass the corridor limit and will be amortised over a period of 15 years as permitted under IAS 19.

**c. Equity**
Managing the capital position represents one of the main concerns of BES Group management, not only because it must match the strategy outlined but because it must meet the minimum requirements established by the Bank of Portugal.
As explained before, equity was directly harmed by the financial crisis, which caused a EUR 913 million reduction in revaluation reserves.

From a prudential perspective, there were also negative effects on the capital position deriving from a deterioration in the items deductible from Tier I and Core Tier I capital:

EUR million

| | Dec 07 | Dec 08 | Change |
|---|---|---|---|
| Actuarial deviations outsid the corridor, under the Bank of Portugal rules | 26.6 | 159.9 | 133.3 |
| Negative equity fair value reserves. net of deferred taxes | 16.6 | 229.8 | 213.2 |
| **TOTAL** | **43.2** | **389.7** | **346.5** |

The EUR 346,5 million reduction in core capital represented, ceteris paribus, a reduction of approximately 70 basis points in the Tier I ratio.

As a result of this reduction, and taking into account, both the Group's business development prospects in the medium term and other conditioning factors, and compliance with the minimum capital requirements recently established by the Bank of Portugal for enforcement as from September 2009, the Board of Directors decided to submit to the Annual General Meeting to be held in March 2009 a proposal to increase BES' share capital.

**d. Results**
The impacts directly related to the period of financial crisis on the year's results may be detailed as follows:
(i) bankruptcy of Lehman Brothers Holdings Inc., which originated losses in bonds issued by this entity, held in portfolio after being received through credit derivative transactions, in the amount of EUR 67.8 million;
(ii) collapse of Iceland's financial system, which originated impairment losses in the amount of EUR 3.7 million; and
(iii) events related to the Madoff funds which led to the booking of losses in the amount of EUR 1.9 million.

All these losses were recognised in BES Group's 2008 accounts, and the Group has no hedging instruments in place to mitigate the risk associated to the events that caused them.

In addition, the general widening of credit spreads arising directly as a result of the period of turmoil and the financial crisis had the following impacts:
(i) EUR 19.2 million increase in the cost of funding through the refinancing carried out during the year and the increase in the risk premium;
(ii) EUR 9.4 million losses in Asset Backed Securities (ABS) (EUR 1.4 million in 2007) resulting exclusively from the fall in market prices. There were no default situations in this portfolio, nor losses arising from subprime or monoline exposures;
(iii) EUR 94 million in realised losses originated by the revaluation of assets at fair price; and
(iv) EUR 96.7 million in gains arising from the fair value revaluation of liabilities.

The table below shows the balance sheet positions related to the referred impacts at the end of 2008:

EUR thousand

| | On balance Sheet | Market Value | Rating (Moodys) | Rating (S&P) | Vintages | Seniority | Country of Origin |
|---|---|---|---|---|---|---|---|
| **DIRECT IMPACTS** | | | | | | | |
| Bonds - Lanis | 11 | 11 | D | D | 1996 | Subordinate | Iceland |
| Bonds - Island Bank | 268 | 268 | D | D | 2006 | Senior | Iceland |
| Bonds - Lehman Brothers | 8,752 | 8,752 | D | D | 2004-2007 | Senior | USA |
| Residencial Mortgage Backed Securities (RMBS) (a) | 2,951 | 2,800 | Aaa | AAA | 2005 | Rated | UK |
| Residencial Mortgage Backed Securities (RMBS) (a) | 886 | 1,212 | Aaa | AAA | 2007 | Rated | Ireland |
| **INDIRECT IMPACTS** | | | | | | | |
| Asset Backed Securities (ABS) (a) | 12,229 | 12,775 | Aaa | NR | 2006 | Rated | Ireland |
| Asset Backed Securities (ABS) | 1,865 | 1,865 | A2 | A- | 2004 | Rated | Netherlands |
| Asset Backed Securities (ABS) | 3,796 | 3,796 | NR | BBB- | 2005 | Non Rated | Netherlands |
| Asset Backed Securities (ABS) | 4,094 | 4,094 | Ba1 | NR | 2005 | Rated | Ireland |
| **TOTAL** | **34,852** | **35,573** | | | | | |

(a) Registered as investments held to maturity

The period of turmoil was also responsible for the recognition of impairments in the securities portfolio that called for a reinforcement of provisions in the amount of EUR 58.1 million. For the same reasons, the Group appropriated by the equity method a EUR 37.8 million loss arising from the devaluation of securities held in BES Vida's portfolio.

### 7.1.6 Profitability

The 2008 consolidated income translated into a Return on Equity (ROE) of 9.8% and a Return on Assets (ROA) of 0.56%, both ratios having declined when compared to 2007, when they were respectively 16.6% and 0.98%.

data in %

| Results and Profitability | Dec 07 | Dec 08 | % change |
|---|---|---|---|
| Average rate of interest earning assets | 5.87 | 6.10 | 0.23 |
| - Average rate of interest bearing liabilities | 4.09 | 4.34 | 0.25 |
| **= Net Interest Margin** | **1.78** | **1.76** | **(0.02)** |
| + Commissions profitability | 1.20 | 1.03 | (0.17) |
| + Capital Markets and Other | 0.75 | 0.27 | (0.48) |
| **= Business Margin** | **3.73** | **3.06** | **(0.67)** |
| - Operating Costs | 1.77 | 1.62 | (0.15) |
| - Provisions | 0.49 | 0.61 | 0.12 |
| - Minority interests and other | 0.34 | 0.18 | (0.16) |
| **= Profitability** | **1.13** | **0.65** | **(0.47)** |
| x Financial Assets | 0.86 | 0.87 | (0.01) |
| **= RETURN ON ASSETS (ROA)** | **0.98** | **0.56** | **(0.43)** |
| x Applications Multiplier | 17.00 | 17.32 | 0.32 |
| **= RETURN ON EQUITY (ROE)** | **16.59** | **9.76** | **(6.83)** |

The results attained by BES Group in 2008 bring to light the resilience of its business model and the strategy pursued. In a period marked by losses or drastic falls in banks' earnings, BES Group was capable of posting a net income of EUR 402.3 million.

The fact that commercial banking income grew by 7.8%, surpassing the increase in operating costs (5.4%) shows that the conditions remain in place for the recurrent creation of value, increasingly relying on the contribution of the international area.

Asset quality remained under control, while the provisioning level was reinforced in view of the world's current economic situation.

Solvency levels remain consistently above the minimum requirements of the Bank of Portugal, which has required banks to increase their minimum Tier I ratio from 6% to 8%, with effects as from September 2009. Faced with this new challenge and with the increase in risks arising from the financial and economic crisis, the Board of Directors decided to submit to the Annual General Meeting a proposal to increase the share capital of Banco Espírito Santo. The proceeds from the capital increase, which should total EUR 1.2 billion, should allow the Group to surpass these new challenges.

## 7.2 Financial Analysis of Banco Espírito Santo

As informed in due time, on December 31st, 2008, Besleasing e Factoring, Instituição Financeira de Crédito, S.A., was merged by incorporation into Banco Espírito Santo, S.A.; prior to the merger this firm was already part of the BES Group and its activity had been consolidated using the full consolidation method.

The merger of the Group's firm specialising in leasing and factoring, while ensuring that the Clients continue to benefit from the Group's differentiating competences, represented another step forwards towards greater operating efficiency supported by increased rationalisation of operating costs.

As a result of the merger, Banco Espírito Santo's accounts for December 31st, 2008 incorporate the assets and liabilities of Besleasing e Factoring and therefore their comparison with the 2007 accounts must take this fact into consideration.

### 7.2.1 Main activity highlights and business indicators (1)

| Key Indicators | Symbol | 2004* | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| **BALANCE (EUR million)** | | | | | | |
| Total Assets (2) | AT | 43,370 | 59,643 | 68,773 | 80,015 | 89,641 |
| Net Assets | AL | 33,179 | 44,643 | 50,537 | 58,020 | 67,425 |
| Interesting Earning Assets (average) | AF | 26,487 | 29,787 | 38,147 | 44,327 | 52,359 |
| Capital and Reserves (average) | KP | 1,821 | 1,821 | 2,753 | 3,419 | 3,610 |
| **INCOME STATEMENT (EUR million)** | | | | | | |
| Net Interest Income | RF | 398.7 | 412.9 | 627.2 | 723.9 | 799.1 |
| + Fees and Commissions | SB | 342.8 | 327.9 | 394.8 | 404.2 | 408.9 |
| = Commercial Banking Income | PBC | 741.5 | 740.8 | 1,022.0 | 1,128.1 | 1,208.0 |
| + Capital Markets and Other Results | ROF | 271.2 | 260.4 | 176.6 | 367.1 | 71.9 |
| = Banking Income | PB | 1,012.7 | 1,001.2 | 1,198.6 | 1,495.2 | 1,279.9 |
| - Operating Costs | CO | 554.4 | 547.4 | 663.0 | 724.1 | 765.9 |
| - Provitions and Taxes | PVI | 254.4 | 263.7 | 278.1 | 276.4 | 302.1 |
| = Net Income | RL | 203.9 | 190.1 | 257.5 | 494.7 | 211.9 |
| **PROFITABILITY (%)** | | | | | | |
| Net Interest Mergin | RF / AF | 1.51 | 1.39 | 1.64 | 1.63 | 1.53 |
| + Return on Fees and Commissions | SB / AF | 1.29 | 1.10 | 1.03 | 0.91 | 0.78 |
| + Return on Capital markets Results and Others | ROF / AF | 1.02 | 0.87 | 0.46 | 0.83 | 0.14 |
| = Business Margin | PB / AF | 3.82 | 3.36 | 3.14 | 3.37 | 2.44 |
| - Weighting of Operating Costs | CO / AF | 2.09 | 1.84 | 1.74 | 1.63 | 1.46 |
| - Weighting of Provisions and Taxes | PVI / AF | 0.96 | 0.89 | 0.73 | 0.62 | 0.58 |
| = Return of Financial Assets | RL / AF | 0.77 | 0.64 | 0.68 | 1.12 | 0.40 |
| x Weighting of Interest Earning Assets | AF/ AL | 0.86 | 0.87 | 0.86 | 0.85 | 0.85 |
| = Return on Assets (ROA) | RL / AL | 0.66 | 0.56 | 0.58 | 0.94 | 0.34 |
| x Placemets Multiplier | AL / KP | 16.96 | 18.73 | 16.12 | 15.32 | 17.03 |
| = Return on Equity (ROE) | RL / KP | 11.20 | 10.44 | 9.35 | 14.47 | 5.87 |

(1) 2008 Balance Sheet items reflect the integration of "Besleasing e Factoring" concluded in 31/12/2008.
(2) Net Assets + Asset management + Securitised Credit.

### 7.2.2 Activity

Credit increased by 18.1% in 2008, including securitised loans. Excluding credit through the leasing and factoring business resulting from the above mentioned merger, this increase was around 6.1%

Growth in lending was not matched by growth in on-balance sheet funding, which rose by 2.4% overall. While customer deposits were up by 8.3%, on balance sheet customer funds were affected by the financial markets' poor performance, dropping by 5.0%.

EUR million

| Activity Indicators | Dec 07 | Dec 08 | Chg% |
|---|---|---|---|
| **Total Assets (1)** | **80,015** | **89,641** | **12.0%** |
| **Net Assets** | **58,020** | **67,425** | **16.2%** |
| **Customer Loans (including securitised)** | **40,313** | **47,597** | **18.1%** |
| Loans to Individuals | 16,690 | 17,131 | 2.6% |
| - Mortgage | 14,091 | 14,428 | 2.4% |
| - Other Loans to Individuals | 2,599 | 2,703 | 4.0% |
| Corporate Lending | 23,623 | 30,466 | 29.0% |
| **Total Customer Funds (A+B)** | **45,077** | **45,043** | **(0.1%)** |
| **On-Balance Sheet Customer Funds (A)** | **30,031** | **30,747** | **2.4%** |
| - Deposits and Similar (2) | 26,592 | 26,032 | (2.1%) |
| Deposits | 21,145 | 22,895 | 8.3% |
| Certificates and Deposits | 5,447 | 3,137 | (42.4%) |
| - Debts Securities place with Clients | 3,439 | 4,715 | 37.1% |
| Off-Balance Sheet Customer Funds (B) | 15,046 | 14,296 | (5.0%) |

(1) Net Assets + Asset Management + Other Off-Balance Sheet Liabilities + Securitised Credit.
(2) Includes Customer funds and certificates deposit.

Corporate loans grew by EUR 6.8 billion, or 29.0%, strongly influenced by the merger of Besleasing e Factoring (10.8% excluding this effect).

With mortgage loans accounting for 30% of the loan portfolio, corporate credit remained the most representative component overall, reaching 64% of the loan book and reflecting BES' strong and long-standing foothold in the Portuguese corporate fabric. In 2008 BES performed its seventh mortgage backed securitisation operation, in the amount of EUR 1.9 billion.

The quality of BES' credit portfolio is underpinned by the systematic fine-tuning of methodologies and processes and a good capacity to assess credit risk.

| Asset Quality | Dec 07 | Dec 08 | Change | |
|---|---|---|---|---|
| | | | Abs. | YoY (%) |
| Customer Loans (gross) | 33,364 | 39,677 | 6,313 | 18.9% |
| Overdue Loans | 442.9 | 605.4 | 162.5 | 36.7% |
| Overdue Loans > 90 days | 398.4 | 506.7 | 108.3 | 27.2% |
| Overdue & Doubtful Loans (Banco de Portugal)(a) | 565.8 | 736.3 | 170.5 | 30.1% |
| Provisions for Credit | 884.2 | 1,055.4 | 171.2 | 19.4% |
| (%) | | | | |
| Overdue Loans / Customer Loans (gross) | 1.33 | 1.53 | 0.20 | |
| Overdue Loans > 90 days / Customer Loans (gross) | 1.19 | 1.28 | 0.09 | |
| Overdue & Doubtful Loans (a)/ Customer Loans (gross) | 1.70 | 1.86 | 0.16 | |
| Coverage of Overdue Loans | 199.5 | 174.3 | (25.2) | |
| Coverage of Overdue Loans > 90 days | 222.1 | 208.3 | (13.8) | |
| Coverage of Overdue & Doubtful Loans | 156.3 | 143.3 | (12.8) | |
| Provisions for Credit (Balance) / Customer Loans | 2.65 | 2.66 | 0.01 | |

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

The ratio of overdue loans over 90 days (1.3% in December 2008) and the corresponding provision coverage reflect the quality of the credit portfolio. Although the coverage level of overdue loans declined as the economic crisis took its toll, the on balance sheet provision coverage of the loan portfolio was reinforced, reaching 2.66% in 2008. Overall the coverage ratios remain at good levels.

## 7.2.3 Results and Productivity

BES closed the year with net income of EUR 211.9 million, corresponding to a year-on-year decline of 57.2%.

Capital markets and other results, down by 80.4%, were a major contributor to this drop. On the other hand, commercial banking income grew by 7.1%, fully supported by a 10.4% increase in net interest income, which was volume driven.

The slowdown of fees and commissions growth is explained by lower revenues from fees on loans, cards and products whose performance is more directly linked to market activity (mutual funds, bancassurance and securities services).

EUR million

| Income Statement | Dez. 07 | Dez. 08 | Change | |
|---|---|---|---|---|
| | | | Abs. | Rel. (%) |
| **Net Interest Income** | **723.9** | **799.1** | **75.2** | **10.4** |
| + Fees and Commissions | 404.2 | 408.9 | 4.7 | 1.2 |
| **= Commercial Banking Income** | **1,128.1** | **1,208.0** | **79.9** | **7.1** |
| + Capital Markets and Other Results | 367.1 | 71.9 | (295.2) | (80.4) |
| **= Banking Income** | **1,495.2** | **1,279.9** | **(215.3)** | **(14.4)** |
| - Operating Costs | 724.1 | 765.9 | 41.8 | 5.8 |
| **= Operating Income** | **771.1** | **514.0** | **(257.1)** | **(33.3)** |
| - Net Provisions | 219.6 | 285.2 | 65.6 | 29.9 |
| Credit | 170.1 | 209.2 | 39.1 | 23.0 |
| Securities | 13.8 | 37.4 | 23.6 | .... |
| Others | 35.7 | 38.6 | 2.9 | 8.1 |
| **= Income before Taxes** | **551.5** | **228.8** | **(322.7)** | **(58.5)** |
| - Taxes | 56.8 | 16.9 | (39.9) | (70.2) |
| **= Net Income** | **494.7** | **211.9** | **(282.8)** | **(57.2)** |

The year's provision charge totalled EUR 285.2 million, up by 30% year-on-year. Provisions for credit increased by 23%, to EUR 209.2 million, while the impairment for securities was reinforced by EUR 37.4 million. Other provisions include those for restructuring projects as well as for impairment losses in property received in lieu of payment of bad loans.

The total cost to income was adversely affected by the decrease in trading results, on the one hand, and the extension of the domestic branch network, on the other. Nevertheless, the cost to income excluding trading results improved from 64.2% in 2007 to 63.4% in 2008.

| Productivity and Efficiency Indicators | Dec 07 | Dec 08 | Change |
|---|---|---|---|
| Cost to Income (with Capital Markets) | 48.4% | 59.8% | 11.4% |
| Cost to Income (without Capital Markets) | 64.2% | 63.4% | (0.8%) |
| Total Assets(1) per Employee (€,000) | 11,790 | 12,867 | 9.1% |

(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**

Through its Branch in Spain, BES develops activities in affluent banking, corporate banking and private banking. 2008 was a year of consolidation, namely at the organisational level, involving the implementation of a new structure of territorial managers that enhances focus on advisory services.

In corporate banking, the Group consolidated its integrated approach to the Iberian Peninsula companies. In view of the poor market conditions in the world and more specifically in Spain, credit spreads were adjusted to the prevailing cost of funding, as a result of which credit grew at a more moderate pace.

**London**

BES' London Branch is an important hub for BES Group's international expansion, concentrating its activity in wholesale banking in the European market. Against the deep changes that occurred in the financial markets, and growing turmoil since the middle of last year, the Branch continued to perform well. Despite heavy liquidity restrictions in the London market, the branch remained self-sufficient in terms of funding. The branch has been extremely selective in its activity as a specialised credit unit, maintaining a conservative risk management policy. As an ancillary activity, the branch also provides services to the UK resident Portuguese community, and offers a range of savings and financing products to British and Irish clients.

**New York**

BES' New York branch concentrates its activities in wholesale banking, mainly in the US and Brazil. The branch has had a crucial role in terms of obtaining funds from American institutional and corporate clients while also actively promoting the placement of the certificates of deposit and commercial paper programmes. Despite the adverse market conditions, the Branch achieved a strong year-on-year increase in results, reinforcing its role in the development of BES Group's international strategy. Finally, it is also important to stress that the branch carries no toxic assets in its balance sheet and did not take part in any of the transactions and schemes that unsettled the US banking sector.

## 7.2.5 Other

In March 2009, PT.COM, Comunicações Interactivas, S.A. informed BES of its intention to sell the entire stake in BEST – Banco Electrónico de Serviço Total, S.A («BEST») to Espírito Santo Financial Group, S.A. BES, being the majority shareholder in BEST, waived its right to exercise the preference in this sale. The decision was made by the Board of Directors on March 14th, 2008 and was supported by the Audit Committee's favourable opinion.

## 7.2.6 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 31 of the Bank's by-laws, 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 | 22,000,000.00 |
| For distribution to shareholders | 80,000,000.00 |
| For other reserves | 109,877,805.11 |
| **Net Income** | **211,877,805.11** |

The proposed dividend on the 2008 net income corresponds to a gross value per share of EUR 0.16.

## 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 conducted its activity in 2008 under extremely adverse conditions for the economy in general and in particular for the financial sector and the investment banking business. Nevertheless, increasing business diversification and the expanded scope of its operations allowed BES Investimento to post banking income of EUR 188.7 million, which is only 6.3% lower than in 2007 (EUR 148.3 million). The commercial banking income grew by 5.2% year-on-year, a good performance in view of the financial markets' dire conditions that benefited from the international expansion strategy (61% of the banking income was generated outside Portugal). The Bank's direct contribution in 2008 dropped by 14.5% when compared to 2007 while its net income declined by 34.9%, to EUR 47.6 million, due to the large increase in impairment losses in assets recognised during the year.

In 2008 BES Investimento participated in the following main deals and events: (i) Mergers and Acquisitions - participation in more than 40 transactions, for an overall amount of EUR 4 billion); (ii) Project Finance - more than 50 transactions concluded; (iii) Acquisition Finance – the year was marked by a decline in the number of transactions concluded in Spain and increased activity in Portugal; (iv) Equity Capital Markets – activity focused on Portugal and Brazil; (v) Debt Capital Markets – BES Investimento arranged and acted as agent in 41 commercial paper programmes for an overall amount of EUR 1,460 million; (vi) Brokerage – BES Investimento advanced one position in the ranking of the largest operators in both the Portuguese and the Spanish markets, regaining the lead of Euronext Lisbon with a market share of 11.7% and reaching 5th place in the Madrid Stock Exchange, with a market share of 5.6%; (vii) Private Equity – subscription closure of ES Infrastructure Fund I at EUR 80.7 million.

Consolidated figures — EUR thousand

| | 2007 | 2008 | Variação |
|---|---|---|---|
| Net Assets | 5,480,081 | 5,331,753 | (2.7%) |
| Capital and Reserves | 277,086 | 230,461 | (16.8%) |
| Customer loans (gross) | 1,469,570 | 1,749,855 | 19.1% |
| Customer Deposits | 1,179,681 | 1 111 755 | (5.8%) |
| Banking Income | 201,523 | 188,744 | (6.3%) |
| Net Income | 73,028 | 47,551 | (34.9%) |

Banco Espírito Santo dos Açores, S.A.

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

2008 represented the first year in a new phase in the life of Banco Espírito Santo dos Açores. Having elected its new corporate bodies in the general shareholders' meeting held in February, the Bank changed its organisational structure and opened its first Corporate Centre, as well as new branches in Angra do Heroísmo (Terceira island) and Vila da Madalena (Pico island). At the same time, the Bank developed several commercial initiatives during the near, namely establishing protocols with a number of companies and institutions and supporting social solidarity and cultural causes. In the emigration area, BES Açores continued to take initiatives aimed at promoting closer ties with the Azorean emigrants.

As regards the year's activity, customer deposits increased by 5.0% and customer loans by 14.4%, with mortgage loans rising by 19.4%. The Bank closed the year with net assets of EUR 497.7 million, up by 16.3% year-on-year. Net income reached EUR 5.7 million, corresponding to a 12.4% increase when compared to 2007.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 428,031 | 497,669 | 16.3% |
| Capital and Reserves | 28,786 | 31,095 | 8.0% |
| Customer loans (gross) | 328,685 | 376,158 | 14.4% |
| Customer Deposits | 281,406 | 295,371 | 5.0% |
| Banking Income | 16,120 | 16,704 | 3.6% |
| Net Income | 5,033 | 5,659 | 12.4% |

## Banco Espírito Santo Angola, S.A.R.L.

Head Office: Rua 1º Congresso nº 27, Ingombota, CP 6459 Luanda – Angola;
Share Capital: $US 10 million (EUR 7,593 thousand); BES Group holding: 79.96%

In the course of 2008 Banco Espírito Santo Angola consolidated its position as a reference universal service bank in the Angolan market, projecting an image of strength, confidence and excellent customer service while posting very high profitability and efficiency levels. BESA's performance was recognised by the Global Finance, EMEA Finance and World Finance magazines, which awarded it the prizes for respectively Best Bank in Angola and Best Bank in Sub-Saharan Africa. Alongside this positioning, BESA has gradually increased its market shares in both customer loans and customer funds.

The Bank's commercial structure currently comprises 28 branches (18 in Luanda), two corporate centres, and a private banking centre and an investment banking office in Luanda. In the area of asset management, BESA set up the first fund management firm in Angola, BESAACTIF, Sociedade Gestora de Fundos de Investimento. The firm obtained the authorisation to launch a closed-end real estate fund with the duration of five years, with subscriptions surpassing expectations.

On December 31st, 2008, BESA had net assets of EUR 3,529 million, corresponding to a year-on-year increase of 171%. Customer funds were up by 103%, to EUR 1,681 million, and customer loans rose by 104%, to EUR 1,180 million. The bank's securities portfolio, which is made up of sovereign debt, expanded by 231%, to EUR 1,674 million.

Banking income grew by 49%, to EUR 129 million (EUR 87 million in 2007), as a result of increases in net interest income (+103%) and fees and commissions (+19%). Despite an increase in operating costs due to significant business growth, the Bank shows a high level of efficiency, with a cost to income of 32.6%, which compares with 38.0% in 2007. Net income for the year was EUR 81.6 million, up by 60% on the previous year.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 1,303,134 | 3,528,885 | 170.8% |
| Capital and Reserves | 51,320 | 112,896 | 120.0% |
| Customer Loans (gross) | 578,363 | 1,180,271 | 104.1% |
| Customer Deposits | 828,597 | 1,680,624 | 102.8% |
| Banking Income | 86,585 | 128,784 | 48.7% |
| Net Income | 50,975 | 81,646 | 60.2% |

Note: IFRS data considered for the consolidation purposes

## Espírito Santo Bank

Head Office: 1395 Brickell Avenue, Miami, Florida 133131, USA
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 credit portfolio grew by 24.4% year-on-year in local currency, while remaining focused on low risk segments. Although based in Miami, Florida, ES Bank was not involved in the subprime credit market and therefore was not exposed to the corresponding risk.

Operating results improved, being supported by the increase of net interest income and fees and commissions.

Thanks to its diversified offer of products and a close and an effort to effectively meet the Clients' objectives amidst a particularly difficult environment the broker/dealer ES Financial Services posted better results than last year.

Assets under management totalled USD 795 million, having slightly dropped when compared to 2007 as a result of the crisis in the financial markets.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 284,449 | 355,124 | 24.8% |
| Capital and Reserves | 21,069 | 18,537 | (12.0%) |
| Customer Loans (gross) | 227,105 | 298,153 | 31.3% |
| Customer Deposits | 216,627 | 287,893 | 32.9% |
| Net Income | (3,465) | (1,352) | .... |

Note: IFRS data considered for the consolidation purposes

## 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%

In a context where the main Asian countries suffered the contagion effects from the strong turmoil in the financial markets and its negative implications on economic activity in the US and Europe, Banco Espírito Santo do Oriente (Macao) continued to be very selective and rigorous in loan granting, while primarily focusing on attracting customer funds.

The Macao Special Administrative Region (MSAR) is expected to post GDP growth of around 10% over the next few years, supported by the development of the tourism and gambling/entertainment industries, the execution of major infrastructure projects and the fact that Macao is used as a platform for economic cooperation between China and the Portuguese speaking countries.

Banco Espírito Santo do Oriente achieved sustained activity growth in 2008, with net assets rising by 26.4% year-on-year, to EUR 202.2 million. Banking income dropped by 32.1% while net income for the year (under IFRS) totalled EUR 368 thousand, a 78.6% year-on-year decline essentially explained by the negative variation determined by the fair value revaluation of the Fixed Interest Rate Notes portfolio. Customer funds, on the other hand, registered a strong increase, rising by 107.6% when compared to 2007.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 159,966 | 202,170 | 26.4% |
| Capital and Reserves | 24,351 | 26,178 | 7.5% |
| Customer Loans (gross) | 116,943 | 153,227 | 31.0% |
| Customer Deposits | 32,699 | 67,892 | 107.6% |
| Banking Income | 3,697 | 2,510 | (32.1%) |
| Net Income | 1,723 | 368 | (78.6%) |

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

Head Office: 45, Avenue Georges Mandel, 75116 Paris - France
Share Capital: EUR 75,117 thousand; BES Group holding: 42.69%

Although carried out against an adverse economic and financial backdrop, the activities developed by Banque Espírito Santo et de la Vénétie in 2008 generated a gross operating income of EUR 23 million, which is 14.3% higher than in 2007. These results were backed by the good performance of the structured finance and real estate finance areas, whose banking income grew by 21.6% and 14%, respectively. In corporate banking and in the banking business with the members of the Portuguese resident community in France who are BES clients in Portugal the performance was in line with last year's.

In 2008 the Bank prepared and launched a 3-year strategic plan, aimed at diversifying the expertise achieved in the existing business lines into new sector-specific niches, and setting up advisory teams to back up corporate and private banking activities.

Total banking income reached EUR 39.9 million, representing a year-on-year increase of 8.5%. Net income for the year (under IFRS) totalled EUR 12.5 million, which compares with EUR 12.9 million in 2007.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 1,282,358 | 1,331,405 | 3.8% |
| Capital and Reserves | 80,234 | 114,496 | 42.7% |
| Customer Loans (gross) | 1,022,234 | 1,070,124 | 4.7% |
| Customer Deposits | 179,750 | 188,655 | 5.0% |
| Banking Income | 36,803 | 39,925 | 8.5% |
| Net income | 12,889 | 12,483 | (3.1%) |
| Cost to Income | 45.1% | 42.0% | (3.1%) |

* Note: Figures under IFRS

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

Head Office: Praça Marquês de Pombal nº 3-3º, 1250 - 161 Lisboa - Portugal
Share Capital: EUR 63,000 thousand; BES Group holding: 66.00%

The activity developed in 2008 was conditioned by the turmoil in the financial markets whose negative impacts spread around the world and were particularly acute in the last quarter of the year. Against these adverse conditions, Banco Best pursued its strategy of consistently improving service levels and adjusting its product offer to prevailing economic and financial conditions. Hence the Bank made progress across the board: net income was up by 25.4% year-on-year, the number of new clients increased by 11% and customer assets under management grew by 4%, reaching EUR 1,166 million.

These results were backed by and effort to remain aligned to market conditions, successively adjusting the offer and the commercial policy to allow for greater diversification in the clients' financial placements, namely designing structured products branched out by activity sectors, and with different maturities and levels of capital protection.

In Asset Management Banco BEST strengthened its lead in the distribution of foreign investment funds in Portugal, with a market share of 29.1% in the first half of 2008 (According to the latest data released by the Portuguese Securities Market Commission (CMVM)).

In the area of trading, Banco BEST significantly reinforced its offer of products and services. According to the latest statistics released by the CMVM, relative to August 2008, Banco Best remained market leader in on-line derivatives trading, with a share of 32%.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 409,932 | 612,825 | 49.5% |
| Capital and Reserves | 19,571 | 21,585 | 10.3% |
| Gross Customer Loans | 26,409 | 34,954 | 32.4% |
| Customer Deposits | 374,871 | 533,358 | 42.3% |
| Banking Income | 16,387 | 20,531 | 25.3% |
| Net Income | 1,893 | 2,374 | 25.4% |
| Assets under Management (euro million) | 1,121,192 | 1,166,000 | 4.0% |

## 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 operates through specialised companies in Portugal, Spain, Luxembourg, United Kingdom, Angola and Brazil. In 2008 total volume of assets under management at ESAF was EUR 18.6 billion, corresponding to a year-on-year drop of 7.4%.

In terms of investment funds the year was marked by the restructuring and widening of the offer, the first entailing the merger of ten real estate funds and the second the launch of eight new special/flexible real estate funds and six new closed-end mutual funds for private subscription. Towards the end of the year a new Special Investment Fund - the Espírito Santo Rockefeller Global, S.A. SICAV SIF – Energy Fund – was launched in the Luxembourg. The first fund was launched in the United Kingdom, through NAU Capital, reaching volume under management of EUR 200 million. Angola also saw the launch of the first investment fund, which at year-end had reached more than USD 100 million. In Spain, total volume of assets under management surpassed EUR 1.7 billion.

On the business internationalisation front, a new fund management firm was acquired in Brazil - BESAF – BES Activos Financeiros Lda – where ESAF indirectly holds a 50% stake.

ESAF's consolidated earnings dropped by 19.2% in 2008, translating the reduction of assets under management as a result of the deep crisis lived in the financial markets during the year.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 110,097 | 112,538 | 2.2% |
| Capital and reserves | 50,256 | 62,218 | 23.8% |
| Banking Income | 51,114 | 47,371 | (7.3%) |
| Net Income | 27,556 | 22,256 | (19.2%) |
| Assets under Management (euro million) | 20,131 | 18,629 | (7.4%) |

## 7.3.3 Insurance

### 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%

During the year BES Seguros sought to reinforce its activity of selling non life insurance products to the individual clients of BES, BES dos Açores and Banco BEST. To this end, the company restructured its offer of Car and Home insurance, introduced new solutions in its Healthcare offer and started selling personal insurance. The operational telephone platform (BESdirecto Seguros) used for servicing purposes and to sell non-life insurance maintained the good performance of last year.

In terms of production, BES Seguros sold 83 000 home, car and health insurance contracts in 2008, corresponding to a year-on-year increase of 50%. Including Credit Protection Insurance, the number of contracts sold during the year surpassed for the first time the 100 000 barrier.

Despite this excellent pace of activity growth, gross premium volume dropped by 3.0%, not only due to the poorer performance of Car Insurance (-11.0%) but mostly as a result of a 37.4% decline in Credit Protection Insurance.

Indemnities net of reinsurance increased by 2.7%, to EUR 42.1 million, showing a good technical performance overall, particularly in car insurance.

Despite the impacts from the financial markets' overall negative performance, BES Seguros reached net income for the year of EUR 4.0 million. At 91.7%, the combined ratio, net of reinsurance, remained at an excellent level, even improving when compared to 2007 (92.1%).

Shareholder's equity dropped by 6.0%, to EUR 23.0 million, being negatively influenced by the revaluation reserve due to the depreciation of the bond and equity portfolios. However, this did not prevent an improvement in solvency, the coverage ratio having increased to 178.3% (pre dividend distribution estimate), from 155.7% in 2007.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 108,662 | 115,515 | 6.3% |
| Capital and Reserves | 24,455 | 22,983 | (6.0%) |
| Gross Premia | 73,171 | 70,953 | (3.0%) |
| Indemnities, net of reinsurance | 41,016 | 42,116 | 2.7% |
| Net Operating Costs | 12,476 | 12,241 | (1.9%) |
| Net Income | 4,723 | 4,008 | (15.1%) |

Note: Figures under IFRS

### 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%

In a year marked by strong turmoil in the financial markets and the deterioration of economic conditions, BES VIDA pursued its activity with the aim of consolidating its position in the Life insurance market, in particular as a provider of pensions, where it was market leader for the 12th consecutive year. Total production reached EUR 1 860 million, corresponding to a year-on-year increase of 19.0%. In Retirement Savings Plans, where production totalled EUR 735 million (+23.6%), the company was once again market leader, with a share of 29.7%. Capitalisation products production reached EUR 1 063 million (+16.9%), raising the market share to 14.1% (13.4% in 2007). In traditional products, premium volume was EUR 62.0 million (+4.1%), corresponding to a market share of 6.5% (7.1% in 2007). Mathematical provisions grew by 3.8% year-on-year, to EUR 7 302 million. Meanwhile, operational costs of BES Vida decreased by 14.7% year-on-year.

However, this good performance in terms of production and cost control was not matched at financial activity level due to the adverse conditions in the financial markets, and therefore was not sufficient to uphold net income at the expected level. In fact, a widespread confidence crisis and its impact on the global financial system and economic activity were responsible for a 95% drop in the results of this business area when compared to the previous year. Moreover, it is important to stress the booking of impairment losses totalling EUR 54,5 million.

BES Vida therefore posted net income for the year of EUR 12.2 million, representing a year-on-year drop of 76.7%. Equity dropped by 63.5%, to EUR 99.5 million, essentially through the reduction in the fair value reserve as a result of the fall registered in the financial markets, with an impact on the bond and equity portfolios. However, even with these strongly adverse impacts, solvency remained at a good level: the coverage ratio was 110%, surpassing the limit of 100% and corresponding to a surplus of EUR 19 million.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net assets | 7,602,418 | 7,699,814 | 1.3% |
| Capital and reserves | 272,854 | 99,501 | (63.5%) |
| Gross premia | 493,331 | 570,639 | 15.7% |
| Indemnities | 709,952 | 926,236 | 30.5% |
| Operating costs | 39,106 | 42,613 | (9.2%) |
| Net income | 52,218 | 12,170 | (76.7%) |

Note: data under IFRS prior to adjustments for consolidation purposes

## 7.3.4 Specialised Credit

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

Head Office: Avenida Columbano Bordalo Pinheiro, 75 – 10º, 1070 – 061 Lisboa - Portugal
Share Capital: EUR 7.5 million; BES Group holding: 23.00%

2008 was marked by an economic downturn that inevitably reflected on the company's commercial performance and particularly so in the second half of the year. In this context, Europ Assistance remained focused on maintaining its quality standards – a reference in the Portuguese market – and hence ensure the loyalty of its existing customer base. In September the company increased its capital to EUR 7.5 million, by incorporation of reserves, and changed its name and corporate object to permit the extension of services to other areas beyond assistance. This will permit to reinforce the offer with additional coverage solutions, therefore making it more competitive. Total gross premiums issued reached EUR 25.9 million.

In line with the trend in previous years, the accident record further deteriorated, increasing pressure on profitability. Approximately 600,000 new cases were filed during the year and roughly 1,725 thousand calls were taken, corresponding to year-on-year increases of respectively 12% and 9%.

The cost control policy was pursued, mainly focusing on accident costs. However, strong pressure from car towing firms due to the rise in fuel prices in the first half of the year and the threat of strikes led to a general increase in costs with these services. As regards fixed structural costs, the streamlining programme initiated in 2006 was continued. Despite the adverse environment, the investment policy adopted and the receipt of dividends from one of the company's subsidiaries allowed financial results to remain at the previous year's level. The company closed the year with net income of EUR 1 581 thousand, corresponding to a year-on-year increase of 30.6%.

On the international front, Europ Assistance's Brazilian subsidiary continued to perform very well, showing a substantial increase in operating results. Its subsidiary in Argentina nearly doubled turnover and registered a three-fold increase in net earnings, while the Chilean subsidiary, now in its third year in operation, once again posted positive results.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 30,362 | 32,072 | 5.6% |
| Capital and Reserves | 8,464 | 8,818 | 4.2% |
| Gross Premia | 25,966 | 25,896 | (0.3%) |
| Net income | 1,211 | 1,581 | 30.6% |

### 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%

2008 saw the consolidation of Locarent in the national market of vehicle hire operators. Hence in a year of economic slowdown that was particularly harmful for the motor industry, Locarent maintained the second place in the ranking of Portuguese operators in the market, with operating results totalling EUR 1,050 thousand, while its fleet reached 15,717 vehicles under management, corresponding to a year-on-year increase of 14%.

Having concluded its initial launching cycle, the Company now faces new challenges:

- selective and profitable attraction of clients;
- client retention; and
- improvement of service quality.

Achieving these objectives will guarantee the company's sustainability and value creation for the shareholders.

EUR thousand

| | 2007 | 2008 | Chg |
|---|---|---|---|
| Net Assets | 289,289 | 320,322 | 10.7% |
| Capital and Reserves | 3,064 | 5,221 | 70.4% |
| Fixed Assets | 260,587 | 278,946 | 7.0% |
| Net income | 1,107 | 1,050 | (5.1%) |

# Final Notes

## 8.1 Declaration of Conformity with the Financial Information Reported

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

I. the individual financial statements of Banco Espírito Santo, S.A. (BES) for the years ended December 31st, 2007 and 2008 were prepared in accordance with the Adjusted Accounting Standards (AAS), as determined by Bank of Portugal Notice no. 1/2005, of February 21st, 2005;

II. the consolidated financial statements of Grupo Banco Espírito Santo, S.A. (BES Group) for the years ended December 31st, 2007 and 2008 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;

III. to the extent of their knowledge the financial statements referred in (i) and (ii) provide a true and appropriate image of the assets, liabilities, equity and earnings of respectively BES and BES Group;

IV. the annual report describes faithfully the evolution of the businesses, the performance and the financial position of BES and BES Group in 2008, as well as the main risks and uncertainties with which they are faced.

## 8.2 Note of Recognition

The Board of Directors of Banco Espírito Santo wishes to express its recognition for the trust shown by Clients, Shareholders, Employees, 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 positive evolution in the main business areas; the trust of our Shareholders was and remains a key factor for the success of BES Group's business project; the involvement and commitment of our Employees were critical to assert the BES brand in the market, and will be determining to support the Group's development in the future.

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 13th, 2009

## The Board of Directors

Alberto Alves de Oliveira Pinto
Ricardo Espírito Santo Silva Salgado
Jean Frédéric de Leusse
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Freixial de Goes
Pedro José de Sousa Fernandes Homem
Luís António Burnay Pinto de Carvalho Daun e Lorena
Ricardo Abecassis Espírito Santo Silva
José Manuel Ruivo da Pena
Amílcar Carlos Ferreira de Morais Pires
Bernard Delas
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Bernard Octave Mary[1]
Michel Goutorbe
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Megre de Sousa Coutinho
João de Faria Rodrigues
José Epifânio da Franca

(1) Bernard Octave Mary was coopted by the Board of Directors on October 31st,, 2008, to replace Gilles Roland Maurice Jacquin de Margerie, who had been coopted by the Board of Directors on July 1st, 2008, to replace Jean-Yves Hocher.

ISAAC JULIEN
1960, London, United Kingdom
*Western Union Series No. 2*
*(Flight Towards Other Destinies 1)*, 2007
Transparency (Duratrans) by chromogenic
process mounted on lightbox • 120 x 244 x 7 cm
Edition 5/6

# 02
# FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

BANCO ESPÍRITO SANTO

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## FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

# Consolidated Financial Statement and Notes to the Financial Statement

## 1.1 Consolidated Statement of Income at 31 December 2008

(in thousands of euro)

| | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Interest and similar income | 3,370,232 | 4,880,694 |
| Interest expense and similar charges | 2,416,506 | 3,794,525 |
| **Net interest income** | **953,726** | **1,086,169** |
| Dividend income | 49,959 | 91,856 |
| Fee and commission income | 716,311 | 709,359 |
| Fee and commission expense | 104,434 | 110,153 |
| Net gains from financial assets at fair value through profit or loss | 65,864 | ( 97,474) |
| Net gains from available-for-sale financial assets | 231,524 | 213,378 |
| Net gains from foreign exchange differences | 27,872 | 25,619 |
| Net gains from the sale of other assets | 4,388 | ( 2,480) |
| Other operating income and expense | 24,095 | ( 7,873) |
| **Operating income** | **1,969,305** | **1,908,401** |
| Staff costs | 502,143 | 521,050 |
| General and administrative expenses | 378,831 | 402,645 |
| Depreciation and amortisation | 69,755 | 77,906 |
| Provisions impairment net of reversals | 25,408 | 19,846 |
| Loans impairment net of reversals | 213,184 | 274,431 |
| Impairment on other financial assets net of reversals | 18,187 | 57,407 |
| Impairment on other assets net or reversals | 6,085 | 24,183 |
| Negative consolidation differences | - | - |
| Equity accounted earnings | 31,907 | ( 20,290) |
| **Net income before income tax and minorities** | **787,619** | **510,643** |
| Income tax | | |
| Current tax | 86,916 | 150,984 |
| Deferred tax | 65,630 | ( 67,486) |
| **Net income** | **635,073** | **427,145** |
| ow: Net income after discontinued operations | 116 | ( 1,466) |
| Minority interests | 28,004 | 24,861 |
| **Consolidated Net income for the period** | **607,069** | **402,284** |

Chief Accountant

The Board of Directors

## 1.2 Consolidated Balance Sheet

EUR' 000

| | 31.12.2007 | 31.12.2008 |
|---|---|---|
| **Assets** | | |
| Cash and deposits at central banks | 1,361,218 | 2,027,318 |
| Deposits with banks | 720,442 | 664,410 |
| Financial assets held for trading | 3,847,233 | 3,690,162 |
| Financial assets at fair value through profit or loss | 1,426,704 | 2,161,813 |
| Available-for-sale financial assets | 6,238,889 | 7,094,111 |
| Loans and advances to banks | 8,210,331 | 4,531,983 |
| Loans and advances to customers | 42,170,263 | 47,049,474 |
| (Provisions) | *(990,395)* | *(1,148,065)* |
| Held-to-maturity investments | 407,842 | 2,160,196 |
| Financial assets with repurchase agreements | - | - |
| Hedging derivatives | 211,890 | 936,290 |
| Non-current assets held for sale | 279,408 | 148,372 |
| Investment properties | - | - |
| Propety and equipment | 537,768 | 638,487 |
| Intangible assets | 91,171 | 124,216 |
| Investments in associates | 573,700 | 644,506 |
| Current income tax assets | 19,708 | 52,721 |
| Deferred income tax assets | 23,946 | 141,753 |
| Other assets | 2,234,200 | 3,120,916 |
| **Total Assets** | **68,354,713** | **75,186,728** |
| **Liabilities** | | |
| Deposits from central banks | 1,887,622 | 4,810,458 |
| (ow of the European System of Central Banks) | *(71,102)* | *(1,440,505)* |
| Financial liabilities held for trading | 1,257,201 | 1,914,423 |
| Other financial liabilities at fair value through profit or loss | - | - |
| Deposits from banks | 7,096,649 | 7,681,738 |
| Due to customers | 23,775,030 | 26,386,754 |
| Debt securities issued | 24,313,591 | 24,596,682 |
| Financial liabilities to transferred assets | - | - |
| Hedging derivatives | 286,940 | 727,475 |
| Non core liabilities held for sale | 233,189 | 12,827 |
| Provisions | 143,950 | 131,211 |
| Current income tax liabilities | 71,136 | 89,515 |
| Deleted income tax liabilities | 255,903 | 37,448 |
| Capital instruments | - | - |
| Subordinated debt | 2,094,815 | 2,828,983 |
| Other liabilities | 1,524,980 | 1,316,270 |
| **Total Liabilities** | **62,941,006** | **70,533,784** |
| **Equity** | | |
| Share capital | 2,500,000 | 2,500,000 |
| Share premium | 668,851 | 668,851 |
| Other capital instruments | - | - |
| Treasury stock | ( 41,437) | ( 29,838) |
| Preference shares | 600,000 | 600,000 |
| Fair value reserve | 646,701 | ( 266,334) |
| Other reserves and retained earnings | 291,392 | 624,472 |
| Profit for the period attributable to equity holders of the bank | 607,069 | 402,284 |
| Prepaid dividends | - | - |
| Minority interests | 141,131 | 153,509 |
| **Total Equity** | **5,413,707** | **4,652,944** |
| **Total Liabilities and Equity** | **68,354,713** | **75,186,728** |

Chief Accountant

The Board of Directors

## **1.3** Notes to the Consolidated Financial Statements

## Consolidated Income Statement fot the years ended 31 December 2008 and 2007

(in thousands of euro)

| | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Interest and similar income | 5 | 4,880,694 | 3,370,232 |
| Interest expense and similar charges | 5 | 3,794,525 | 2,416,506 |
| **Net interest income** | | **1,086,169** | **953,726** |
| Dividend income | | 91,856 | 49,959 |
| Fee and commission income | 6 | 709,359 | 716,311 |
| Fee and commission expense | 6 | ( 110,153) | ( 104,434) |
| Net gains/ (losses) from financial assets at fair value through profit or loss | 7 | ( 97,474) | 65,864 |
| Net gains from available-for-sale financial assets | 8 | 213,378 | 231,524 |
| Net gains from foreign exchange differences | 9 | 25,619 | 27,872 |
| Net gains/ (losses) from sale of other assets | | ( 4,153) | 2,815 |
| Other operating income and expense | 10 | ( 7,873) | 24,095 |
| **Operating income** | | **1,906,728** | **1,967,732** |
| Staff costs | 11 | 521,050 | 502,143 |
| General and administrative expenses | 13 | 402,645 | 378,831 |
| Depreciation and amortisation | 25 and 26 | 77,906 | 69,755 |
| Provisions net of reversals | 33 | 19,846 | 25,408 |
| Loans impairment net of reversals | 21 | 274,431 | 213,184 |
| Impairment on other financial assets net of reversals | 19 and 20 | 57,407 | 18,187 |
| Impairment on other assets net of reversals | 24 and 28 | 24,183 | 6,085 |
| **Operating expenses** | | **1,377,468** | **1,213,593** |
| Gains on disposal of investments in subsidiaries and associates | 1 | 1,673 | 1,573 |
| Share of profit of associates | 27 | ( 20,290) | 31,907 |
| **Profit before income tax** | | **510,643** | **787,619** |
| **Income tax** | | | |
| Current tax | 34 | 150,984 | 86,916 |
| Deferred tax | 34 | ( 67,486) | 65,630 |
| | | **83,498** | **152,546** |
| **Profit for the year** | | **427,145** | **635,073** |
| **Attributable to equity holders of the Bank** | | **402,284** | **607,069** |
| **Attributable to minority interest** | **38** | **24,861** | **28,004** |
| | | **427,145** | **635,073** |
| Earnings per share of profit attributable to the equity holders of the Bank | | | |
| Basic ( in Euros) | 14 | 0.81 | 1.22 |
| Diluted ( in Euros) | 14 | 0.81 | 1.22 |

The following Notes form an integral part of these consolidated financial statements

# Consolidated Balance Sheet as at 31 December 2008 and 2007

(in thousands of euro)

| | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits at central banks | 15 | 2,027,318 | 1,361,218 |
| Deposits with banks | 16 | 664,410 | 720,442 |
| Financial assets held for trading | 17 | 3,690,162 | 3,847,233 |
| Other financial assets at fair value through profit or loss | 18 | 2,161,813 | 1,426,704 |
| Available-for-sale financial assets | 19 | 7,094,111 | 6,238,889 |
| Loans and advances to banks | 20 | 4,531,983 | 8,210,331 |
| Loans and advances to customers | 21 | 47,049,474 | 42,170,263 |
| Held-to-maturity investments | 22 | 2,160,196 | 407,842 |
| Derivatives for risk management purposes | 23 | 936,290 | 211,890 |
| Non-current assets held for sale | 24 | 148,372 | 279,408 |
| Property and equipment | 25 | 638,487 | 537,768 |
| Intangible assets | 26 | 124,216 | 9, 171 |
| Investments in associates | 27 | 644,506 | 573,700 |
| Current income tax assets | | 52,721 | 19,708 |
| Deferred income tax assets | 34 | 141,753 | 23,946 |
| Other assets | 28 | 3,120,916 | 2,234,200 |
| **Total assets** | | **75,186,728** | **68,354,713** |
| **Liabilities** | | | |
| Deposits from central banks | 29 | 4,810,458 | 1,887,622 |
| Financial liabilities held for trading | 17 | 1,914,423 | 1,257,201 |
| Deposits from banks | 30 | 7,681,738 | 7,096,649 |
| Due to customers | 31 | 26,386,754 | 23,775,030 |
| Debt securities issued | 32 | 24,596,682 | 24,313,591 |
| Derivatives for risk management purposes | 23 | 727,475 | 286,940 |
| Non-current liabilities held for sale | 24 | 12,827 | 233,189 |
| Provisions | 33 | 131,211 | 143,950 |
| Current income tax liabilities | | 89,515 | 71,136 |
| Deferred income tax liabilities | 34 | 37,448 | 255,903 |
| Subordinated debt | 35 | 2,828,983 | 2,094, 815 |
| Other liabilities | 36 | 1,316,270 | 1,524,980 |
| **Total liabilities** | | **70,533,784** | **62,941,006** |
| **Equity** | | | |
| Share capital | 37 | 2,500,000 | 2,500,000 |
| Share premium | 37 | 668,851 | 668,851 |
| Treasury stock | 37 | ( 29,838) | ( 41,437) |
| Preference shares | 37 | 600,000 | 600,000 |
| Fair value reserve | 38 | ( 266,334) | 646,701 |
| Other reserves and retained earnings | 38 | 624,472 | 291,392 |
| Profit for the year attributable to equity holders of the Bank | | 402,284 | 607,069 |
| **Total equity attributable to equity holders of the Bank** | | **4,499,435** | **5 272 576** |
| Minority interest | 38 | 153,509 | 141 131 |
| **Total equity** | | **4,652,944** | **5 413 707** |
| **Total equity and liabilities** | | **75,186,728** | **68 354 713** |

The following Notes form an integral part of these consolidated financial statements

## Statement of Changes in Consolidated Equity for the years ended 31 December 2008 and 2007

(in thousands of euro)

| | Share capital | Share premium | Treasury stock | Preference shares | Fair value reserve | Other reserves and retained earnings | Profit for the year attributable to equity holders of the Bank | Total equity attributable to equity holders of the Bank | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2006** | **2,500,000** | **668,851** | **( 63,732)** | **600,000** | **512,042** | **97,997** | **420,714** | **4,735,872** | **86,579** | **4,822,451** |
| Other movements recognised directly in Equity: | | | | | | | | | | |
| Changes in fair value, net of taxes | - | - | - | - | 134,659 | - | - | 134,659 | 18,685 | 153,344 |
| Exchange differences | - | - | - | - | - | 3,455 | - | 3,455 | ( 2,106) | 1,349 |
| Share based payment scheme, net of taxes (see Note 12) | - | - | - | - | - | 1,030 | - | 1,030 | - | 1,030 |
| Profit for the year | - | - | - | - | - | - | 607,069 | 607,069 | 28,004 | 635,073 |
| **Total gains and losses recognised in the year** | **-** | **-** | **-** | **-** | **134,659** | **4,485** | **607,069** | **746,213** | **44,583** | **790,796** |
| Transfer to reserves | - | - | - | - | - | 222,390 | ( 222,390) | - | - | - |
| Dividends on ordinary shares (a) | - | - | - | - | - | - | ( 198,324) | ( 198,324) | - | ( 198,324) |
| Dividends on preference shares (b) | - | - | - | - | - | ( 33,480) | - | ( 33,480) | - | ( 33,480) |
| Changes in treasury stock (see Note 37) | - | - | 22,295 | - | - | - | - | 22,295 | - | 22,295 |
| Other changes in minority interest (see Note 38) | - | - | - | - | - | - | - | - | 9,969 | 9,969 |
| **Balance as at 31 December 2007** | **2,500,000** | **668,851** | **( 41,437)** | **600,000** | **646,701** | **291,392** | **607,069** | **5,272,576** | **141,131** | **5,413,707** |
| Other movements recognised directly in Equity: | | | | | | | | | | |
| Changes in fair value, net of taxes | - | - | - | - | ( 913,035) | - | - | ( 913,035) | ( 22,136) | ( 935,171) |
| Exchange differences | - | - | - | - | - | ( 2,170) | - | ( 2,170) | ( 3,790) | ( 5,960) |
| Share based payment scheme, net of taxes (see Note 12) | - | - | - | - | - | 517 | - | 517 | - | 517 |
| Profit for the year | - | - | - | - | - | - | 402,284 | 402,284 | 24,861 | 427,145 |
| **Total gains and losses recognised in the year** | **-** | **-** | **-** | **-** | **( 913,035)** | **( 1,653)** | **402,284** | **( 512,404)** | **( 1,065)** | **( 513,469)** |
| Transfer to reserves | - | - | - | - | - | 368,213 | ( 368,213) | - | - | - |
| Dividends on ordinary shares (a) | - | - | - | - | - | - | ( 238,856) | ( 238,856) | - | ( 238,856) |
| Dividends on preference shares (b) | - | - | - | - | - | ( 33,480) | - | ( 33,480) | - | ( 33,480) |
| Changes in treasury stock (see Note 37) | - | - | 11,599 | - | - | - | - | 11,599 | - | 11,599 |
| Other changes in minority interest (see Note 38) | | | | | | | | - | 13,443 | 13,443 |
| **Balance as at 31 December 2008** | **2,500,000** | **668,851** | **( 29,838)** | **600,000** | **( 266,334)** | **624,472** | **402,284** | **4,499,435** | **153,509** | **4,652 944** |

(a) Corresponds to a dividend per share of 0.48 euros and 0.40 euros paid to the shares outstading in respect to the years ended 31 December 2008 and 2007, respectively.
(b) Corresponds to a preferred dividend, based on an annual interest rate of 5.58%, related to preference shares issued by BES Finance (see Note 37).

The following Notes form an integral part of these consolidated financial statements

# Consolidated Cash Flow Statement fot the years ended 31 December 2008 and 2007

(in thousands of euro)

| | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **Cash flows arising from operating activities** | | | |
| Interest and similar income received | | 4,782,932 | 3,258,653 |
| Interest expense and similar charges paid | | ( 3,733,296) | ( 2,306,283) |
| Fee and commission income received | | 723,499 | 747,787 |
| Fee and commission expense paid | | ( 112,970) | ( 112,987) |
| Recoveries on loans previously written off | | 21,954 | 34,857 |
| Contributions to the Pensions Fund | | ( 537,882) | ( 42,951) |
| Cash payments to employees and suppliers | | ( 475,620) | ( 802,110) |
| | | **668,617** | **776,966** |
| *Changes in operating assets and liabilities:* | | | |
| Cash and deposits at central banks | | 2,650,532 | ( 112,707) |
| Financial assets at fair value through profit or loss | | ( 164,940) | 634,547 |
| Loans and advances to banks | | 3,675,088 | ( 614,065) |
| Deposits from banks | | 553,681 | 1,100,195 |
| Loans and advances to customers | | ( 5,052,512) | ( 7,410,850) |
| Due to customers | | 2,588,770 | 1,776,876 |
| Derivatives for risk management purposes | | 7,000 | ( 11,968) |
| Other operating assets and liabilities | | ( 855,782) | ( 709,327) |
| **Net cash flow from operating activities before income taxes** | | **4,070,454** | **( 4,570,333)** |
| Income taxes paid | | ( 165,618) | ( 60,750) |
| **Net cash flow from operating activities** | | **3,904,836** | **(4,631,083)** |
| **Cash flows arising from investing activities** | | | |
| Acquisition of subsidiaries and associates | | ( 74,756) | ( 43,140) |
| Disposal of subsidiaries and associates | | 6,133 | 12,107 |
| Dividends received | | 120,444 | 83,208 |
| Acquisition of available-for-sale financial assets | | ( 26,539,016) | ( 13,782,478) |
| Sale of available-for-sale financial assets | | 24,174,702 | 12 823,589 |
| Held to maturity investments | | ( 1,188,807) | 119,434 |
| Acquisition of tangible and intangible assets | | ( 228,762) | ( 307,536) |
| Sale of tangible and intangible assets | | 522 | 3,367 |
| **Net cash flows arising from investing activities** | | **(3,729,540)** | **(1,091,449)** |
| **Cash flows arising from financing activities** | | | |
| Proceeds from issue of bonds | | 11,997,337 | 9,467,710 |
| Reimbursement of bonds | | (12,192,096) | (3,202,094) |
| Proceeds from issue of subordinated debt | | 780,882 | 21,134 |
| Reimbursement of subordinated debt | | ( 154,456) | ( 129,690) |
| Treasury stock | | 11,599 | 22,295 |
| Dividends paid from ordinary shares | | ( 238,856) | ( 198,324) |
| Dividends paid from preference shares | | ( 33,480) | ( 33,480) |
| **Net cash flows from financing activities** | | **170,930** | **5,947,551** |
| **Net changes in cash and cash equivalents** | | **346,226** | **225,019** |
| **Cash and cash equivalents at the beginning of the year** | | **1,582,916** | **1,372,190** |
| Effect of exchange rate changes on cash and cash equivalents | | ( 5,380) | ( 14,293) |
| Net changes in cash and cash equivalents | | 346,226 | 225,019 |
| **Cash and cash equivalents at the end of the year** | | **1,923,762** | **1,582,916** |
| **Cash and cash equivalents includes:** | | | |
| Cash | 15 | 249,979 | 277,260 |
| Deposits at central banks | 15 | 1,777,339 | 1,083,958 |
| Mandatory deposits with the Bank of Portugal | 15 | ( 767,966) | ( 498 ,744) |
| Deposits with banks | 16 | 664,410 | 720,442 |
| **Total** | | **1,923,762** | **1,582,916** |

The following Notes form an integral part of these consolidated financial statements

## Note 1 - ACTIVITY AND GROUP STRUCTURE

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

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

BES is listed on the Euronext Lisbon. As at 31 December 2008, the Bank's subsidiary BES Finance, Ltd had 600 thousand preference shares listed on the Luxembourg Stock Exchange.

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

BES Group has a network of 803 branches throughout Portugal (31 December 2007: 757), international branches in London, Madrid, New York, Nassau, Cayman Islands and Cape Verde, a branch in the Madeira Free Zone and twelve overseas representative offices.

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

a) Subsidiaries consolidated directly into the Bank:

| | Established | Acquired | Headquartered | Activity | Economic Interest | Consolidation method |
|---|---|---|---|---|---|---|
| **BANCO ESPÍRITO SANTO, SA (BES)** | 1937 | - | Portugal | Commercial banking | | |
| Banco Espírito Santo de Investimento, SA (BESI) | 1993 | 1997 | Portugal | Investment bank | 100% | Full consolidation |
| Espírito Santo Servicios, SA | 1996 | 1997 | Spain | Insurance | 99.98% | Full consolidation |
| Espírito Santo Activos Financieros, SA | 1988 | 2000 | Spain | Asset management | 92.5% | Full consolidation |
| Banco Espírito Santo dos Açores, SA (BAC) | 2002 | 2002 | Portugal | Commercial banking | 57.53% | Full consolidation |
| BEST - Banco Electrónico de Serviço Total, SA (BEST) | 2001 | 2001 | Portugal | Internet banking | 66% | Full consolidation |
| Banco Espírito Santo Angola, SARL (BESA) | 2001 | 2001 | Angola | Commercial banking | 79.96% | Full consolidation |
| BESAACTIV - Sociedade Gestora de Fundos de Investimento, SA | 2008 | 2008 | Angola | Asset management - Mutual funds | 79.33% | Full consolidation |
| Banco Espírito Santo do Oriente, SA (BESOR) | 1996 | 1996 | Macao | Commercial banking | 99.75% | Full consolidation |
| Espírito Santo Bank, Inc. (ESBANK) | 1963 | 2000 | USA | Commercial banking | 98.45% | Full consolidation |
| BES Beteiligungs, GmbH (BES GMBH) | 2006 | 2006 | Germany | Holding company | 100% | Full consolidation |
| BIC International Bank Ltd. (BIBL) | 2000 | 2000 | Cayman Islands | Commercial banking | 100% | Full consolidation |
| Parsuni - Sociedade Unipessoal, SGPS | 2004 | 2005 | Portugal | Holding company | 100% | Full consolidation |
| Praça do Marquês - Serviços Auxiliares, SA (PÇMARQUÊS) | 1990 | 2007 | Portugal | Real estate | 100% | Full consolidation |
| Espírito Santo, plc. (ESPLC) | 1999 | 1999 | Ireland | Non-bank finance company | 99.99% | Full consolidation |
| ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF) | 1992 | 1992 | Portugal | Holding company | 85% | Full consolidation |
| ES Tech Ventures, S.G.P.S., SA (ESTV) | 2000 | 2000 | Portugal | Holding company | 100% | Full consolidation |
| Banco Espirito Santo North American Capital Limited Liability Co. (BESNAC) | 1990 | 1990 | USA | Financing vehicle | 100% | Full consolidation |
| BES Finance, Ltd. (BESFINANCE) | 1997 | 1997 | Cayman Islands | Financing vehicle | 100% | Full consolidation |
| ES, Recuperação de Crédito, ACE (ESREC) | 1998 | 1998 | Portugal | Credit recovery | 100% | Full consolidation |
| Espírito Santo Financial Consultants, SA (ESFC) | 1999 | 2000 | Portugal | Portfolio management | 100% | Full consolidation |
| ES Concessões, SGPS, SA (ES CONCESSÕES) | 2002 | 2003 | Portugal | Holding company | 40.96% | Full consolidation |
| Espírito Santo Informática, ACE (ESINF) | 2006 | 2006 | Portugal | Services provider | 84.9% | Full consolidation |
| Espírito Santo Data, S.G.P.S., SA (ESDATA) | 1989 | 1995 | Portugal | Computer services | 100% | Full consolidation |
| Espírito Santo Prestação de Serviços, ACE 2 (ES ACE2) | 2006 | 2006 | Portugal | Services provider | 100% | Full consolidation |
| ESGEST - Esp. Santo Gestão Instalações, Aprov. e Com., SA (ESGEST) | 1995 | 1995 | Portugal | Services provider | 100% | Full consolidation |
| Cêntimo, SGPS, SA (CÊNTIMO) | 1988 | 1995 | Portugal | Holding company | 100% | Full consolidation |
| Espírito Santo e Comercial de Lisboa, Inc. (ESCLINC) | 1982 | 1997 | USA | Representation office | 100% | Full consolidation |
| Espírito Santo Representações, Ltda. (ESREP) | 1996 | 1996 | Brazil | Representation office | 99.99% | Full consolidation |
| Quinta dos Cónegos - Sociedade Imobiliária, SA (CÓNEGOS) | 1991 | 2000 | Portugal | Real estate | 81% | Full consolidation |
| Fundo de Capital de Risco - ES Ventures II | 2006 | 2006 | Portugal | Venture capital fund | 58.79% | Full consolidation |
| Fundo FCR PME / BES | 1997 | 1997 | Portugal | Venture capital fund | 57.09% | Full consolidation |
| Europ Assistance - Comp. Portuguesa Seguros Assistência, SA (EURASS) | 1993 | 1993 | Portugal | Insurance | 23% | Equity method |
| BES-Vida, Companhia de Seguros, SA (BES VIDA) | 1993 | 2006 | Portugal | Insurance | 50% | Equity method |
| BES, Companhia de Seguros, SA (BES SEGUROS) | 1996 | 1996 | Portugal | Insurance | 25% | Equity method |
| Fiduprivate - Soc. de Serviços, Consult., Adm. de Empresas, SA (FIDUPRIVATE) | 1994 | 1994 | Portugal | Consulting | 24.76% | Equity method |
| Esumédica - Prestação de Cuidados Médicos, SA (ESUMÉDICA) | 1994 | 1994 | Portugal | Health care | 24.9% | Equity method |
| Société Civile Immobilière du 45 Avenue Georges Mandel (SCI GM) | 1995 | 1995 | France | Real estate | 22.5% | Equity method |
| ESEGUR - Espírito Santo Segurança, SA (ESEGUR) | 1994 | 2004 | Portugal | Security | 44% | Equity method |
| Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT) | 1991 | 2003 | Portugal | Renting | 45% | Equity method |

b) Sub-Groups:

| | Established | Acquired | Headquartered | Activity | % economic interest | Consolidation method |
|---|---|---|---|---|---|---|
| **Banco Espírito Santo de Investimento, SA (BESI)** | **1993** | **1997** | **Portugal** | **Investment bank** | **100%** | **Full consolidation** |
| Espírito Santo Capital - Sociedade de Capital de Risco, SA (ESCAPITAL) | 1988 | 1996 | Portugal | Venture capital | 100% | Full consolidation |
| SES Iberia | 2004 | 2004 | Spain | Asset management | 50% | Full consolidation |
| HLC - Centrais de Cogeração, S.A. | 1999 | 1999 | Portugal | Services provider | 24.5% | Equity method |
| Coporgest | 2002 | 2005 | Portugal | Holding company | 25% | Equity method |
| Neumáticos Andrés Investment, S.A. | 2006 | 2006 | Spain | Services provider | 17.68% | Equity method a) |
| Synergy Industry and Technology, S.A. | 2006 | 2007 | Spain | Holding company | 18.67% | Equity method a) |
| Salgar Investments, S.L. | 2007 | 2007 | Spain | Services provider | 23.58% | Equity method |
| Só Peso Restauração e Hotelaria,S.A. | 2006 | 2007 | Portugal | Restaurants | 9.77% | Equity method a) |
| ESSI Comunicações SGPS, SA | 1998 | 1998 | Portugal | Holding company | 100% | Full consolidation |
| ESSI SGPS, SA | 1997 | 1997 | Portugal | Holding company | 100% | Full consolidation |
| Concordia - Espírito Santo Investment | 2005 | 2005 | Poland | Services provider | 85.42% | Full consolidation |
| Espírito Santo Investments PLC | 1996 | 1996 | Ireland | Non-bank finance company | 100% | Full consolidation |
| Morumbi Capital Fund | 2005 | 2005 | Cayman Islands | Fund | 95.16% | Full consolidation |
| ESSI Investimentos SGPS, SA | 1998 | 1998 | Portugal | Holding company | 100% | Full consolidation |
| ESSI FIN, SGPS, SA | 2008 | 2008 | Portugal | Holding company | 60% | Full consolidation |
| Fin Solutia - Consultoria de Gestão de Créditos, SA | 2007 | 2007 | Portugal | Credit recovery | 29.70% | Equity method |
| Polish Hotel Company, SP | 2007 | 2008 | Poland | Services provider | 33% | Equity method |
| Polish Hotel Capital SP | 2007 | 2008 | Poland | Services provider | 33% | Equity method |
| Polish Hotel Management Company, SP | 2008 | 2008 | Poland | Services provider | 25% | Equity method |
| Espirito Santo Investimentos, Ltda | 1996 | 1996 | Brazil | Holding company | 100% | Full consolidation |
| BES Investimento do Brasil, SA | 2000 | 2000 | Brazil | Investment bank | 80% | Full consolidation |
| Espírito Santo Capital Brasil, SA | 2005 | 2005 | Brazil | Brokerage house | 90% | Full consolidation |
| BES Securities do Brasil, SA | 2000 | 2000 | Brazil | Asset management | 80% | Full consolidation |
| Gespar S/C, Ltda. | 2001 | 2001 | Brazil | Holding company | 80% | Full consolidation |
| BES Activos Financeiros, Ltda | 2004 | 2004 | Brazil | Asset management | 82.5% | Full consolidation |
| FI Multimercado Treasury | 2005 | 2005 | Brazil | Fund | 80% | Full consolidation |
| BRB Internacional, S.A. | 2001 | 2001 | Spain | Entertainment | 24.93% | Equity method |
| Prosport - Com. Desportivas, S.A. | 2001 | 2001 | Spain | Sporting goods trading | 25% | Equity method |
| Apolo Films, SL | 2001 | 2001 | Spain | Entertainment | 25.15% | Equity method |
| Cominvest- SGII, S.A. | 1993 | 1993 | Portugal | Real estate | 49% | Full consolidation |
| Kutaya | 1999 | 1999 | Portugal | Support services | 100% | Full consolidation |
| Fundo Espírito Santo IBERIA I | 2004 | 2004 | Portugal | Venture capital fund | 38.69% | Equity method |
| BES Beteiligungs, GmbH (BES GMBH) | 2006 | 2006 | Germany | Holding company | 100% | Full consolidation |
| Bank Espírito Santo International, Ltd. (BESIL) | 1983 | 2002 | Cayman Islands | Commercial banking | 100% | Full consolidation |
| ESAF - Espírito Santo Activos Financeiros, S.G.P.S., SA (ESAF) | 1992 | 1992 | Portugal | Holding company | 85% | Full consolidation |
| Espírito Santo Fundos de Investimento Mobiliário, SA | 1987 | 1987 | Portugal | Asset management - investment funds | 85% | Full consolidation |
| Espírito Santo International Management, SA | 1995 | 1995 | Luxembourg | Asset management - investment funds | 84.83% | Full consolidation |
| Espírito Santo Fundos de Investimento Imobiliário, SA | 1992 | 1992 | Portugal | Asset management - real estate funds | 85% | Full consolidation |
| Espírito Santo Fundo de Pensões, SA | 1989 | 1989 | Portugal | Asset management - pension funds | 85% | Full consolidation |
| Capital Mais - Assessoria Financeira, SA | 1998 | 1998 | Portugal | Advisory services | 85% | Full consolidation |
| Espirito Santo International Asset Management, Ltd. | 1998 | 1998 | British Virgin Islands | Advisory services | 41.65% | Equity method |
| Espírito Santo Gestão de Patrimónios, SA | 1987 | 1987 | Portugal | Portfolio management | 85% | Full consolidation |
| ESAF - Espírito Santo Participações Internacionais, SGPS, SA | 1996 | 1996 | Portugal | Holding company | 85% | Full consolidation |
| ESAF - International Distributors Associates, Ltd | 2001 | 2001 | British Virgin Islands | Distribution company | 85% | Full consolidation |
| ESAF - Alternative Asset Management, Ltd | 2007 | 2007 | United Kingdom | Asset management | 85% | Full consolidation |

| | Established | Acquired | Headquartered | Activity | % economic interest | Consolidation method |
|---|---|---|---|---|---|---|
| **Espírito Santo Data, S.G.P.S., SA (ESDATA)** | **1989** | **1995** | **Portugal** | **Computer services** | **100%** | **Full consolidation** |
| OBLOG Consulting, SA | 1993 | 1993 | Portugal | Software development | 66.67% | Equity method |
| ES Tech Ventures, S.G.P.S., SA (ESTV) | 2000 | 2000 | Portugal | Holding company | 100% | Full consolidation |
| ES Ventures - Sociedade de Capital de Risco, SA | 2005 | 2005 | Portugal | Venture capital | 100% | Full consolidation |
| SGPICE Soc. de Serviços de Gestão | 2001 | 2001 | Portugal | Management of internet portals | 33.33% | Equity method |
| Jampur - Trading Internacional, Lda. (JAMPUR) | 1999 | 2001 | Portugal | Holding company | 100% | Full consolidation |
| Espírito Santo Contact Center, Gestão de Call Centers, SA (ESCC) | 2000 | 2000 | Portugal | Call centers management company | 41.67% | Equity method |
| Banque Espirito Santo et de la Vénétie, SA (ES Vénétie) | 1927 | 1993 | France | Commercial banking | 42.69% | Equity method |
| Fundo de Capital de Risco - ES Ventures II | 2006 | 2006 | Portugal | Venture capital fund | 58.79% | Full consolidation |
| Atlantic Ventures Corporation | 2006 | 2006 | USA | Holding company | 58.79% | Full consolidation |
| Sousacamp, SGPS, SA | 2007 | 2007 | Portugal | Holding company | 22.99% | Equity method |
| Global Active - SGPS, SA | 2006 | 2006 | Portugal | Holding company | 14.69% | Equity method a) |
| Outsystems, SA | 2007 | 2007 | Portugal | IT Services | 16.04% | Equity method a) |
| Coreworks - Proj. Circuito Sist. Elect., SA | 2006 | 2006 | Portugal | IT Services | 23.53% | Equity method |
| Multiwave Photonics, SA | 2003 | 2008 | Portugal | IT Services | 12.2% | Equity method a) |
| Bio-Genesis | 2007 | 2007 | Brazil | Holding company | 21.16% | Equity method |
| Fundo FCR PME / BES | 1997 | 1997 | Portugal | Venture capital fund | 57.09% | Full consolidation |
| Decomed, SGPS | 2006 | 2006 | Portugal | Holding company | 12.15% | Equity method a) |
| Soprattutto Café, S.A | 2006 | 2006 | Portugal | Distribution company | 25.59% | Equity method |
| Enkrott SA | 2006 | 2006 | Portugal | Water management and treatment | 17.13% | Equity method a) |
| Rodi - Sinks & Ideas, SA | 2006 | 2006 | Portugal | Industry | 25.29% | Equity method |
| Espírito Santo Activos Financieros, SA | 1988 | 2000 | Spain | Asset management | 92.5% | Full consolidation |
| Espírito Santo Gestion, SA, SGIIC | 2001 | 2001 | Spain | Asset management | 92.5% | Full consolidation |
| Espírito Santo Pensiones, S.G.F.P., SA | 2001 | 2001 | Spain | Asset management - pension funds | 92.5% | Full consolidation |
| Espírito Santo Bank, Inc. (ESBANK) | 1963 | 2000 | USA | Commercial banking | 98.45% | Full consolidation |
| ES Financial Services, Inc. | 2000 | 2000 | USA | Brokerage | 79.25% | Full consolidation |
| Tagide Properties, Inc. | 1991 | 1991 | USA | Real estate | 98.45% | Full consolidation |
| Espírito Santo Representaciones | 2003 | 2003 | Uruguay | Representation office | 98.45% | Full consolidation |
| ES Concessões, SGPS, SA (ES CONCESSÕES) | 2002 | 2003 | Portugal | Holding company | 40.96% | Full consolidation |
| Concesionaria Autopista Perote-Xalapa, CV | 2008 | 2008 | Mexico | Motorway concession | 8.19% | Equity method a) |
| Ascendi - Concessões de Transportes, SGPS, SA | 2007 | 2008 | Portugal | Motorway concession | 16.38% | Equity method a) |
| Lusoscut - Auto-Estradas da Costa de Prata, S.A. | 2000 | 2000 | Portugal | Motorway concession | 9.17% | Equity method a) |
| Lusoscut - Auto-Estradas das Beiras Litoral e Alta, S.A. | 2001 | 2001 | Portugal | Motorway concession | 9.17% | Equity method a) |
| Lusoscut - Auto-Estradas do Grande Porto, S.A. | 2002 | 2002 | Portugal | Motorway concession | 9.17% | Equity method a) |

a) The percentage in the table above represents the Group's economic interest. These companies were accounted for following the equity method, as the Group exercises a significant influence over them, in accordance with the accounting policy described in Note 2.2.

Additionally, the Group consolidates special purpose entities, established within the scope of securitisation transactions which are referred to in Note 42.

The main changes in BES Group that occurred during 2008 are highlighted as follows:

**- Subsidiaries companies**

- On 14 March 2008 BESAACTIV - Sociedade Gestora de Fundos de Investimento, S.A. was set-up, being its share capital held mainly by BESA and ESAF, 62% and 35% respectively. This subsidiary is headquartered in Angola and is fully consolidated by BES Group;
- In July 2008, BES sold its investment in ES Contact Center representing 35% of its share capital, to Companhia de Seguros Tranquilidade , S.A., maintaining the Group a 41.67% shareholding position in ES Contact Center – Gestão de Call Centers, S.A., through the participation held by ESTV. From that date, ES Contact Center – Gestão de Call Centers, S.A., is included in the consolidated financial statements under the equity method;
- In the scope of the merger process of ES Concessões and OPCA – GEST – Gestão, Exploração e Administração de Concessões, Obras Públicas, S.A., formalised in 11 December, 2008, ES Concessões increased its share capital and BES started to hold a 40.96% shareholding position in ES Concessões;
- On 31 December 2008, BES Leasing e Factoring - Instituição Financeira de Crédito, S.A., was merged by incorporation into BES. This merger had no impact in the consolidated financial statements of the Group.

**- Associates (see Note 27)**

- In February 2008, ES Concessões acquired 20% of the share capital of Autopista Perote-Xalapa, CV in the amount of euro 35 056 thousands;
- Since March 2008, Meeseway – Concessões de Transportes is included in the consolidated financial statements of ES Concessões under the equity method. ES Concessões has a 40% shareholding in the company, with an acquisition cost of euro 2,000 thousands. In June 2008 the company changed its denomination to Ascendi - Concessões de Transportes, SGPS, S.A;
- In May 2008, Fundo FCR PME/BES sold its stake in Carlua, SGPS, S.A., generating a gain in the amount of euro 967 thousands.
- Following the merger of ES Concessões with OPCA – GEST – Gestão, Exploração e Administração de Concessões, Obras Públicas, S.A., the investments in Lusoscut - Auto-Estradas da Costa de Prata, SA., Lusoscut - Auto-Estradas das Beiras Litoral and Alta, SA. and Lusoscut - Auto-Estradas do Grande Porto, S.A., are included in the consolidated financial statements of the Group under the equity method.

In the consolidated income statement for the year ended 31 December 2008, the amount of euro 1,673 thousand (31 December 2007: 1,573 thousand) under gains on disposal of investments in subsidiaries and associates refers to the gains on disposal of the following investments:

(in thousands of euro)

| | Investment held by | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|---|
| | | % of share capital sold | Amount | % of share capital sold | Amount |
| Carlua, SGPS, SA | Fundo FCR PME / BES | 18.34% | 967 | - | - |
| ESCC | BES | 35.00% | 680 | - | - |
| Inovamais, SA | Fundo de Capital de Risco ES Ventures II | 20.00% | 13 | - | - |
| Inova Europe, SPA | Fundo de Capital de Risco ES Ventures II | 20.00% | 7 | - | - |
| Invent, SA | Fundo de Capital de Risco ES Ventures II | 20.00% | 6 | - | - |
| Sopratutto Café 2, SA | Fundo FCR PME / BES | - | - | 49.00% | 1,013 |
| Sotancro, SA | BESI | - | - | 44.83% | 346 |
| Água Mais | Fundo FCR PME / BES | - | - | 29.95% | 214 |
| | | | **1,673** | | **1,573** |

## Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

### 2.1 Basis of preparation

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

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

The consolidated financial statements as at and for the year ended 31 December 2008 were prepared in accordance with the IFRS effective and adopted by the EU until 31 December 2008. The accounting policies applied by the Group in the preparation of these consolidated financial statements as at 31 December 2008 are consistent with the ones used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2007.

In the preparation of the consolidated financial statements as at 31 December 2008, the Group adopted the amendments to IAS 39 – Financial Instruments: Recognition and Measurement and to IFRS 7 - Financial Instruments – Disclosures, regarding the reclassification of financial assets between categories, published by IASB in October 2008. Resulting from these amendments, the Group has adapted its accounting policy regarding reclassifications between categories (see accounting policy described in Note 2.6). The impact from the adoption in 2008 of these amendments is presented in Note 22.

Additionally, the Group also adopted in 2008 the IFRIC 11 – IFRS 2 – Group and Treasury Share transactions and IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. The adoption of these interpretations had no significant impact in the consolidated financial statements of the Group.

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

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

These consolidated financial statements were approved in the Board of Directors meeting held on 13 February 2009.

## 2.2 Basis of consolidation

These consolidated financial statements comprise the financial statements of Banco Espírito Santo, S.A and its subsidiaries ("the Group" or "BES Group"), and the results attributable to the Group from its associates.

These accounting policies have been consistently applied by the Group companies, during all the years covered by the consolidated financial statements.

**Subsidiaries**
Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than one half of the voting rights. Additionally, control also exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is equal or less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary attributable to minority interest, which exceed the equity of the subsidiary attributable to the minority interest, is attributed to the Group and is taken to the income statement when incurred. If the subsidiary subsequently reports profits, these profits are recognised by the Group until the losses attributable to the minority interest, previously recognised have been recovered.

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

If the Group's share of losses of an associate equals or exceeds its interest in the associate, including any long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation of covering those losses or has made payments on behalf of the associate.

**Special purpose entities ("SPE")**

The Group consolidates certain special purpose entities ("SPE"), specifically created to accomplish a narrow and well defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, independently of the percentage of the equity held.

The evaluation of the existence of control is made based on the criteria established by SIC 12 – Consolidation of Special Purpose Entities, which can be summarised as follows:

- In substance, the activities of the SPE are being conducted in accordance with the specific needs of the Group's business, so that the Group obtains the benefits from these activities;
- In substance the Group has the decision-making powers to obtain the majority of the benefits from the activities of the SPE;
- In substance, the Group has rights to obtain the majority of the benefits of the SPE, and therefore may be exposed to the inherent risks of its activities;
- In substance, the Group retains the majority of residual or ownership risks related to the SPE so as to obtain the benefits from its activities.

**Goodwill**

Goodwill resulting from business combinations that occurred until 1 January 2004 was offset against reserves, according to the option granted by IFRS 1, adopted by the Group on the date of transition to the IFRS.

From 1 January 2004, the purchase method of accounting is used by the Group to account for the acquisition of subsidiaries and associates. The cost of acquisition is measured at the fair value, determined at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

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

In accordance with IFRS 3 – Business Combinations, goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associates is included in the book value of the investment in those associates, determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

**Acquisition of minority interest**

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

**Foreign currency translation**

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

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

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

**Balances and transactions eliminated in consolidation**

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

## 2.3 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are accounted for in equity, within the fair value reserve.

## 2.4 Derivative financial instruments and hedge accounting

**Classification**

Derivatives for risk management purposes include (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as being hedging derivatives.

All other derivatives are classified as trading derivatives.

**Recognition and measurement**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

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

**Hedge accounting**

- Classification criteria

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

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

- Fair value hedge

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

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

- Cash flow hedge

When a derivative financial instrument is designated as a hedge of the variability in highly probable future cash flows, the effective portion of changes in the fair value of the hedging derivatives is recognised in equity. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

During the years covered by these financial statements the Group did not have any transactions classified as cash flow hedge.

**Embedded derivatives**

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

## 2.5 Loans and advances to customers

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

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

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

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

**Impairment**

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

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

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

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

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

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

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

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

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

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

## 2.6 Other financial assets

**Classification**

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

- Financial assets at fair value through profit or loss

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

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

- Such financial assets are managed, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

Note 23 includes a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.

The structured products acquired by the Group corresponding to financial instruments containing one or more embedded derivatives meet either of the above mentioned conditions, and, in accordance, are classified under the fair value trough profit or loss cathegory.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold until its maturity and that are not classified, at inception, as at fair value through profit or loss or as available-for-sale.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in the other categories referred to above.

**Initial recognition, measurement and derecognition**

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

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

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

**Subsequent measurement**

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

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

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

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

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

**Reclassifications between categories**

The Group only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, if it has the intention and ability to hold those financial assets until maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

In October 2008, IASB issued an amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. This amendment to IAS 39, permits, in rare circumstances, to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category, to the held-to-maturity investments, available-for-sale financial assets and loans and receivables categories.

The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category.

Financial assets may be reclassified to the (i) held-to-maturity investments category if the entity has the intention and ability to hold those financial assets until maturity and to the (ii) loans and receivables category if the entity has the intention and ability to hold those financial assets for the foreseeable future and if those financial assets are not traded in an active market.

Following the issuance of this amendment to IAS 39, the Group reclassified, during the last quarter of 2008, non-derivative financial assets, with fixed or determinable payments and fixed maturities, out of the fair value through profit or loss category to the held-to-maturity investments category.

In accordance with the transitions rules of this amendment to IAS 39, the reclassifications of financial assets performed until 31 October 2008 were made at the fair value of the assets reclassified on 1 July 2008 and any reclassifications of a financial asset made in periods beginning on or after 1 November 2008 were made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value will be recognised in the income statement until maturity, based on the effective interest rate method.

**Impairment**

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for equity securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably estimated.

For held-to-maturity investments, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate. The carrying amount of the impaired assets is reduced through the use of an allowance account. If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For held-to-maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

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

## 2.7 Sale and repurchase agreements

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

Securities purchased under agreements to resell (reverse repos) at a fixed price or at the purchase price plus a lender's return are not recognised, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.6. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

## 2.8 Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

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

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities as at fair value through profit or loss when:
- Such financial liabilities are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial liabilities contain embedded derivatives.

The structured products issued by the Group meet either of the above mentioned conditions and, in accordance, are classified under the fair value trough profit or loss category.

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

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

## 2.9 Equity instruments

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

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

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

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

## 2.10 Offsetting financial instruments

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

## 2.11 Assets acquired in exchange for loans

Assets acquired in exchange for loans are initially reported in 'Other assets' and are initially recognised at the lower of their fair values less costs to sell and the carrying amount of the loans.

Subsequently, those assets are measured at the lower of their carrying amount and the corresponding fair values less costs to sell and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

The value of assets acquired in exchange for loans is periodically reviewed by the Group, based on valuations performed by experts.

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

## 2.12 Property and equipment

Property and equipment are stated at deemed cost less accumulated depreciation and impairment losses. At the transition date to IFRS, 1 January 2004, the Group elected to consider as deemed cost, the revalue amount of property and equipment as determined in accordance with previous accounting policies of the Group, which was broadly similar to depreciated cost measured under IFRS, adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

## 2.13 Intangible assets

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

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

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

## 2.14 Leases

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

**Operating leases**

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

**Finance leases**

- As lessee

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

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, for the amount equal to the net investment made in the leased assets. Interest included in instalments charged to customers is recorded as interest income, while repayments of principal, also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

## 2.15 Employee benefits

**Pensions**

To cover the liabilities assumed by the Group within the framework stipulated by the ACT "Acordo Colectivo de Trabalho" for the banking sector, pension funds were set up designed to cover retirement benefits on account of age, including widows and orphans benefits and disability for the entire work force and also health-care benefits for employees hired until 31 March 2008. Employees hired after 31 March 2008 are covered by the Social Security general scheme.

During 2008, the Bank obtained the necessary authorizations from the Portuguese Insurance Institute to change the Pension Fund contract in order to allow the coverage of all pension liabilities and health care benefits.

The pension liabilities and heath care benefits are covered by funds that are managed by ESAF – Espírito Santo Fundos de Pensões, S.A., a Group's subsidiary.

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

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

The liability with pensions is calculated semi-annually by the Group, as at 31 December and 30 June for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions, are recognised as an asset or liability and are recognised in the income statement using the corridor method defined by IAS 19.

This method establishes that the actuarial gains and losses accumulated at the beginning of the semester that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the semester, are charged to the income statement over a period that cannot exceed the average of the remaining working lives of the employees participating in the plan. The Group has determined on the basis of the above criteria to amortise the actuarial gains and losses that fall outside the corridor during a 15 year period. The actuarial gains and losses accumulated at the beginning of the period that are within the corridor are not recognised in the income statement.

At each period, the Group recognises as a cost in the income statement a net total amount that comprises (i) the service cost, (ii) the interest cost, (iii) the expected return on plan assets, (iv) a portion of the net cumulative actuarial gains and losses determined using the corridor method, and (v) the effect of curtailment losses related with early retirements, which includes the early amortisation of the respective actuarial gains and losses.

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

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

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

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

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

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

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

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

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by the Group in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated semi-annually, at the balance sheet date, by the Group using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liabilities.

Annually, the increase in the liability for long-term service premiums, including actuarial gains and losses and past service cost is charged to the income statement.

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

The shares held by the employees under SIBA are accounted for as treasury stock of BES, this scheme being classified as an equity settlement share based payment in accordance with IFRS 2 – Share based payments.

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

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

**Variable remuneration payment plan**
During the first semester of 2008, following the General Shareholders Meeting held on 31 March 2008, BES and its subsidiaries established a benefits payment scheme - Variable remuneration payment plan (PPRV – 2008/2010)

Under this incentive scheme, employees of BES and its subsidiaries have the right to a future cash payment, corresponding to the appreciation of BES shares above a pre-established price (strike price). In order to receive this payment, the employees have to remain in the Bank for a minimum period of three years.

This variable remuneration payment plan is within the scope of IFRS 2 – Share based payments and corresponds to a cash settlement share based payment. The fair value of this benefit plan at inception, determined at its grant date, will be taken to the income statements as staff costs over a period of three years. The recognised liability under the plan is re-measured at each balance sheet date, being the fair value changes recognised in the income statement under the caption net gains from financial assets at fair value through profit or loss.

**Bonus to employees and to the Board of Directors**
In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors are recognised in the income statement in the year to which they relate.

## 2.16 Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available-for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

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

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

## 2.17 Provisions

Provisions are recognised when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

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

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

## 2.18 Interest income and expense

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

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

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

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

For derivative financial instruments, except for (i)derivatives for risk management purposes (see Note 2.4), the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

## 2.19 Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

## 2.20 Dividend income

Dividend income is recognised when the right to receive payment is established.

## 2.21 Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

## 2.22 Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

## 2.23 Non-current assets held for sale

Non-current assets or disposal groups (group of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when (i) their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), (ii) the assets or disposal groups are available for immediate sale and (iii) its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are measured at the lower of their carrying amount or fair value less costs to sell, determined annually in accordance with the applicable IFRS.

## 2.24 Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

## **Note 3 -** CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

## 3.1 Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices.

Considering the high volatility and the reduced markets liquidity felted throughout 2008, the Group has considered the following parameters when assessing the existence of impairment losses:

(i) Equity securities: declines in market value above 30% in relation to the acquisition cost (20% in 2007) or market value below the acquisition cost for a period longer than twelve-months (six-months in 2007);

(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

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

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

## 3.2 Fair value of derivatives

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

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

## 3.3 Impairment losses on loans and advances

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

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

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

## 3.4 Securitizations and special purpose entities (SPE)

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

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

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

## 3.5 Held-to-maturity investments

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

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

Held-to-maturity investments are subject to impairment tests made by the Group. The use of different assumptions and estimates could have an impact on the income statement of the Group.

## 3.6 Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

The Tax Authorities are entitled to review the Bank and its subsidiaries located in Portugal's determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

## 3.7 Pension and other employees' benefits

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

Changes in these assumptions could materially affect these values.

## **Note 4 -** SEGMENT REPORTING

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

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

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

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

(iv) Leasing and Factoring – includes leasing and factoring operations;

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

The primary segments reporting are presented as follows:

(in thousands of euro)

| | 31.12.2008 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Domestic activity | | | | | | Foreign activity | | | | Intra-Group | TOTAL |
| | Corporate and Retail Banking | Investment Banking | Asset Management | Leasing & Factoring | Other | Total | Corporate and Retail Banking | Investment Banking | Asset Management | Total | | |
| Interest and similar income | 5,128,979 | 148,699 | 3,055 | 248,355 | 2,802 | 5,531,890 | 1,113 ,56 | 154,293 | 694 | 1,268,143 | (1,919,339) | 4,880,694 |
| Interest expense and similar charges | 4,348,613 | 120,133 | ( 17) | 213,494 | 16,359 | 4,698,582 | 883,063 | 131,760 | 225 | 1,015,048 | (1,919,105) | 3,794,525 |
| **Net interest income** | **780,366** | **28,566** | **3,072** | **34,861** | **( 13,557)** | **833,308** | **230,093** | **22,533** | **469** | **253,095** | **( 234)** | **1,086,169** |
| Dividend income | 86,537 | 3,680 | - | - | 1,619 | 91,836 | 20 | - | - | 20 | - | 91,856 |
| Fee and commission income | 469,416 | 64,673 | 58,555 | 6,475 | 1,615 | 600,734 | 104,242 | 39,193 | 29,792 | 173,227 | ( 64,602) | 709,359 |
| Fee and commission expense | ( 94,139) | ( 6,417) | ( 25,142) | ( 2,360) | ( 1,937) | ( 129,995) | ( 25,673) | ( 5,109) | ( 13,530) | ( 44,312) | 64,154 | ( 110,153) |
| Net gains/ (losses) from financial assets at fair value through profit or loss | ( 121,692) | ( 150,758) | ( 169) | - | 502 | ( 272,117) | ( 1,551) | 176,194 | - | 174,643 | - | ( 97,474) |
| Net gains/ (losses) from available-for-sale financial assets | 174,286 | ( 5,608) | - | - | 20,927 | 189,605 | ( 3,399) | 27,172 | - | 23,773 | - | 213,378 |
| Net gains/ (losses) from foreign exchange differences | 8,010 | 129,005 | ( 37) | 7 | 4,004 | 140,989 | 20,314 | ( 135,913) | 229 | ( 115,370) | - | 25,619 |
| Net gains/ (losses) from the sale of other financial assets | ( 356) | ( 634) | 15 | 15 | ( 2,270) | ( 3,230) | ( 923) | - | - | ( 923) | - | ( 4,153) |
| Other operating income | 52,568 | 1 612 | 520 | 5,302 | 16,269 | 76,271 | ( 6,944) | ( 9,808) | ( 192) | ( 16,944) | ( 67,200) | ( 7,873) |
| **Operating income** | **1,354,996** | **64,119** | **36,814** | **44,300** | **27,172** | **1,527,401** | **316,179** | **114,262** | **16,768** | **447,209** | **( 67,882)** | **1,906,728** |
| *(Operating income from external customers)* | 1,286,041 | 65,183 | 55,113 | 160,795 | 33,086 | 1,600,218 | 168,235 | 114,262 | 24,013 | 306,510 | - | 1,906,728 |
| *(Inter-segments operating income)* | ( 68,955) | 1,064 | 18,299 | 116,495 | 5,914 | 72,817 | ( 147,944) | - | 7,245 | ( 140,699) | 67,882 | - |
| Staff costs | 372,485 | 26,804 | 8,007 | 4,781 | 6,779 | 418,856 | 69,822 | 29,558 | 3,995 | 103,375 | ( 1,181) | 521,050 |
| General and administrative expenses | 355,438 | 18,997 | 5,822 | 9,785 | 11,247 | 401,289 | 51,614 | 13 ,23 | 3,220 | 68,057 | ( 66,701) | 402,645 |
| Depreciation and amortisation | 59,993 | 1,319 | 511 | 1,019 | 1,812 | 64,654 | 11,806 | 1,169 | 277 | 13,252 | - | 77,906 |
| Provisions net of reversals | 19,879 | 2,091 | ( 75) | 2,218 | - | 24,113 | ( 4,267) | - | - | ( 4,267) | - | 19,846 |
| Loans impairment net of reversals | 193,376 | 1,922 | - | 4,009 | - | 199,307 | 69,900 | 5,224 | - | 75,124 | - | 274,431 |
| Impairment on other financial assets net of reversals | 37,990 | 17,912 | - | 125 | 1,380 | 57,407 | - | - | - | - | - | 57,407 |
| Impairment on other assets net of reversals | 20,400 | 2,619 | - | 419 | - | 23,438 | 745 | - | - | 745 | - | 24,183 |
| **Operating expenses** | **1,059,561** | **71,664** | **14,265** | **22,356** | **21,218** | **1,189,064** | **199,620** | **49,174** | **7,492** | **256,286** | **( 67,882)** | **1,377,468** |
| Gains on disposal of investment in subsidiaries and associates | - | - | - | - | 1,673 | 1,673 | - | - | - | - | - | 1,673 |
| Share of profit of associates | - | - | - | - | ( 24,900) | ( 24,900) | 4,610 | - | - | 4 610 | - | ( 20,290) |
| **Profit before income tax** | **295,435** | **( 7,545)** | **22,549** | **21,944** | **( 17,273)** | **315,110** | **121,169** | **65,088** | **9,276** | **195,533** | **-** | **510,643** |
| **Income tax** | | | | | | | | | | | | |
| Current tax | 87,375 | 4,758 | 6,495 | 7,703 | 8,333 | 114,664 | 4,934 | 29,181 | 2,205 | 36,320 | - | 150,984 |
| Deferred tax | ( 54,682) | ( 3,011) | 4 | ( 1,502) | ( 4,930) | ( 64,121) | 10,344 | ( 13,709) | - | ( 3,365) | - | ( 67,486) |
| **Profit after income tax and before minority interest** | **262,742** | **( 9,292)** | **16,050** | **15,743** | **( 20,676)** | **264,567** | **105,891** | **49,616** | **7,071** | **162,578** | **-** | **427,145** |
| Minority interest | 5,499 | ( 18) | - | - | - | 5,481 | 16,549 | 2,822 | 9 | 19,380 | - | 24,861 |
| **Profit for the year attributable to equity holders of the Bank** | **257,243** | **( 9,274)** | **16,050** | **15,743** | **( 20,676)** | **259,086** | **89,342** | **46,794** | **7,062** | **143,198** | **-** | **402,284** |
| **Other Information** | | | | | | | | | | | | |
| Total assets | 86,315,344 | 3,676,464 | 85,510 | 4,430,916 | 873,431 | 95,381,665 | 20,271,460 | 1,682,994 | 38,526 | 21,992,980 | (42,187,917) | 75,186,728 |
| Investments in associates | - | - | - | - | 580,319 | 580,319 | 64,187 | - | - | 64,187 | - | 644,506 |
| Total liabilities | 83,279,076 | 3,473,162 | 17,354 | 4 340 613 | 335,297 | 91,445,502 | 19,688,236 | 1,571,085 | 16,878 | 21,276,199 | (42,187,917) | 70,533,784 |
| Capital expenditure (Property and equipment) | 68,081 | 3,874 | 387 | 6,161 | 346 | 78,849 | 86,487 | - | 55 | 86,542 | - | 165,391 |
| Capital expenditure (Intangible assets) | 50,647 | 1,832 | 339 | 178 | - | 52,996 | 10,158 | - | 217 | 10,375 | - | 63,371 |

a) Includes the investment in BES-Vida in the amount of euro 367,416 thousands (see Note 27).

(in thousands of euro)

| | 31.12.2007 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Domestic activity | | | | | | Foreign activity | | | | Intra-Group | TOTAL |
| | Corporate and Retail Banking | Investment Banking | Asset Management | Leasing & Factoring | Other | Total | Corporate and Retail Banking | Investment Banking | Asset Management | Total | | |
| Interest and similar income | 3,664,372 | 139,377 | 2,195 | 202 ,426 | 2,136 | 4,010,506 | 875,437 | 125,656 | 478 | 1,001,571 | (1,641,845) | 3,370,232 |
| Interest expense and similar charges | 2,928,888 | 118,127 | - | 161,04 | 6,485 | 3,217,604 | 724,688 | 115,926 | 133 | 840,747 | (1,641,845) | 2,416,506 |
| **Net interest income** | **735 ,484** | **21,250** | **2,195** | **38,322** | **( 4,349)** | **792,902** | **150,749** | **9,730** | **345** | **160,824** | **-** | **953,726** |
| Dividend income | 48,458 | 1,123 | - | - | 358 | 49,939 | 20 | - | 0 | 20 | - | 49,959 |
| Fee and commission income | 434,884 | 71,850 | 70,034 | 6,581 | 1,306 | 584,655 | 93,419 | 52,630 | 29,856 | 175,905 | ( 44,249) | 716,311 |
| Fee and commission expense | ( 68,320) | ( 9,811) | ( 33,419) | ( 1,792) | ( 51) | ( 113,393) | ( 15,301) | ( 7,456) | ( 13,138) | ( 35,895) | 44,854 | ( 104,434) |
| Net gains/ (losses) from financial | | | | | | | | | | | | |
| assets at fair value through profit or loss | 86,822 | ( 5,281) | - | 44 | ( 3,187) | 78,398 | ( 3,303) | ( 9,231) | 0 | ( 12,534) | - | 65,864 |
| Net gains/ (losses) from | | | | | | | | | | | | |
| available-for-sale financial assets | 176,409 | 7,597 | - | 3 | 701 | 184,710 | ( 413) | 47,227 | 0 | 46,814 | - | 231,524 |
| Net gains/ (losses) from foreign | | | | | | | | | | | | |
| exchange differences | ( 19,055) | ( 15,00) | ( 9) | ( 4) | ( 1,412) | ( 35,580) | 23,61 | 40,077 | ( 241) | 63,452 | - | 27,872 |
| Net gains/ (losses) from | | | | | | | | | | | | |
| the sale of other financial assets | 169 | 2,373 | - | 1 | - | 2,543 | 271 | - | 1 | 272 | - | 2,815 |
| Other operating income | 55,411 | 3,529 | 776 | 5,828 | 17,077 | 82,621 | ( 3,258) | ( 5,052) | ( 149) | ( 8,459) | ( 50,067) | 24,095 |
| **Operating income** | **1,450,262** | **77,530** | **39,577** | **48,983** | **10,443** | **1,626,795** | **245,800** | **127,925** | **16,674** | **390,399** | **( 49,462)** | **1,967,732** |
| (Operating income from external customers) | 1,393 849 | 88,781 | 67,332 | 109,650 | 9,113 | 1,668,725 | 147,544 | 127,925 | 23,538 | 299,007 | - | 1,967,732 |
| (Inter-segments operating income) | ( 56,413) | 11,251 | 27,755 | 60,667 | ( 1,330) | 41,930 | ( 98,256) | - | 6,864 | ( 91,392) | 49,462 | - |
| Staff costs | 362,602 | 27,337 | 7,945 | 4,891 | 9,065 | 411,840 | 59,720 | 29,256 | 2,622 | 91,598 | ( 1,295) | 502,143 |
| General and administrative expenses | 321,956 | 15,992 | 5,283 | 8,798 | 10,439 | 362,468 | 50,626 | 12,208 | 1,696 | 64,530 | ( 48,167) | 378,831 |
| Depreciation and amortisation | 55,298 | 1,097 | 338 | 902 | 483 | 58,118 | 10,272 | 1,220 | 145 | 11,637 | - | 69,755 |
| Provisions net of reversals | 26,032 | 1,624 | ( 526) | - | - | 27,130 | ( 2,009) | - | 287 | ( 1,722) | - | 25,408 |
| Loans impairment net of reversals | 172,578 | ( 899) | - | 13,110 | - | 184,789 | 28,049 | 346 | - | 28,395 | - | 213,184 |
| Impairment on other | | | | | | | | | | | | |
| financial assets net of reversals | 14,467 | ( 502) | - | 236 | 3,986 | 18,187 | - | - | - | - | - | 18,187 |
| Impairment on other assets net of reversals | 6,331 | - | ( 8) | ( 238) | - | 6,085 | - | - | - | - | - | 6,085 |
| **Operating expenses** | **959,264** | **44,649** | **13,032** | **27,699** | **23,973** | **1,068,617** | **146,658** | **43,030** | **4,750** | **194,438** | **( 49,462)** | **1,213,593** |
| Gains on disposal of investments | | | | | | | | | | | | |
| in subsidiaries and associates | - | - | - | - | 1,573 | 1,573 | - | - | - | - | - | 1,573 |
| Share of profit of associates | - | - | - | - | 6,751 | 26,751 | 5,156 | - | - | 5,156 | - | 31,907 |
| **Profit before income tax** | **490,998** | **32,881** | **26,545** | **21,284** | **14,794** | **586,502** | **104,298** | **84,895** | **11,924** | **201,117** | **-** | **787,619** |
| Income tax | | | | | | | | | | | | |
| Current tax | 58,750 | ( 21,358) | 7,336 | 8,244 | 4,119 | 57,091 | 2,130 | 24,812 | 2,883 | 29,825 | - | 86,916 |
| Deferred tax | 24,806 | 29,304 | 17 | ( 1,983) | 3,068 | 55,212 | 10,418 | - | 0 | 10,418 | - | 65,630 |
| **Profit after income tax** | | | | | | | | | | | | |
| **and before minority interest** | **407,442** | **24,935** | **19,192** | **15,023** | **7,607** | **474,199** | **91,750** | **60,083** | **9,041** | **160,874** | **-** | **635,073** |
| Minority interest | 8,840 | ( 215) | - | - | - | 8,625 | 10,764 | 8,602 | 13 | 19,379 | - | 28,004 |
| **Profit for the year attributable** | | | | | | | | | | | | |
| **to equity holders of the Bank** | **398,602** | **25,150** | **19 ,92** | **15,023** | **7,607** | **465,574** | **80,986** | **51,481** | **9,028** | **141,495** | **-** | **607,069** |
| **Other Information** | | | | | | | | | | | | |
| Total assets | 79,757,826 | 3 252,663 | 85,296 | 3 967,247 | 848,176 | 87,911,208 | 17 412,351 | 2,243,146 | 38,313 | 19,693,810 | (39,250,305) | 68,354,713 |
| Investments in associates | - | - | - | - | 533,614 | 533,614 | 40,086 | - | - | 40,086 | - | 573,700 |
| Total liabilities | 76,020,596 | 3 072,567 | 21,466 | 3 885,633 | 216,497 | 83,216,759 | 16 947,279 | 2,009,317 | 17,956 | 18,974,552 | (39,250,305) | 62,941,006 |
| Capital expenditure (Property and equipment) | 117,206 | 2,116 | 510 | 208 | 1,112 | 121,152 | 18,254 | - | 61 | 18,315 | - | 139,467 |
| Capital expenditure (Intangible assets) | 35,653 | 744 | 544 | 336 | 1,836 | 39,113 | 12,420 | - | 18 | 12,438 | - | 51,551 |

a) Includes the investment in BES-Vida in the amount of euro 367,416 thousands (see Note 27).

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

(in thousands of euro)

| | 31.12.2008 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Portugal | Spain | France/ Luxembourg | UK | United States of America | Brazil | Angola | Cape Vert | Macao | Total |
| Profit for the year | 259,086 | 1,261 | 8,997 | 41,711 | 12,101 | 29,812 | 48,247 | 701 | 368 | 402,284 |
| Total assets | 53,193,748 | 6,336,063 | 79,215 | 8,473,771 | 2,190,626 | 1,027,561 | 3,530,153 | 153,421 | 202,170 | 75,186,728 |
| "Capital expenditure | | | | | | | | | | |
| (Property and equipment)" | 78,849 | 1,438 | - | 136 | 167 | - | 84,750 | 19 | 32 | 165,391 |
| Capital expenditure (Intangible assets) | 52,996 | 4,936 | - | - | - | - | 5,438 | - | 1 | 63,371 |

(in thousands of euro)

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

## Note 5 - NET INTEREST INCOME

This balance is analysed follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Assets/ liabilities at amortised cost and available-for-sale financial assets | Assets/ liabilities at fair value through profit or loss | Total | Assets/ liabilities at amortised cost and available-for-sale financial assets | Assets/ liabilities at fair value through profit or loss | Total |
| **Interest and similar income** | | | | | | |
| Interest from loans and advances | 2,817,592 | 87,295 | 2,904,887 | 2,271,698 | 6,776 | 2,278,474 |
| Interest from financial assets at fair value through profit or loss | - | 377,939 | 377,939 | - | 412,491 | 412,491 |
| Interest from deposits with banks | 295,200 | 40,206 | 335,406 | 339,457 | 1,315 | 340,772 |
| Interest from available-for-sale financial assets | 219,254 | - | 219,254 | 167,182 | - | 167,182 |
| Interest from derivatives for risk management purposes | - | 992,874 | 992,874 | - | 122,201 | 122,201 |
| Other interest and similar income | 50,334 | - | 50,334 | 49,112 | - | 49,112 |
| | **3,382,380** | **1,498,314** | **4,880,694** | **2,827,449** | **542,783** | **3,370,232** |
| **Interest expense and similar charges** | | | | | | |
| Interest from debt securities | 1,152,449 | 206,587 | 1,359,036 | 877,271 | 209,918 | 1,087,189 |
| Interest from amounts due to customers | 660,618 | 16,941 | 677,559 | 532,630 | 4,836 | 537,466 |
| Interest from deposits from central banks and other banks | 474,971 | 22,592 | 497,563 | 452,777 | - | 452,777 |
| Interest from derivatives for risk management purposes | 96,394 | 33,558 | 129,952 | 106,561 | 10,895 | 117,456 |
| Interest from subordinated debt | - | 1,111,254 | 1,111,254 | - | 219,490 | 219,490 |
| Other interest expense and similar charges | 19,161 | - | 19,161 | 2,128 | - | 2,128 |
| | **2,403,593** | **1,390,932** | **3,794,525** | **1,971,367** | **445,139** | **2,416,506** |
| | **978,788** | **107,381** | **1,086,169** | **856,082** | **97,644** | **953,726** |

Interest from loans and advances includes an amount of euro 16,190 thousands (31 December 2007: euro 13,102 thousands) related to the unwind of discount regarding the impairment losses of loans and advances to customers that are overdue (see Note 21).

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.18, interests from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policy described in Notes 2.5, 2.6 and 2.8.

## Note 6 - NET FEE AND COMMISSION INCOME

This balance is analysed follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Fee and commission income** | | |
| From banking services | 470,885 | 483,689 |
| From guarantees granted | 87,845 | 64,999 |
| From transactions with securities | 44,492 | 63,609 |
| From commitments assumed to third parties | 20,184 | 17,406 |
| Other fee and commission income | 85,953 | 86,608 |
| | 709,359 | 716,311 |
| **Fee and commission expense** | | |
| From banking services rendered by third parties | 69,492 | 62,978 |
| From transactions with securities | 21,699 | 14,495 |
| From guarantees received | 881 | 249 |
| Other fee and commission expense | 18,081 | 26,712 |
| | 110,153 | 104,434 |
| | 599,206 | 611,877 |

## Note 7 - NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Total | Gains | Losses | Total |
| **Assets and liabilities held for trading** | | | | | | |
| Securities | | | | | | |
| Bonds and other fixed income securities | | | | | | |
| Issued by government and public entities | 114,210 | 107,490 | 6,720 | 85,536 | 113,465 | ( 27,929) |
| Issued by other entities | 91,167 | 69,367 | 21,800 | 9,243 | 5,990 | 3,253 |
| Shares | 84,146 | 84,226 | ( 80) | 102,988 | 86,015 | 16,973 |
| Other variable income securities | 7,602 | 47,427 | ( 39,825) | 25,978 | 24,492 | 1,486 |
| | 297,125 | 308,510 | ( 11,385) | 223,745 | 229,962 | ( 6,217) |
| Derivative financial instruments | | | | | | |
| Exchange rate contracts | 4,153,787 | 3,381,308 | 772,479 | 1,024,759 | 1,181,110 | ( 156,351) |
| Interest rate contracts | 8,906,287 | 8,908,611 | ( 2,324) | 6,570,100 | 6,512,057 | 58,043 |
| Equity/Index contracts | 1,991,383 | 2,053,899 | ( 62,516) | 1,424,736 | 1,334,338 | 90,398 |
| Credit default contracts | 905,556 | 1,010,958 | ( 105,402) | 155,214 | 145,420 | 9,794 |
| Other | 275,641 | 915,926 | ( 640,285) | 142,130 | 196,932 | ( 54,802) |
| | 16,232,654 | 16,270,702 | ( 38,048) | 9,316,939 | 9,369,857 | ( 52,918) |
| | 16,529,779 | 16,579,212 | ( 49,433) | 9,540,684 | 9,599,819 | ( 59,135) |
| **Financial assets and liabilities at fair value through profit or loss** | | | | | | |
| Securities | | | | | | |
| Bonds and other fixed income securities | | | | | | |
| Issued by government and public entities | - | - | - | - | - | - |
| Issued by other entities | 492,582 | 690,860 | ( 198,278) | 315,193 | 239,594 | 75,599 |
| Shares | 3,511 | 19,306 | ( 15,795) | 32,003 | 815 | 31,188 |
| Other variable income securities | 152,157 | 217,084 | ( 64,927) | - | - | - |
| | 648,250 | 927,250 | ( 279,000) | 347,196 | 240,409 | 106,787 |
| Other financial assets [(1)] | | | | | | |
| Deposits with banks | 35 | - | 35 | 49 | - | 49 |
| Loans and advances to customers | 30,495 | 28,077 | 2,418 | 626 | 953 | ( 327) |
| | 30,530 | 28,077 | 2,453 | 675 | 953 | ( 278) |
| Financial liabilities [(1)] | | | | | | |
| Deposits from banks | 31,166 | 11,694 | 19,472 | 13,033 | - | 13,033 |
| Due to customers | 5,685 | 9,570 | ( 3,885) | 1,544 | 2,364 | ( 820) |
| Debt securitities issued | 298,058 | 131,891 | 166,167 | 44,909 | 51,911 | ( 7,002) |
| Subordinated debt | 46,752 | - | 46,752 | 13,279 | - | 13,279 |
| | 381,661 | 153,155 | 228,506 | 72,765 | 54,275 | 18,490 |
| | 1,060,441 | 1,108,482 | ( 48,041) | 420,636 | 295,637 | 124,999 |
| | 17,590,220 | 17,687,694 | ( 97,474) | 9,961,320 | 9,895,456 | 65,864 |

(1) includes the fair value change on hedged assets/liabilities or at fair value option.

As at 31 December 2008, this balance includes a positive effect of euro 102,126 thousands related to the change in fair value of financial liabilities designated at fair value through profit or loss attributable to the entity's credit risk component (31 December 2007: positive effect of euro 9 421 thousands).

As at 31 December 2007, the balance derivative financial instruments (interest rate contracts) includes an amount of approximately euro 6.8 million referring to losses on derivative financial instruments arising on the consolidation of special purpose entities, in accordance with SIC 12, which were sold during the second semester of 2007.

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

The Group recognises in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Group access to the wholesale market.

In 2008, the gains recognised in the income statement arising from the built-in fee (day one profit) amounted to approximately euro 28,438 thousand (2007: euro 13,291 thousand).

## Note 8 - NET GAINS FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance is analysed follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Total | Gains | Losses | Total |
| Bonds and other fixed income securities | | | | | | |
| Issued by government and public entities | 4,465 | 5,137 | ( 672) | 3,284 | 32 | 3,252 |
| Issued by other entities | 21,190 | 60,048 | ( 38,858) | 5,773 | 34,273 | ( 28,500) |
| Shares | 360,800 | 102,995 | 257,805 | 255,818 | 3,064 | 252,754 |
| Other variable income securities | 3,506 | 8,403 | ( 4,897) | 4,626 | 608 | 4,018 |
| | **389,961** | **176,583** | **213,378** | **269,501** | **37,977** | **231,524** |

During the year ended 31 December 2008, the Group sold (i) 42.7 million ordinary shares of Bradesco, adjusted from the stock split (realised gain: euro 262.1 million), (ii) 29.3 million ordinary shares of EDP (realised gain: euro 18.8 million) and (iii) 7.6 million shares of Portugal Telecom (realised gain: euro 8.1 million).

During the year ended 31 December 2007, the Group sold (i) 7.2 million ordinary shares of Bradesco (realised gain: euro 85.5 million), (ii) 64.3 million ordinary shares of EDP (realised gain: euro 41.6 million) and (iii) 6.9 million ordinary shares of Portugal Telecom (realised gain: euro 12.8 million).

Related party transactions are described in Note 41.

## Note 9 - NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Total | Gains | Losses | Total |
| Foreign exchange translation | 1,295,506 | 1,269,887 | 25,619 | 535,066 | 507,194 | 27,872 |
| | **1,295,506** | **1,269,887** | **25,619** | **535,066** | **507,194** | **27,872** |

This balance includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.3.

## **Note 10 -** OTHER OPERATING INCOME AND EXPENSE

This balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Other operating income** | | |
| Technological services | 6,565 | 4,921 |
| Call center services | 7,575 | 7,610 |
| Other | 107,661 | 98,572 |
| | 121,801 | 111,103 |
| **Other operating expense** | | |
| Direct and indirect taxes | 12,658 | 12,934 |
| Contributions to the Deposits Guarantee Fund | 3,901 | 3,190 |
| Donations | 14,024 | 5,770 |
| Other | 99,091 | 65,114 |
| | 129,674 | 87,008 |
| | ( 7,873) | 24,095 |

## **Note 11 -** STAFF COSTS

This balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Wages and salaries | 392,252 | 364,781 |
| Remuneration | 386,707 | 363,421 |
| Long-term service benefits (see Note 12) | 5,545 | 1,360 |
| Health-care benefits - SAMS | 19,554 | 20,288 |
| Other mandatory social charges | 47,453 | 44,076 |
| Pension costs (see Note 12) | 45,654 | 53,088 |
| Other costs | 16,137 | 19,910 |
| | 521,050 | 502,143 |

The health-care benefits – SAMS include the amount of euro 8,595 thousand (31 December 2007: euro 9 931 thousand) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation performed (see Note 12).

Other costs include the amount of euro 703 thousands (31 December 2007: euro 1 402 thousands) related with the share based incentive scheme (SIBA) and euro 2 509 thousands related with the variable remuneration payment plan (PPRV), in accordance with the accounting policy described in Note 2.15. The details of these plans are presented in Note 12.

The costs with salaries and other benefits attributed to BES Group key management personnel are presented as follows:

(in thousands of euro)

| | Boards of Directors | Audit Committee | Other Key Management | Total |
|---|---|---|---|---|
| **Balance as at 31 December 2008** | | | | |
| Salaries and other short-term benefits | 4,148 | 723 | 11,405 | 16,276 |
| Pension costs and health-care benefits (SAMS) | 5,307 | 15 | 1,227 | 6,549 |
| Long service benefits | 70 | - | 108 | 178 |
| Bonus | 8,309 | - | 6,635 | 14,944 |
| **Total** | **17,834** | **738** | **19,375** | **37,947** |
| **Balance as at 31 December 2007** | | | | |
| Salaries and other short-term benefits | 4,218 | 691 | 8,817 | 13,726 |
| Pension costs and health-care benefits (SAMS) | 3,593 | 2 | 903 | 4,498 |
| Long service benefits | - | - | 46 | 46 |
| Bonus | 7,352 | - | 7,334 | 14,686 |
| **Total** | **15,163** | **693** | **17,100** | **32,956** |

Other key management personnel includes board members of BES subsidiaries and BES senior management.

As at 31 December 2008 and 2007, loans granted by BES Group to its key management personnel, amounted to euro 28,725 thousand and euro 25,641 thousand, respectively.

As at 31 December 2008 and 2007, the number of employees of the Group is analysed as follows:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| BES employees | 6,834 | 6,787 |
| Financial sector subsidiaries employees | 2,597 | 2,131 |
| **Financial sector group entities employees** | **9,431** | **8,918** |
| Employed by other companies essencially providing services to customers outside the Group (a) | - | 563 |
| **Total** | **9,431** | **9,481** |

a) At 31 December 2007, the number of employees refer to ES Contact Center that during 2008 stop to be full consolidated.

The number of BES Group employees, per professional category, is analysed as follows:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Senior management | 897 | 824 |
| Management | 998 | 962 |
| Specific functions | 3,958 | 4,211 |
| Administrative functions and other | 3,578 | 3,484 |
| | **9,431** | **9,481** |

## Note 12 - EMPLOYEE BENEFITS

### Pension and health-care benefits

In compliance with the collective labor agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force hired until 31 March 2008. Employees hired after 31 March 2008 are covered by the Portuguese Social Security scheme.

As at 30 December 1987, the Bank established a pension fund to cover the above mentioned liabilities with pension payments in relation to the employees in service at that time. In 1998, the Bank and the Group's subsidiaries decided to set up an autonomous open-up pension fund – the Fundo de Pensões Aberto GES – to fund complementary pension benefits of pensioners and employees in service. During 2008, the Bank obtained the necessary authorisations from the Portuguese Insurance Institute to change the Pension Fund Contract in order to allow the coverage of all pension liabilities and health care benefits. The pension funds in Portugal are managed by ESAF- Espírito Santo Funds de Pensões, S.A.

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

| | Assumptions | | Actual | |
|---|---|---|---|---|
| | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 |
| **Financial assumptions** | | | | |
| Salaries increase rate | 4.00% | 3.25% | 4.66% | 4.50% |
| Pensions increase rate | 2.00% | 2.25% | 2.04% | 1.59% |
| Expected return of plan assets | 5.80% | 5.25% | -28.03% | 12.97% |
| Discount rate | 5.75% | 5.25% | - | - |
| **Demographic assumptions and valuation methods** | | | | |
| Mortality table | | | | |
| Men | TV 73/77 (adjusted) | | | |
| Women | TV 88/90 | | | |
| Actuarial method | *Project Unit Credit Method* | | | |

In accordance with the accounting policy described in Note 2.15, the discount rate used to calculate the actuarial present value of the pensions and health care benefits, is determined at the balance sheet date by reference to interest rates of high-quality corporate bonds.

The contributions to SAMS as at 31 December 2008 and 2007 corresponded to 6.5% of total wages. The percentage of contribution is established by SAMS and no changes are expected.

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

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Employees | 6,292 | 6,182 |
| Pensioners | 5,643 | 5,540 |
| **TOTAL** | **11,935** | **11,722** |

In accordance with IAS 19, the Group's liabilities, charges and contributions to the pension funds and respective coverage levels reported as at 31 December 2008 and 2007 are analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **Assets / (liabilities) recognised in the balance sheet** | | | | | | |
| Defined benefit obligation | | | | | | |
| Pensioners | ( 1,286,915) | ( 70,213) | ( 1,357,128) | ( 1,397,653) | ( 80,911) | ( 1,478,564) |
| Employees | ( 671,203) | ( 36,543) | ( 707,746) | ( 572,712) | ( 29,764) | ( 602,476) |
| | **( 1,958,118)** | **( 106,756)** | **( 2,064,874)** | **( 1,970,365)** | **( 110,675)** | **(2,081,040)** |
| Fair value of plan assets | 1,952,710 | 103,917 | 2,056,627 | 2,233,343 | 480 | 2,233,823 |
| Overfunded liabilities | - | - | - | 262,978 | - | 262,978 |
| Amounts payable to the fund | ( 5,408) | ( 2,839) | ( 8,247) | - | ( 110,195) | ( 110,195) |
| Unrecognised net actuarial losses | 955,072 | 16,100 | 971,172 | 305,068 | 23,019 | 328,087 |
| **Asset/(liabilities) recognised in the balance sheet** | **949,664** | **13,261** | **962,925** | **568,046** | **( 87,176)** | **480,870** |

As at 31 December 2008, following the changes made to the pension fund contract, the fair value of plan assets covers pension liabilities and health care benefits.

As at 31 December 2007 the Group liabilities with health care benefits in the amount of euro 87,176 thousands were covered through liabilities recognised in the balance sheet (see Note 36).

The net assets with pensions and health-care plan are included in the balance other assets (see Note 28).
In accordance with accounting policy described in Note 2.15 and following the requirements of IAS 19 – Employees benefits, the Group assesses at each balance sheet date and for each plan separately, the recoverability of the recognised assets in relation to the defined benefit pension plans based on the expectation of reductions in future contributions to the funds.

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

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **Defined benefit obligation at the beginning of the year** | **1,970,365** | **110,675** | **2,081,040** | **1,891,647** | **109,797** | **2,001,444** |
| Service cost | 38,618 | 2,171 | 40,789 | 30,292 | 1,991 | 32,283 |
| Interest cost | 105,580 | 5,884 | 111,464 | 87,196 | 5,085 | 92,281 |
| Plan participants' contribution | 3,125 | 1 | 3,126 | 2,826 | 1 | 2,827 |
| Actuarial (gains) / losses: | | | | | | |
| - changes in actuarial assumptions | ( 81,301) | ( 6,383) | ( 87,684) | ( 8,258) | ( 199) | ( 8,457) |
| - experience adjustments | 23,491 | 19 | 23,510 | 42,590 | ( 1,881) | 40,709 |
| Pensions paid by the fund | ( 101,460) | - | ( 101,460) | ( 96,533) | - | ( 96,533) |
| Benefits paid by the Group | - | ( 5,779) | ( 5,779) | - | ( 5,520) | ( 5,520) |
| Curtailment losses related to early retirements | 5,108 | 281 | 5,389 | 22,158 | 1,440 | 23,598 |
| Other | ( 5,408) | ( 113) | ( 5,521) | ( 1,553) | ( 39) | ( 1,592) |
| **Defined benefit obligation at the end of the year** | **1,958,118** | **106,756** | **2,064,874** | **1,970,365** | **110,675** | **2,081,040** |

As at 31 December 2008 the curtailment losses related to early retirements were recognised through the charge-off of provisions (see Note 33).

As at 31 December 2008, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 16.4 million (31 December 2007: euro 17.0 million) and an increase in costs (service cost and interest cost) of euro 1.3 million (31 December 2007: euro 1.2 million).

The change in fair value of the plan assets for the years ended 31 December 2008 and 2007 is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **Fair value of plan assets at the beginning of the year** | **2,233,343** | **480** | **2,233,823** | **2,028,303** | **477** | **2,028,780** |
| Actual return on plan assets | ( 612,249) | ( 54) | ( 612,303) | 257,763 | 21 | 257,784 |
| Group contributions | 434,392 | 103,490 | 537,882 | 42,951 | 20 | 42,971 |
| Plan participants' contributions | 3,125 | 1 | 3,126 | 2,826 | 1 | 2,827 |
| Pensions paid by the fund | ( 101,460) | - | ( 101,460) | ( 96,533) | - | ( 96,533) |
| Other | ( 4,441) | - | ( 4,441) | ( 1,967) | ( 39) | ( 2,006) |
| **Fair value of plan assets at the end of the year** | **1,952,710** | **103,917** | **2,056,627** | **2,233,343** | **480** | **2,233,823** |

The fair value of plan assets can be analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Shares | 604,783 | 1,061,790 |
| Other variable income securities | 510,522 | 246,535 |
| Bonds | 564,293 | 264,476 |
| Real estate assets | 204,261 | 382,637 |
| Other | 172,768 | 278,385 |
| **Total** | **2,056,627** | **2,233,823** |

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Shares | 75,570 | 51,972 |
| Bonds | 11,033 | - |
| Real estate assets | 127,319 | 124,986 |
| **Total** | **213,922** | **176,958** |

As at 31 December 2008, the shares held by the pension fund correspond to 11.3 million shares of BES (31 December 2007: 3.5 million shares of BES).

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

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care benefits | Total | Pension plans | Health-care benefits | Total |
| **Unrecognised net actuarial losses at the beginning of the year** | **305,068** | **23,019** | **328,087** | **442,352** | **26,535** | **468,887** |
| Actuarial (gains) / losses | | | | | | |
| - changes in actuarial assumptions | ( 81,301) | ( 6,383) | ( 87,684) | ( 8,258) | ( 199) | ( 8,457) |
| - experience adjustments | 750,622 | 102 | 750,724 | ( 115,049) | ( 1,881) | ( 116,930) |
| Amortisation of the year | ( 16,338) | ( 569) | ( 16,907) | ( 11,448) | ( 1,083) | ( 12,531) |
| Additional amortisation (curtailment) | ( 2,588) | ( 69) | ( 2,657) | ( 2,118) | ( 357) | ( 2,475) |
| Other | ( 391) | - | ( 391) | ( 411) | 4 | ( 407) |
| **Unrecognised net actuarial losses at the end of the year** | **955,072** | **16,100** | **971,172** | **305,068** | **23,019** | **328,087** |
| Of which: | | | | | | |
| Within the corridor | 194,974 | 10,689 | 205,663 | 223,054 | 11,067 | 234,121 |
| Outside the corridor | 760,098 | 5,411 | 765,509 | 82,014 | 11,952 | 93,966 |

The changes in the (un)/overfunded liabilities are analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care benefits | Total | Pension plans | Health-care benefits | Total |
| **(Un)/overfunded liabilities at the beginning of the year** | **262,978** | **( 110,195)** | **152,783** | **136,656** | **( 109,320)** | **27,336** |
| Actuarial (gains) / losses on defined benefit obligation | 57,810 | 6,363 | 64,173 | ( 34,332) | 2,080 | ( 32,252) |
| Actuarial (gains) / losses of plan assets | ( 727,131) | ( 83) | ( 727,214) | 157,639 | ( 4) | 157,635 |
| Charges for the year: | | | | | | |
| - Service cost | ( 38,618) | ( 2,171) | ( 40,789) | ( 30,292) | ( 1,991) | ( 32,283) |
| - Interest cost | ( 105,580) | ( 5,884) | ( 111,464) | ( 87,196) | ( 5,085) | ( 92,281) |
| - Expected return on plan assets | 114,882 | 29 | 114,911 | 100,124 | 25 | 100,149 |
| - Curtailment losses related to early retirements | ( 5,108) | ( 281) | ( 5,389) | ( 22,158) | ( 1,440) | ( 23,598) |
| - Other | 967 | 114 | 1,081 | ( 414) | - | ( 414) |
| Contributions of the year and pensions paid by the Group | 434,392 | 109,269 | 543,661 | 42,951 | 5,540 | 48,491 |
| **(Un)/over funded liabilities at the end of the year** | **( 5,408)** | **( 2,839)** | **( 8,247)** | **262,978** | **( 110,195)** | **152,783** |

The net periodic benefit cost can be analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care benefits | Total | Pension plans | Health-care benefits | Total |
| Service cost | 38,618 | 2,171 | 40,789 | 30,292 | 1,991 | 32,283 |
| Interest cost | 105,580 | 5,884 | 111,464 | 87,196 | 5,085 | 92,281 |
| Expected return on plan assets | ( 114,882) | ( 29) | ( 114,911) | ( 100,124) | ( 25) | ( 100,149) |
| Amortisation of the year | 16,338 | 569 | 16,907 | 11,448 | 1,083 | 12,531 |
| Curtailment losses related to early retirements | - | - | - | 24,276 | 1,797 | 26,073 |
| **Net benefit cost** | **45,654** | **8,595** | **54,249** | **53,088** | **9,931** | **63,019** |

As at 31 December 2007 the curtailment losses related to early retirements include the effect of the additional amortisation.

The additional amortisation of the unrecognised net actuarial losses related to early retirements in 2008 was recognised through the charge-off of provisions (see Note 33).

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

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care benefits | Total | Pension plans | Health-care benefits | Total |
| **At the beginning of the year** | **568,046** | **( 87,176)** | **480,870** | **579,008** | **( 82,785)** | **496,223** |
| Net periodic benefit cost | ( 45,654) | ( 8,595) | ( 54,249) | ( 53,088) | ( 9,931) | ( 63,019) |
| Charge-off of provisions | ( 7,696) | ( 350) | ( 8,046) | - | - | - |
| Contributions of the year and pensions paid by the Group | 434,392 | 109,269 | 543,661 | 42,951 | 5,540 | 48,491 |
| Other | 576 | 113 | 689 | ( 825) | - | ( 825) |
| **At the end of the year** | **949,664** | **13,261** | **962,925** | **568,046** | **( 87,176)** | **480,870** |

The evolution of the defined benefit obligations, fair value of plan assets and of the experience adjustments gains/ (losses) in the past 5 years, is presented as follows:

(in thousands of euro)

| | 31.12.2008 | | 31.12.2007 | | 31.12.2006 | | 31.12.2005 | | 31.12.2004 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pension Plans | Health-care Benefits | Pension Plans | Health-care Benefits | Pension Plans | Health-care Benefits | Pension Plans | Health-care Benefits | Pension Plans | Health-care Benefits |
| Defined benefit obligation | ( 1,958 118) | ( 106,756) | ( 1,970,365) | ( 110,675) | ( 1,891,647) | ( 109,797) | ( 1,826,346) | ( 117,330) | ( 1,552,833) | ( 95,849) |
| Fair value of plan assets | 1,952 710 | 103,917 | 2,233,343 | 480 | 2,028,303 | 477 | 1,816,229 | - | 1,511,672 | - |
| **(Un)/over funded liabilities** | **( 5,408)** | **( 2,839)** | **262,978** | **( 110,195)** | **136,656** | **( 109,320)** | **( 10,117)** | **( 117,330)** | **( 41,161)** | **( 95,849)** |
| Experience adjustments arising on plan liabilities (gains)/losses | 23,491 | 19 | 42,590 | ( 1,881) | 3,460 | ( 11,577) | 39,592 | 6,548 | 6,555 | 410 |
| Experience adjustments arising on plan assets (gains)/losses | 727,131 | 83 | ( 157,639) | 4 | ( 140,990) | - | ( 69,709) | - | 1,169 | - |

### SIBA

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

The main characteristics of each plan are presented as follows:

| | Plan maturity (expected) | Number of shares at the grant date | Average strike price (euro) | Number of shares as at 31.12.2008 (1) | Coverage by shares |
|---|---|---|---|---|---|
| Plan 2000 | | | | | |
| 1st block | Expired (Dec-04) | 548,389 | 17.37 | - | - |
| 2nd block | Expired (Dec-05) | 1,279,576 | 17.37 | - | - |
| Plan 2001 | | | | | |
| 1st block | Expired (May-06) | 1,358,149 | 11.51 | - | - |
| 2nd block | Expired (May-07) | 3,169,016 | 11.51 | - | - |
| Plan 2002 | | | | | |
| 1st block | Expired (Apr-07) | 755,408 | 12.02 | - | - |
| 2nd block | Expired (Apr-08) | 1,762,619 | 12.02 | - | - |
| Plan 2003 | | | | | |
| 1st block | Expired (May-08) | 480,576 | 14.00 | - | - |
| 2nd block | May-09 | 1,121,343 | 14.00 | 1,001,231 | 100% |
| Plan 2004 | | | | | |
| 1st block | Dec-09 | 541,599 | 13.54 | 106,836 | 100% |
| 2nd block | Dec-09 | 1,270,175 | 13.54 | 1,371,014 | 100% |

(1) Includes shares attributed under the incorporation of shares premium as a result of the capital increase in 2006.

The changes in the number of underlying shares to the outstanding plans during the years ended 31 December 2008 and 2007 were as follows:

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Number of shares | Average price (euro) | Number of shares | Average price (euro) |
| Opening balance | 3,484,262 | 11.89 | 5,667,612 | 11.24 |
| Shares sold (1) | ( 1,005,181) | 11.54 | ( 2,183,350) | 10.21 |
| **Year-end balance** | **2,479,081** | **12.04** | **3,484,262** | **11.89** |

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

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

| | Plan 2004 | Plan 2003 | Plan 2002 | Plan 2001 | Plan 2000 |
|---|---|---|---|---|---|
| Maturity | | | | | |
| 1st block | 24 months | Expired | Expired | Expired | Expired |
| 2nd block | 60 months | 60 months | Expired | Expired | Expired |
| Volatility | 12% | 12% | 12% | 12% | 12% |
| Risk free interest rate | | | | | |
| 1st block | 3.04% | 2.63% | 2.7% | 4.38% | 4.71% |
| 2nd block | 3.22% | 3.52% | 3.56% | 5.01% | 5.05% |
| Dividend yield | 2.9% | 2.9% | 2.9% | 2.9% | 2.9% |
| Fair value at the grant date (thousands of euro) | 2,305 | 2,137 | 2,830 | 6,530 | 3,056 |

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Total costs of the plans (see Note 11) | 703 | 1 402 |

The costs with the plans were recognised as staff costs against other reserves, in accordance with the accounting policy described in Note 2.15.

**Variable remuneration payment plan (PPRV)**

During the first semester of 2008, following the General Shareholders Meeting held on 31 March 2008, BES and its subsidiaries established a benefits payment scheme, named Variable remuneration payment plan (PPRV – 2008/2010).

Under this incentive scheme, BES Group employees have the right to a future cash payment equivalent to the appreciation of BES shares between the initial reference date and the final reference date. The PPRV is not a plan where stocks or stock options are granted to employees. Under this plan no rights are granted to employees equivalent to a shareholding in BES share capital.

The plans' initial fair value was calculated using an option valuation model with the following assumptions:

| | |
|---|---|
| Initial reference date | 02-Jun-2008 |
| Final reference date | 02-Jun-2011 |
| Rights granted to employees | 5,000,000 |
| Initial stock price | 11.00 |
| Interest rate | 5.22% |
| Volatility | 33.5% |
| Initial fair value of the plan (in thousands of euro) | 12,902 |

In accordance with the accounting policy described in Note 2.15, the initial fair value of the PPRV, in the amount of euro 12,902 thousands, will be recognised during the three year period comprised between the initial and the final reference dates. As such, the Group recognised during the year, as staff costs, the amount of euro 2 509 thousand. The change in the fair value of the benefit granted to employees during the life of the program will be recognised as a profit/loss from financial assets at fair value through profit or loss.

The fair value of the liability recognised is reameasured at the end of each month, being as at 31 December 2008 of euro 812 thousands.

**Long-term service benefits**

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

As at 31 December 2008 and 2007, the Groups' liabilities regarding these benefits amount to euro 27,412 thousands and euro 23,625 thousands, respectively (see Note 36). The costs incurred in the year with long-term service benefits amounted to euro 5,545 thousands (31 December 2007: euro 1,360 thousands).

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

## Note 13 - GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Rental costs | 62,647 | 58,225 |
| Advertising costs | 44,911 | 43,947 |
| Communication costs | 39,148 | 35,933 |
| Maintenance and related services | 16,131 | 16,584 |
| Travelling and representation costs | 31,179 | 28,424 |
| Transportation | 11,408 | 10,053 |
| Insurance costs | 6,373 | 5,899 |
| Specialised services | | |
| IT services | 50,327 | 44,863 |
| Independent work | 8,400 | 7,896 |
| Temporary work | 10,816 | 9,155 |
| Electronic payment systems | 12,321 | 11,709 |
| Advisory services | 12,035 | 13,881 |
| Legal costs | 10,137 | 9,580 |
| Consultants and external auditors | 11,536 | 11,934 |
| Other specialised services | 23,922 | 28,868 |
| Water, energy and fuel | 10,013 | 7,757 |
| Consumables | 6,232 | 5,731 |
| Other costs | 35,109 | 28,392 |
| | **402,645** | **378,831** |

The balance other specialised services includes, among others, costs with security, information and databases. The balance other costs includes costs with training and external suppliers.

The outstanding lease installments related to the non-cancelable operational leasing contracts amount to euro 179 thousands and euro 459 thousands payable until 31 December 2009 and 31 December 2012, respectively.

## Note 14 - EARNINGS PER SHARE

**Basic earnings per share**

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Profit attributable to the equity holders of the Bank** | **402,284** | **607,069** |
| Weighted average number of ordinary shares (thousands) | 500,000 | 500,000 |
| Weighted average number of treasury stock (thousands) | 2,698 | 4,090 |
| **Weighted average number of ordinary shares outstanding (thousands)** | **497,302** | **495,910** |
| **Basic earnings per share attributable to equity holders of the Bank (in euro)** | **0.81** | **1.22** |

**Diluted earnings per share**

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

The diluted earnings per share is not different from the basic earning per share as the outstanding plans of SIBA do not have a dilutive effect.

## Note 15 - CASH AND DEPOSITS AT CENTRAL BANKS

As at 31 December 2008 and 2007, this balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Cash | 249,979 | 277,260 |
| Deposits at central banks | | |
| Bank of Portugal | 1,161,186 | 984,887 |
| Other central banks | 616,153 | 99,071 |
| | 1,777,339 | 1,083,958 |
| | **2,027,318** | **1,361,218** |

The deposits at Central Banks include mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements, in the amount of euro 767,966 thousands (31 December 2007: euro 498,744 thousands). According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. During 2008, these deposits have earned interest at an average rate of 4.07% (2007: 3.94%).

## Note 16 - DEPOSITS WITH BANKS

As at 31 December 2008 and 2007, this balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Deposits with banks in Portugal | | |
| Uncollected cheques | 285,873 | 378,824 |
| Repayable on demand | 37,122 | 96,039 |
| | **322,995** | **474,863** |
| Deposits with banks abroad | | |
| Repayable on demand | 124,572 | 117,277 |
| Uncollected cheques | 3,263 | 1,570 |
| Other | 213,580 | 126,732 |
| | **341,415** | **245,579** |
| | **664,410** | **720,442** |

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

## Note 17 - FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2008 and 2007, this balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Financial assets held for trading** | | |
| **Securities** | | |
| Bonds and other fixed income securities | | |
| Issued by government and public entities | 1,553,513 | 1,366,296 |
| Issued by other entities | 97,949 | 153,937 |
| Shares | 15,148 | 187,611 |
| Other variable income securities | 2,889 | 712,199 |
| | **1,669,499** | **2,420,043** |
| **Derivatives** | | |
| Derivative financial instruments with positive fair value | **2,020,663** | **1,427,190** |
| | **3,690,162** | **3,847,233** |
| **Financial liabilities held for trading** | | |
| **Derivatives** | | |
| Derivative financial instruments with negative fair value | **1,914,423** | **1,257,201** |

As at 31 December 2008 and 2007 the analysis of the securities held for trading by the period to maturity, is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 631,732 | 412,762 |
| 3 to 12 months | 453,479 | 351,206 |
| 1 to 5 years | 250,503 | 409,018 |
| More than 5 years | 318,637 | 581,078 |
| Undetermined | 15,148 | 665,979 |
| | **1,669,499** | **2,420,043** |

Financial assets held-for-trading analysed by quoted and unquoted securities, are presented as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | **Quoted** | **Unquoted** | **Total** | **Quoted** | **Unquoted** | **Total** |
| Securities | | | | | | |
| Bonds and other fixed income securities | | | | | | |
| Issued by govermment and public entities | 1,553,513 | - | 1,553,513 | 1,366,296 | - | 1,366,296 |
| Issued by other entities | 44,781 | 53,168 | 97,949 | 145,419 | 8,518 | 153,937 |
| Shares | 15,148 | - | 15,148 | 187,611 | - | 187,611 |
| Other variable income securities | 2,889 | - | 2,889 | 12,152 | 700,047 | 712,199 |
| | **1,616,331** | **53,168** | **1,669,499** | **1,711,478** | **708,565** | **2,420,043** |

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

As at 31 December 2008 and 2007, derivative financial instruments can be analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Notional | Fair value | | Notional | Fair value | |
| | | Assets | Liabilities | | Assets | Liabilities |
| **Trading derivatives** | | | | | | |
| **Exchange rate contracts** | | | | | | |
| Forward | | | | | | |
| - buy | 1,183,408 | 37,508 | 71,332 | 11,779,165 | 112,862 | 247,220 |
| - sell | 1,186,093 | | | 11,897,733 | | |
| Currency Swaps | | | | | | |
| - buy | 1,215,715 | 3,818 | 3,629 | 373,440 | 2,000 | 4,531 |
| - sell | 1,229,832 | | | 325,110 | | |
| Currency Futures | 10,571 | - | - | - | - | - |
| Currency Interest Rate Swaps | | | | | | |
| - buy | 1,069,029 | 154,559 | 214,750 | 1,657,950 | 187,592 | 176,210 |
| - sell | 926,160 | | | 1,660,293 | | |
| Currency Options | 7,710,712 | 270,688 | 188,371 | 4,170,682 | 57,980 | 89,482 |
| | **14,531,520** | **466,573** | **478,082** | **31,864,373** | **360,434** | **517,443** |
| **Interest rate contracts** | | | | | | |
| Forward Rate Agreements | 1,669,564 | 1,217 | 1,471 | 5,353,657 | 1,444 | 342 |
| Interest Rate Swaps | 54,969,373 | 1,179,392 | 974,341 | 37,695,485 | 588,160 | 360,382 |
| Swaption - Interest Rate Options | 5,220,548 | 8,662 | 7,745 | 2,360,536 | 3,814 | 2,104 |
| Interest Rate Caps & Floors | 9,138,244 | 67,187 | 40,568 | 7,361,058 | 34,672 | 30,824 |
| Interest Rate Futures | 1,314,551 | - | - | 100,000 | - | - |
| Bonds Options | - | - | - | 30,000 | 665 | 558 |
| Future Options | 20,972,550 | - | - | 5,451,986 | - | 189 |
| | **93,284,830** | **1,256,458** | **1,024,125** | **58,352,722** | **628,755** | **394,399** |
| **Equity / index contracts** | | | | | | |
| Equity / Index Swaps | 868,417 | 50,927 | 61,284 | 1,835,258 | 191,300 | 21,404 |
| Equity / Index Options | 4,292,082 | 186,671 | 284,943 | 5,030,269 | 226,835 | 309,119 |
| Equity / Index Futures | 102,944 | - | - | - | - | - |
| | **5,263,443** | **237,598** | **346,227** | **6,865,527** | **418,135** | **330,523** |
| **Credit default contracts** | | | | | | |
| Credit Default Swaps | 2,779,578 | 60,034 | 65,989 | 1,608,191 | 19,866 | 14,836 |
| **Total** | **115,859,371** | **2,020,663** | **1,914,423** | **98,690,813** | **1,427,190** | **1,257,201** |

As at 31 December 2008 the fair value of derivative financial instruments included the net amount of euro 5.2 million (31 December 2007: negative in the amount of euro 2.8 million) related to the negative fair value of the embedded derivates, as described in Note 2.4.

As at 31 December 2008 and 2007, the analysis of trading derivatives by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Notional | Fair value (net) | Notional | Fair value (net) |
| Up to 3 months | 22,159,442 | ( 130,834) | 26,676,635 | ( 99,769) |
| 3 to 12 months | 27,487,970 | 159,994 | 21,301,291 | 18,272 |
| 1 to 5 years | 49,399,017 | 76,824 | 28,482,345 | 323,321 |
| More than 5 years | 16,812,942 | 256 | 22,230,542 | ( 71,835) |
| | **115,859,371** | **106,240** | **98,690,813** | **169,989** |

## Note 18 - OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Bonds and other fixed income securities | | |
| Issued by other entities | 1,324,543 | 1,234,344 |
| Shares | 7,146 | 192,360 |
| Other securities | 830,124 | - |
| **Book value** | **2,161,813** | **1,426,704** |

In light of IAS 39 and in accordance with the accounting policy described in Note 2.6, the Group designated these financial assets as at fair value through profit or loss, in accordance with the documented risk management and investment strategy, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

As at 31 December 2008 and 2007, the analysis of the financial assets at fair value through profit or loss by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 63,661 | 4,68,580 |
| 3 to 12 months | 568,825 | 113,332 |
| 1 to 5 years | 737,263 | 155,652 |
| More than 5 years | 618,127 | 496,780 |
| Undetermined | 173,937 | 192,360 |
| | **2,161,813** | **1,426,704** |

Regarding quoted or unquoted securities, the balance financial assets at fair value through profit or loss, is presented as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Bonds and other fixed income securities | | | | | | |
| Issued by other entities | 716,453 | 608,090 | 1,324,543 | 420,069 | 814,275 | 1,234,344 |
| Shares | 7,146 | - | 7,146 | 192,360 | - | 192,360 |
| Other variable income securities | 167,000 | 663,124 | 830,124 | - | - | - |
| | **890,599** | **1,271,214** | **2,161,813** | **612,429** | **814,275** | **1,426,704** |

## Note 19 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2008 and 2007, this balance is analysed as follows:

(in thousands of euro)

| | Cost[(1)] | Fair value reserve | | Impairment losses | Book value |
|---|---|---|---|---|---|
| | | Positive | Negative | | |
| Bonds and other fixed income securities | | | | | |
| Issued by government and public entities | 1,886,264 | 2,706 | ( 20) | - | 1,888,950 |
| Issued by other entities | 3,133,588 | 7,254 | ( 34,170) | ( 27,046) | 3,079,626 |
| Shares | 1,680,787 | 36,655 | ( 228,018) | ( 67,346) | 1,422,078 |
| Other variable income securities | 709,966 | 12,105 | ( 6,846) | ( 11,768) | 703,457 |
| **Balance as at 31 December 2008** | **7,410,605** | **58,720** | **( 269,054)** | **( 106,160)** | **7,094,111** |
| Bonds and other fixed income securities | | | | | |
| Issued by government and public entities | 803,246 | 911 | ( 1,450) | - | 802,707 |
| Issued by other entities | 2,944,596 | 27,352 | ( 57,872) | ( 9,332) | 2,904,744 |
| Shares | 1,251,511 | 984,183 | ( 7,774) | ( 40,207) | 2,187,713 |
| Other variable income securities | 354,233 | 4,565 | ( 511) | ( 14,562) | 343,725 |
| **Balance as at 31 December 2007** | **5,353,586** | **1,017,011** | **( 67,607)** | **( 64,101)** | **6,238,889** |

(1) Acquisition cost relating to shares and other variable income securities and amortised cost relating to debt securities

The securities pledged as collateral by the Group are analysed in Note 39.

In accordance with the accounting policy described in Note 2.6, the Group assesses periodically whether there is objective evidence of impairment on the available-for-sale financial assets, following the judgment criteria's described in Note 3.1.

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance at the beginning of the year | 64,101 | 57,498 |
| Charge for the year | 57,678 | 20,165 |
| Charge off | ( 19,946) | ( 10,845) |
| Write back for the year | ( 32) | ( 1,484) |
| Exchange differences and other | 4,359 | ( 1,233) |
| **Balance at the end of the year** | **106,160** | **64,101** |

As at 31 December 2008 and 2007, the analysis of available-for-sale assets by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 1,331,963 | 712 158 |
| 3 to 12 months | 1,227,702 | 420 870 |
| 1 to 5 years | 926,654 | 1,371,131 |
| More than 5 years | 1,482,257 | 1,221,488 |
| Undetermined | 2,125,535 | 2,513,242 |
| | **7,094,111** | **6,238,889** |

The main equity exposures that contribute to the fair value reserve, as at 31 December 2008 and 2007, can be analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | | |
|---|---|---|---|---|---|
| | Acquisition cost | Fair value reserve | | Impairment | Book Value |
| | | Positive | Negative | | |
| Banco Bradesco | 412,745 | - | ( 20,493) | - | 392,252 |
| Portugal Telecom | 454,356 | - | ( 91,222) | - | 363,134 |
| EDP | 375,893 | - | ( 75,815) | - | 300,078 |
| Banque Marocaine du Commerce Extérieur | 2,480 | 7,963 | - | ( 682) | 9,761 |
| | **1,245,474** | **7,963** | **( 187,530)** | **( 682)** | **1,065,225** |

(in thousands of euro)

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

As at 31 December 2008, the unrealized losses related with the main equity exposures under the available-for-sale financial assets category were recognised in the fair value reserve, as they did not met with the judgment criteria's applied for impairment recognition, namely (i) the decline in market value above 30% in relation to the acquisition cost or (ii) market value below the acquisition cost for a period longer than twelve-months

During 2008, BES acquired 36.5 million shares of Banco Bradesco, adjusted by the stock split, by an amount of euro 359.8 million. Also during 2008, BES sold 42.7 million shares of Banco Bradesco by anamount of euro 510.7 million, 38 million of which were sold to BES Vida. During 2008, BES Vida sold all Bradesco shares (see Note 8 and Note 41).

Following these transactions, the investment funds managed by ESAF – Fundos de Investimento Mobiliário, S.A. and the Group's pension fund acquired 25.3 million shares of Banco Bradesco by an amount of euro 290.5 million and 5 million shares of Banco Bradesco by an amount of euro 67.1 million, respectively.

The analysis of the available-for-sale financial assets by quoted and unquoted securities, is presented as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Securities | | | | | | |
| Bonds and other fixed income securities | | | | | | |
| Issued by govermment and public entities | 149,036 | 1,739,914 | 1,888,950 | 85,707 | 717,000 | 802,707 |
| Issued by other entities | 2,787,828 | 291,798 | 3,079,626 | 681,114 | 2,223,630 | 2,904,744 |
| Shares | 1,180,678 | 241,400 | 1,422,078 | 1,943,689 | 244,024 | 2,187,713 |
| Other variable income securities | 73,840 | 629,617 | 703,457 | 35,934 | 307,791 | 343,725 |
| | 4,191,382 | 2,902,729 | 7,094,111 | 2,746,444 | 3,492,445 | 6,238,889 |

## Note 20 - LOANS AND ADVANCES TO BANKS

As at 31 December 2008 and 2007, this balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Loans and advances to banks in Portugal** | | |
| Inter-bank money market | 1,326 | 1,269,865 |
| Deposits | 140,508 | 83,369 |
| Loans | 112,593 | 67,719 |
| Very short term deposits | 58,266 | 345,042 |
| Other loans and advances | 173,022 | 1,445 |
| | 485,715 | 1,767,440 |
| **Loans and advances to banks abroad** | | |
| Deposits | 1,605,619 | 3 541,730 |
| Very short term deposits | 191,584 | 1,137,238 |
| Loans | 1,998,801 | 1,732,552 |
| Other loans and advances | 251,286 | 32,575 |
| | 4,047,290 | 6,444,095 |
| Impairment losses | ( 1,022) | ( 1,204) |
| | 4,531,983 | 8,210,331 |

The main loans and advances to banks in Portugal, as at 31 December 2008, bear interest at an average annual interest rate of 4.41% (31 December 2007: 4.47%). Loans and advances to banks abroad bear interest at international market rates where the Group operates.

As at 31 December 2008, this balance include euro 33 635 thousands (31 December 2007: euro 559,687 thousands) of loans and advances to banks at fair value through profit or loss (see Note 23).

As at 31 December 2008 and 2007, the analysis of loans and advances to banks by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 2,472,849 | 7,812,446 |
| 3 to 12 months | 1,347,718 | 156,240 |
| 1 to 5 years | 352,317 | 110,002 |
| More than 5 years | 354,970 | 132,596 |
| Undetermined | 5,151 | 251 |
| | **4,533,005** | **8,211,535** |

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance at the begining of the year | 1,204 | 2,354 |
| Charge for the year | 417 | 1,757 |
| Write back for the year | ( 656) | ( 2,251) |
| Exchange differences and other | 57 | ( 656) |
| **Balance at the end of the year** | **1,022** | **1,204** |

## Note 21 - LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2008 and 2007, this balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Domestic loans** | | |
| Corporate | | |
| Loans | 11,927,971 | 9,794,194 |
| Commercial lines of credits | 5,653,679 | 5,655,418 |
| Finance leases | 3,086,997 | 2,829,881 |
| Discounted bills | 906,749 | 1,114,157 |
| Factoring | 1,096,588 | 1,156,111 |
| Overdrafts | 37,647 | 49,777 |
| Other loans | 266,223 | 245,152 |
| Retail | | |
| Mortgage loans | 10,394,044 | 9,545,741 |
| Consumer and other loans | 2,394,856 | 2,310,264 |
| | 35,764,754 | 32,700,695 |
| **Foreign loans** | | |
| Corporate | | |
| Loans | 6,436,457 | 6,092,130 |
| Commercial lines of credits | 2,076,222 | 1,520,636 |
| Finance leases | 293,250 | 288,123 |
| Discounted bills | 179,742 | 135,949 |
| Factoring | 77,692 | - |
| Overdrafts | 276,742 | 74,396 |
| Other loans | 1,585,150 | 985,137 |
| Retail | | |
| Mortgage loans | 551,043 | 529,488 |
| Consumer and other loans | 319,548 | 326,505 |
| | 11,795,846 | 9,952,364 |
| **Overdue loans and interest** | | |
| Up to 3 months | 112,777 | 74,790 |
| From 3 months to 1 year | 174,977 | 102,863 |
| From 1 to 3 years | 229,075 | 212,154 |
| More than 3 years | 120,110 | 117,792 |
| | **636,939** | **507,599** |
| | **48,197,539** | **43,160,658** |
| Impairment losses | (1,148,065) | ( 990,395) |
| | 47,049,474 | 42,170,263 |

As at 31 December 2008, the balance loans and advances to customers (net of impairment losses) includes an amount of euro 4,408.0 million (31 December 2007: euro 2,903.4 million) related to securitised loans following the consolidation of securitisation vehicles (see Note 42), according to the accounting policy described in Note 2.2. The liabilities related to these securitisations are booked under debt securities issued (see Notes 32 and 42).

As at 31 December 2008, loans and advances includes euro 2,722,664 thousands of mortgage loans that collateralise the issue of covered bonds (see Note 32).

As at 31 December 2008, this balance includes euro 605,737 thousands (31 December 2007: 163,726 thousands) of loans at fair value through profit or loss (see Note 23).

The fair value of loans and advances to customers is presented in Note 43.

As at 31 December 2008 and 2007, the analysis of loans and advances to customers by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 6,503,207 | 6,591,577 |
| 3 to 12 months | 4,869,629 | 5,821,538 |
| 1 to 5 years | 10,393,506 | 8,584,877 |
| More than 5 years | 25,794,258 | 21,655,067 |
| Undetermined | 636,939 | 507,599 |
| | 48,197,539 | 43,160,658 |

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance at the beginning of the year | 990,395 | 869,327 |
| Charge for the year | 312,950 | 257,737 |
| Charge off | ( 87,441) | ( 80,481) |
| Write back for the year | ( 38,519) | ( 44,553) |
| Unwind of discount | ( 16,190) | ( 13,102) |
| Exchange differences and other | ( 13,130) | 1,467 |
| **Balance at the end of the year** | **1,148,065** | **990,395** |

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

As at 31 December 2008 and 2007, the detail of impairment is as follows:

(in thousands of euro)

| | 31.12.2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans with impairment losses calculated on an individual basis | | Loans with impairment losses calculated on a portfolio basis | | TOTAL | | |
| | Gross amount | Impairment | Gross amount | Impairment | Gross amount | Impairment | Net Loans Impairment |
| Corporate loans | 5,343,713 | 536,339 | 29,031,563 | 250,721 | 34,375,276 | 787,060 | 33,588,216 |
| Mortgage loans | 1,042,219 | 205,718 | 9,978,063 | 25,428 | 11,020,282 | 231,146 | 10,789,136 |
| Consumers loans - other | 304,240 | 88,745 | 2,497,741 | 41,114 | 2,801,981 | 129,859 | 2 672,122 |
| **Total** | **6,690,172** | **830,802** | **41,507,367** | **317,263** | **48,197,539** | **1,148,065** | **47,049,474** |

(in thousands of euro)

| | 31.12.2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans with impairment losses calculated on an individual basis | | Loans with impairment losses calculated on a portfolio basis | | TOTAL | | |
| | Gross amount | Impairment | Gross amount | Impairment | Gross amount | Impairment | Net Loans Impairment |
| Corporate loans | 3,283,164 | 398,599 | 27,022,385 | 304,821 | 30,305,549 | 703,420 | 29,602,129 |
| Mortgage loans | 871,399 | 152,696 | 9,269,550 | 24,799 | 10,140,949 | 177,495 | 9,963,454 |
| Consumers loans - other | 252,055 | 68,933 | 2,462,105 | 40,547 | 2,714,160 | 109,480 | 2,604,680 |
| **Total** | **4,406,618** | **620,228** | **38,754,040** | **370,167** | **43,160,658** | **990,395** | **42,170,263** |

Loans with impairment losses calculated on an individual basis includes, loans with objective evidence of impairment, overdue loans for over 90 days and restructured loans.

As at 31 December 2008, loans and advances includes euro 78,017 thousands of restructured loans (31 December 2007: euro 64,218 thousands). These loans correspond, in accordance with the definition of the Bank of Portugal, to loans previously overdue, which through a restructuring process are considered as performing loans.

The interest recognised as interest and similar income in relation to these loans amounted to euro 334.5 million (31 December 2007: euro 239.3 million), which includes the effect of the unwind of discount in connection with overdue loans.

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Fixed interest rate | 5,569,098 | 4,040,800 |
| Variable interest rate | 42,628,441 | 39,119,858 |
| | **48,197,539** | **43,160,658** |

An analysis of finance lease loans by the period to maturity, is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Gross investment in finance leases, receivable** | | |
| Up to 1 year | 607,861 | 572,483 |
| From 1 to 5 years | 1,597,098 | 2,058,919 |
| More than 5 years | 1,368,869 | 1,172,297 |
| | **3,573,828** | **3,803,699** |
| **Unearned future finance income on finance leases** | | |
| Up to 1 year | 29,639 | 117,264 |
| From 1 to 5 years | 75,071 | 278,854 |
| More than 5 years | 88,871 | 289,577 |
| | **193,581** | **685,695** |
| **Net investment in finance leases** | | |
| Up to 1 year | 578,222 | 455,219 |
| From 1 to 5 years | 1,522,027 | 1,780,065 |
| More than 5 years | 1,279,998 | 882,720 |
| | **3,380,247** | **3,118,004** |

## Note 22 - HELD-TO-MATURITY INVESTMENTS

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Bonds and other fixed income securities | | |
| Issued by government and public entities | 504,424 | 394,935 |
| Issued by other entities | 1,655,772 | 12,907 |
| | **2,160,196** | **407,842** |

As at 31 December 2008 and 2007, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 406,203 | 19,740 |
| 3 to 12 months | 142,941 | 11,298 |
| 1 to 5 years | 974,999 | 351,625 |
| More than 5 years | 636,053 | 25,179 |
| | **2,160,196** | **407,842** |

The analysis of the held-to-maturity investments by quoted and unquoted securities, is presented as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Bonds and other fixed income securities | | | | | | |
| Issued by government and public entities | 504,424 | - | 504,424 | 379,768 | 15,167 | 394,935 |
| Issued by other entities | 1,262,253 | 393,519 | 1,655,772 | - | 12,907 | 12,907 |
| | **1,766,677** | **393,519** | **2,160,196** | **379,768** | **28,074** | **407,842** |

The fair value of the held-to-maturity investment is presented in Note 43. The Group assessed, with reference to 31 December 2008, the existence of objective evidence of impairment on its held-to-maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

During the year ended 31 December 2008, the Group has reclassified non-derivative financial assets to the held-to-maturity investments category in the amount of euro 767.2 millions, as follows:

(in thousands of euro)

| | 31.12.2008 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reclassification date | | | | | | | | | |
| | Acquisition cost | Book value | Fair value reserve | | Future Cash-flows Value | Efective Rate | Market value as at 31 December 2008 [a] | Amortisation of the fair value reserve at the year | Impact through profit or loss [a] |
| | | | Positive | Negative | | | | | |
| Available-for-sale financial assets | 551,897 | 522,715 | 424 | ( 29,607) | 701,070 | 5.75% | 485,831 | 925 | - |
| Financial assets held-for-trading | 243,114 | 244,530 | - | - | 408,976 | 11.50% | 237,295 | - | 2,136 |
| **Bonds and other fixed income securities** | **795,011** | **767,245** | **424** | **( 29,607)** | **1,110,046** | | **723,126** | **925** | **2,136** |

a) Impact in the net income consequence of the reclassification with reference to 1 July.

The reclassification of financial assets held-for-trading as held-to-maturity investments was performed following the amendment to IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures, adopted by the Regulation (EU) n.º 1004/2008 issued in 15 October 2008, as mentioned in the accounting policy described in Note 2.6.

This reclassification was due to exceptional adverse market conditions, caused by the internacional financial crisis in 2008, which was considered as one of the rare circunstances mentionned in the referred change of the IAS 39.

During the second half of 2008, BES Group acquired to BES Vida securities that were classified upon initial recognition as held-to-maturity investments, in the amount of euro 689.5 million, from which euro 517.9 million were acquired through brokers.

## Note 23 - DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 31 December 2008 and 2007, the fair value of the derivatives for risk management purposes can be analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 |
|---|---|---|---|---|
| | Hedging | Risk management | Total | |
| **Derivatives for risk management purposes** | | | | |
| Derivatives for risk management purposes - assets | 598,469 | 337,821 | 936,290 | 211,890 |
| Derivatives for risk management purposes - liabilities | ( 193,464) | ( 534,011) | ( 727,475) | ( 286,940) |
| | **405,005** | **( 196,190)** | **208,815** | **( 75,050)** |
| **Fair value component of assets and liabilitiesn being hedged** | | | | |
| **Financial assets** | | | | |
| Securities | - | ( 726) | ( 726) | ( 1,805) |
| Deposits at banks | - | 35 | 35 | 49 |
| Loans and advances to customers | ( 26,182) | 27,929 | 1,747 | ( 141) |
| | **( 26,182)** | **27,238** | **1,056** | **( 1,897)** |
| **Financial liabilities** | | | | |
| Deposits from banks | ( 29,920) | 8,843 | ( 21,077) | 7,234 |
| Due to customers | ( 4,088) | 10,196 | 6,108 | 2,087 |
| Debt securities issued | ( 258,107) | 162,953 | ( 95,154) | 67,601 |
| Subordinated debt | ( 17,431) | - | ( 17,431) | 23,257 |
| | **( 309,546)** | **181,992** | **( 127,554)** | **100,179** |
| | **( 335,728)** | **209,230** | **( 126,498)** | **98,282** |

As mentioned in the accounting policy described in Note 2.4, derivatives for risk management purposes include hedging derivatives and derivatives contracted to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss (and that were not designated as hedging derivatives).

## Hedging derivatives

As at 31 December 2008 and 2007, the fair value hedge relationships present the following features:

(in thousands of euro)

| 31.12.2008 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Derivative | Hedge item | Hedged risk | Notional | Fair value of derivative[2] | Changes in the fair value of the derivative in the year | Fair value component of the hedged item[1] | Changes in the fair value of the hedged item in the year [1] |
| *Currency Interest Rate Swap* | Debt security issued | Interest rate and FX | 18,605 | ( 27) | ( 104) | 358 | 16 |
| *Currency Interest Rate Swap* | Subordinated loans | Interest rate and FX | 274,098 | ( 9,390) | 19,102 | 9,196 | ( 19,135) |
| *Currency Interest Rate Swap* | Deposits from banks | Interest rate and FX | 299,213 | ( 1,763) | ( 2,415) | ( 2,243) | 2,415 |
| *Interest Rate Swap* | Domestic loans | Interest rate | 197,572 | 26,603 | 25,652 | ( 26,182) | ( 24,894) |
| *Interest Rate Swap* | Debt security issued | Interest rate | 5,080,698 | 318,489 | 286,811 | ( 258,465) | ( 293,023) |
| *Interest Rate Swap* | Subordinated loans | Interest rate | 506,600 | 33,910 | 26,527 | ( 26,627) | ( 27,617) |
| *Interest Rate Swap* | Due to customers | Interest rate | 196,077 | 8,232 | 5,572 | ( 4,088) | ( 5,685) |
| *Interest Rate Swap* | Deposits from banks | Interest rate | 148,000 | 28,951 | 30,660 | ( 27,677) | ( 30,730) |
| | | | **6,720,863** | **405,005** | **391,805** | **( 335,728)** | **( 398,653)** |

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

(in thousands of euro)

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

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

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under net gains/ (losses) from financial assets at fair value through profit or loss.

As at 31 December 2008, the ineffectiveness of the fair value hedge operations amounted to euro 6.8 million (31 December 2007: euro 4.3 million) and was recognised in the income statement. BES Group evaluates on an ongoing basis the effectiveness of the hedges.

## Other derivatives for risk management purposes

Other derivatives for risk management purposes includes derivatives held to hedge assets and liabilities at fair value through profit and loss in accordance with the accounting policies described in Notes 2.5, 2.6 and 2.8 and that the Group did not classified as hedging derivatives.

Book value of assets and liabilities at fair value through profit and loss can be analysed as follows:

(in thousands of euro)

| 31.12.2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Derivative | | | Assets/liabilities associated | | | |
| Derivative | Financial assets/liabilities economically hedged | Notional | Fair Value | Changes in the fair valueduring the year | Fair Value | Changes in the fair value during the year | Book Value | Reimbursement amount at maturity date [1] |
| | **Assets** | | | | | | | |
| *FX swap* | Loans and advances to banks | 33,670 | ( 145) | ( 145) | 35 | 35 | 33,635 | 33,635 |
| *Interest Rate Swap* | Securities | 231,514 | 280 | 280 | ( 726) | 3,216 | 226,000 | 226,000 |
| *Interest Rate Swap* | Loans and advances to customers | 563,308 | ( 27,073) | ( 19,204) | 27,929 | 27,312 | 605,737 | 579,291 |
| | **Liabilities** | | | | | | | |
| *Credit Default Swap* | Debt security issued | 50,045 | ( 7,031) | ( 7,201) | 5,214 | 5,340 | 39,907 | 47,221 |
| *Currency Interest Rate Swap* | Debt security issued | 41,283 | ( 1,127) | ( 6,315) | 1,374 | 7,848 | 61,382 | 53,543 |
| *Equity/Index Swap* | Debt security issued | 452,832 | ( 42,689) | ( 39,794) | 55,745 | 58,923 | 226,469 | 289,044 |
| *Index Swap* | Debt security issued | 49,281 | ( 547) | ( 1,369) | 222 | 997 | 47,191 | 47,201 |
| *Interest Rate Swap/Forwards* | Debt security issued | 1,456,159 | ( 119,409) | ( 121,802) | 101,106 | 54,440 | 1,344,094 | 1,402,724 |
| *Interest Rate Swap/FX Options* | Debt security issued | 10,390 | 521 | 521 | ( 708) | ( 708) | 3,784 | 4,153 |
| *Credit Default Swap* | Deposits from banks | 150,000 | ( 1,050) | ( 1,082) | 1,083 | 1,083 | 148,917 | 150,000 |
| *FX swap* | Deposits from banks | 1,494,617 | 1 129 | 1,129 | ( 436) | ( 436) | 1,484,940 | 1,484,940 |
| *Interest Rate and Credit Default Swap* | Deposits from banks | 39,020 | ( 416) | ( 416) | 332 | 332 | 28,092 | 27,760 |
| *Interest Rate Swap* | Deposits from banks | 7,894 | ( 301) | ( 301) | 7,864 | 7,864 | 8,135 | 8,523 |
| *Index Swap/Interest Rate Swap* | Due to customers | 25,838 | 1,668 | ( 20,179) | 10,196 | 9,570 | 122,630 | 112,434 |
| | | **4,605,851** | **( 196,190)** | **( 215,878)** | **209,230** | **175,816** | **4,380,913** | **4,466,469** |

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

(in thousands of euro)

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

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

As at 31 December 2008, the fair value component of the financial liabilities at fair value through profits and losses, attributable to the Group own credit risk, is euro 109,725 thousands of cumulative profits (31 December 2007: euro 7,599 thousands, of profits) and euro 102,126 thousands of profits for the year (31 December 2007: euro 9,421 thousands, of profits).

As at 31 December 2007 and 2008, the analysis of fair value hedge transactions by the period to maturity is as follows:

(in thousands of euro)

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Notional | Fair Value | Notional | Fair Value |
| Up to 3 months | 8,003,253 | ( 107,611) | 886,563 | 9,381 |
| 3 to 12 months | 1,318,965 | ( 63,654) | 1,460,489 | 8,863 |
| 1 to 5 years | 5,518,979 | 101,442 | 1,889,030 | ( 3,317) |
| More than 5 years | 2,452,779 | 278,638 | 1,917,432 | ( 89,977) |
| | **17,293,976** | **208,815** | **6,153,514** | **( 75,050)** |

## **Note 24 -** NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This balance as at 31 December 2008 and 2007 is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Assets and liabilities of subsidiaries acquired exclusively for resale purposes | 17,042 | 12,827 | 235,993 | 233,189 |
| Property held for sale | 151,954 | - | 49,499 | - |
| Equipment | 1,413 | - | - | - |
| Other | 1,339 | - | - | - |
| | **154,706** | **-** | **49,499** | **-** |
| Impairment losses | ( 23,376) | - | ( 6,084) | - |
| | **131,330** | **-** | **43,415** | **-** |
| | **148,372** | **12,827** | **279,408** | **233,189** |

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

As at 31 December 2008, the amount of property held for sale includes euro 31,367 thousand (31 December 2007: euro 15,855 thousands) related to discontinued branches, in relation to which the Group recognised an impairment loss amounting to euro 6,863 thousand (31 December 2007: euro 2,299 thousands).

The changes occurred in non-current assets held for sale during 2008 and 2007, are presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance at the beginning of the year | 49,499 | - |
| Additions | 132,163 | 60,998 |
| Sales | ( 28,290) | ( 11,744) |
| Other | 1,334 | 245 |
| **Balance at the end of the year** | **154,706** | **49,499** |

Additions relate to assets initially recognised in other assets that were reclassified as assets held for sale in accordance with the accounting policy described in Note 2.11.

The changes occurred in impairment losses are presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance at the beginning of the year | 6,084 | - |
| Charge for the year | 16,131 | 2,605 |
| Charge off | ( 4,848) | ( 2,017) |
| Write back for the year | ( 134) | ( 45) |
| Transfers (a) | 6,143 | 5,541 |
| **Balance at the end of the year** | **23,376** | **6,084** |

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

## **Note 25 -** PROPERTY AND EQUIPMENT

As at 31 December 2008 and 2007 this balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Property** | | |
| For own use | 407,858 | 405,878 |
| Improvements in leasehold property | 223,583 | 200,834 |
| Other | 341 | 3,913 |
| | **631,782** | **610,625** |
| **Equipment** | | |
| Computer equipment | 259,047 | 248,445 |
| Fixtures | 118,922 | 103,341 |
| Furniture | 116,769 | 105,651 |
| Security equipment | 31,021 | 24,868 |
| Office equipment | 33,665 | 32,967 |
| Motor vehicles | 5,400 | 4,700 |
| Other | 5,340 | 6,150 |
| | **570,164** | **526,122** |
| **Other** | **895** | **557** |
| | **1,202,841** | **1,137,304** |
| **Work in progress** | | |
| Improvements in leasehold property | 17,265 | 16,275 |
| Property for own use | 86,215 | 12,049 |
| Equipment | 9,430 | 17,934 |
| Other | 1,026 | 365 |
| | **113,936** | **46,623** |
| | **1,316,777** | **1,183,927** |
| **Accumulated depreciation** | ( 678,290) | ( 646,159) |
| | **638,487** | **537,768** |

The movement in this balance was as follows:

(in thousands of euro)

| | Property | Equipment | Other | Work in progress | Total |
|---|---|---|---|---|---|
| **Acquisition cost** | | | | | |
| **Balance as at 31 December 2006** | **483,211** | **480,770** | **1,627** | **34,328** | **999,936** |
| Acquisitions | 47,710 | 35,148 | 155 | 56,454 | 139,467 |
| Disposals | ( 3,567) | ( 14,104) | - | - | ( 17,671) |
| Transfers [(a)] | 10,668 | 24,646 | - | ( 44,736) | ( 9,422) |
| Exchange differences | ( 1,269) | ( 883) | ( 14) | ( 173) | ( 2,339) |
| Other [(b)] | 73,872 | 545 | ( 1,211) | 750 | 73,956 |
| **Balance as at 31 December 2007** | **610,625** | **526,122** | **557** | **46,623** | **1,183,927** |
| Acquisitions | 11,413 | 29,728 | - | 124,250 | 165,391 |
| Disposals | ( 2,490) | ( 9,677) | - | ( 2) | ( 12,169) |
| Transfers [(c)] | 11,363 | 27,677 | 324 | ( 57,864) | ( 18,500) |
| Exchange differences | 1,899 | ( 497) | 13 | 550 | 1,965 |
| Other [(d)] | ( 1,028) | ( 3,189) | 1 | 379 | ( 3,837) |
| **Balance as at 31 December 2008** | **631,782** | **570,164** | **895** | **113,936** | **1,316,777** |
| **Depreciation** | | | | | |
| **Balance as at 31 December 2006** | **219,050** | **397,686** | **271** | **-** | **617,007** |
| Depreciation of the year | 17,082 | 26 761 | 191 | - | 44,034 |
| Disposals | ( 3,036) | ( 13,965) | - | - | ( 17,001) |
| Transfers [(a)] | ( 2,946) | 3,362 | - | - | 416 |
| Exchange differences | ( 151) | ( 917) | ( 10) | - | ( 1,078) |
| Other | - | 2,931 | ( 150) | - | 2 781 |
| **Balance as at 31 December 2007** | **229,999** | **415,858** | **302** | **-** | **646,159** |
| Depreciation of the year | 17,920 | 30,815 | 201 | - | 48,936 |
| Disposals | ( 2,498) | ( 9,192) | - | - | ( 11,690) |
| Transfers [(c)] | ( 1,873) | ( 1,134) | - | - | ( 3,007) |
| Exchange differences | 146 | ( 156) | 10 | - | - |
| Other [(d)] | 160 | ( 2,055) | ( 213) | - | ( 2,108) |
| **Balance as at 31 December 2008** | **243,854** | **434,136** | **300** | **-** | **678,290** |
| **Net amount as at 31 December 2008** | **387,928** | **136,028** | **595** | **113,936** | **638,487** |
| **Net amount as at 31 December 2007** | **380,626** | **110,264** | **255** | **46,623** | **537,768** |

(a) Includes the amount of euro 13,576 thousands related to the acquisition costs and euro 3,207 thousands of accumulated depreciations transferred to the balance other assets, referring to discontinued branches.
(b) Includes euro 73,509 thousands referring to the consolidation for the first time in 2007 of Praça do Marquês.
(c) Includes the amount of euro 18,500 thousands related to the acquisition costs and euro 3,007 thousands of accumulated depreciations transferred to the balance other assets, referring to discontinued branches.
(d) Includes the amount of euro 4,287 thousands related to the acquisition costs and euro 2,243 thousands of accumulated depreciations transferred to the balance other assets, referring to ES Contact Center which no longer consolidates.

## **Note 26 -** INTANGIBLE ASSETS

As at 31 December 2008 and 2007 this balance is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Goodwill** | **15,465** | **7,441** |
| **Internally developed** | | |
| Software | 20,847 | 13,324 |
| **Acquired to third parties** | | |
| Software | 483,475 | 428,285 |
| Other | 1,025 | 1,099 |
| | **484,500** | **429,384** |
| **Work in progress** | **21,210** | **31,106** |
| | **542,022** | **481,255** |
| Accumulated amortisation | (417,806) | (390,084) |
| | **124,216** | **91,171** |

The balance internally developed software includes the costs incurred by the Group in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.13).

The movement in this balance was as follows:

(in thousands of euro)

| | Goodwill | Software | Other | Work in progress | Total |
|---|---|---|---|---|---|
| **Acquisitions cost** | | | | | |
| **Balance as at 31 December 2006** | **3,282** | **411,469** | **30,393** | **19,429** | **464,573** |
| Acquisitions: | | | | | |
| Internally developed | - | 91 | - | 6,042 | 6,133 |
| Acquired from third parties | 3,854 | 14,675 | 150 | 26,739 | 45,418 |
| Disposals | - | (3,941) | (27,058) | - | (30,999) |
| Transfers | - | 15,633 | 392 | (20,179) | (4,154) |
| Exchange differences | - | 45 | - | ( 10) | 35 |
| Other | 305 | 3,637 | (2,778) | ( 915) | 249 |
| **Balance as at 31 December 2007** | **7,441** | **441,609** | **1,099** | **31,106** | **481,255** |
| Acquisitions: | | | | | |
| Internally developed | - | 142 | - | 8,173 | 8 315 |
| Acquired from third parties | 8,147 | 16,134 | 74 | 30,701 | 55,056 |
| Disposals | - | ( 390) | ( 31) | - | ( 421) |
| Transfers | - | 48,908 | ( 108) | (48,800) | - |
| Exchange differences | ( 124) | 112 | 23 | 29 | 40 |
| Other (a) | 1 | (2,193) | ( 32) | 1 | (2,223) |
| **Balance as at 31 December 2008** | **15,465** | **504,322** | **1,025** | **21,210** | **542,022** |
| **Amortisation** | | | | | |
| **Balance as at 31 December 2006** | **-** | **370,247** | **25,674** | **-** | **395,921** |
| Amortisation of the year | - | 25,494 | 227 | - | 25,721 |
| Disposals | - | (3,940) | (25,200) | - | (29,140) |
| Transfers | - | (3,230) | ( 393) | - | (3,623) |
| Exchange differences | - | 46 | - | - | 46 |
| Other | - | 368 | 791 | - | 1,159 |
| **Balance as at 31 December 2007** | **-** | **388,985** | **1,099** | **-** | **390,084** |
| Amortisation of the year | - | 28,731 | 239 | - | 28,970 |
| Disposals | - | ( 347) | ( 31) | - | ( 378) |
| Transfers | - | ( 512) | 512 | - | - |
| Exchange differences | - | 62 | 7 | - | 69 |
| Other (a) | - | ( 3) | ( 936) | - | ( 939) |
| **Balance as at 31 December 2008** | **-** | **416,916** | **890** | **-** | **417,806** |
| **Balance as at 31 December 2008** | **15,465** | **87,406** | **135** | **21,210** | **124,216** |
| **Balance as at 31 December 2007** | **7,441** | **52,624** | **-** | **31,106** | **91,171** |

The changes occurred in 2008 on goodwill are mainly related with the acquisition of 10.64% of BES Leasing e Factoring - Instituição Financeira de Crédito, S.A., share capital, from which resulted a goodwill in the amount of euro 7,893 millions. The changes occurred on goodwill in 2007, were due to the acquisition of 51% of ES Data share capital from which resulted a goodwill in the amount of euro 3,691 million.

## Note 27 - INVESTMENTS IN ASSOCIATES

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

(in thousands of euro)

| | Assets | | Liabilities | | Equity | | Income | | Profit/(Loss) of the period | | Acquisition cost | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 |
| BES VIDA | 7,699,814 | 7,647,855 | 7,600,312 | 7,375,001 | 99,502 | 272,854 | 1,103,970 | 822,964 | ( 67,861) | 52,218 | 474,997 | 474,997 |
| ES VÉNÉTIE | 1,335,734 | 1,288,135 | 1,185,707 | 1,187,920 | 150,027 | 100,215 | 98,142 | 87,942 | 11,423 | 12,889 | 42,293 | 22,000 |
| LOCARENT | 320,322 | 291,074 | 314,543 | 286,903 | 5,779 | 4,171 | 94,542 | 72,839 | 1,608 | 1,107 | 2,517 | 2,517 |
| BES SEGUROS | 115,515 | 108,662 | 92,532 | 84,207 | 22,983 | 24,455 | 64,516 | 61,862 | 4,008 | 4,723 | 3,749 | 3,749 |
| ESEGUR | 42,419 | 41,466 | 29,788 | 31,552 | 12,631 | 9,914 | 64,482 | 62,369 | 5,020 | 3,609 | 9,634 | 9,634 |
| EUROP ASSISTANCE | 32,072 | 31,401 | 23,255 | 21,778 | 8,817 | 9,623 | 26,432 | 26,046 | 1,581 | 1,211 | 1,147 | 1,147 |
| FUNDO ES IBERIA | 23,939 | 26,430 | 790 | 1,938 | 23,149 | 24,492 | 652 | 26 | ( 562) | ( 1,262) | 10,496 | 10,496 |
| SCI GEORGES MANDEL | 12,432 | 11,916 | 35 | 40 | 12,397 | 11,876 | 1,270 | 1,133 | 521 | 353 | 2,401 | 2,401 |
| BRB INTERNACIONAL | 12,350 | 11,756 | 12,203 | 10,213 | 147 | 1,543 | 2,105 | 59 | ( 2,619) | ( 1,002) | 10,033 | 10,033 |
| SGPICE | 3,722 | 2,577 | 14,025 | 10,614 | ( 10,303) | ( 8,037) | 10,139 | 6,255 | ( 1,707) | ( 612) | 2,667 | 2,667 |
| AUTOPISTA PEROTE-XALAPA | 284,861 | - | 134,217 | - | 150,644 | - | - | - | - | - | 35,056 | - |
| LUSOSCUT COSTA DE PRATA | 424,782 | - | 394,851 | - | 29,931 | - | 44,290 | - | 9,704 | - | 9,972 | - |
| LUSOSCUT BEIRA LITORAL E ALTA | 1,020,565 | - | 925,025 | - | 95,540 | - | 122,327 | - | 30,087 | - | 23,776 | - |
| LUSOSCUT GRANDE PORTO | 674,060 | - | 643,086 | - | 30,974 | - | 53,809 | - | 352 | - | 27,948 | - |
| ASCENDI | 7,952 | - | 3,023 | - | 4,929 | - | - | - | ( 71) | - | 2,000 | - |
| RODI SINKS & IDEAS | 49,819 | 36,659 | 33,770 | 21,211 | 16,049 | 15,448 | 14,825 | - | 751 | ( 225) | 1,240 | 1,240 |
| Other | - | - | - | - | - | - | - | - | - | - | 57,213 | 45,819 |
| | | | | | | | | | | | **717,139** | **586,700** |

Note: Information adjusted for consolidation purposes

(in thousands of euro)

| | Economic interest | | Book value | | Share of profit of associates | |
|---|---|---|---|---|---|---|
| | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 |
| BES VIDA | 50.00% | 50.00% | 367,416 [b] | 457,992 | ( 37,831) | 21,752 |
| ES VÉNÉTIE | 42.69% | 40.00% | 64,187 | 40,089 | 4,609 | 5,156 |
| LOCARENT | 45.00% | 45.00% | 2,722 | 1,998 | 724 | 497 |
| BES SEGUROS | 25.00% | 25.00% | 5,743 | 6,112 | 1,001 | 1,180 |
| ESEGUR | 44.00% | 44.00% | 12,402 | 11,206 | 2,209 | 1,468 |
| EUROP ASSISTANCE | 23.00% | 23.00% | 2,028 | 2,214 | 364 | 279 |
| FUNDO ES IBERIA | 38.69% | 38.69% | 9,342 | 9,811 | ( 519) | ( 488) |
| SCI GEORGES MANDEL | 22.50% | 22,50% | 2,789 | 2,672 | 117 | 79 |
| BRB INTERNACIONAL | 24.93% | 24.93% | 37 | 386 | ( 349) | ( 274) |
| SGPICE | 33.33% | 33.33% | - | - | - | - |
| AUTOPISTA PEROTE-XALAPA [a] | 8.19% | - | 30,154 | - | - | - |
| LUSOSCUT COSTA DE PRATA [a] | 9.17% | - | 18,714 | - | 554 | - |
| LUSOSCUT BEIRA LITORAL E ALTA [a] | 9.17% | - | 43,909 | - | 1,290 | - |
| LUSOSCUT GRANDE PORTO [a] | 9.17% | - | 23,788 | - | 87 | - |
| ASCENDI [a] | 16.38% | - | 1,972 | - | ( 28) | - |
| RODI SINKS & IDEAS | 25.29% | 25.29% | 5,773 | 5,560 | 213 | ( 168) |
| Other | - | - | 53,530 | 35,660 | 7,269 | 2,426 |
| | | | **644,506** | **573,700** | **( 20,290)** | **31,907** |

a) Altough the Group economic interest is less than 20%, these companies were accounted for following the equity method, as the Group exercises a significant influence over them.
b) Include goodwill in the amount of 267,440 thousands of euro and value-in-force in the amount of euro 50,225 thousands (31 December 2007: euro 54,126 thousands).

The movement occurred in this balance is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the beginning of the year** | **573,700** | **571,563** |
| Disposals | ( 4,460) | ( 10,534) |
| Acquisitions [b] | 136,452 | 43,140 |
| Share of profit of associates | ( 20,290) | 31,907 |
| Fair value reserve from investments in associates [a] | ( 29,616) | ( 24,063) |
| Dividends received | ( 28,588) | ( 33,249) |
| Exchange differences and other [b] | 17,308 | ( 5,064) |
| **Balance at the end of the year** | **644,506** | **573,700** |

(a) Change in fair value reserves from BES Vida
(b) In 2008 corresponds mainly to the consolidation movements of Lusoscut Beira Litoral, Lusoscut Grande Porto e Lusoscut Costa de Prata and Perote-Xalapa.

## Note 28 - OTHER ASSETS

As at 31 December 2008 and 2007, the balance other assets is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Debtors** | | |
| Deposits placed with options contracts | 314,414 | 208,910 |
| Deposits placed with futures contracts | 148,964 | 128,695 |
| Recoverable government subsidies on mortgage loans | 43,046 | 52,742 |
| Collateral deposits placed | 359,237 | 126,295 |
| Loans to companies in which the Group has a minority interest | 133,398 | 133,010 |
| Public sector | 51,526 | 42,498 |
| Sundry debtors | 278,952 | 143,980 |
| | **1,329,537** | **836,130** |
| Impairment losses on debtors | ( 18,003) | ( 12,099) |
| | **1,311,534** | **824,031** |
| **Other assets** | | |
| Gold, other precious metals, numismatics, | | |
| and other liquid assets | 13,505 | 13,423 |
| Other assets | 85,568 | 45,023 |
| | **99,073** | **58,446** |
| **Accrued income** | **54,959** | **71,392** |
| **Prepayments and deferred costs** | **139,383** | **111,273** |
| **Other sundry assets** | | |
| Foreign exchange transactions pending settlement | 166,021 | 5,016 |
| Stock exchange transactions pending settlement | 107,512 | 412,072 |
| Other transactions pending settlement | 160,098 | 92,242 |
| | **433,631** | **509,330** |
| Assets acquired in exchange for loans | 126,359 | 100,633 |
| Impairment losses on assets acquired in exchange for loans | ( 6,948) | ( 8,951) |
| | **119,411** | **91,682** |
| **Assets recognised on pensions (see Note 12)** | **962,925** | **568,046** |
| | **3,120,916** | **2,234,200** |

Loans to companies in which the Group has a minority interest include the amount of euro 118,500 thousands related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (31 December 2007: euro 118,500 thousands).

As at 31 December 2008, the balance prepayments and deferred costs includes the amount of euro 106,104 thousands (31 December 2007: euro 79,823 thousands) related to the difference between the nominal amount of loans granted to Group's employees under the collective labour agreement for the banking sector (ACT) and their respective fair value at grant date, calculated in accordance with IAS 39. This amount is charged to the income statement over the lower period between the remaining maturity of the loan granted, and the estimated remaining service life of the employee.

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

The movements occurred in impairment losses are presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the beginning of the year** | **21,050** | **19,950** |
| Charge for the year | 11,015 | 3,967 |
| Charge off | ( 319) | - |
| Write back for the year | ( 2,829) | ( 442) |
| Other [a] | ( 3,966) | ( 2,425) |
| **Balance at the end of the year** | **24,951** | **21,050** |

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

## Note 29 - DEPOSITS FROM CENTRAL BANKS

The balance deposits from central banks is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **From the European System of Central Banks** | | |
| Inter-bank Money Market | 100,000 | - |
| Deposits | 40,505 | 71,102 |
| Other funds | 1,300,000 | - |
| | **1,440,505** | **71,102** |
| **From other Central Banks** | | |
| Deposits | 3,369,953 | 1,762,012 |
| Repurchase agreements | - | 54,508 |
| | **3,369,953** | **1,816,520** |
| | **4,810,458** | **1,887,622** |

Other funds from the European System of Central Banks in the amount of euro 1,300 million, are covered by securities from the available-for-sale portfolio pledged as collaterals (see Note 39).

As at 31 December 2008 and 2007, the analysis of deposits from Central Banks by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 4,283,333 | 1,843,714 |
| 3 to 12 months | 527,125 | 43,908 |
| | **4,810,458** | **1,887,622** |

## Note 30 - DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Domestic** | | |
| Loans | 21 | 1,512 |
| Inter-bank money market | 46,314 | 37,814 |
| Deposits | 1,165,898 | 1,176,055 |
| Very short term funds | 73,112 | 37,353 |
| Repurchase agreements | 1,664 | 1,571 |
| Other funds | 1,072 | 5,599 |
| | **1,288,081** | **1,259,904** |
| **International** | | |
| Deposits | 3,328,035 | 2,867,043 |
| Loans | 1,645,745 | 2,120,707 |
| Very short term funds | 694,520 | 241,620 |
| Repurchase agreements | 433,247 | 497,507 |
| Other funds | 292,110 | 109,868 |
| | **6,393,657** | **5,836,745** |
| | **7,681,738** | **7,096,649** |

As at 31 December 2008, this balance includes the amount of euro 1 670 084 thousands (31 December 2007: 386 997 thousands) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2008 and 2007 the analysis of deposits from banks by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 4,165,934 | 3,634,217 |
| 3 to 12 months | 1,080,970 | 1,055,290 |
| 1 to 5 years | 2,075,172 | 1,628,873 |
| More than 5 years | 359,662 | 778,269 |
| | 7,681,738 | 7,096,649 |

## Note 31 - DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Repayable on demand** | | |
| Demand deposits | 8,874,132 | 9,938,448 |
| **Time deposits** | | |
| Time deposits | 13,383,655 | 9,281,688 |
| Other | 14,753 | 30,970 |
| | 13,398,408 | 9,312,658 |
| **Savings accounts** | | |
| Pensioners | 83,536 | 121,998 |
| Other | 1,616,750 | 1,912,976 |
| | 1,700,286 | 2,034,974 |
| **Other funds** | | |
| Repurchase agreements | 1,820,566 | 1,426,814 |
| Other | 593,362 | 1,062,136 |
| | 2,413,928 | 2,488,950 |
| | 26,386,754 | 23,775,030 |

This balance includes the amount of euro 122,630 thousands (31 December 2007: euro 191,345 thousands) of deposits recognised in the balance sheet at fair value through profit or loss (see Note 23).

The analysis of the amounts due to customers by the period to maturity is as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Repayable on demand** | 8,874,132 | 9,938,448 |
| **With agreed maturity** | | |
| Up to 3 months | 11,964,393 | 9,472,037 |
| 3 to 12 months | 4,028,676 | 2,344,846 |
| 1 to 5 years | 463,960 | 626,063 |
| More than 5 years | 1 055,593 | 1,393,636 |
| | 17,512,622 | 13,836,582 |
| | 26,386,754 | 23,775,030 |

## Note 32 - DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| *Euro Medium Term Notes* [(a)] | 10,130,109 | 11,711,322 |
| Bonds | 5,563,026 | 5,913,198 |
| Certificates of deposit | 3,522,854 | 5,899,817 |
| Covered bonds | 2,663,350 | - |
| Other | 2,717,343 | 789,254 |
| | **24,596,682** | **24,313,591** |

(a) As at 31 December 2008, the caption EMTN includes the amount of euro 179.9 millions of extendible notes (31 December 2007: euro 882.3 million).

The fair value of the debts securities issued is presented in Note 43.

This balance includes the amount of euro 1,722,827 thousands (31 December 2007: euro 1,101,126 thousands) related with debt securities issued recorded in balance sheet at fair value through profit or loss (see Note 23).

During the year ended 31 December 2008, BES Group issued covered bonds in the amount of euro 2,500 million, under the covered bonds programme, which has a maximum amount of euro 10,000 million.

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 13/2006 of the Bank of Portugal.

The main characteristics of these issues are as follows:

| Description | Nominal value (in thousands of euro) | Book value (in thousands of euro) | Issue date | Maturity date | Interest payment | Interest rate | Rating |
|---|---|---|---|---|---|---|---|
| BES Covered Bonds 25/01/2011 | 1 250 000 | 1 339 189 | 25/1/08 | 25/1/11 | Anually | 4,375% | AAA |
| BES Covered Bonds 21/07/2010 | 1 250 000 | 1 324 161 | 21/7/08 | 21/7/10 | Anually | 5.50% | AAA |

As at 31 December 2008, the mortgage loans that collateralise these covered bonds amounted to euro 2,722,664 thousands (see Note 21).

The changes occurred in debt securities issued during the year ended 31 December 2008 are analysed as follows:

(in thousands of euro)

| | 31.12.2007 | Issues | Repayments | Net repurchase | Other movements [a)] | 31.12.2008 |
|---|---|---|---|---|---|---|
| *Euro Medium Term Notes* | 11,711,322 | 1,790,414 | ( 3,328,030) | ( 106,642) | 63,045 | 10,130,109 |
| Cash bonds | 5,913,198 | 2,785,401 | ( 802,433) | ( 2,476,852) | 143,712 | 5,563,026 |
| Certificates of deposit | 5,899,817 | - | [b)]( 2,318,539) | ( 16,113) | ( 42,311) | 3,522,854 |
| Covered bonds | - | 2,500,000 | - | ( 2,062) | 165,412 | 2,663,350 |
| Other | 789,254 | 4,921,522 | ( 3,072,239) | ( 69,186) | 147,992 | 2,717,343 |
| | **24,313,591** | **11,997,337** | **( 9,521,241)** | **( 2,670,855)** | **477,850** | **24,596,682** |

a) Other include accrued interest, fair value hedge and fair value adjustments and foreign translation exchanges adjustments
b) Certificates of deposit are presented at the net value, considering its short term maturity

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

The analysis of debt securities issued by the period to maturity is presented as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 5,245,217 | 5,784,477 |
| 3 to 12 months | 3,161,303 | 3,904,911 |
| 1 to 5 years | 11,700,981 | 9,061,863 |
| More than 5 years | 4,489,181 | 5,562,340 |
| | **24,596,682** | **24,313,591** |

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

(in thousands of euro)

| Issuer | Designation | | Currency | Issue date | Book value | Maturity | Global yield / interest rate |
|---|---|---|---|---|---|---|---|
| | | | | 31.12.2008 | | | |
| BES | BESLEAS.IMOB.00 | | EUR | 2000 | 391 | 2010 | 6 months Euribor+ 0.67% |
| BES | BES EURO RENDA August 2001 | | EUR | 2001 | 15,286 | 2009 | Fixed rate - 5.53% |
| BES | BES Euro Renda | | EUR | 2002 | 22,514 | 2010 | Fixed rate - 5.39% |
| BES | BES-T.14,5%MAY | a) | EUR | 2004 | 4,693 | 2014 | 12 months Euribor |
| BES | BEF 2004/2014 | | EUR | 2004 | 55,682 | 2014 | 6 months Euribor+ 0.75% |
| BES | BES 12/01/2009 | a) | USD | 2005 | 680 | 2009 | 6 months US Libor |
| BES | BIC EURO VALOR | | EUR | 2005 | 9,847 | 2010 | 6 months Euribor + 3.00% |
| BES | BEF 24ªEM | | EUR | 2005 | 13,091 | 2010 | Fixed rate - 4.50% |
| BES | BEF 2005/2010 | | EUR | 2005 | 17,206 | 2010 | 6 months Euribor+ 0.70% |
| BES | BEF 2005/2011 | | EUR | 2005 | 4,836 | 2011 | 3 months Euribor + 0.715% |
| BES | BIC SNOWBL APR0 | | EUR | 2005 | 11,117 | 2012 | 6 months Euribor |
| BES | BEF 2005/2012 | | EUR | 2005 | 15,053 | 2012 | 3 months Euribor+ 0.73% |
| BES | BES TARGET 10% | | EUR | 2005 | 4,245 | 2013 | Fixed rate - 5.00% |
| BES | BIC E.RENDA 4% | a) | EUR | 2005 | 2,884 | 2013 | Fixed rate 4.15% on 1st. 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES-E.RENDA 4% | a) | EUR | 2005 | 8,240 | 2013 | Fixed rate 4.15% on 1st. 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES ER 4% APR05 | a) | EUR | 2005 | 2,403 | 2013 | Fixed rate 4.08% on 1st. 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES ER 4% APR05 | a) | EUR | 2005 | 1,808 | 2013 | Fixed rate 4.14% on 1st. 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES ER3,75%0805 | a) | EUR | 2005 | 2,400 | 2013 | Fixed rate 3.85% on 1st. 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES COMMODIT 7% | a) | EUR | 2005 | 1,733 | 2014 | Fixed rate - 7.00% |
| BES | BES FEB 2009 | | EUR | 2006 | 6,738 | 2009 | Fixed rate - 4.00% |
| BES | BES BRIC MAR.06 | a) | EUR | 2006 | 5,197 | 2009 | b) |
| BES | BES CR.JAP O PL | a) | EUR | 2006 | 4,788 | 2009 | Nikkei 225 |
| BES | BLF L | | EUR | 2006 | 20,422 | 2011 | Fixed rate - 4.74% |
| BES | Certificate deposit | | EUR | 2007 | 329,648 | 2009 | 3.00 % - 5.60% |
| BES | Certificate deposit | | USD | 2007 | 11,601 | 2009 | 4.37% - 5.40% |
| BES | BES INF.ESTR.07 | a) | EUR | 2007 | 1,930 | 2009 | c) |
| BES | BES I.EST. 07 | | EUR | 2007 | 2,933 | 2009 | c) |
| BES | BES JAP O FEB07 | a) | EUR | 2007 | 4,114 | 2010 | Nikkei 225 |
| BES | BES DUE 2010 | | EUR | 2007 | 399,982 | 2010 | 3 months Euribor+ 0.09% |
| BES | BES 4,125% 2010 | | EUR | 2007 | 52,496 | 2010 | Fixed rate - 4.125% |
| BES | BES BRIC MAR.07 | a) | EUR | 2007 | 7,395 | 2010 | S&P BRIC 40 EUR Price Return |
| BES | BES DUE MAY 10 | | EUR | 2007 | 501,984 | 2010 | 3 months Euribor+ 0.07% |
| BES | BES EN.ALT.2010 | a) | EUR | 2007 | 4 792 | 2010 | DAX Global Alternative Energy EUR Price Return |
| BES | BES DUE 2012 | | EUR | 2007 | 1,001,258 | 2012 | 3 months Euribor + 0.10% |
| BES | BES DUE 2013 | | EUR | 2007 | 502,730 | 2013 | 3 months Euribor + 0.125% |
| BES | BES DUE JUN 14 | | EUR | 2007 | 495,812 | 2014 | 3 months Euribor + 0.15% |
| BES | BES BENS AGRIC. | a) | EUR | 2008 | 2,986 | 2010 | Indexed to a Commodities portfolio |
| BES | BES OP. FEB.08 | a) | EUR | 2008 | 858 | 2010 | Index to Dow Jones Euro Stoxx 50 |
| BES | BES OP. MAR.08 | a) | EUR | 2008 | 1,337 | 2010 | Index Dow Jones Euro Stoxx 50 |
| BES | BES DUE MAY 10 | | EUR | 2008 | 1,225,263 | 2010 | 3 months Euribor + 0.80% |
| BES | BES COMM.MAY.08 | a) | EUR | 2008 | 2,889 | 2010 | Indexed to a Commodities portfolio |
| BES | BEF June2008/June2010 | | EUR | 2008 | 7,377 | 2010 | Fixed rate 6.047 % |
| BES | BES COMM.JUN.08 | a) | EUR | 2008 | 826 | 2010 | Indexed to a Commodities portfolio |
| BES | BES 21/07/2010 (covered bonds) | | EUR | 2008 | 1,324,161 | 2010 | Fixed rate 5.5% |
| BES | BEF June2008/December2010 | | EUR | 2008 | 40,344 | 2010 | Fixed rate 6.047 % |
| BES | BES 25/01/2011 (covered bonds) | | EUR | 2008 | 1,339,189 | 2011 | 4.38% |
| BES | BEF 07_2008//07_2011 | | EUR | 2008 | 124,363 | 2011 | Fixed rate 6.138% |
| BES | BES DUE 2033 0 | | EUR | 2008 | 35,434 | 2033 | Zero Coupon |
| BES | BES DUE 2034 0 | | EUR | 2008 | 34,245 | 2034 | Zero Coupon |
| BES | BES DUE 2035 0 | | EUR | 2008 | 33,246 | 2035 | Zero Coupon |
| BES | BES DUE 2036 0 | | EUR | 2008 | 32,282 | 2036 | Zero Coupon |
| BES | BES DUE 2037 0 | | EUR | 2008 | 31,393 | 2038 | Zero Coupon |
| BES | BES DUE 2038 0 | | EUR | 2008 | 31,105 | 2038 | Zero Coupon |
| BES (Cayman branch) | BIC CAYMAN 6 2001 | | EUR | 2001 | 52,080 | 2009 | Fixed rate - 5.43% |
| BES (Cayman branch) | BIC CAYMAN 7 2001 | | EUR | 2001 | 52,049 | 2009 | Fixed rate - 5.41% |
| BES (Cayman branch) | BIC CAYMAN 8 2001 | | EUR | 2001 | 52,034 | 2009 | Fixed rate - 5.45% |
| BES (Cayman branch) | BIC CAYMAN 9 2001 | | EUR | 2001 | 52,008 | 2009 | Fixed rate - 5.42% |
| BES (Cayman branch) | BIC CAYMAN 10 2001 | | EUR | 2001 | 52,027 | 2010 | Fixed rate - 5.53% |
| BES (Cayman branch) | BIC CAYMAN 11 2001 | | EUR | 2001 | 51,988 | 2010 | Fixed rate - 5.57% |
| BES (Cayman branch) | BIC CAYMAN 12 2001 | | EUR | 2001 | 51,953 | 2010 | Fixed rate - 5.58% |
| BES (Cayman branch) | BIC CAYMAN 13 2001 | | EUR | 2001 | 51,966 | 2010 | Fixed rate - 5.73% |
| BES (Cayman branch) | BIC CAYMAN 2 2001 | | EUR | 2001 | 52,536 | 2011 | Fixed rate - 5.68% |
| BES (Cayman branch) | BIC CAYMAN 14 2001 | | EUR | 2001 | 51,953 | 2011 | Fixed rate - 5.80% |
| BES (Cayman branch) | BIC CAYMAN 15 2001 | | EUR | 2001 | 53,944 | 2011 | Fixed rate - 5.79% |
| BES (Cayman branch) | BIC CAYMAN 16 2001 | | EUR | 2001 | 53,938 | 2011 | Fixed rate - 5.90% |
| BES (Cayman branch) | BES CAYMAN 5,22% | | USD | 2001 | 39,395 | 2011 | Fixed rate - 5.22% |

(in thousands of euro)

| 31.12.2008 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Issuer | Designation | | Currency | Issue date | Book value | Maturity | Global yield / interest rate |
| BES (Cayman branch) | BES CAYMAN 5.22% | | USD | 2001 | 39,421 | 2011 | Fixed rate - 5.22% |
| BES (Cayman branch) | BIC CAYMAN 29 2001 | | EUR | 2001 | 52,532 | 2011 | Fixed rate - 5.28% |
| BES (Cayman branch) | BIC CAYMAN 30 2001 | | EUR | 2001 | 50,450 | 2011 | Fixed rate - 5.42% |
| BES (Cayman branch) | BIC CAYMAN 17 2001 | | EUR | 2001 | 54,422 | 2012 | Fixed rate - 5.89% |
| BES (Cayman branch) | BIC CAYMAN 18 2001 | | EUR | 2001 | 51,821 | 2012 | Fixed rate - 5.83% |
| BES (Cayman branch) | BIC CAYMAN 19 2001 | | EUR | 2001 | 51,846 | 2012 | Fixed rate - 5.96% |
| BES (Cayman branch) | BIC CAYMAN 20 2001 | | EUR | 2001 | 51,797 | 2012 | Fixed rate - 5.94% |
| BES (Cayman branch) | BIC CAYMAN 21 2001 | | EUR | 2001 | 51,755 | 2013 | Fixed rate - 6.03% |
| BES (Cayman branch) | BIC CAYMAN 22 2001 | | EUR | 2001 | 77,613 | 2013 | Fixed rate - 6.08% |
| BES (Cayman branch) | BIC CAYMAN 23 2001 | | EUR | 2001 | 82,044 | 2013 | Fixed rate - 6.03% |
| BES (Cayman branch) | BIC CAYMAN 24 2001 | | EUR | 2001 | 77,193 | 2014 | Fixed rate - 6.01% |
| BES (Cayman branch) | BIC CAYMAN 25 2001 | | EUR | 2001 | 82,141 | 2014 | Fixed rate - 6.02% |
| BES (Cayman branch) | BIC CAYMAN 26 2001 | | EUR | 2001 | 76,988 | 2015 | Fixed rate - 6.16% |
| BES (Cayman branch) | BIC CAYMAN 27 2001 | | EUR | 2001 | 82,431 | 2015 | Fixed rate - 6.09% |
| BES (Cayman branch) | BIC CAYMAN 1 2002 | | EUR | 2002 | 56,894 | 2012 | Fixed rate - 5.92% |
| BES (Cayman branch) | BIC CAYMAN 2 2002 | | EUR | 2002 | 6,117 | 2012 | Fixed rate - 4.65% |
| BES (Cayman branch) | BES CAYMAN - Zero Coupon | | EUR | 2002 | 58,662 | 2027 | Zero Coupon - Effective rate 5.90% |
| BES (Cayman branch) | BES CAYMAN - Zero Coupon | | EUR | 2002 | 96,619 | 2027 | Zero Coupon - Effective rate 5.90% |
| BES (Cayman branch) | BES CAYMAN - Zero Coupon | | EUR | 2002 | 123,092 | 2027 | Zero Coupon - Effective rate 5.74% |
| BES (Cayman branch) | BES CAYMAN Step Up 07/28/10 | | USD | 2003 | 55,313 | 2010 | StepUp (1st coupon 3.50%) |
| BES (Cayman branch) | BES CAYMAN 4.82% 01/28/13 | | USD | 2003 | 62,777 | 2013 | Fixed rate - 4.82% |
| BES (Cayman branch) | BES CAYMAN 4.83% 02/05/13 | | USD | 2003 | 62,977 | 2013 | Fixed rate - 4.83% |
| BES (Cayman branch) | BES CAYMAN Step Up 07/15/13 | | USD | 2003 | 55,036 | 2013 | StepUp (1st coupon 1.25%) |
| BES (Cayman branch) | BES CAYMAN Step Up 07/25/13 | | USD | 2003 | 55,041 | 2013 | StepUp (1st coupon 1.50%) |
| BES (Cayman branch) | BES CAYMAN Step Up 08/27/13 | | EUR | 2003 | 81,874 | 2013 | StepUp (1st coupon 3.00%) |
| BES (Cayman branch) | BES CAYMAN Step Up 09/02/13 | | EUR | 2003 | 82,033 | 2013 | StepUp (1st coupon 3.00%) |
| BES (Cayman branch) | BES CAYMAN Step Up 09/16/13 | | EUR | 2003 | 76,025 | 2013 | StepUp (1st coupon 2.90%) |
| BES (Cayman branch) | BES CAYMAN Step Up 10/07/13 | | EUR | 2003 | 81,755 | 2013 | StepUp (1st coupon 3.10%) |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2003 | 23,588 | 2013 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN 5.06% 02/11/15 | | USD | 2003 | 61,870 | 2015 | Fixed rate - 5.06% |
| BES (Cayman branch) | BES CAYMAN 5.01% 02/18/15 | | USD | 2003 | 61,802 | 2015 | Fixed rate - 5.01% |
| BES (Cayman branch) | BES CAYMAN 5.37% 03/12/18 | | USD | 2003 | 64,178 | 2018 | Fixed rate - 5.37% |
| BES (Cayman branch) | BES CAYMAN - zero coupon | | EUR | 2003 | 79,487 | 2028 | Zero coupon- Effective rate 5.50% |
| BES (Cayman branch) | BES CAYMAN - zero coupon | | EUR | 2003 | 13,711 | 2028 | Zero coupon- Effective rate 5.75% |
| BES (Cayman branch) | BES CAYMAN - zero coupon | | EUR | 2003 | 83,882 | 2028 | Zero coupon- Effective rate 5.81% |
| BES (Cayman branch) | BES CAYMAN - 4% Mais R.E. | a) | EUR | 2004 | 4,262 | 2009 | 6 months Euribor |
| BES (Cayman branch) | BES CAYMAN - 4% Mais R.E. | a) | EUR | 2004 | 1,632 | 2009 | 6 months Euribor |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2004 | 11,864 | 2014 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2004 | 29,276 | 2014 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2004 | 7,015 | 2014 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2004 | 5,845 | 2014 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN Step Up 07/21/14 | | USD | 2004 | 55,320 | 2014 | StepUp (1st coupon 2.07%) |
| BES (Cayman branch) | BES CAYMAN Step Up 02/02/17 | | USD | 2004 | 37,640 | 2017 | StepUp (1st coupon 1.87%) |
| BES (Cayman branch) | BES CAYMAN Step Up 02/11/19 | | USD | 2004 | 37,588 | 2019 | StepUp (1st coupon 1.78%) |
| BES (Cayman branch) | BES CAYMAN - Zero Coupon | | EUR | 2008 | 34,644 | 2033 | Zero coupon- Effective rate 5.81% |
| BES (Spain branch) | Covered Bonds | | EUR | 2008 | 153,769 | 2014 | Fixed rate 4.5% |
| BES (Spain branch) | Covered Bonds | | EUR | 2008 | 80,368 | 2014 | Fixed rate 4% |
| BES (Spain branch) | Covered Bonds | | EUR | 2008 | 81,612 | 2016 | Fixed rate 4.25% |
| BES (London branch) | Certificate deposit | | EUR | 2007 | 1,028,482 | 2009 | 4.13% - 4.87% |
| BES (London branch) | Certificate deposit | | GBP | 2007 | 511,810 | 2009 | 5.51% - 6.72% |
| BES (London branch) | Certificate deposit | | USD | 2007 | 806,040 | 2009 | 4.79% - 5.47% |
| BES (London branch) | Certificate deposit | | AUD | 2008 | 73,987 | 2009 | 7.35% |
| BES (New York branch) | Certificate deposit | | USD | 2007 | 357,540 | 2009 | 4.41% - 5.53% |
| BES Açores | BES Açores October 2006 | | EUR | 2006 | 20,101 | 2009 | 6 months Euribor + 0.35% |
| BES Açores | BES Açores December 2006 | | EUR | 2006 | 28,138 | 2009 | 6 months Euribor + 0.35% |
| BES Açores | BES AÇORES 2007 | | EUR | 2007 | 23,599 | 2010 | 6 months Euribor + 0.35% |
| BES Açores | BES AÇOR.DEC.08 | | EUR | 2008 | 30,060 | 2011 | 6 months Euribor + 1.25% |
| BES Finance | EMTN 36 | | EUR | 2004 | 605,567 | 2009 | 3 months Euribor + 0.19% |
| BES Finance | EMTN 29 | | EUR | 2004 | 602,760 | 2009 | 3 months Euribor + 0.15% |
| BES Finance | EMTN 30 | | EUR | 2004 | 302,872 | 2011 | 3 months Euribor + 0.20% |
| BES Finance | EMTN 37 | | EUR | 2004 | 24,418 | 2029 | Zero coupon- Effective rate 5.30% |
| BES Finance | EMTN 41 | | EUR | 2005 | 503,394 | 2010 | 3 months Euribor + 0.15% |
| BES Finance | EMTN 44 | | EUR | 2005 | 300,678 | 2010 | 3 months Euribor + 0.13% |
| BES Finance | EMTN 39 | | EUR | 2005 | 101,079 | 2015 | 3 months Euribor + 0.23% |
| BES Finance | EMTN 40 | a) | EUR | 2005 | 147,254 | 2035 | d) |
| BES Finance | EMTN 50 | | EUR | 2006 | 302,609 | 2009 | 3 months Euribor + 0.11% |

(in thousands of euro)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 31.12.2008 | | | |
| Issuer | Designation | | Currency | Issue date | Book value | Maturity | Global yield / interest rate |
| BES Finance | EMTN 54 | | EUR | 2006 | 750,411 | 2009 | 3 months Euribor + 0.10% |
| BES Finance | EMTN 48 | | EUR | 2006 | 750,208 | 2011 | 3 months Euribor + 0.12% |
| BES Finance | EMTN 49 | a) | GBP | 2006 | 61,382 | 2011 | 3 months Libor + 0.072% |
| BES Finance | EMTN 51 | | CZK | 2006 | 18,644 | 2011 | Fixed rate - 3.65% |
| BES Finance | EMTN 53 | | EUR | 2006 | 501,170 | 2011 | 3 months Euribor + 0.15% |
| BES Finance | Extendible Notes | a) | USD | 2007 | 179,930 | 2009 | 1 month Libor + 0.05% (Extendible notes) |
| BES Finance | Exchangeable Notes | | USD | 2008 | 648,214 | 2011 | e) |
| BESI | BESI CAIXA BEST ACCOES EUROPA 4% | a) | EUR | 2005 | 2,523 | 2010 | f) |
| BESI | BESI MULTIESTRATEGIA MAR2010 | a) | EUR | 2005 | 2,501 | 2010 | g) |
| BESI | BESI OBRIG BULL&BEAR JUN10 | a) | EUR | 2005 | 1,514 | 2010 | Indexed to DJ Eurostoxx 50 |
| BESI | BESI CX RANGE ACCR AND FX NOV11 | | EUR | 2005 | 4,143 | 2011 | Indexed to exchange rate |
| BESI | BESI OBRIG RENDIMENT 20% MAY2015 | | EUR | 2005 | 2,370 | 2015 | Fixed rate 5% + Indexed to CMS |
| BESI | BESI CERT DUAL5%+SX5E JUN09 | a) | EUR | 2006 | 2,259 | 2009 | Fixed rate 5% + Indexed to DJ Eurostoxx 50 |
| BESI | BESI VMOP OREY JUN2009 | | EUR | 2006 | 285 | 2009 | Fixed rate 14.75% |
| BESI | BESI CAIXA 6.15% NIKKEI JAN2011 | | EUR | 2006 | 3,898 | 2011 | Indexed to Nikkei 225 |
| BESI | BESI OB CX RENDIM STEP UP APR14 | | EUR | 2006 | 3,616 | 2014 | Growing fixed rate |
| BESI | BESI CERT DUALREND+EUSTOXX AUG14 | a) | EUR | 2006 | 2,917 | 2014 | Fixed rate 6.6743% + Indexed to DJ Eurostoxx 50 |
| BESI | BESI OBCX R.ACCRUAL TARN MAR2016 | | EUR | 2006 | 2,861 | 2016 | Fixed rate 6% + Range Accrual |
| BESI | BESI ZERO COUPON JAN2009 | a) | EUR | 2008 | 48,032 | 2009 | Zero Coupon |
| BESI | BESI FIX RAT NOTE 5.308% MAY2009 | a) | EUR | 2008 | 124,163 | 2009 | Fixed rate 5.308% |
| BESI | BESI FIX RAT NOTE 5.26% JUN2009 | a) | EUR | 2008 | 47,893 | 2009 | Fixed rate 5.26% |
| BESI | BESI ZERO COUPON NOTE AUG2009 | a) | EUR | 2008 | 21,251 | 2009 | Zero Coupon |
| BESI | 12-CDB A | | BRL | 2008 | 385,997 | 2009 | 1.30% |
| BESI | 12-CDB B | | BRL | 2008 | 12,573 | 2009 | 1.30% |
| ES Investment Plc | ES INVESTPLC SEP09 EURIBOR CAPII | | EUR | 1999 | 2,589 | 2009 | 6M Euribor(Capped 8%) |
| ES Investment Plc | ESIP JAN01/JAN11 CRDLKD US 11.85 | a) | USD | 2001 | 1,877 | 2011 | Fixed rate 5% + Indexed to credit |
| ES Investment Plc | ESIP EUR SNOWBALL FLOAT APR2010 | | EUR | 2002 | 279 | 2010 | Fixed rate + Snowball h) |
| ES Investment Plc | ESIP NOV02 OCT2017 CALLABLE STEP | | EUR | 2002 | 7,054 | 2017 | Fixed rate 6% + Indexed to CMS |
| ES Investment Plc | ESIP JUL03/JUL11 LINKED CMS | a) | EUR | 2003 | 12,930 | 2011 | Fixed rate + Indexed to CMS+CLN |
| ES Investment Plc | ESIP NOV2011 CMS LINKED EUR 5M | | EUR | 2003 | 5,043 | 2011 | Fixed rate + Indexed to CMS |
| ES Investment Plc | ESIP DEC2011 CMS LINKED EUR 6.5M | | EUR | 2003 | 6,545 | 2011 | Fixed rate + Indexed to CMS |
| ES Investment Plc | ESIP EURCRE CRDLINK NOV09 | a) | EUR | 2004 | 2,088 | 2009 | Indexed to credit risk |
| ES Investment Plc | ESIP JUL2012 CMS LINKED EUR 5.5M | a) | EUR | 2004 | 5,782 | 2012 | Fixed rate + Indexed to CMS |
| ES Investment Plc | ESIP CMS LINKED NOV2014 | | EUR | 2004 | 3,643 | 2014 | Fixed rate 6% + Indexed to CMS |
| ES Investment Plc | ESIP OUT24 ESFP LINKED CMS NOTE | a) | EUR | 2004 | 7,264 | 2024 | Fixed rate + Indexed to CMS |
| ES Investment Plc | ESIP HYBRID (FX AND EUR6M) OCT09 | | EUR | 2005 | 3,681 | 2009 | Fixed rate + i) |
| ES Investment Plc | ESIP EUR SNOWBALL FLOAT FEB2010 | | EUR | 2005 | 328 | 2010 | Fixed rate + Snowball h) |
| ES Investment Plc | ESIP AMORTIZING MAY2010 ESTOXX50 | a) | EUR | 2005 | 1,223 | 2010 | Indexed to DJ Eurostoxx 50 |
| ES Investment Plc | ESIP RANGE ACCRUAL AND FX NOV11 | | EUR | 2005 | 511 | 2011 | i) |
| ES Investment Plc | ESIP RANGE ACCRUAL AUG2013 | | EUR | 2005 | 4,454 | 2013 | Fixed rate 4.75% + Range accrual |
| ES Investment Plc | ESIP CALL RANGE ACCRUAL MAY2015 | | EUR | 2005 | 2,290 | 2015 | Range accrual |
| ES Investment Plc | ESIP BESLEAS&INFLAT LINK MAY15 | a) | EUR | 2005 | 7,820 | 2015 | Indexed to HIPC Ex-Tobacco + j) |
| ES Investment Plc | ESIP RANGE ACCRUAL JUN15 | | EUR | 2005 | 192 | 2015 | Range accrual |
| ES Investment Plc | ESIP EUR LEVERAGE SNOWBALL JUL15 | a) | EUR | 2005 | 1,291 | 2015 | Fixed rate + Snowball h) |
| ES Investment Plc | ESIP LEVERAGE SNOWBALL SEP2015 | | EUR | 2005 | 4,561 | 2015 | Fixed rate + Snowball h) |
| ES Investment Plc | ESIP SEP17 RANGE ACC TARN | | EUR | 2005 | 2,290 | 2017 | Range accrual |
| ES Investment Plc | ESIP CALL RANGE ACCRUAL NOV2017 | | EUR | 2005 | 969 | 2017 | Range accrual |
| ES Investment Plc | ESIP AGO05 SEP35 CALLABLE INV FL | | EUR | 2005 | 9,087 | 2035 | 12 months Euribor + k) |
| ES Investment Plc | ESIP 30CMS-2CMS LKD NOTE NOV2036 | | EUR | 2005 | 11,592 | 2036 | Fixed rate 7.44% + Indexed to CMS |
| ES Investment Plc | ESIP IDX BSKT LINKED AUG2009 EUR | a) | EUR | 2006 | 1,664 | 2009 | l) |
| ES Investment Plc | ESIP IDX BSKT LINKED AUG2009 USD | a) | USD | 2006 | 617 | 2009 | l) |
| ES Investment Plc | ESIP EURTRY LINKED NOV2009 | a) | EUR | 2006 | 1,261 | 2009 | Indexed to exchange rate |
| ES Investment Plc | ESIP NOV09 STOCK BASKET LKD USD | a) | USD | 2006 | 1,593 | 2009 | m) |
| ES Investment Plc | ESIP CALLABLE EUR SNOWBALL MAY10 | | EUR | 2006 | 2,809 | 2010 | Fixed rate + Snowball h) |
| ES Investment Plc | ESIP INDEX BASKET LINKED SEP2011 | a) | EUR | 2006 | 6,318 | 2011 | n) |
| ES Investment Plc | ESIP 5% EUR6M DIGITAL SEP2011 | a) | EUR | 2006 | 1,516 | 2011 | Indexed to digital interest rate |
| ES Investment Plc | ESIP PORTUGAL TELECOM FIN LINKED | a) | EUR | 2006 | 8,358 | 2012 | j) |
| ES Investment Plc | ESIP EUR12M+16 BP APR2016 | | EUR | 2006 | 4,135 | 2016 | 12M Euribor |
| ES Investment Plc | ESIP RANGE ACCRUAL USD NOV2021 | | USD | 2006 | 5,988 | 2021 | Range accrual |
| ES Investment Plc | ESIP USD RANGE ACCRUAL NOV2021 | | USD | 2006 | 3,459 | 2021 | Range accrual |
| ES Investment Plc | ESIP EUR3M+9BPS JAN2009 | | EUR | 2007 | 198,545 | 2009 | 3M Euribor |
| ES Investment Plc | ESIP EURIBOR12M APRIL2009 | | EUR | 2007 | 15,533 | 2009 | 12M Euribor |
| ES Investment Plc | ESIP MAY2009 TOPIX LINKED | a) | EUR | 2007 | 3,081 | 2009 | Indexed to Topix |
| ES Investment Plc | ESIP JUL2009 SX5E LINKED | a) | EUR | 2007 | 1,465 | 2009 | Indexed to Eurostoxx50 |
| ES Investment Plc | ESIP JAUG2009 EQL BASKET | a) | EUR | 2007 | 7,886 | 2009 | o) |
| ES Investment Plc | ESIP 23OCT2008 ESTOXX50 LINKED | | EUR | 2007 | 1,900 | 2009 | Indexed to Eurostoxx50 |

(in thousands of euro)

| | | | 31.12.2008 | | | |
|---|---|---|---|---|---|---|
| **Issuer** | **Designation** | **Currency** | **Issue date** | **Book value** | **Maturity** | **Global yield / interest rate** |
| ES Investment Plc | ESIP JAN2010 INDEX BASKET LKD | a) EUR | 2007 | 962 | 2010 | p) |
| ES Investment Plc | ESIP JUL2010 EQUITY BASKET LKD | a) EUR | 2007 | 687 | 2010 | q) |
| ES Investment Plc | ESIP DEC2010 CLIQUET MSCI BRAZIL | a) USD | 2007 | 1,436 | 2010 | Indexed to MSCI Brasil |
| ES Investment Plc | ESIP CIMPOR FIN CRD LKD MAY2011 | a) EUR | 2007 | 9,841 | 2011 | j) |
| ES Investment Plc | ESIP JUN2011 INDEX BASKET LKD | a) EUR | 2007 | 4,297 | 2011 | r) |
| ES Investment Plc | ESIP JUN2011 INDEX BASKET LINKED | a) EUR | 2007 | 11,380 | 2011 | s) |
| ES Investment Plc | ESIP DEC2011 BBVA POP LINKED | a) EUR | 2007 | 1,860 | 2011 | Indexed to BBVA and Banco Popular |
| ES Investment Plc | ESIP FEB2012 DEUTSCHE BANK LKD | a) EUR | 2007 | 3,684 | 2012 | Indexed to Deutsche Telecom |
| ES Investment Plc | ESIP JUN2012 BASKET LINKED | a) EUR | 2007 | 1,021 | 2012 | t) |
| ES Investment Plc | ESIP JUL2012 LUSITANO BSK LINKED | a) EUR | 2007 | 4,367 | 2012 | u) |
| ES Investment Plc | ESIP EURTRY LINKED OCT2012 | a) EUR | 2007 | 3,478 | 2012 | Indexed to exchange rate |
| ES Investment Plc | ESIP METAL INVESTMENT OCT2012 | a) EUR | 2007 | 756 | 2012 | Commodity Linked |
| ES Investment Plc | ESIP MAY14 EQUITY BASKT LINKED | a) USD | 2007 | 1,265 | 2014 | v) |
| ES Investment Plc | ESIP BCP FIN CRD LKD DEC2015 | a) EUR | 2007 | 4,439 | 2015 | j) |
| ES Investment Plc | ESIP JAN2017 INDEX BASKET LKD | a) EUR | 2007 | 4,296 | 2017 | p) |
| ES Investment Plc | ESIP 7% RANGE ACC SEPTEMBER2017 | USD | 2007 | 3,783 | 2017 | Range accrual |
| ES Investment Plc | ESIP CMS LINKED JUN2019 | EUR | 2007 | 23,078 | 2019 | Fixed rate + Indexed to CMS |
| ES Investment Plc | ESIP CALLABLE ZERO COUPON NOV37 | EUR | 2007 | 2,867 | 2037 | Compounded interest rate |
| ES Investment Plc | ESIP JAN2009 SX5E LINKED | a) EUR | 2008 | 1,056 | 2009 | Indexed to DJ Eurostoxx 50 |
| ES Investment Plc | ESIP FEB2009 ESTOXX50 LINKED | a) EUR | 2008 | 596 | 2009 | Indexed to BSCH |
| ES Investment Plc | ESIP FEB2009 ESTOXX50 LINKED 2 | a) EUR | 2008 | 1,238 | 2009 | Indexed to DJ Eurostoxx 50 |
| ES Investment Plc | ESIP MAY2009 REV CONV BASKET LNK | a) EUR | 2008 | 2,156 | 2009 | Indexed to BCP. Barclays and BSCH |
| ES Investment Plc | ESIP STD CRD LINKED JUL2009 | a) USD | 2008 | 4,306 | 2009 | w) |
| ES Investment Plc | ESIP SEP2009 EQL LINKED | a) EUR | 2008 | 2,527 | 2009 | y) |
| ES Investment Plc | ESIP NOV2009 EMERGING NOT LINKED | a) EUR | 2008 | 1,516 | 2009 | z) |
| ES Investment Plc | ESIP NOV2009 WRC SHARE LKD | a) EUR | 2008 | 1,419 | 2009 | aa) |
| ES Investment Plc | ESIP NOV2009 WRC SHARE LKD 3 | a) USD | 2008 | 927 | 2009 | ab) |
| ES Investment Plc | ESIP NOV2009 WRC SHARE LKD 2 | a) EUR | 2008 | 242 | 2009 | ac) |
| ES Investment Plc | ESIP NOV2009 WRC SHARE LKD 4 | a) USD | 2008 | 273 | 2009 | ad) |
| ES Investment Plc | ESIP NOV2009 EQL LINKED | a) EUR | 2008 | 961 | 2009 | ae) |
| ES Investment Plc | ESIP DEC2009 WRC BZ SHARE LKD | a) USD | 2008 | 205 | 2009 | af) |
| ES Investment Plc | ESIP DEC2009 EQL LINKED | a) EUR | 2008 | 953 | 2009 | ag) |
| ES Investment Plc | ESIP DEC2009 WRC BZ SHARE LKD 2 | a) EUR | 2008 | 2,025 | 2009 | ah) |
| ES Investment Plc | ESIP FEB2010 ESTOXX50 LINKED | a) EUR | 2008 | 2,668 | 2010 | Indexed to DJ Eurostoxx 50 |
| ES Investment Plc | ESIP MAR2010 WRC BZ SHARE LKD | a) EUR | 2008 | 695 | 2010 | ah) |
| ES Investment Plc | ESIP APR10 INDX BASQ LINQ 80% | a) EUR | 2008 | 1,094 | 2010 | ai) |
| ES Investment Plc | ESIP APR10 INDX BASQ LINQ 90% | a) EUR | 2008 | 4,393 | 2010 | ai) |
| ES Investment Plc | ESIP APR11 INDX BASQ LKD 80% II | a) EUR | 2008 | 2,832 | 2010 | ai) |
| ES Investment Plc | ESIP MAY2010 SAN IBE LINKED | a) EUR | 2008 | 1,548 | 2010 | Indexed to BSCH and Iberdrola |
| ES Investment Plc | ESIP FX EURUSD LINKED JUL2010 | a) USD | 2008 | 775 | 2010 | Indexed to exchange rate |
| ES Investment Plc | ESIP JAN2011 LUXURY GOODS | a) EUR | 2008 | 3,738 | 2011 | aj) |
| ES Investment Plc | ESIP JAN2011 BRASIL+INDIA II BSK | a) EUR | 2008 | 2,885 | 2011 | Indexed to MSCI Brazil and Índia |
| ES Investment Plc | ESIP JAN2011 BASKET LINKED | a) EUR | 2008 | 5,621 | 2011 | p) |
| ES Investment Plc | ESIP JAN2011 BRASIL+INDIA BASKET | a) EUR | 2008 | 3,062 | 2011 | Indexed to MSCI Brazil and Índia |
| ES Investment Plc | ESIP JAN2011 CLIQUET MSCI BRAZIL | a) EUR | 2008 | 2,202 | 2011 | Indexed to MSCI Brasil |
| ES Investment Plc | ESIP MAR2011 EURUSD FX LINKED | a) EUR | 2008 | 3,596 | 2011 | Indexed to exchange rate |
| ES Investment Plc | ESIP MAR2011 BASKET LINKED | a) EUR | 2008 | 6,215 | 2011 | p) |
| ES Investment Plc | ESIP APR11 INDX BASQ LKD 80% | a) EUR | 2008 | 3,833 | 2011 | ak) |
| ES Investment Plc | ESIP APR11 INDX BASQ LKD 90% | a) EUR | 2008 | 4,209 | 2011 | ak) |
| ES Investment Plc | ESIP APR2011 FX EUR USD LKD | a) USD | 2008 | 2,801 | 2011 | Indexed to exchange rate |
| ES Investment Plc | ESIP MAY2011 AGRICULTURE LINKED | a) EUR | 2008 | 1,654 | 2011 | Indexed to DBLCI-OY Agriculture |
| ES Investment Plc | ESIP FX EURUSD LINKED MAY2011 | a) EUR | 2008 | 780 | 2011 | Indexed to exchange rate |
| ES Investment Plc | ESIP FX EURUSD LKD MAY2011 | a) EUR | 2008 | 1,128 | 2011 | Indexed to exchange rate |
| ES Investment Plc | ESIP MAY2011 INDEX BASKET LINKED | a) EUR | 2008 | 832 | 2011 | al) |
| ES Investment Plc | ESIP JUN2011 SAN TEF LINKED | a) EUR | 2008 | 924 | 2011 | Indexed to Telefonica and BSCH |
| ES Investment Plc | ESIP FTD CRD LINKED JUN2011 | a) EUR | 2008 | 7,344 | 2011 | am) |
| ES Investment Plc | ESIP AUG2011 INDEX BASKET LINKED | a) EUR | 2008 | 3,839 | 2011 | an) |
| ES Investment Plc | ESIP AUG2011 INDEX BSKT LINK | a) EUR | 2008 | 2,328 | 2011 | p) |
| ES Investment Plc | ESIP AUG2011 EQL BSKT LINK | a) USD | 2008 | 699 | 2011 | Indexed to BBVA. Iberdrola and Telefonica |
| ES Investment Plc | ESIP AUG2011 INDEX BSKT LINKED | a) EUR | 2008 | 4,316 | 2011 | Indexed to French inflaction and to DJ Eurostoxx 50 |
| ES Investment Plc | ESIP SEP2011 INDEX BASKET LINKED | a) EUR | 2008 | 1,519 | 2011 | ao) |
| ES Investment Plc | ESIP SEP2011 INDEX BASKET LKD | a) EUR | 2008 | 2,421 | 2011 | ap) |
| ES Investment Plc | ESIP SEP2011 INDEX BASKET LKD 2 | a) EUR | 2008 | 376 | 2011 | al) |
| ES Investment Plc | ESIP SEP2010 INDEX BASKET LKD | a) EUR | 2008 | 476 | 2011 | aq) |
| ES Investment Plc | ESIP NOV2011 SX5E LINKED | a) EUR | 2008 | 1,084 | 2011 | Indexed to DJ Eurostoxx 50 |
| ES Investment Plc | ESIP JAN2012 BASKET LINKED | a) EUR | 2008 | 3,569 | 2012 | ar) |

(in thousands of euro)

| | | | | 31.12.2008 | | | |
|---|---|---|---|---|---|---|---|
| **Issuer** | **Designation** | | **Currency** | **Issue date** | **Book value** | **Maturity** | **Global yield / interest rate** |
| ES Investment Plc | ESIP JAN2012 EQUITY BASKET LINKED | a) | EUR | 2008 | 721 | 2012 | as) |
| ES Investment Plc | ESIP APR2013 EURTRY LKD | a) | EUR | 2008 | 6,611 | 2013 | Indexed to exchange rate |
| ES Investment Plc | ESIP APR2013 AEGON SHARE LKD | a) | EUR | 2008 | 2,312 | 2013 | Indexed to AEGON |
| ES Investment Plc | ESIP JUN2013 CARBON NOTES | a) | EUR | 2008 | 3,339 | 2013 | as) |
| ES Investment Plc | ESIP OCT13 EURBRL LINKED BRL | a) | EUR | 2008 | 1,463 | 2013 | Indexed to exchange rate |
| ES Investment Plc | ESIP BARCLAYS LKD ZC MAR2016 | a) | EUR | 2008 | 2,074 | 2016 | ZC + j) |
| ES Investment Plc | ESIP BARCLAYS LKD 6.30% MAR2016 | a) | EUR | 2008 | 4,758 | 2016 | Fixed rate 6.30% + j) |
| ES Investment Plc | ESIP BARCLAYS LKD EUR3M MAR2016 | a) | EUR | 2008 | 1,398 | 2016 | 3M Euribor + 2.20% + j) |
| ES Investment Plc | ESIP FEB2018 EQL LINKED | a) | EUR | 2008 | 4,669 | 2018 | Indexed to DJ Eurostoxx 50 |
| ES Investment Plc | ESIP MAY2021 BBVA LINKED | a) | EUR | 2008 | 6,893 | 2021 | Indexed to BBVA |
| ES Investment Plc | ESIP MAY2021 EQL LINKED | a) | EUR | 2008 | 5,400 | 2021 | Indexed to BSCH |
| ES Plc | Comercial Paper | | USD | 2008 | 7,185 | 2009 | Fixed rate 0.95% |
| ES Plc | Comercial Paper | | GBP | 2008 | 209,825 | 2009 | Fixed rate 2.35% |
| ES Plc | Comercial Paper | | EUR | 2008 | 51,455 | 2009 | Fixed rate 2.6% |
| ES Plc | Comercial Paper | | GBP | 2008 | 211,927 | 2009 | Fixed rate 2.1% |
| ES Plc | Comercial Paper | | USD | 2008 | 79,720 | 2009 | Fixed rate 1.45% |
| ES Plc | Comercial Paper | | EUR | 2008 | 9,982 | 2009 | 5.10% |
| ES Plc | Comercial Paper | | EUR | 2008 | 49,899 | 2009 | Fixed rate 2.5% |
| ES Plc | Comercial Paper | | EUR | 2008 | 19,900 | 2009 | Fixed rate 4.3% |
| ES Plc | Comercial Paper | | EUR | 2008 | 74,652 | 2009 | Fixed rate 2.75% |
| ES Plc | Comercial Paper | | EUR | 2008 | 148,944 | 2009 | Fixed rate 2.9% |
| ES Plc | Comercial Paper | | EUR | 2008 | 74,466 | 2009 | Fixed rate 2.9% |
| ES Plc | Comercial Paper | | EUR | 2008 | 49,258 | 2009 | Fixed rate 2.98% |
| BESIL | BESIL STEP UP 09/02/13 | | EUR | 2003 | 25,398 | 2013 | Fixed rate - 4.74% |
| BESIL | BESIL STEP UP 08/27/13 | | EUR | 2003 | 25,419 | 2013 | Fixed rate - 4.75% |
| BESIL | BESIL STEP UP 09/16/13 | | EUR | 2003 | 25,360 | 2013 | Fixed rate - 4.84% |
| BESIL | BESIL STEP UP 10/07/13 | | EUR | 2003 | 25,289 | 2013 | Fixed rate - 4.84% |
| BESIL | BESIL STEP UP 07/21/14 | | USD | 2004 | 18,460 | 2014 | Fixed rate - 6.06% |
| BESIL | BESIL LTD 5.41% 21/07/14 | | USD | 2004 | 80,338 | 2014 | Fixed rate - 5.41% |
| BESIL | BESIL STEP UP 02/02/17 | | USD | 2004 | 18,862 | 2017 | Fixed rate - 5.42% |
| BESIL | BESIL LTD 5.515% 02/02/17 | | USD | 2004 | 63,910 | 2017 | Fixed rate - 5.515% |
| BESIL | BESIL STEP UP 02/11/19 | | USD | 2004 | 18,835 | 2019 | Fixed rate - 5.37% |
| BESIL | BESIL LTD 5.7065% 11/02/19 | | USD | 2004 | 65,061 | 2019 | Fixed rate - 5.7065% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.89% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.89% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.89% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.89% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.89% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.89% |
| BESNAC | Comercial Paper | | USD | 2008 | 7,134 | 2009 | 2.9% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.9% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.9% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.9% |
| BESNAC | Comercial Paper | | USD | 2008 | 35,859 | 2009 | 2.9% |
| Lusitano SME nº 1 | Class A asset backed floating rate notes | | EUR | 2006 | 763,945 | 2028 | Euribor + 0.15% |
| Lusitano SME nº 1 | Class B asset backed guaranteed floating rate notes | | EUR | 2006 | 40,974 | 2028 | Euribor + 0.05% |
| Lusitano SME nº 1 | Class C asset backed floating rate notes | | EUR | 2006 | 34,073 | 2028 | Euribor + 2.20% |
| Lusitano Mortgage nº 6 | Class A Mortgage Backed Floating Rate Notes | | EUR | 2007 | 755,513 | 2060 | Euribor + 0.20% |
| Lusitano Mortgage nº 6 | Class B Mortgage Backed Floating Rate Notes | | EUR | 2007 | 27,582 | 2060 | Euribor + 0.30% |
| Lusitano Mortgage nº 6 | Class C Mortgage Backed Floating Rate Notes | | EUR | 2007 | 23,289 | 2060 | Euribor + 0.45% |
| Lusitano Mortgage nº 6 | Class D Mortgage Backed Floating Rate Notes | | EUR | 2007 | 9,814 | 2060 | Euribor + 0.85% |
| Lusitano Mortgage nº 6 | Class E Mortgage Backed Floating Rate Notes | | EUR | 2007 | 22,858 | 2060 | Euribor + 2.70% |
| | | | | | **24 596,682** | | |

a) Designated liabilities at fair value through profit or loss.
b) Indexed to a basket composed by Nifty India + RDX Russia + HK Hang Seng + Bovespa index.
c) Indexed to a share basket (Brisa, Abertis, REW e E.On).
d) Indexed from 1º to 4º year to a fixed rate of 6,00% and to swap rate after that period.
e) Fixed rate of 1,25% with option, at maturity, of remuneration or Bradesco shares.
f) Indexed to a basket composed by Altadis, Deutsche Bank, Deutsche Telecom, Inditex, Nokia and Banco Popular shares.
g) Indexed to a basket composed by EUGATR, Eurostoxx 50, Short EUR/Long USD, Goldman Sachs Commodity Index Excess Return.
h) Indexed to: previous coupon + spread - Euribor.
i) Indexed to exchange and interest rate.
j) Indexed to credit risk.
k) Indexed to a reverse floater.
l) Indexed to a basket composed by S&P 500 and Nikkei index.
m) Indexed to a basket composed by ABN, BBVA, BSCH, BCP and COMMERZBANK shares.
n) Indexed to a basket composed by DJ Eurostoxx 50, S&P 500, Nasdaq, Hang Seng and Topix index.
o) Indexed to a basket composed by DJ Eurostoxx 50, SP500, TOPIX, BOVESPA and Hang Seng China index.
p) Indexed to a basket composed by Dow Jones Eurostoxx 50, S&P 500 and Nikkei 225 index.
q) Indexed to a basket composed by AXA, Alianz and ING shares.

r) Indexed to a basket composed by EDP, Iberdrola, FPL Group, Gamesa, Vestas Wind Systems and Solarworld shares.
s) Indexed to a basket composed by DJ Eurostoxx 50, SP500, BOVESPA, iShares MSCI Pacific ex-Japan index.
t) Indexed to a basket composed by DJ Eurostoxx 50, SP500 and Topix index.
u) Indexed to a basket composed by BCP, EDP, Brisa and PT shares.
v) Indexed to a basket composed by BBVA and BSCH shares.
w) Indexed to credit (Second to default) on Merril Lynch, Morgan Stanley, Lehman Brothers and Goldman Sachs.
y) Indexed to a basket composed by Petrochina, Turkcell, Banco Bradesco and Gazprom shares.
z) Indexed to a basket composed by Petrochina, Turkcell, Petrobras and Gazprom shares.
aa) Indexed to a basket composed by Petroleo Brasileiro, China Petroleum and Banco Bradesco shares.
ab) Indexed to a basket composed by BHP Biliton, Banco Bradesco, China Petroleum and Companhia de Bebidas shares.
ac) Indexed to a basket composed by Petroleo Brasileiro, Banco Bradesco and Companhia de Vale Rio Doce shares.
ad) Indexed to a basket composed by Petrobras, Banco Bradesco, Companhia Vale Rio Doce and Companhia Siderurgia Nacional shares.
ae) Indexed to a basket composed by Petroleo Brasileiro, Apple Inc, Companhia Vale Rio Doce and Companhia de Bebidas das Americasshares.
af) Indexed to a basket composed by Petrobras, Unibanco, Companhia Vale Rio Doce and Apple shares.
ag) Indexed to a basket composed by Bayer, Electridade de França, Iberdrola and Siemens shares.
ah) Indexed to a basket composed by First Solar inc, Suntech Power and Sunpower Corp shares.
ai) Indexed to a basket composed by MSCI Taiwan, Hang Seng, Hang Seng China Enterprises, Nifty, Kospi200, MSCI Singapore index.
aj) Indexed to a basket composed by LVMH, Christian Dior, Philips, Pinault Printemps, Nokia, Bulgari, Porsche, Swatch, Burberry, Daimler.
ak) Indexed to a basket composed by DAX, Russian Depositary, CECE Traded index.
al) Indexed to a basket composed DBIX India, Russian Depositary, Hang Seng and MSCI Brasil index.
am) Indexed to credit (First to default) on Brisa, Bancaja, Portugal Telecom, Cimpor and Repsol.
an) Indexed to a basket composed by DJ Eurostoxx 50 SP500, Nikkei 225 and Swiss Market Index.
ao) Indexed a basket de composed by Telefonica, Total and Coca-Cola shares.
ap) Indexed to IBOXX Eurozone, SP GSCI Excess Return, EUR/USD and DJ Eurostoxx 50
aq) Indexed to a basket de composed by Total, EON, Telefonica, Eni SPA, France Telecom, Deutsche Telecom, General Electric, Louis Vuitton, Allianz e Fortis shares.
ar) Indexed to a basket composed by EDP, Iberdrola, FPL Group, Gamesa, Vestas Wind Systems e Solarworld shares.
as) Indexed to a basket composed by BBVA, Repsol and Telefonica shares.
ar) Indexed to West Texas Intermediate Light Sweet Crude Oil, Natural Gas and API 2 Steam Coal.

## Note 33 - PROVISIONS

As at 31 December 2008 and 2007, the balance of provisions presents the following movements:

(in thousands of euro)

| | Restructuring provision | Other provisions | Total |
|---|---|---|---|
| **Balance as at 31 December 2006** | **1,686** | **138,196** | **139,882** |
| Charge for the year | 23,363 | 2,045 | 25,408 |
| Charge off | ( 848) | ( 7,560) | ( 8,408) |
| Exchange differences and other | - | ( 12,932) | ( 12,932) |
| **Balance as at 31 December 2007** | **24,201** | **119,749** | **143,950** |
| Charge for the year | 5,688 | 14,158 | 19,846 |
| Charge off | ( 22,049) | ( 10,182) | ( 32,231) |
| Exchange differences and other | - | ( 354) | ( 354) |
| **Balance as at 31 December 2008** | **7,840** | **123,371** | **131,211** |

In May 2006, Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A. was merged into Banco Espírito Santo, S.A. and it was prepared and approved a restructuring plan, under which was set up a provision in the amount of euro 10.8 million to meet costs with the restructuring. As at 30 June 2008, this provision amounts to euro 1.4 million.

In April 2007, following the merger of BESSA and its subsequent change into a branch of BES, a provision in the amount of euro 23.4 million was booked for the costs associated with this project. In 2008, the restructuring process was descontinued, being a portion of the provision in the amount of euro 9.2 million , related to commitments not yet assumed written back to the income statement. As at 31 December 2008, this provision amounts to euro 6.0 million.

In 2008, the Group has set up a restructuring provision in the amount of euro 14.9 million, in order to face the costs related to the restructuring project "Projecto de Reestruturação 20-10". This project comprises several initiatives, namely the merger of BES Leasing & Factoring into BES. As at 31 December 2008 the remaining provision amounts to euro 0.4 million. The provisions charged off during the year, in the amount of euro 14.5 million, include approximately euro 8 million related to costs with early retirements (see Note 12).

Other provisions in the amount of euro 123,371 thousands (31 December 2007: euro 119,749 thousands) are intended to cover certain contingencies related to the Group's activities, as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Group has provisions in the amount of approximately euro 33.4 million (31 December 2007: euro 38.6 million) to cover these contingencies;
- Contingencies in connection with legal processes established following the bankruptcy of clients which might imply losses for the Group. Provisions in the amount of euro 17.0 million as at 31 December 2008 ( 31 December 2007: euro 7.5 million) were established to cover these losses;
- Contingencies for ongoing tax processes. To cover these contingencies, the Group maintains provisions of approximately euro 53.3 million (31 December 2007: euro 52.4 million);
- The remaining balance of approximately euro 19.7 million (31 December 2007: euro 21.2 million), is maintained to cover potential losses within the normal activities of the Group, such as frauds, robbery and on-going judicial cases.

## **Note 34 -** INCOME TAXES

The Bank and its subsidiaries domiciled in Portugal are subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes. BES Group determined its current and deferred income tax balance for the years ended 31 December 2008 and 2007 and on the basis of a nominal rate of 26.5%, in accordance with the Law No. 107-B/2003 from 31 December and Law No. 2/2007 of 15 January (approved Local Tax Law).

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

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2008 and 2007 can be analysed as follows:

(in thousands of euro)

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 |
| Derivative financial instruments | 10,849 | 9,654 | ( 73,756) | ( 73,588) | ( 62,907) | ( 63,934) |
| Available-for-sale financial assets | 56,974 | 7,945 | ( 32,965) | ( 271,747) | 24,009 | ( 263,802) |
| Loans and advances to customers | 149,612 | 101,770 | - | - | 149,612 | 101,770 |
| Property and equipment | - | - | ( 10,930) | ( 8,922) | ( 10,930) | ( 8,922) |
| Intangible assets | 158 | 197 | - | - | 158 | 197 |
| Investments in subsidiaries and associates | 26,535 | 2,361 | ( 48,418) | ( 28,923) | ( 21,883) | ( 26,562) |
| Provisions | 18,459 | 24,025 | - | ( 4,327) | 18,459 | 19,698 |
| Pensions | 16,499 | 16,111 | ( 42,782) | ( 37,941) | ( 26,283) | ( 21,830) |
| Health care - SAMS | 27,176 | 21,812 | - | - | 27,176 | 21,812 |
| Long-term service benefits | 6,965 | 6,470 | - | - | 6,965 | 6,470 |
| Other | 119 | 5,481 | ( 6,508) | ( 4,025) | ( 6,389) | 1,456 |
| Tax losses brought forward | 6,318 | 1,690 | - | - | 6,318 | 1,690 |
| **Deferred tax asset / (liability)** | **319,664** | **197,516** | **( 215,359)** | **( 429,473)** | **104,305** | **( 231,957)** |
| Assets / liabilities compensation for deferred taxes | ( 177,911) | ( 173,570) | 177,911 | 173,570 | - | - |
| **Deferred tax asset / (liability), net** | **141,753** | **23,946** | **( 37,448)** | **( 255,903)** | **104,305** | **( 231,957)** |

The changes in deferred taxes were recognised as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the beginning of the year** | **( 231,957)** | **( 88,903)** |
| Recognised in the income statement | 67,486 | ( 65,630) |
| Recognised in fair value reserve | 268,874 | ( 83,689) |
| Recognised in other reserves | 2,506 | 7,771 |
| Exchange differences and other | ( 2,604) | ( 1,506) |
| **Balance at the end of the year (Assets/ (Liabilities))** | **104,305** | **( 231,957)** |

The deferred tax recognised in the income statement and reserves, during 2008 and 2007 is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Recognised in (profit) /loss | Recognised in reserves | Recognised in (profit) /loss | Recognised in reserves |
| Derivative financial instruments | ( 1,027) | - | 48,155 | - |
| Available-for-sale financial assets | ( 18,937) | ( 268,874) | 1,232 | 83,689 |
| Loans and advances to customers | ( 47,842) | - | ( 38,970) | - |
| Property and equipment | 2,008 | - | 43 | - |
| Intangible assets | 39 | - | 854 | - |
| Investments in subsidiaries and associates | ( 4,679) | - | 3,914 | - |
| Provisions | 1,239 | - | 8,562 | - |
| Pensions | 7,794 | ( 3,341) | ( 18,918) | ( 5,013) |
| Health care - SAMS | ( 5,364) | - | ( 549) | - |
| Long-term service benefits | ( 495) | - | ( 945) | - |
| Other | 4 405 | 835 | ( 1,184) | ( 2,758) |
| Tax credits resulting from double tax treaties | - | - | 19,958 | - |
| Tax losses brought forward | ( 4,627) | - | 43,478 | - |
| Deferred taxes | ( 67,486) | ( 271,380) | 65,630 | 75,918 |
| Current taxes | 150,984 | 3,831 | 86,916 | 5,720 |
| **Total** | **83,498** | **( 267,549)** | **152,546** | **81,638** |

The current tax recognised in reserves includes euro 3,341 thousands related to pensions and euro 186 thousands related to the share based payments scheme (31 December 2007: euro 5,013 thousands and euro 372 thousands, respectively).

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

(in thousands of euro)

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | % | Amount | % | Amount |
| **Profit before taxes and minority interest** | | **510,643** | | **787,619** |
| Statutory tax rate | 26.5 | | 26.5 | |
| Income tax calculated based on the statutory tax rate | | 135,320 | | 208,719 |
| Diferences on the subsidiaries statutory tax rates | (1.6) | ( 8,234) | (1.3) | ( 9,913) |
| Tax-exempt dividends | (7.3) | ( 37,392) | (2.4) | ( 19,105) |
| Tax-exempt profits (off shore) | (5.1) | ( 26,999) | (4.9) | ( 38,566) |
| Tax-exempt gains | (0.4) | ( 2,012) | (1.6) | ( 12,482) |
| Changes in estimates | (0.0) | ( 23) | 2.4 | 18,566 |
| Tax losses used for which no deferred tax assets were recognised | 0.3 | 1,741 | - | - |
| Unrecognised deferred tax assets related to tax losses generated in the year | 2.3 | 11,860 | 0.7 | 5,866 |
| Non-taxable share of profit in associates | 1.1 | 5,377 | (1.1) | ( 8,455) |
| Non deductible costs | 0.7 | 3,460 | 0.6 | 4,487 |
| Other | (0.0) | ( 155) | 0.4 | 3,429 |
| | **16.4** | **83,498** | **19.4** | **152,546** |

## Note 35 - SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Bonds | 1,649,819 | 886,815 |
| Loans | 228,527 | 159,319 |
| Perpetual Bonds | 950,637 | 1,048,681 |
| | **2,828,983** | **2,094,815** |

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

(in thousands of euro)

| Issuer | Designation | Issue Date | Amount Issued | Carrying amount | Interest Rate | Maturity |
|---|---|---|---|---|---|---|
| | | 31.12.2008 | | | | |
| BES (Cayman) | Subordinated loans | 2005 | 237,831 | 228,528 | 3.95% | 2015 |
| BES Finance | Subordinated loans | 1999 | 35,925 | 36,253 | 7.80% | 2009 |
| BES Finance | Subordinated loans | 2000 | 300,000 | 316,394 | 6.63% | 2010 |
| BES Finance | Subordinated loans | 2001 | 400,000 | 414,355 | 6.25% | 2011 |
| BES Finance | Subordinated perpetual bonds | 2002 | 500,000 | 392,861 | 6.63% | 2012 a) |
| BES Finance | Subordinated perpetual bonds | 2004 | 500,000 | 342,754 | 4.50% | 2015 a) |
| BES Finance | Subordinated loans | 2008 | 20,000 | 20,138 | 6.13% | 2018 |
| BESI | Subordinated loans | 2003 | 10,000 | 9,660 | 5.50% | 2033 |
| BESI | Subordinated loans | 2005 | 60,000 | 59,735 | 5.33% | 2015 |
| BESI | Subordinated loans | 2007 | 21,184 | 16,975 | 1.30% | 2014 |
| BESI | Subordinated loans | 2008 | 2,158 | 2,287 | 1.30% | 2013 |
| BESI | Subordinated loans | 2008 | 8,632 | 9,008 | 1.30% | 2015 |
| BES | Subordinated loans | 2001 | 7,000 | 506 | 6.05% | 2011 |
| BES | Subordinated loans | 2004 | 25,000 | 25,312 | 6.31% | 2014 b) |
| BES | Subordinated loans | 2005 | 15,000 | 15,022 | 5.38% | 2015 a) |
| BES | Subordinated loans | 2008 | 40,650 | 41,651 | 4.43% | 2018 |
| BES | Subordinated loans | 2008 | 90,000 | 92,224 | 6.13% | 2018 |
| BES | Subordinated loans | 2008 | 50,000 | 50,200 | 4.99% | 2018 |
| BES | Subordinated loans | 2008 | 150,000 | 152,909 | 6.13% | 2018 |
| BES | Subordinated loans | 2008 | 150,000 | 152,424 | 6.13% | 2018 |
| BES | Subordinated loans | 2008 | 75,964 | 76,714 | 6.13% | 2018 |
| BES | Subordinated loans | 2008 | 118,547 | 119,122 | 6.13% | 2019 |
| BES | Subordinated loans | 2008 | 53,939 | 53,952 | 6.13% | 2019 |
| | | | **2,871,830** | **2,828,98** | | |

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

Changes in subordinated debt are analysed as follows:

(in thousands of euro)

| | 31.12.2007 | Issues | Repayments | Net Repurchases | Other movements[a] | 31.12.2008 |
|---|---|---|---|---|---|---|
| Bonds | 886,815 | 760,882 | - | ( 12,734) | 14,856 | 1,649,819 |
| Loans | 159,319 | 20,000 | - | ( 19,090) | 68,298 | 228,527 |
| Perpetual Bonds | 1,048,681 | - | - | ( 122,632) | 24,588 | 950,637 |
| | **2,094,815** | **780,882** | **-** | **( 154,456)** | **107,742** | **2,828,983** |

a) Other include accrued interest, fair value and foreign exchange translation adjustments

In accordance with the accounting policy described in Note 2.8, debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. Following the repurchases performed in 2008, the Group has recognised a gain in the amount of euro 27.9 million.

## **Note 36 -** OTHER LIABILITIES

As at 31 December 2008 and 2007, the balance other liabilities is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Creditors** | | |
| Public sector | 49,609 | 49,530 |
| Creditors arising out from future contracts | 49,641 | 48,527 |
| Deposit accounts | 185,462 | 40,924 |
| Sundry creditors | | |
| Creditors from health care benefits (see Note 12) | - | 87,176 |
| Creditors from transactions with securities | 187,395 | 204,522 |
| Suppliers | 73,562 | 106,046 |
| Creditors from factoring operations | 15,979 | 9,369 |
| Other sundry creditors | 241,430 | 142,551 |
| | 803,078 | 688,645 |
| Accrued expenses | | |
| Long-term service benefits (see Note 12) | 27,412 | 23,625 |
| Other accrued expenses | 147,384 | 130,405 |
| | 174,796 | 154,030 |
| **Deferred income** | **12,078** | **10,347** |
| **Other sundry liabilities** | | |
| Stock exchange transactions pending settlement | 90,450 | 466,435 |
| Foreign exchange transactions pending settlement | 128,799 | 27,306 |
| Other transactions pending settlement | 107,069 | 178,217 |
| | 326,318 | 671,958 |
| | 1,316,270 | 1,524,980 |

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

## **Note 37 -** SHARE CAPITAL, SHARE PREMIUM, TREASURY STOCK AND PREFERENCE SHARES

### Ordinary shares

As at 31 December 2008, the Bank's share capital was represented by 500 million ordinary shares with a face value of euro 5 each, which were subscribed and fully paid by the following entities:

| | % Share capital | |
|---|---|---|
| | 31.12.2008 | 31.12.2007 |
| BESPAR - Sociedade Gestora de Participações Sociais, S.A. | 40.00% | 40.00% |
| Credit Agricole, S.A. | 10.81% | 10.81% |
| Bradport, SGPS, S.A. (1) | 3.05% | 3.05% |
| Credit Suisse Group | 2.70% | - |
| Previsão - Sociedade Gestora de Fundos de Pensões, S.A. (2) | 2.62% | 2.62% |
| Fundo de Pensões BES | 2.22% | - |
| Hermes Pensions Management Limited | 2.02% | 2.03% |
| Other | 36.58% | 41.49% |
| | 100.00% | 100.00% |

(1) Portuguese company fully owned by Banco Bradesco, S.A. (Brazil)
(2) This entity's voting rights are attributable to Portugal Telecom.

### Preference shares

The Group issued 450 thousand non-voting preference shares, which were listed in the Luxembourg stock Exchange in July 2003. In March 2004, 150 thousand preference shares were additionally issued forming a single series with the existing preference shares, in a total amount of euro 600 million. The face value of these shares is euro 1,000 and is wholly (but not partially) redeemable by option of the issuer at its face value, as at 2 July 2014, subject to prior approvals of BES and Bank of Portugal.

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

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

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

As at 31 December 2008, the Group charged against reserves the amount of euro 33,480 thousands (31 December 2007: euro 33,480 thousands) related to the dividends declared by the Board of Directors of the issuer, as at 20 May, which were paid as at 2 July 2008.

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

### Share Premium

As at 31 December 2008, share premium are represented by euro 668,851 thousands related to the premium paid by the shareholders following the share capital increases occurred in the first half of 2002 and 2006.

### Treasury stock

The Bank's General Meeting of 20 June 2000 approved the set up of a stock-based incentive scheme (see Note 2.15), which started in 2000. As at 31 December 2008, 2,479 thousand shares of BES (0.50% of total share capital), are allocated (31 December 2007: 3 484 thousand of shares, 0.70% of total share capital), for an overall amount of euro 29.8 million (31 December 2007: euro 41.4 million). These shares are recognised as treasury stock, as described in Note 2.15

The movement in treasury stocks is analysed as follows:

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Number of shares | Amount (thousands of euro) | Number of shares | Amount (thousands of euro) |
| Opening balance | 3,484,262 | 41,437 | 5,667,612 | 63,732 |
| Shares sold | ( 1,005,181) | ( 11,599) | ( 2,183,350) | ( 22,295) |
| **Period-end balance** | **2,479,081** | **29,838** | **3,484,262** | **41,437** |

## Note 38 - FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS AND MINORITY INTEREST

### Legal Reserve

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

### Fair value reserve

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

During the years ended 31 December 2008 and 2007, the changes in these balances were as follows:

(in thousands of euro)

| | Fair value reserve | | | Other reserves and retained earnings | | | |
|---|---|---|---|---|---|---|---|
| | Available for-sale financial assets | Deferred tax reserves | Total fair value reserve | Legal reserve | Exchange differences | Other reserves and retained earnings | Total Other reserves and retained earnings |
| **Balance as at 31 December 2006** | **689,251** | **( 177,209)** | **512,042** | **140,910** | **6,241** | **( 49,154)** | **97,997** |
| Share-based incentive plan (SIBA) | - | - | - | - | - | 1,030 | 1,030 |
| Dividends from preference shares | - | - | - | - | - | ( 33,480) | ( 33,480) |
| Changes in fair value | 207,440 | ( 72,781) | 134,659 | - | - | - | - |
| Exchange differences | - | - | - | - | 3,455 | - | 3,455 |
| Transfer to reserves | - | - | - | 26,000 | - | 196,390 | 222,390 |
| **Balance as at 31 December 2007** | **896,691** | **( 249,990)** | **646,701** | **166,910** | **9,696** | **114,786** | **291,392** |
| Share-based incentive plan (SIBA) | - | - | - | - | - | 517 | 517 |
| Dividends from preference shares | - | - | - | - | - | ( 33,480) | ( 33,480) |
| Changes in fair value | (1,195,229) | 282,194 | ( 913,035) | - | - | - | - |
| Exchange differences | - | - | - | - | ( 2,170) | - | ( 2,170) |
| Transfer to reserves | - | - | - | 61,753 | - | 306,460 | 368,213 |
| **Balance as at 31 December 2008** | **( 298,538)** | **32,204** | **( 266,334)** | **228,663** | **7,526** | **388,283** | **624,472** |

The fair value reserve is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Amortised cost of available-for-sale financial assets | 7,410,605 | 5,353,586 |
| Accumulated impairment losses recognised | ( 106,160) | ( 64,101) |
| **Amortised cost of available-for-sale financial assets, net of impairment** | **7,304,445** | **5,289,485** |
| Fair value of available-for-sale financial assets | 7,094,111 | 6,238,889 |
| Net unrealised gains recognised in the fair value reserve | ( 210,334) | 949,404 |
| Fair value reserves related to securities reclassified as held-to-maturity investments (Note 22) | ( 28,258) | - |
| Deferred taxes | 19,315 | ( 260,898) |
| Fair value reserve of associates appropriated on consolidation | ( 39,799) | ( 11,885) |
| **Net fair value reserve** | **( 259,076)** | **676,621** |
| Minority interests | ( 7,258) | ( 29,920) |
| **Fair value reserve attributable to equity hoders of the Bank** | **( 266,334)** | **646,701** |

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the beginning of the year** | **646,701** | **512,042** |
| Changes in fair value | (1,039,255) | 419,125 |
| Disposals during the year | ( 213,378) | ( 231,524) |
| Impairment recognised during the year | 57,404 | 19,839 |
| Deferred taxes recognised in reserves during the year | 282,194 | ( 72,781) |
| **Balance at the end of the year** | **( 266,334)** | **646,701** |

### Minority Interest

Minority interest by subsidiary are analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Balance sheet | Income statement | Balance sheet | Income statement |
| ES CONCESSÕES | 19,971 | ( 1,071) | 13,055 | ( 980) |
| BES ANGOLA | 38,986 | 16,362 | 20,500 | 10,215 |
| ESAF | 16,242 | 3,205 | 15,711 | 3,960 |
| BES AÇORES | 14,606 | 2,401 | 13,343 | 2,130 |
| BESLEASING | - | - | 8,783 | 1,599 |
| BEST | 8,265 | 783 | 7,486 | 668 |
| BES Investimento do Brasil | 5,640 | ( 109) | 5,330 | 412 |
| BES Securities | 11,347 | 3,374 | 25,354 | 7,419 |
| FIQ VENTURES II | 21,564 | ( 1,902) | 18,951 | 2,119 |
| FCR PME/BES | 11,973 | 942 | 11,266 | 554 |
| ES CONTACT CENTER | - | 66 | 398 | ( 51) |
| Other | 4,915 | ( 810) | 954 | ( 41) |
| | **153,509** | **24,861** | **141,131** | **28,004** |

The movements in minority interest in the years ended 31 December 2008 and 2007 are analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Minority interests at the beginning of the year** | **141,131** | **86,579** |
| Changes in the scope of consolidation [(1)] | ( 3,368) | 15,759 |
| Capital increase (subsidiaries) | 21,348 | - |
| Capital decrease (subsidiaries) | ( 1,050) | ( 347) |
| Dividends paid | ( 3,487) | ( 5,443) |
| Changes in fair value reserve | ( 22,136) | 18,685 |
| Exchange differences and other | ( 3,790) | ( 2,106) |
| Profit for the year | 24,861 | 28,004 |
| **Minority interests at the end of the year** | **153,509** | **141,131** |

(1) the changes in the scope of consolidation relate to the consolidation of Espírito Santo Ventures Fund (which the share capital held by the Group decreased in the second half of 2007), Cominvest and Concordia (see Note 27). Cominvest was consolidate through the full consolidation method for the first time on June 2007 and Concordia on December 2007.

## Note 39 - OFF-BALANCE SHEET ITEMS

As at 31 December 2008 and 2007, this balance can be analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and stand by letters of credit | 6,426,610 | 5,370,597 |
| Assets pleged as collateral | 2,279,209 | 711,451 |
| Open documentary credits | 2,127,792 | 1,073,334 |
| Other | 107,946 | 103,121 |
| | **10,941,557** | **7,258,503** |
| **Commitments** | | |
| Revocable commitments | 10,027,892 | 7,921,925 |
| Irrevocable commitments | 4,586,554 | 3,413,098 |
| | **14,614,446** | **11,335,023** |

Guarantees and standby letters of credit are banking operations that do not imply any out-flow by the Group.

As at 31 December 2008, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Bank of Portugal (i) for the use of the money transfer system (Sistema de Pagamento de Grandes Transacções) in the amount of euro 254,610 thousands (31 December 2007 euro 156,987 thousands) and (ii) in the scope of a liquidity facility collateralised by securities in the amount of euro 1,400,000 million (as at 31 December 2008, securities eligible for rediscount at the Bank of Portugal amounted to euro 4,568,649);

- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 15,322 thousands (31 December 2007: euro 53,209 thousands);

- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 62,894 thousands (31 December 2007: euro 62,408 thousands);

- Securities pledged as collateral to the European Investment Bank in the amount of euro 521,600 thousands (31 December 2007: euro 287,000 thousands).

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

The documentary credits are irrevocable commitments from the Group on behalf of its clients, to pay/order to pay a determined amount to the supplier of a given commodity or service, within a stipulated period, against the presentation of documents referring to the expedition of the commodity or rendering of the service. The condition of irrevocability consists on the fact of not being viable his cancellation or alteration without the agreement of all the involved parties

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with the Group clients which, in general, are contracted by fixed periods or with other expiring requisites and, normally, apply for the payment of a commission. Substantially, all commitments of credit concession in force require clients to maintain certain requisites which are verified at the time of the respective formalisation.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that the Group requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

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

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Securities and other items held for safekeeping on behalf of customers | 60,595,075 | 67,905,088 |
| Assets for collection on behalf of clients | 280,250 | 249,453 |
| Securitised loans under management (servicing) | 3,766,429 | 4,228,346 |
| Other responsabilities related with banking services | 4,136,767 | 4,844,388 |
| | **68,778,521** | **77,227,275** |

## Note 40 - ASSETS UNDER MANAGEMENT

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 31 December 2008 and 2007, the amount of the investment funds managed by the Group is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Securities investment funds | 4,748,358 | 4,966,403 |
| Real estate investment funds | 1,142,083 | 1,288,683 |
| Pension funds | 2,608,269 | 2,800,088 |
| Other | 9,010,162 | 9,330,399 |
| | **17,508,872** | **18,385,573** |

The amounts recognised in these accounts are measured at fair value determined at the balance sheet date.

## **Note 41 -** RELATED PARTIES TRANSACTIONS

The following is a list of companies that, according to IAS 24, are considered BES Group related parties:

### Associates of BES Group

| **Companies** |
| --- |
| Esumédica - Prestação de Cuidados Médicos, SA |
| Europe Assistance - Companhia Portuguesa de Seguros de Assistência, SA |
| Fiduprivate - Sociedade de Serviços, Consultadoria e Administração de Empresas, SA |
| Banque Espirito Santo et de la Vénétie, SA |
| BES, Companhia de Seguros , SA |
| Esegur - Empresa de Segurança, SA |
| BES-Vida, Companhia de Seguros, SA |
| Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA |
| **Other**: |
| Fin Solutia - Consultoria de Gestão de Créditos, SA |
| Polish Hotel Company, SP |
| Polish Hotel Capital SP |
| Polish Hotel Management Company, SP |
| SES Iberia |
| Hlc - Centrais de Cogeração, SA |
| Coporgest |
| Neumáticos Andrés, Investment, SA |
| Synergy Industry and Technology, SA |
| Salgar Investments, SL |
| Só Peso Restauração e Hotelaria, SA |
| Apolo Films SL |
| Brb Internacional, S.A. |
| Prosport, SA |
| S.G.P.I.C.E.-Soc. de Serviços de Gestão de Portais na Internet e Consultoria de Empresas, S.A. |
| E.S. Contact Center - Gestão de Call Centers, SA |
| Esiam - Espirito Santo International Asset Management, Ltd |
| Oblog - Consulting, SA |
| Société 45 Avenue Georges Mandel, SA |
| Concesionaria Autopista Perote-Xalapa, CV |
| Ascendi - Concessões de Transportes, SGPS, SA |
| Lusoscut - Auto-Estradas da Costa de Prata, S.A. |
| Lusoscut - Auto-Estradas das Beiras Litoral e Alta, S.A. |
| Lusoscut - Auto-Estradas do Grande Porto, S.A. |
| SOUSACAMP, SGPS, SA |
| GLOBAL ACTIVE - GESTÃO P.S.SGPS, SA |
| OUTSYSTEMS, SA |
| Coreworks - Proj. Circuito Sist. Elect., SA |
| Multiwave Photonics, SA |
| BIO-GENESIS |
| Decomed, SGPS |
| Sopratutto Café , S.A |
| Enkrott SA |
| Rodi Sinks & Ideas, SA |

### Subsidiaries, associates and ESFG Group related firms

| **Companies** |
| --- |
| **Espirito Santo Financial Group, SA** |
| **Espirito Santo Financial ( Portugal ), SGPS, SA** |
| **Bespar - Sociedade Gestora de Participações Sociais, SA** |
| **Group Credit Agricole** |
| Credit Agricole SA |
| Calyon, SA |
| Calyon Corporate and Investment Bank |
| Calyon North America Holding |
| Cassa di Risparmio di Parma e Piacenza SPA |
| Banco Credibom, SA |
| **Partran - Sociedade Gestora de Participações Sociais, SA** |
| **Esfil - Espírito Santo Financiére, S.A. ( Luxemburgo )** |
| **Companhia de Seguros Tranquilidade, SA** |
| **GRUPO ESPIRITO SANTO INTERNACIONAL** |
| ESFG International, Ltd |
| The Atlantic Company ( Portugal ) - Turismo e Urbanização, SA |
| Clup Vip - Marketing de Acontecimentos, SA |
| Espírito Santo Hotéis, SGPS, SA |
| Espirito Santo Irmãos - Sociedade Gestora de Participações Sociais, SA |
| Espirito Santo Tourism Ltd |
| Espirito Santo Tourism ( Europe ) SA |
| Espírito Santo Viagens - Sociedade Gestora de Participações Sociais, SA |
| Espirito Santo Industrial SA |
| Espirito Santo Resources Ltd |
| Espirito Santo Resources ( Portugal ), SA |
| Escopar - Sociedade Gestora de Participações Sociais, SA |
| Esim - Espirito Santo Imobiliário, SA |
| Espart - Espirito Santo Participações Financeiras, SGPS, SA |
| Espírito Santo Property Holding ( Portugal ), SA |
| Euroamerican Finance, SA |
| Gestres - Gestão Estratégica Espirito Santo, SA |
| Herdade da Boina - Sociedade Agrícola, SA |
| Herdade da Comporta - Actividades Agro Silvícolas e Turísticas, SA |
| Hotelagos, SA |
| MariNoteis - Sociedade de Promoção e Construção de Hoteis, SA |
| Multiger - Sociedade de Compra Venda e Administração de Propriedades, SA |
| Prosistemas - Consultores de Engenharia, SA |
| Prosistemas Ambiente - Engenharia e Gestão, SA |
| Activalor - Sociedade de Valorização de Activos, Lda |
| Portucale - SGFTC, SA |
| Escom Investment Limited |
| Escom Alrosa Limited |
| Escom Espírito Santo Commerce (UK) Ltd |
| Escom Afrique Central, Lda |
| Escom Agro Industries Investments Assets Ltd |
| Escom Alluvials Ltd |
| Escom Asia Ltd |
| Escom Capital Development Ltd |
| Escom - Congo, SARL |
| Escom Energy Ltd |
| Escom Holdings BV |
| Escom - Espírito Santo Imobiliária SARL |
| Escom Infrastructures BV |
| Escom Investments BV |
| Escom Kimberlities Ltd |
| Escom Investimentos e Participações, Lda |
| Escom Management Ltd |
| Escom Mining Chimbongo Ltd |
| Escom Mining Development Co. Ltd |
| Escom Mining Inc |
| Escom Mining Services Ltd |
| Escom Natural Resources BV |

| Companies |
|---|
| Escom Opca Africa Contractors BV |
| Escom - Promoção Imobiliária Lda |
| Espírito Santo Commerce RDC, SPRL |
| Escom Real Estate Ltd |
| Escom - Espirito Santo Commerce, SA |
| Escom Trading & MarketingLtd |
| Banque Privée Espírito Santo |
| ES Bank (Panama), SA |
| Espírito Santo Saúde SGPS, S.A. |
| Hospor - Hospitais Portugueses, SA |
| HME Gestão Hospitalar |
| Hospital da Arrábida - Gaia, SA |
| **Other** |
| Societe Financiere et Immobilliaire Cosm |
| ES Bankers (Dubai) Limited |
| Esfg Overseas, Ltd |
| Espírito Santo - Unidades de Saúde e de Apio à Terceira Idade, S.A. |
| Omnium Lyonnais de Participations Industrielles, SA |
| Espírito Santo Health & Spa (Portugal) - SGPS, SA |
| Rml - Residência Medicalizada de Loures, SGPS, SA |
| Key Space Investments LLC |
| SCI Bourdonnais, 42 |
| Société Lyonnaise de Marchands de Biens |
| Tranquilidade SGPS - Unipessoal, Lda |
| Advancecare - Gestão e Serviços de Saúde, SA |
| Africa Natural Resources, Ltd |
| Africa Resources, Ltd |
| Agribahia, S/A |
| Air Gemini Angola - Companhia de Transportes Aéreos, Lda. |
| Aleluia - Cerâmicas, SA |
| Sociedade de Investimentos Hotel Almansor, SA |
| African Markets Development Limited |
| Angola Diamonds International Ltd |
| Atr - Actividades Turisticas e Representações, Lda |
| Aveiro Incorporated |
| Azimuth International Resorts LLC |
| Beach Heath Investments Ltd |
| Companhia Agricola Botucatu, SA |
| Cerca da Aldeia - Sociedade Imobiliária, SA |
| Clarendon Properties Inc. |
| Clínica Parque dos Poetas, SA |
| Cliria - Hospital Privado de Aveiro, SA |
| Club Campo Villar Olalla, SA |
| Clube de Campo da Comporta - Actividades Desportivas e Lazer, Lda |
| Clube Residencial da Boavista, SA |
| Companhia Brasileira de Agropecuária Cobrape |
| Coimbra Jardim Hotel - Sociedade de Gestão Hoteleira, SA |
| Construcciones Sarrion, SL |
| Ganadera Corina Campos y Haciendas, S/A |
| E.S.B. Finance Ltd |
| Eastelco - Consultoria e Comunicação, SA |
| E.S. Asset Administration Litd |
| Espírito Santo Cachoeira Desenvolvimento Imobiliário, Ltda |
| ES Comercial Agrícola, Ltda |
| Espírito Santo Guarujá Desenvolvimento Imobiliário, Ltda |
| ES Holding Administração e Participações, S/A |
| Espirito Santo Industrial ( BVI ) SA |
| Espírito Santo Indaiatuba Desenvolvimento Imobiliário, Ltda |
| Espírito Santo Industrial ( Portugal ) - SGPS, SA |
| Espírito Santo Itatiba Desenvolvimento Imobiliário, Ltda |
| Espírito Santo Management Corp. |
| Espírito Santo Primavera Desenvolvimento Imobiliário, Ltda |
| ES Private Equity Ltd |
| Espírito Santo Property (Brasil) S/A |
| ES Saúde - Residência com Serviços Senior, S.A. |
| Espírito Santo Services SA |
| Espírito Santo - Unidades de Saúde e de Apio à Terceira Idade, SA |
| Espírito Santo Venture Ltd |
| ES Viagens e Turismo, Lda |
| Espírito Santo Viagens - Consultoria e Serviços, SA |

| Companies |
|---|
| Esai - Espírito Santo Activos Imobiliários, Ltda ( Brasil ) |
| ESAP Brasil Agro - Pecuária, Ltda |
| Espirito Santo BVI Participation Ltd |
| Escae Consultoria, Administração e Empreendimento, Ltda |
| ESDI Admnistração e Participações, Ltda |
| Esger - Empresa de Serviços e Consultoria, SA |
| Espirito Santo International (BVI) SA |
| E.S. International Overseas Ltd |
| Esiam - Espirito Santo International Asset Management Ltd |
| E.S. - Espírito Santo, Mediação Imobiliária, SA |
| Espirito Santo do Oriente - Estudos Financeiros e de Mercado de Capitais, Lda |
| Espirito Santo Property SA |
| Espirito Santo Property Holding ( BVI ) SA |
| Espírito Santo Property España, S.L. |
| Espart Madeira SGPS, Unipessoal, Lda |
| E.S. Resources Overseas Ltd |
| Espírito Santo Resources SA |
| Estoril Incorporated |
| Euroamerican Finance Corporation Inc. |
| Euroatlantic Realty Inc. |
| Europe Assistance Macau - Serviços de Assistência Personalizados, Lda |
| Europeia - Agência Turística, SA |
| Fafer - Empreendimentos Turisticos e de Construção, SA |
| Fimoges - Sociedade Gestora de Fundos de Investimento Imobiliário, SA |
| Fisheries Co Limited |
| GES Finance Ltd |
| Gesfimo - Espirito Santo, Irmãos, Soc. Gestora de Fundos de Investimento Imobiliários,SA |
| Goggles Marine, Ltd |
| Sociedad Agricola Golondrina, S/A |
| GreenWoods Ecoresort - Empreendimentos Imobiliários, Lda |
| GTD - Goods Trading and Distribution Inc. |
| GTD South Africa (Property) ltd |
| HCI - Helath Care International Inc |
| HDC - Serviços de Turismo e Imobiliário, S.A. |
| Hospital da Luz, SA |
| Hoteis Tivoli, SA |
| Hospital Residêncial do Mar, SA |
| I.A.C. Uk Limited |
| Inter-Atlântico, S/A |
| Iber Foods - Produtos Alimentares e Biológicos, SA |
| Imopca, SA |
| Instituto de Radiologia Dr. Idálio de Oliveira - Centro de Radiologia Médica, S.A. |
| Lupiri - Sociedade de Investimentos e Participações |
| Lusitânia, SA |
| Luzboa, SA |
| Monteiro de Barros - Sociedade Gestora de Participações Sociais, SA |
| Sociedade de Pesca Mar Bonançoso Limitada |
| Sociedade de Pesca Mar Ondulado Limitada |
| Margrimar - Mármores e Granitos, SA |
| Marmetal - Mármores e Materiais de Construção, SA |
| Multiples - Espírito Santo Services Ltd |
| Mundo Vip - Operadores Turísticos, SA |
| Net Viagens - Agência de Viagens e Turismo, SA |
| New Media Investments Assets, Ltd |
| Novagest Assets Management, Ltd |
| OBLOG - Consulting, SA |
| Opca Angola, SA |
| Opca Moçambique, Lda |
| Opcatelecom . Infraestruturas de Comunicação, SA |
| OPWAY - Engenharia, SA |
| OPWAY Imobiliária, SA |
| OPWAY - SGPS, SA |
| Pavi do Brasil - Pré-Fabricação,Tecnologia e Serviços, Lda |
| Pavicentro - Pré Fabricação, SA |
| Pavilis - Pré - Fabricação, SA |
| Paviseu - Materiais Pré-Fabricados, SA |
| Pavitel, SARL |
| Personda - Sociedade de Perfurações e Sondagens, SA |
| Piscicultura Preto Prata Indústria e Comércio, Ltda |
| Placon - Estudos e Projectos de Construção, Lda |

| Companies |
|---|
| Pojuca Administração, SA |
| Pojuca, SA |
| Pontave - Construções, SA |
| Agência Receptivo Praia do Forte, Ltda |
| Praia do Forte Operadora de Turismo, Ltda |
| Progest Congo, SARL |
| Grupo Proyetos y Servicios Sarrion, SA |
| Quinray Technologies Corp. |
| Quinta da Areia - Sociedade Agricola Quinta da Areia, SA |
| Recigreen - Reciclagem e Gestão Ambiental, SA |
| Recigroup - Indústrias de Reciclagem, SGPS, SA |
| Recipav - Engenharia e Pavimentos, Unipessoal, Lda |
| Recipneu - Empresa Nacional de Reciclagem de Pneus, Lda |
| Rushton Business Consultants, Ltd |
| Santa Mónica - Empreendimentos Turísticos, SA |
| Saramagos S/A Empreendimentos e Participações |
| Société Congolaise de Construction et Travaux Publiques, SARL |
| Seguros Logo, SA |
| Seicor - Comércio, Administração e Participações, S/A |
| Series - Serviços Imobiliários Espirito Santo, SA |
| Société Immobiliére du Congo, SARL |
| SIM - Société D' Investissement Minier, SARL |
| Sintra Empreendimentos Imobiliários, Ltda |
| Sisges, SA Desenvolvimento de Projectos de Energia |
| Société Congolaise de Carriers et des Mines, SARL |
| Soguest - Sociedade Imobiliária, SA |
| Solférias - Operadores Turísticos, Lda |
| Soltrade International Limited |
| Sopol - Concessões, SGPS, SA |
| Sotal - Sociedade de Gestão Hoteleira, SA |

| Companies |
|---|
| Space - Sociedad Peninsular de Aviación, Comércio e Excursiones, SA |
| Starfish - Empreendimentos Pesqueiros SARL |
| Suliglor - Imobiliária do Sul, SA |
| Surgicare - Unidades de Saúde, SA |
| T - Vida, Companhia de Seguros, SA |
| TA DMC, Brasil - Viagens e Turismo, SA |
| Agência de Viagens Tagus, SA |
| Terras de Bragança Participações, Ltda |
| Timeantube Comércio e Serviços de Confecções, Ltda |
| Tivoli Gare do Oriente - Sociedade de Gestão Hoteleira, SA |
| TOP A DMC Viajes, SA |
| Top Atlântico - Viagens e Turismo, SA |
| Top Atlântico DMC, SA |
| Touravion Ltd |
| Transcontinental - Empreendimentos Hoteleiros, SA |
| Turifonte - Empreendimentos Hoteleiros, SA |
| Turistrader - Sociedade de Desenvolvimento Turístico, SA |
| Vértice Serviços, Lda |
| Vila Lusitano - Unidades de Saúde, SA |
| Viveiros da Herdade da Comporta - Produção de Plantas Ornamentais, Lda |
| Sociedade de Administração de Bens-Pedra da Nau, S.A. |
| Ribeira do Marchante, Administração de Bens e Imóveis, S.A. |
| Casa da Saudade, Administração de Bens Móveis Imóveis, S.A. |
| Angra Moura-Sociedade de Administração de Bens,S.A. |
| Sociedade de Administração de Bens - Casa de Bons Ares, S.A. |
| Sociedade de Silvicultura Monte do Arneirinho, Lda |
| Campeque-Compra e Venda de Propriedades, Lda |
| Acro, Sociedade Gestora de Participações Sociais, S.A. |
| Marques e Casal Ribeiro,S.A. |

As at 31 December 2008 and 2007, the balances and transactions with related parties are presented as follows:

(in thousands of euro)

| | 31.12.2008 | | | | | 31.12.2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Assets | Liabilities | Guarantees | Income | Expenses | Assets | Liabilities | Guarantees | Income | Expenses |
| **Associated companies** | | | | | | | | | | |
| ESUMÉDICA | 1,859 | - | - | 69 | 22 | 1,850 | 37 | - | 58 | 11 |
| EUROP ASSISTANCE | - | 1,072 | - | 29 | 88 | 68 | 1,787 | 7 | 1 | 65 |
| FIDUPRIVATE | 3 | - | - | - | 16 | 828 | 773 | - | - | 10 |
| BES VÉNÉTIE | 388,375 | 76 | 3,037 | 16 | 15 | 315,607 | 647 | - | 10,872 | 80 |
| BES SEGUROS | - | 177 | - | 60 | 320 | 3 | 7,518 | - | 8,098 | 36 |
| ESEGUR | - | 191 | 1,651 | 64 | 139 | 399 | 233 | 1,887 | 10 | 149 |
| BES VIDA | 663,133 | 104,260 | - | 270,871 | 953 | 29,514 | 181,118 | 8 | 38,974 | 3,516 |
| LOCARENT | 118,932 | - | - | 7,142 | 8,324 | 123,657 | 2,066 | - | 5,529 | 6,705 |
| OTHER | 4,196 | 1,890 | - | 213 | 2 | 2,598 | 658 | - | 144 | 187 |
| | **1,176,498** | **107,666** | **4,688** | **278,464** | **9,879** | **474,524** | **194,837** | **1,902** | **63,686** | **10,759** |

Balances and transactions with the above referred entities relate mainly to loans and advances and deposits in the scope of the banking activity of the Group.

During 2008, BES sold 38 million shares of Banco Bradesco to BES Vida, adjusted by the stock split, by the amount of euro 438.4 million. During the same period, BES Vida sold all Bradesco shares. The gain from this event reached an amount of euro 234.6 million (see Note 8 and Note 19).

In the scope of the distribution and operating management agreement between BES, BES Vida and Crédit Agricole, BES granted BES Vida a guaranteed return over a group of assets associated to insurance and investment contracts. BES recognises this guarantee on its balance sheet as a liability at fair value against the income statement, when the expected return of assets is lower than the minimum guaranteed return to the policy holders. Based on the valuation performed as at 31 December 2008, no liabilities arising from this guarantee were identified.

As at 31 December 2008 and 2007, the total amount of assets and liabilities of BES Group with ESFG (Bank holding) and related companies, is as follows:

(in thousands of euro)

| | 31.12.2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Assets | | | | | | | | |
| | Loans and advances to banks | Loans | Securities | Other | Total | Guarantees | Liabilities | Income | Costs |
| ES FINANCIAL GROUP | - | - | - | - | - | - | 330,255 | - | 10,958 |
| ESF PORTUGAL | - | - | 95,911 | - | 95,911 | - | 256 | 358 | 200 |
| BESPAR | - | - | - | - | - | - | 3,887 | 1 | 933 |
| GRUPO CRÉDIT AGRICOLE | 973 | 13,602 | 50 | 12,362 | 26,987 | 11,384 | 21,311 | 593 | 456 |
| PARTRAN | - | - | - | - | - | - | 123 | 1 | 97 |
| ESPÍRITO SANTO FINANCIÉRE, SA | - | 133,097 | - | - | 133,097 | - | 10,104 | 5,656 | 1,658 |
| COMPANHIA SEGUROS TRANQUILIDADE | - | 1,187 | - | - | 1,187 | 1,029 | 66,059 | 1,463 | 3,805 |
| GRUPO ESPÍRITO SANTO INTERNATIONAL | - | 85,793 | 83 | 7,268 | 93,144 | 5,684 | 11,190 | 1,047 | 7 |
| BANQUE PRIVÉE ESPÍRITO SANTO | 29,650 | - | - | - | 29,650 | - | 56,677 | 1,442 | 621 |
| ES BANK PANAMA | 218,000 | 3,984 | - | - | 221,984 | - | - | 9,981 | 475 |
| ES SAUDE | - | 101,981 | 15,810 | 4,000 | 121,791 | 2,784 | 8,956 | 10,368 | 257 |
| OTHER | - | 3,221 | 455 | - | 3,676 | 95 | 7,756 | 7,613 | 9,012 |
| **TOTAL** | **248,623** | **342,865** | **112,309** | **23,630** | **727,427** | **20,976** | **516,574** | **38,524** | **28,479** |

(in thousands of euro)

| | 31.12.2007 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Assets | | | | | | | | |
| | Loans and advances to banks | Loans | Securities | Other | Total | Guarantees | Liabilities | Income | Costs |
| ES FINANCIAL GROUP | - | - | - | - | - | - | - | 13 | 5,563 |
| ESF PORTUGAL | - | - | 59,450 | - | 59,450 | - | 148 | 195 | 146 |
| BESPAR | - | - | - | - | - | - | 1,867 | 242 | 771 |
| GRUPO CRÉDIT AGRICOLE | 833 | 3,713 | 31,212 | 1,030 | 36,788 | 1,676 | 132 | 411 | - |
| PARTRAN | - | - | - | - | - | - | 189 | 1,260 | 55 |
| ESPÍRITO SANTO FINANCIÉRE, SA | - | 137,847 | - | - | 137,847 | - | 27,299 | 6,124 | 231 |
| COMPANHIA SEGUROS TRANQUILIDADE | - | 2,990 | - | 432 | 3,422 | 1,257 | 89,409 | 3,144 | 11,062 |
| GRUPO ESPÍRITO SANTO INTERNATIONAL | - | 153,420 | 183 | 7,268 | 160,871 | 10,349 | 15,769 | 8,089 | 2 |
| BANQUE PRIVÉE ESPÍRITO SANTO | 4,845 | - | - | - | 4,845 | 960 | 145,059 | 1,270 | 143 |
| ES BANK PANAMA | 219,472 | - | - | - | 219,472 | - | 9,000 | 8,277 | 611 |
| ES SAUDE | | 30,700 | 15,810 | 4,009 | 50,519 | 3 | 1,105 | 1,850 | 53 |
| OTHER | - | 66,391 | 458 | 1,149 | 67,998 | 2,002 | 24,242 | 13,840 | 7,268 |
| **TOTAL** | **225,150** | **395,061** | **107,113** | **13,888** | **741,212** | **16,247** | **314,219** | **44,715** | **25,905** |

The costs with salaries and other benefits attributed to BES Group key management personnel, as well as the transactions performed with BES Group key management personnel are presented in Note 11.

As at 31 December 2008, loans granted by BES Group to the members of the Board of Directors of ESFG that are not simultaneously members of the Board of Directors of BES, amounted to euro 6,520 thousands (31 December 2007: euro 10,789 thousands).

The transactions made and the balances as at 31 December 2008 with the Group pensions funds are analysed in Note 12.

## Note 42 - SECURITIZATION TRANSACTIONS

As at 31 December 2008, the outstanding securitisation transactions performed by the Group were as follows:

(in thousands of euro)

| Designation | Initial date | Original amount | Current amount | Asset securitised |
|---|---|---|---|---|
| Lusitano Global CDO No.1 plc | August 2001 | 1,144,300 | 71,528 | Domestic bonds and eurobonds |
| Lusitano Mortgages No.1 plc | December 2002 | 1,000,000 | 528,872 | Mortgage loans (subsidised regime) |
| Lusitano Mortgages No.2 plc | November 2003 | 1,000,000 | 536,348 | Mortgage loans (subsidised and general regime) |
| Lusitano Mortgages No.3 plc | November 2004 | 1,200,000 | 750,571 | Mortgage loans (general regime) |
| Lusitano Mortgages No.4 plc | September 2005 | 1,200,000 | 842,092 | Mortgage loans (general regime) |
| Lusitano Mortgages No.5 plc | September 2006 | 1,400,000 | 1,108,546 | Mortgage loans (general regime) |
| Lusitano SME No.1 plc | October 2006 | 862,607 | 818,200 | Loans to small and medium entities |
| Lusitano Mortgages No.6 plc | July 2007 | 1,100,000 | 946,807 | Mortgage loans (general regime) |
| Lusitano Project Finance No.1 plc | December 2007 | 1,079,100 | 788,931 | Project Finance loans |
| Lusitano Mortgages No.7 plc | September 2008 | 1,900,000 | 1,865,103 | Mortgage loans (general regime) |

The main characteristics of these transactions, as at 31 December 2008, can be analysed as follows:

(in thousands of euro)

| Designation | Notes issued | Issued amount (par value) | Current amount (par value) | Securities held by BES (par value) | Maturity date | Ratings (initial) | | | Ratings (actual) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Fitch | Moody's | S&P | Fitch | Moody's | S&P |
| Lusitano Global CDO No.1 plc | Class A1 | 350,000 | - | - | December 2015 | - | - | - | - | - | - |
| | Class A2 | 623,800 | - | - | December 2015 | AAA | Aaa | AAA | n.a. | n.a | NR |
| | Class B | 42,300 | - | - | December 2015 | AA | Aa1 | AA | n.a. | n.a | NR |
| | Class C | 25,200 | - | - | December 2015 | A | A1 | A+ | n.a. | Aaa | NR |
| | Class D | 103,000 | 72,586 | 9,866 | December 2015 | - | - | - | - | - | - |
| Lusitano Mortgages No.1 plc | Class A | 915,000 | 433,512 | 142 | December 2035 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 32,500 | 32,500 | - | December 2035 | AA | Aa3 | AA | AA | Aa3 | AA |
| | Class C | 25,000 | 25,000 | 3,000 | December 2035 | A | A2 | A | A | A2 | A |
| | Class D | 22,500 | 22,500 | - | December 2035 | BBB | Baa2 | BBB | BBB | Baa2 | BBB |
| | Class E | 5,000 | 5,000 | - | December 2035 | BB | Ba1 | BB | BB | Ba1 | BB |
| | Class F | 10,000 | 10,000 | - | December 2035 | - | - | - | - | - | - |
| Lusitano Mortgages No.2 plc | Class A | 920,000 | 461,488 | 7,073 | December 2036 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 30,000 | 30,000 | 10,000 | December 2046 | AA | Aa3 | AA | AA | Aa3 | AA |
| | Class C | 28,000 | 28,000 | 5,000 | December 2046 | A | A3 | A | A | A3 | A |
| | Class D | 16,000 | 16,000 | - | December 2046 | BBB | Baa3 | BBB | BBB | Baa3 | BBB |
| | Class E | 6,000 | 6,000 | - | December 2046 | BBB- | Ba1 | BB | BBB- | Ba1 | BB |
| | Class F | 9,000 | 9,000 | - | December 2046 | - | - | - | - | - | - |
| Lusitano Mortgages No.3 plc | Class A | 1,140,000 | 683,619 | - | December 2047 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 27,000 | 23,506 | - | December 2047 | AA | Aa2 | AA | AA | Aa2 | AA |
| | Class C | 18,600 | 16,193 | - | December 2047 | A | A2 | A | A | Baa1 | A |
| | Class D | 14,400 | 12,536 | - | December 2047 | BBB | Baa2 | BBB | BBB | Ba3 | BBB |
| | Class E | 10,800 | 10,800 | - | December 2047 | - | - | - | - | - | - |
| Lusitano Mortgages No.4 plc | Class A | 1,134,000 | 784,693 | 6,495 | December 2048 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 22,800 | 22,110 | - | December 2048 | AA | Aa2 | AA | AA | Aa2 | AA |
| | Class C | 19,200 | 18,619 | - | December 2048 | A+ | A1 | A+ | A+ | A3 | A+ |
| | Class D | 24,000 | 23,273 | - | December 2048 | BBB+ | Baa1 | BBB+ | BBB+ | B2 | BBB+ |
| | Class E | 10,200 | 10,200 | - | December 2048 | - | - | - | - | - | - |
| Lusitano Mortgages No.5 plc | Class A | 1,323,000 | 1,031,839 | 802 | December 2059 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 26,600 | 26,600 | - | December 2059 | AA | Aa2 | AA | AA | A2 | AA |
| | Class C | 22,400 | 22,400 | - | December 2059 | A | A1 | A | A | Baa2 | A |
| | Class D | 28,000 | 28,000 | - | December 2059 | BBB+ | Baa2 | BBB | BBB+ | B3 | BBB |
| | Class E | 11,900 | 11,900 | - | December 2059 | - | - | - | - | - | - |
| Lusitano SME No.1 plc | Class A | 759,525 | 759,525 | - | December 2028 | AAA | - | AAA | AAA | - | AAA |
| | Class B | 40,974 | 40,974 | - | December 2028 | AAA | - | AAA | AAA | - | AAA |
| | Class C | 34,073 | 34,073 | - | December 2028 | BB | - | BB | BB | - | BB |
| | Class D | 28,035 | 28,035 | 28,035 | December 2028 | - | - | - | - | - | - |
| | Class E | 8,626 | 8,626 | 8,626 | December 2028 | - | - | - | - | - | - |
| Lusitano Mortgages No.6 plc | Class A | 943,250 | 794,013 | 27,953 | March 2060 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 65,450 | 65,450 | 42,075 | March 2060 | AA | Aa3 | AA | AA | Aa3 | AA |
| | Class C | 41,800 | 41,800 | 20,000 | March 2060 | A | A3 | A | A | A3 | A |
| | Class D | 17,600 | 17,600 | 8,700 | March 2060 | BBB | Baa3 | BBB | BBB | Baa3 | BBB |
| | Class E | 31,900 | 31,900 | 15,950 | March 2060 | BB | - | BB | BB | - | BB |
| | Class F | 22,000 | 22,000 | 22,000 | March 2060 | - | - | - | - | - | - |
| Lusitano Project Finance No.1 plc | Class A | 890,256 | 814,767 | 814,767 | December 2037 | - | - | AAA | - | - | AAA |
| | Class B | 35,610 | 35,610 | 35,610 | December 2037 | - | - | AA | - | - | AA |
| | Class C | 39,926 | 39,926 | 39,926 | December 2037 | - | - | A | - | - | A |
| | Class D | 23,741 | 23,741 | 23,741 | December 2037 | - | - | BBB | - | - | BBB |
| | Class E | 11,871 | 11,871 | 11,871 | December 2037 | - | - | BB | - | - | BB |
| | Class F | 77,696 | 77,696 | 77,696 | December 2037 | - | - | - | - | - | - |
| Lusitano Mortgages No.7 plc | Class A | 1,425,000 | 1,425,000 | 1,423,000 | October 2064 | - | - | AAA | - | - | AAA |
| | Class B | 294,500 | 294,500 | 294,500 | October 2064 | - | - | BBB- | - | - | BBB- |
| | Class C | 180,500 | 180,500 | 180,500 | October 2064 | - | - | - | - | - | - |
| | Class D | 57,000 | 57,000 | 57,000 | October 2064 | - | - | - | - | - | - |

Note: The LM3 and LM4 have a pro rata amortization system, which explains the part of amortization of the notes across all classes.

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

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

In accordance with SIC 12, the Group fully consolidates the Lusitano SME No. 1, plc, the Lusitano Mortgages No.6 plc and the Lusitano Project Finance No.1 plc as it retains the majority of the risks and rewards associated with the activity of these SPE's. Therefore, assets and liabilities of Lusitano SME No. 1 plc, of Lusitano Mortgages No.6 plc and of Lusitano Project Finance No.1 plc are included in the consolidated balance sheet of the Group. The other securitisation vehicles are not included in the consolidated financial statements of the Group as it has not retained the majority of the risks and rewards of ownership.

As at 31 December 2008 and 2007 the consolidation of these entities had the following impact on the consolidated balance sheet:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Loans to customers (net of impairment) | 4,408,013 | 2,903,355 |
| Debt securities issued | 1,678,048 | 1,897,325 |
| Equity | ( 22,201) | ( 15,993) |
| Net income | ( 6,208) | ( 8,493) |

## Note 43 - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(in thousands of euro)

| | | Fair Value | | | |
|---|---|---|---|---|---|
| | Amortised Cost | Quoted Market Prices | Non- Quoted Valuation Models | Book Value | Fair Value |
| **Balance as at 31 December 2008** | | | | | |
| Cash and deposits at central banks | 2,027,318 | - | - | 2,027,318 | 2,027,318 |
| Deposits with banks | 630,775 | - | 33,635 | 664,410 | 664,410 |
| Other financial assets held for trading | - | 1,616,330 | 2,073,832 | 3,690,162 | 3,690,162 |
| Financial assets at fair value through profit or loss | - | 890,598 | 1,271,215 | 2,161,813 | 2,161,813 |
| Available-for-sale financial assets | - | 4,191,383 | 2,902,728 | 7,094,111 | 7,094,111 |
| Loans and advances to banks | 4,498,348 | - | 33,635 | 4,531,983 | 4,531,983 |
| Loans and advances to customers | 45,583,775 | - | 1,465,699 | 47,049,474 | 47,494,261 |
| Held-to-maturity investments | 2,160,196 | - | - | 2,160,196 | 2,069,162 |
| Derivatives for risk management purposes | - | - | 936,290 | 936,290 | 936,290 |
| **Financial assets** | **54,900,412** | **6,698,311** | **8,717,034** | **70,315,757** | **70,669,510** |
| Deposits from central banks | 4,810,458 | - | - | 4,810,458 | 4,810,458 |
| Financial liabilities held for trading | - | - | 1,914,423 | 1,914,423 | 1,914,423 |
| Deposits from banks | 5,626,103 | - | 2,055,635 | 7,681,738 | 7,681,738 |
| Due to customers | 26,066,271 | - | 320,483 | 26,386,754 | 26,386,754 |
| Debt securities issued | 18,176,968 | - | 6,419,714 | 24,596,682 | 23,736,882 |
| Derivatives for risk management purposes | - | - | 727,475 | 727,475 | 727,475 |
| Subordinated debt | 2,020,684 | - | 808,299 | 2,828,983 | 2,678,569 |
| **Financial liabilities** | **56,700,484** | **-** | **12,246,029** | **68,946,513** | **67,936,299 Balance** |
| **as at 31 December 2007** | | | | | |
| Cash and deposits at central banks | 1,361,218 | - | - | 1,361,218 | 1,361,218 |
| Deposits with banks | 720,442 | - | - | 720,442 | 720,442 |
| Financial assets held for trading | - | 1,711,478 | 2,135,755 | 3,847,233 | 3,847,233 |
| Other financial assets at fair value through profit or loss | - | 612,429 | 814,275 | 1,426,704 | 1,426,704 |
| Available-for-sale financial assets | - | 2,746,444 | 3,492,445 | 6,238,889 | 6,238,889 |
| Loans and advances to banks | 7,650,644 | - | 559,687 | 8,210,331 | 8,210,331 |
| Loans and advances to customers | 42,006,537 | - | 163,726 | 42,170,263 | 42,471,075 |
| Held-to-maturity investments | 407,842 | - | - | 407,842 | 401,898 |
| Derivatives for risk management purposes | - | - | 211,890 | 211,890 | 211,890 |
| **Financial assets** | **52,146,683** | **5,070,351** | **7,377,778** | **64,594,812** | **64,889,680** |
| Deposits from central banks | 1,887,622 | - | - | 1,887,622 | 1,887,622 |
| Financial liabilities held for trading | - | - | 1,257,201 | 1,257,201 | 1,257,201 |
| Deposits from banks | 7,096,649 | - | - | 7,096,649 | 7,096,649 |
| Due to customers | 23,583,685 | - | 191,345 | 23,775,030 | 23,775,030 |
| Debt securities issued | 23,212,465 | - | 1,101,126 | 24,313,591 | 23,807,850 |
| Derivatives for risk management purposes | - | - | 286,940 | 286,940 | 286,940 |
| Subordinated debt | 2,094,815 | - | - | 2,094,815 | 2,068,599 |
| **Financial liabilities** | **57,875,236** | **-** | **2,836,612** | **60,711,848** | **60,179,891** |

BES Group determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

**Quoted market prices** – this category includes financial assets (i) with available quoted market prices in official markets and (ii) with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities.

**Valuation models based on observable market information** – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument.

Notwithstanding, the Group uses observable market data such as interest rate curves, credit spreads, volatility and market indexes.

The main assumptions and inputs used during 2008 in the valuation models are presented as follows:

**Interest rates curves**

The short term rates presented reflect benchmark interest rates for the money market, being that for the long term the presented values represent the swap interest rate for the respective periods:

%

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | EUR | USD | GBP | EUR | USD | GBP |
| Overnight | 2.0000 | 0.1250 | 1.5000 | 4.0000 | 5.0300 | 5.5000 |
| 1 month | 2.6950 | 0.9500 | 2.2500 | 4.2450 | 4.7000 | 5.7900 |
| 3 months | 2.9450 | 1.7500 | 2.7800 | 4.6600 | 4.7900 | 5.8900 |
| 6 months | 3.0100 | 2.0000 | 2.8200 | 4.6500 | 4.6500 | 5.8450 |
| 9 months | 3.0450 | 2.2500 | 2.8800 | 4.6700 | 4.4350 | 5.7800 |
| 1 year | 2.6790 | 1.2100 | 2.0090 | 4.7060 | 4.0890 | 5.5860 |
| 3 years | 2.9260 | 1.6850 | 2.8930 | 4.5220 | 3.9340 | 5.1849 |
| 5 years | 3.2360 | 2.0770 | 3.1891 | 4.5500 | 4.2080 | 5.1257 |
| 7 years | 3.4630 | 2.2780 | 3.3541 | 4.6100 | 4.4490 | 5.0932 |
| 10 years | 3.7350 | 2.4740 | 3.4850 | 4.7200 | 4.7040 | 5.0420 |
| 15 years | 3.8980 | 2.6750 | 3.7091 | 4.8560 | 4.9240 | 4.9532 |
| 20 years | 3.8450 | 2.7085 | 3.6216 | 4.9070 | 5.0130 | 4.8607 |
| 25 years | 3.6730 | 2.6670 | 3.4716 | 4.9100 | 5.0450 | 4.7732 |
| 30 years | 3.5400 | 2.6310 | 3.3591 | 4.8870 | 5.0710 | 4.7032 |

**Credit spreads**

The credit spreads used by the Group on the valuation of the credit derivatives are disclosed on a daily basis by Markit representing observations constituted for around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spreads behavior in the market throughout the year, is presented as follows:

basis points

| Index | Series | 1 year | 3 years | 5 years | 7 years | 10 years |
|---|---|---|---|---|---|---|
| **Year 2008** | | | | | | |
| CDX USD Main | 11 | 241.88 | 228.50 | 197.54 | 164.67 | 148.71 |
| iTraxx Eur Main | 10 | - | 201.61 | 177.50 | 161.00 | 150.71 |
| iTraxx Eur Senior Financial | 10 | - | - | 118.79 | - | 119.00 |
| **Year 2007** | | | | | | |
| CDX USD Main | 9 | 76.00 | 72.00 | 77.88 | 79.00 | 85.72 |
| iTraxx Eur Main | 8 | - | 57.44 | 49.98 | 38.75 | 65.19 |
| iTraxx Eur Senior Financial | 8 | - | - | 45.91 | - | 49.21 |

**Interest rates volatility**

The values presented below, refer to the implied volatilities (at the money) used for the valuation of the interest rate options:

%

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | EUR | USD | GBP | EUR | USD | GBP |
| 1 year | 43.99 | 79.02 | 81.40 | 12.22 | 27.26 | 17.30 |
| 3 years | 33.03 | 59.69 | 45.60 | 15.10 | 29.55 | 17.70 |
| 5 years | 27.26 | 47.94 | 33.30 | 14.77 | 26.24 | 15.90 |
| 7 years | 23.94 | 41.54 | 26.80 | 14.31 | 23.78 | 14.80 |
| 10 years | 21.12 | 36.03 | 22.10 | 13.63 | 21.63 | 13.70 |
| 15 years | 19.37 | 29.84 | 18.00 | 12.72 | 18.86 | 13.00 |

**Exchange rates and volatility**

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

%

| | | | Volatility (%) | | | | |
|---|---|---|---|---|---|---|---|
| Exchange Rates | 31.12.2008 | 31.12.2007 | 1 month | 3 months | 6 months | 9 months | 1 year |
| EUR/USD | 1.3917 | 1.4721 | 23.75 | 23.00 | 21.00 | 19.80 | 19.50 |
| EUR/GBP | 0.9525 | 0.7334 | 16.90 | 18.78 | 18.65 | 18.26 | 17.88 |
| EUR/CHF | 1.4850 | 1.6547 | 11.70 | 11.00 | 10.00 | 9.60 | 9.20 |
| EUR/NOK | 9.7500 | 7.9580 | 20.50 | 18.75 | 16.80 | 15.90 | 15.45 |
| USD/BRL [a)] | 2.3307 | 1.7637 | 35.00 | 33.00 | 30.50 | 29.01 | 27.50 |
| USD/TRY [b)] | 1.5440 | 1.1664 | 21.50 | 21.45 | 21.20 | 21.00 | 20.65 |

(a) Calculation based in EUR/USD and EUR/BRL exchange rates
(b) Calculation based in EUR/USD and EUR/TRY exchange rates

Concerning the exchange rates, the Group uses in the valuation models the spot rate observed in the market at the time of the valuation.

**Equity indexes**

In the table below, we present the evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives:

| | Quote | | | Historical volatility | | Implied volatility | |
|---|---|---|---|---|---|---|---|
| | 31.12.2008 | 31.12.2007 | % change | 1 month | 3 months | Call | Put |
| DJ Euro Stoxx 50 | 2,448 | 4,400 | ( 44.4) | 41.62 | 62.93 | 38.60 | 38.91 |
| PSI 20 | 6,341 | 13,019 | ( 51.3) | 21.06 | 46.98 | - | - |
| IBEX 35 | 9,196 | 15,182 | ( 39.4) | 39.32 | 62.97 | - | - |
| FTSE 100 | 4,434 | 6,457 | ( 31.3) | 30.89 | 58.88 | 35.65 | 36.79 |
| DAX | 4,810 | 8,067 | ( 40.4) | 44.83 | 65.10 | 37.52 | 37.76 |
| S&P 500 | 903 | 1,468 | ( 38.5) | 38.04 | 70.29 | 38.69 | 38.69 |
| BOVESPA | 37,550 | 63,886 | ( 41.2) | 43.80 | 81.22 | 50.82 | 46.83 |

The methods and assumptions used in estimating the fair values of financial assets and liabilities measured at amortised cost in the balance sheet are analysed as follows:

Cash and deposits at central banks, Deposits with banks and Loans and advances to banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

**Loans and advances to customers**

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

**Held-to-maturity investments**

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

**Deposits from central banks and Deposits from banks**

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

**Due to customers**

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The discount rates used by the Group are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

**Debt securities issued and Subordinated debt**

The fair value of these instruments is based on market prices, when available. When not available, the Group estimates its fair value by discounting the expected future cash-flows.

## **Note 44 -** RISK MANAGEMENT

A qualitative outlook of the risk management at the Group is presented bellow:

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

### Credit risk

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

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

The risk profile of BES Group's credit portfolios is analysed on a regular basis by the Risk Committee. In these meetings the Committee monitors and analyses the risk profile of BES Group and respective business units under four major perspectives: evolution of credit exposures, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

BES Group credit risk exposure  is analysed as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Deposits with banks | 6,973,732 | 10,014,731 |
| Financial assets held for trading | 3,672,125 | 2,947,423 |
| Financial assets at fair value through profit or loss | 1,324,543 | 1,234,344 |
| Available-for-sale financial assets | 4,968,576 | 3,707,451 |
| Loans and advances to customers | 47,049,474 | 42,170,263 |
| Held-to-maturity investments | 2,160,196 | 407,842 |
| Derivatives for risk management purposes | 936,290 | 211,890 |
| Other assets | 492,352 | 389,025 |
| Guarantees granted | 6,426,610 | 5,370,597 |
| Stand by letters of credit | 2,127,792 | 1,073,334 |
| Irrevocable commitments | 4,586,554 | 3,413,098 |
| Credit Risk Associated for the firms covered by credit derivatives | 581,915 | 501,645 |
| | **80,718,244** | **70,939,998** |

The analysis of the risk exposure by sector of activity, as at 31 December 2008 and 2007, can be analysed as follows:

(in thousands of euro)

| | 31.12.2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Loans and advances to customers | | Financial assets held for trading | Other financial assets as at fair value through profit or loss | Available-for-sale financial assets | | Held-to-maturity investments | | Guarantees granted |
| | Gross amount | Impairment | | | Gross amount | Impairment | Gross amount | Impairment | |
| Agriculture | 619,580 | ( 20,317) | 4,576 | - | 1,761 | - | - | - | 24,541 |
| Mining | 359,339 | ( 5,221) | 3,463 | - | 281 | - | - | - | 48,104 |
| Food, beverage and tobacco | 762,750 | ( 14,613) | 14,709 | - | 54,323 | ( 52) | 4,306 | - | 97,878 |
| Textiles | 376,939 | ( 30,625) | 9,171 | - | 22,908 | ( 2,238) | - | - | 26,444 |
| Shoes | 70,889 | ( 5,150) | 1,037 | - | 499 | ( 499) | - | - | 2,995 |
| Wood and cork | 178,445 | ( 12,277) | 3,521 | - | 3,038 | - | - | - | 6,604 |
| Priting and publishing | 236,259 | ( 5,550) | 2,188 | - | 81,768 | - | - | - | 40,228 |
| Refining and oil | 59,776 | ( 71) | - | - | - | - | - | - | 3,004 |
| Chemicals and rubber | 601,760 | ( 11,068) | 15,565 | - | 46,109 | ( 5) | 13,119 | - | 70,888 |
| Non-metalic minerals | 437,653 | ( 11,074) | 1,557 | - | 8,507 | - | - | - | 47,504 |
| Metalic products | 543,708 | ( 13,796) | 7,083 | - | 8,014 | - | - | - | 68,111 |
| Production of machinery, equipment and electric devices | 205,226 | ( 5,261) | 1,474 | 1,981 | 7,399 | ( 770) | 15,467 | - | 180,668 |
| Production of transport material | 219,522 | ( 5,089) | 238,693 | - | 17,360 | - | 43,825 | - | 76,320 |
| Other transforming industries | 462,177 | ( 12,772) | 1,186 | - | 3,529 | ( 815) | - | - | 15,560 |
| Electricity, gas and water | 1,203,185 | ( 7,784) | 14,921 | - | 349,565 | - | 12,591 | - | 306,905 |
| Construction | 5,713,410 | ( 144,439) | 172,730 | - | 326,774 | ( 1,811) | - | - | 1,582,880 |
| Wholesale and retail | 3,316,622 | ( 119,655) | 26,043 | - | 140,307 | ( 11,600) | 14,645 | - | 456,361 |
| Tourism | 1,273,092 | ( 19,750) | 11,874 | - | 8,905 | ( 376) | - | - | 68,346 |
| Transports and communications | 1,838,176 | ( 23,733) | 15,659 | - | 1,033,744 | ( 13,719) | 122,573 | - | 578,606 |
| Financial activities | 2,366,400 | ( 32,740) | 1,377,402 | 2,063,622 | 1,821,060 | ( 33,829) | 900,611 | - | 501,638 |
| Real estate activities | 5,139,037 | ( 116,195) | 67,173 | - | 3,546 | ( 968) | - | - | 435,895 |
| Services provided to companies | 4,950,870 | ( 84,602) | 12,082 | 20 | 905,480 | ( 13,488) | 2,352 | - | 985,675 |
| Public services | 686,795 | ( 9,663) | 1,553,579 | - | 1,888,951 | - | 504,424 | - | 45,849 |
| Non-profit organisations | 1,778,211 | ( 49,890) | 5,046 | 55,211 | 243,634 | ( 24,462) | 451,389 | - | 154,115 |
| Mortgage loans | 11,020,282 | ( 237,772) | - | - | - | - | - | - | - |
| Consumers loans | 2 801,981 | ( 127,934) | - | - | - | - | - | - | 119,250 |
| Other | 975,455 | ( 21,024) | 129,430 | 40,979 | 222,809 | ( 1,528) | 74,894 | - | 482,241 |
| **TOTAL** | **48,197,539** | **(1,148,065)** | **3,690,162** | **2,161,813** | **7,200,271** | **( 106,160)** | **2,160,196** | **-** | **6,426,610** |

(in thousands of euro)

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

As at 31 December 2008 the analysis of loans and advances to customers and of the securities portfolio by internal rating categories, is presented as follows:

(in thousands of euro)

| Rating/Scoring models | Internal scale | Credit amount | (%) |
|---|---|---|---|
| Large companies | [aaa;a-] | 1,042 | 6.05% |
| | [bbb+;-bbb-] | 1,969 | 11.43% |
| | [bb+;bb-] | 6,579 | 38.19% |
| | [b+;b-] | 7,268 | 42.19% |
| | ccc+ | 370 | 2.15% |
| Medium enterprises | 8-9 | 317 | 6.20% |
| | 10-11 | 499 | 9.77% |
| | 12-13 | 868 | 16.99% |
| | 14-15 | 1,053 | 20.61% |
| | 16-17 | 941 | 18.41% |
| | 18-19 | 419 | 8.20% |
| | 20-21 | 329 | 6.44% |
| | 22-23 | 234 | 4.58% |
| | 24-25 | 450 | 8.81% |
| Small enterprises | A | 144 | 4.86% |
| | B | 654 | 22.07% |
| | C | 1,134 | 38.27% |
| | D | 376 | 12.69% |
| | E | 200 | 6.75% |
| | F | 455 | 15.36% |
| Mortgage loans | 01 | 939 | 9.27% |
| | 02 | 2,596 | 25.62% |
| | 03 | 2,170 | 21.42% |
| | 04 | 1,330 | 13.13% |
| | 05 | 794 | 7.84% |
| | 06 | 553 | 5.46% |
| | 07 | 1,606 | 15.85% |
| | 08 | 145 | 1.43% |
| Private individuals | 01 | 107 | 5.38% |
| | 02 | 152 | 7.64% |
| | 03 | 253 | 12.72% |
| | 04 | 398 | 20.01% |
| | 05 | 301 | 15.13% |
| | 06 | 200 | 10.06% |
| | 07 | 167 | 8.40% |
| | 08 | 147 | 7.39% |
| | 09 | 258 | 12.97% |
| | 10 | 6 | 0.30% |
| No internal rating/scoring loans | | 10,775 | 22.36% |
| **Total** | | **48,198** | **100.00%** |

## Market risk

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

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. BES's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR stress testing have been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

(in thousands of euro)

| | 31.12.2008 | | | | 31.12.2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | December | Annual average | Maximum | Minimum | December | Annual average | Maximum | Minimum |
| Exchange Risk | 25 | 22 | 25 | 11 | 11 | 13 | 17 | 10 |
| Interest rate risk | 33 | 13 | 33 | 9 | 4 | 8 | 6 | 6 |
| Shares | 9 | 16 | 9 | 15 | 21 | 9 | 16 | 2 |
| Commodity | 0 | 1 | 0 | 2 | 2 | 3 | 3 | 3 |
| Diversification effect | -20 | -19 | -20 | -16 | -14 | -13 | -13 | -7 |
| **Total** | **47** | **33** | **47** | **21** | **24** | **21** | **28** | **14** |

Group has a VaR of euro 47 million (31 December 2007: euro 24 million), for its trading positions.

Following the recommendations of Basel II (Pilar 2) and Instructions nª19/2005, of the Bank of Portugal BES Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlement (BIS), classifying all balance and off-balance balances which are not part of the trading portfolio, by reprising intervals.

(in thousands of euro)

| | 31.12.2008 | | | | | | | 31.12.2007 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Elegible amounts | Non sensitive | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years | Elegible amounts | Non sensitive | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years |
| Cash and deposits | 250 | 250 | - | - | - | - | - | 277 | 277 | - | - | - | - | - |
| Loans and advances to banks | 6,667 | - | 6,069 | 133 | 47 | 315 | 100 | 9,617 | - | 8,961 | 359 | 50 | 79 | 168 |
| Loans and advances to customers | 47,269 | - | 30,727 | 12,030 | 2,252 | 1,642 | 618 | 42,424 | - | 27,512 | 10,903 | 2,158 | 1,171 | 680 |
| Securities | 12,247 | 2,231 | 7 135 | 1,285 | 986 | 391 | 219 | 10,531 | 3,691 | 4,840 | 986 | 553 | 268 | 192 |
| Off balance sheet | | | 525 | 43 | 5 | ( 474) | ( 84) | | | 84 | 53 | - | ( 82) | ( 56) |
| **Total** | | | **44,456** | **13,491** | **3,290** | **1,874** | **853** | | | **41,398** | **12,301** | **2,761** | **1,436** | **984** |
| Deposits from banks | 12,766 | - | 10,365 | 1,423 | 119 | 648 | 211 | 9,462 | - | 7,177 | 1,084 | 210 | 715 | 279 |
| Due to customers | 23,859 | - | 21,190 | 1,415 | 1,179 | 9 | 66 | 21,197 | - | 19,139 | 904 | 768 | 19 | 368 |
| Repo´s with clients | 1,821 | - | 1,488 | 112 | 218 | 2 | 1 | 1,427 | - | 1,412 | - | 14 | - | - |
| Debt securities issued and subordinated debt | 28,310 | - | 16,741 | 513 | 437 | 6,564 | 4,055 | 26,153 | - | 17,777 | 1,805 | 727 | 2,736 | 3,887 |
| Preference shares | 600 | - | - | - | - | - | 600 | 600 | - | - | - | - | - | 600 |
| Off balance sheet | | | 5,628 | 563 | 10 | ( 4,579) | ( 1,643) | | | 1,423 | 1,216 | ( 186) | ( 1,205) | ( 1,214) |
| **Total** | | | **55,412** | **4,026** | **1,963** | **2,644** | **3,290** | | | **46,929** | **5,008** | **1,533** | **2,265** | **3,920** |
| **GAP** | | | **( 10,956)** | **9,465** | **1,327** | **( 770)** | **( 2,437)** | | | **( 5,531)** | **7,293** | **1,227** | **( 828)** | **( 2,936)** |

The model used to monitor the sensitivity of BES Group to interest rate risk is based on the duration model, and consider scenario of a 100 b.p. parallel shift in the interest rate curve for all maturities.

(in thousands of euro)

| | 31.12.2008 | | | | 31.12.2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Parallel increase of 100 bp | Parallel decrease of 100 bp | Increase of 50 bp after 1 year | Decrease of 50 bp after 1 year | Parallel increase of 100 bp | Parallel decrease of 100 bp | Increase of 50 bp after 1 year | Decrease of 50 bp after 1 year |
| At 31 December | 43 | (43) | 40 | (40) | 108 | (108) | 70 | (70) |
| Average for the year | 62 | (62) | 46 | (46) | 169 | (169) | 98 | (98) |
| Maximum for the year | 85 | (85) | 53 | (53) | 255 | (255) | 138 | (138) |
| Minimum for the year | 43 | (43) | 40 | (40) | 108 | (108) | 70 | (70) |

The following table presents the average balances, interests and interest rates in relation to the Group's major assets and liabilities categories, for the year ended 31 December 2008 and 2007:

(in thousands of euro)

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Average balance for the year | Interest for the year | Average interest rate | Average balance for the year | Interest for the year | Average interest rate |
| Monetary assets | 8,379,583 | 289,964 | 3.46% | 7,899,595 | 364,124 | 4.61% |
| Loans and advances to customers | 45,657,828 | 2,904,887 | 6.36% | 39,108,815 | 2,278,474 | 5.83% |
| Securities | 7,750,462 | 574,589 | 7.41% | 6,692,630 | 506,016 | 7.56% |
| **Financial Assets** | **61,787,873** | **3,769,440** | **6.10%** | **53,701,040** | **3,148,614** | **5.86%** |
| Monetary liabilities | 10,309,560 | 497,563 | 4.83% | 8,516,677 | 452,778 | 5.32% |
| Due to consumers | 22,715,410 | 696,720 | 3.07% | 19,583,022 | 537,466 | 2.74% |
| Other | 28,720,941 | 1,488,988 | 5.18% | 24,564,566 | 1,204,644 | 4.90% |
| Differencial resources | 41,962 | - | - | 1,036,775 | - | - |
| **Financial Liabilities** | **61,787,873** | **2,683,271** | **4.34%** | **53,701,040** | **2,194,888** | **4.09%** |
| **Net interest income** | | **1,086,169** | **1.76%** | | **953,726** | **1.78%** |

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2008 and 2007, is analysed as it follows:

(in thousands of euro)

| | | 31.12.2008 | | | | 31.12.2007 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Spot | Forward | Other elements | Net exposure | Spot | Forward | Other elements | Net exposure |
| USD | United States Dollars | ( 3,791,015) | 4,064,237 | 8,966 | 282,188 | ( 3,465,214) | 3,560,809 | ( 108,013) | ( 12,418) |
| GBP | Great Britain Pounds | ( 1,150,808) | 1,066,053 | 33,779 | ( 50,976) | ( 938,743) | 1,028,160 | ( 198,612) | ( 109,195) |
| BRL | Brazilian real | 456,111 | ( 58,636) | ( 67,828) | 329,647 | 514,625 | - | 70,085 | 584,710 |
| DKK | Danish krone | 36,899 | ( 3,773) | - | 33,126 | 358,431 | ( 356,478) | - | 1,953 |
| JPY | Japanese yene | ( 213,029) | 277,067 | ( 20,843) | 43,195 | ( 62,230) | 134,941 | 10,720 | 83,431 |
| CHF | Swiss franc | 66,484 | ( 56,229) | ( 62,401) | ( 52,146) | 33,058 | 21,293 | 30,983 | 85,334 |
| SEK | Swedish krona | 24,020 | ( 25,577) | 5,227 | 3,670 | ( 21,620) | 19,872 | ( 5,213) | ( 6,961) |
| NOK | Norwegian krone | ( 8,362) | ( 7,542) | 22,017 | 6,113 | 10,044 | ( 7,860) | 65,604 | 67,788 |
| CAD | Canadian Dollar | 383 | 1,193 | ( 203) | 1,373 | ( 41,366) | 43,201 | ( 7,491) | ( 5,656) |
| ZAR | Rand | ( 1,633) | 685 | ( 51) | ( 999) | 4,451 | ( 4,959) | - | ( 508) |
| AUD | Australian Dollar | 37,270 | ( 29,892) | 14 | 7,392 | 65,433 | ( 63,710) | 1 606 | 3,329 |
| AOA | Kwanza | 17,601 | - | - | 17,601 | 18,358 | - | - | 18,358 |
| CZK | Czech koruna | ( 26,601) | 27,907 | ( 17,039) | ( 15,733) | ( 34,065) | 37,554 | ( 5,302) | ( 1,813) |
| Other | | 52,951 | 12,061 | ( 4,597) | 60,415 | 46,407 | ( 14) | 14,177 | 60,570 |
| | | ( 4,499,729) | 5,267,554 | ( 102,959) | 664,866 | ( 3,512,431) | 4,412,809 | ( 131,456) | 768,922 |

## Liquidity risk

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

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Further information regarding Group strategy is included in the management report.

The Group prepares regulatory specific reports that allow the identification of negative mismatch and permits their dynamic coverage. In addition, the Group calculates the liquidity ratios in accordance with the Bank of Portugal rules.

For the purposes of liquidity management, the following elements are considered:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Cash and deposits with banks | 6,716 | 10,049 |
| Short term deposits from banks | ( 10,559) | ( 7,747) |
| **Treasury Gap [(1)]** | **( 3,843)** | **2,302** |
| Securities acceptable as collateral | 8,710 | 6,029 |
| Securities used as at 31 December | ( 1,400) | - |
| **Treasury Gap / Net assets** | **3,467** | **8,331** |
| **Liquidity ratio [(2)]** | **87%** | **91%** |

(1) - Treasury Gap - immediate liquidity and short term interbank loans deducted to interbank debt up to one year. Considering the financing needs, the treasury gap indicates liquidity levels over what the group needs."
(2) - Liquidity ratio calculated in accordance with the instruction no 1/2000 of Bank of Portugal.

As at 31 December 2008, the treasury Gap was negative in the amount of euro 3,843 million (31 December 2007: positive in the amount of euro 2,302 million), being covered by securities acceptable as collateral in the amount of euro 8,710 million (31 December 2007: euro 6,029 million). From this amount, euro 1,400 million were utilised as at 31 December 2008, being however available for future use as collateral within one week and three months by the amounts of euro 900 million and euro 500 million, respectively.

**Operational risk**

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

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

**Capital management and solvability ratio**

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

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

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

In the scope of the implementation of the new capital accord, Basel II, the Group concluded on 28 November 2008 the formal application process for the usage of internal models for credit risks (Foundation Internal Rating Based Approach – IRBF) and the Standardized Approach (TSA) for operational risk.

The certification process by the Bank of Portugal for the use of these methodologies is at the final phase, as mentioned on chapter 7 of the Management Report.
Currently for the purpose of the reporting to the Bank of Portugal, the Group presents the solvency ratios in accordance with standard method for credit risk and the basic indicator method for operational risk.

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

- **Basic Own Funds (BOF)**: This category includes the realized capital, the eligible reserves (excluding the fair value reserves), the retained earnings of the year, minority interests and preference shares. The unrealised losses recognised under the fair value reserve and associated with equity securities, book value of goodwill, intangible assets and negative actuarial deviations from employees' benefits up to 31 December 2007 are deducted in full. From 2007, 50% of the book value of investments in banking and insurance associates over 10% also has to be deducted.

- **Complementary Own Funds (COF)**: Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value.

- **Deductions (D)**: Essentially incorporates the prudential amortization of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF can't exceed the BOF. Also, some components of the COF (Lower Tier II) can't exceed 50% of the BOF.

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

In December 2008, the Bank of Portugal issued the Notice 11/2008, establishing a transitory period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008, deducted from the expected return of the fund plan assets for the same year.

At 2008 and 2007, the main movements occurred in BOF are as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance as at 1 January** | **3,953** | **3,751** |
| Retain profit for the year | 289 | 334 |
| Changes on actuarial losses | ( 133) | 157 |
| Recognition of the impact of adopting IFRS | ( 20) | ( 141) |
| Deduction in connection with investments held in banking and insurance entities | 69 | ( 133) |
| Fair value reserves with an impact in BOF | ( 174) | ( 56) |
| Other effects | ( 36) | 41 |
| **Balance as at 31 December** | **3,948** | **3,953** |

The capital adequacy of BES Group as at 31 December 2008 and 31 December 2007 is presented as follows:

(in thousands of euro)

| | | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **A - Capital Requirements** | | | |
| Share Capital, Issue Premium and Treasury stock | | 3,139 | 3,127 |
| Elegible reserves and retained earnings (excluding fair value reserves) | | 913 | 625 |
| Minority Interest | | 154 | 141 |
| Intangible assets | | ( 125) | ( 91) |
| Changes on actuarial losses | | ( 160) | ( 27) |
| Goodwill | | ( 341) | ( 315) |
| Fair value reserves with an impact on BOF | | ( 230) | ( 56) |
| Recognition of the impact of adopting IFRS | | 62 | 82 |
| **Basic own funds excluding preference shares (Core Tier I)** | **( A1 )** | **3,412** | **3,486** |
| Preference shares | | 600 | 600 |
| Deductions in connection with investments held in banking and insurance entities | | ( 64) | ( 133) |
| **Basic own funds (Tier I)** | **( A2 )** | **3,948** | **3,953** |
| Positive fair value reserves (45%) | | 36 | 428 |
| Eligible subordinated debt | | 2,366 | 1,824 |
| Deductions in connection with investments held in banking and insurance entities | | ( 64) | ( 133) |
| **Complementary own funds (Tier II)** | | **2,338** | **2,119** |
| **Deductions** | | **( 9)** | **( 5)** |
| **Eligible own funds (Standard Method)** | **( A3 )** | **6,277** | **6,067** |
| | | | |
| **B1- Risk Weighted Assets (Basel I)** | | | |
| Calculated according Notice 1/93 (Credit Portfolio) | | n.a. | 48,392 |
| Calculated according Notice 7/96 (Trading Portfolio) | | n.a. | 4,464 |
| **Risk Weighted Assets Total (Basel I)** | **( B1 )** | **n.a.** | **52,856** |
| | | | |
| **B2- Risk Weighted Assets (Basel II - Standard)** | | | |
| Calculated according Notice 7/2007 (Credit Risk) | | 53,791 | n.a. |
| Calculated according Notice 8/2007 (Market Risk) | | 2,878 | n.a. |
| Calculated according Notice 9/2007 (Operational Risk) | | 3,042 | n.a. |
| **Risk Weighted Assets Total (Basel II - Standard)** | **( B2 )** | **59,711** | **n.a.** |
| | | | |
| **C1- Prudential Ratios Basel I** | | | |
| Core Tier 1 | ( A1 / B1 ) | n.a. | 6.6% |
| Tier 1 | ( A2 / B1 ) | n.a. | 7.5% |
| **Solvency Ratio** | **( A3 / B1 )** | **n.a.** | **11.5%** |
| | | | |
| **C2- Prudential Ratios Basel II -Standard** | | | |
| Core Tier 1 | ( A1 / B2 ) | 5.7% | n.a. |
| Tier 1 | ( A2 / B2 ) | 6.6% | n.a. |
| **Solvency Ratio** | **( A3 / B2 )** | **10.5%** | **n.a.** |

## Financial branches' activities

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

Through the Madeira off-shore branch, BES Group develops its funding activity, with clients and non-resident banks, and emigrants. These deposits from clients and banks are applied abroad so as to meet the requirements of its tax statute.

As at 31 December 2008, the total net assets of Madeira off-shore Branch amounted to euro 3 713 million (31 December 2007: euro 2 409 million), being as follows:

(in thousands of euro)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Financial assets at fair value through profit or loss | 280 | 156 |
| Available-for-sale financial assets | 65 | 409 |
| Loans and advances to banks | 2,811 | 1,519 |
| Loans and advances to customers | 383 | 289 |
| Other assets | 174 | 36 |
| | 3,713 | 2,409 |
| Deposits from central banks | 1,569 | 540 |
| Due to customers | 2,005 | 1,754 |
| Other liabilities | 54 | 70 |
| Own funds | 85 | 45 |
| | 3,713 | 2,409 |

The Madeira off-shore branch uses the shared services of BES, and so the internal control procedures are the same as those used in the global structure of the Bank.

Through the Cayman Islands branch, BES Group develops mainly its funding activity with (i) non resident clients, through time deposits and issue of bonds and (ii) BES Finance, through funding by the issue of debt under international medium and long term issue program, issued by the Group in international capital markets. These two areas of funding activity, at 31 December 2008, amounted to euro 13,933 million (31 December 2007: euro 15,216 million). These funding amounts are applied in the global liquidity management of the Group in the development of minor investment activities, such as loans and securities, that as at 31 December 2008 amounted to euro 54 million (31 December 2007: euro 254 million).

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

## **Note 45 -** RECENTLY ISSUED PRONOUNCEMENTS

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, can be analysed as follows:

**IFRS 1 (Amendment) - First-time adoption of IFRS and IAS 27 - Consolidated and separate financial statements**
The amendments to IFRS 1 First-time adoption of IFR' and IAS 27, Consolidated and separate financial statements are effective for periods beginning on or after 1 January 2009.

These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.

The Group does not expect any impact on its financial statements from the adoption of these amendments.

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

The amendment to IFRS 2 (i) clarified that vesting conditions are limited to service conditions and performance conditions, (ii) introduced the concept of non vesting conditions and (ii) requires that cancellations, whether by the entity or by other parties, receive the same accounting treatment.

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

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

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

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

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

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

The IFRS 8 Operational segments sets out requirements for disclosures of information about an entity's operating segments. This standard specifies how an entity should disclose its information in the annual financial statements and, as a consequential amendment to IAS 34 Interim Financial Reporting, regarding the information to be disclosed in the interim financial reporting. Each entity should also provide a description of the segmental information disclosed namely income statement and of segment assets, as well as a brief description of how the segmental information is produced.

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

The Group has not adopted IFRS 8 retrospectively, however, as the new standard requires a 'management approach', it is expected that in 2009 the reportable segments will change in comparison with the 2008 reportable segments presented in Note 4 – Segment Reporting,

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

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

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

In addition, where entities restate or reclassify comparative information, namely as a consequence of the adoption of a new accounting standard, they will be required to present a restated balance sheet as at the beginning of the comparative period presented in the financial statements.

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

**IAS 23 (amended) – Borrowing Costs**

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

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

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

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

**IAS 32 – Financial Instruments: presentation – Puttable financial instruments and obligations arising on liquidation**

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

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

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

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

**IAS 39 (amendment) - Financial Instruments: recognition and measurement - Eligible hedged items**

The International Accounting Standards Board (IASB) issued an amendment to IAS 39 Financial Instruments: recognition and measurement – Eligible hedged items, which is mandatory for periods beginning on or after 1 July 2009.

This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

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

**IFRIC 13 –Customer Loyalty Programmes**

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

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

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

**IFRIC 15 - Agreements for construction of real estates**

The IFRIC 15 Agreements for construction of real estates is effective for periods beginning on or after 1 January 2009.

This interpretation clarifies whether IAS 18 Revenue or IAS 11 Construction contracts should be applied to particular transactions and will likely result in IAS 18 being applied to a wider range of transactions.

The Group does not expect significant impacts of adopting this interpretation on its financial statements.

**IFRIC 16 - Hedges of a net investment in a foreign operation**
The IFRIC 16 Hedges of a net investment in a foreign operation is effective for periods beginning on or after 1 October 2008.

This interpretation clarifies that:
net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal or less than the net assets of the foreign operation;
the hedging instrument may be held by any entity within the Group except the foreign operation that is being hedged; and
on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to the income statement.

This interpretation allows an entity that uses the step-by-step method of consolidation, an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to the income statement on disposal of a net investment as if the direct method of consolidation had been used.

This interpretation should be applied prospectively. The Group is currently in the process of evaluating the potential effect of this interpretation on its financial statements.

**IFRIC 17 - Distributions of non-cash assets to owners**
The IFRIC 17 Distributions of non-cash assets to owners is effective on for periods beginning on or after 1 July 2009.

This interpretation clarifies the accounting treatment of distributions of non-cash assets to owners. This interpretation clarifies that an entity should measure the distribution of non-cash assets at the fair value of the assets to be distributed and that the difference between the fair value of the net assets distributed and the respective carrying amount in recognised in the income statement.

The Group does not expect significant impacts of adopting this interpretation on its financial statements.

**IFRIC 18 – Transfers of assets from customers**
The IFRIC 18 Transfers of assets from customers is effective for periods beginning on or after 1 July 2009.

This interpretation clarifies the requirements of IFER for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

The interpretation clarifies:
the circumstances in which the definition of an asset is met;
the recognition of the asset and the measurement of its cost on initial recognition;
the identification of the separately identifiable services (one or more services in exchange for the transferred asset),
the recognition of revenue; and
the accounting for transfers of cash from customers.

The Group does not expect significant impacts of adopting this interpretation on its financial statements.

**Annual Improvement Project**
In May 2008, IASB published the Annual Improvement Project making certain amendments to existing standards. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements.

The main amendments arising from the Annual Improvement Project are summarised as follows:
IFRS 5 Non-current assets held for sale and discontinued operations, effective for periods beginning on or after 1 July 2009. This amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010;

IAS 1 Presentation of financial statements, effective on for periods beginning on or after 1 January 2009. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading are examples of current assets and liabilities respectively. The Group will apply the IAS 39 (amendment) from 1 January 2009, but is not expected to have an impact on the Group's financial statements.

IAS 16 Property, plant and equipment, effective on for periods beginning on or after 1 January 2009. The amendment establishes that entities whose ordinary activities comprise renting and subsequently selling assets (i) present proceeds from the sale of those assets as revenue and (ii) should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. The amendment will not have a significant impact on the Group financial statements.

IAS 19 Employee benefits, effective for periods beginning on or after 1 January 2009. The amendment clarifies (i) that an amendment that changes benefits attributable to past service gives rise to a negative past service cost, (ii) the definition of return on plan assets to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation and (iii) that the distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The Group will apply the amendments to IAS 19 from 1 January 2009, but is not expected to have a significant impact on its financial statements.

IAS 20 Accounting for government grants and disclosure of government assistance, effective on for periods beginning on or after 1 January 2009. This amendment establishes that the benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 Financial instruments: recognition and measurement and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have a significant impact on the Group financial statements.

IAS 23 Borrowing costs, effective for periods beginning on or after 1 January 2009. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 Financial instruments: recognition and measurement. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the amendments to IAS 23 prospectively although no significant impacts on the Group financial statements are expected.

IAS 27 Consolidated and separate financial statements, effective for periods beginning on or after 1 January 2009. The amendment determines that where an investment in a subsidiary that is accounted for under IAS 39 Financial instruments: recognition and measurement is classified as held for sale under IFRS 5 Non-current assets held for sale and discontinued operations, IAS 39 would continue to be applied. The amendment will not have an impact on the financial statements of the Group entities, because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity in accordance with IAS 27.

IAS 28 Investments in associates, effective for periods beginning on or after 1 January 2009. The amendments to IAS 28 clarified that (i) an investment in an associate is treated as a single asset for the purposes of impairment testing, (ii) any impairment loss is not allocated to specific assets included within the investment, for example, goodwill and (iii) reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the amendments to IAS 28 in 2009 although no significant impacts on the Group financial statements are expected.

IAS 38 Intangible assets, effective for periods beginning on or after 1 January 2009. The amendment clarifies that a pre-payment, made in the scope of advertising and promotional activities, may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The expenses shall be recognised in the income statement when the entity has the right to access the goods and the services have been received. The amendment is not expected to have a significant impact on the Group financial statements.

IAS 39 Financial instruments: recognition and measurement, effective for periods beginning on or after 1 January 2009. The amendments consisted mainly in (i) clarifying that is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge, (ii) changing the definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading, clarifying that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition, (iii) changing the current guidance on documentation and effectiveness tests for hedge accounting to be applied at segment level in accordance with IFRS 8 . Operating segments and (iv) clarifying that when remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, a revised effective interest rate (calculated at the date fair value hedge accounting ceases) should be used. The Group will apply the amendments to IAS 39 in 2009 although no significant impacts on the Group financial statements are expected.

IAS 40 Investment property, effective for periods beginning on or after 1 January 2009. Following this amendment, property that is under construction or development for future use as investment property is within the scope of IAS 40 (previously under the scope of IAS 16 Property and equipment). Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost. The amendment will not currently have a significant impact on the Group financial statements.

## Note 46 - SUBSEQUENT EVENTS

- On the 9th of January 2009, BES placed a 3 year euro 1,500 million debt guaranteed by the Portuguese Republic. International investors subscribed around 80% of this amount, originating a pro-rata allocation, since the total order book reached euro 1,900 million.

- BES informed the market that it will create a holding for the stakes held in the available for sale portfolio, where the bank will place the non strategic stakes (Portugal Telecom, EDP – Energias de Portugal, Banco Bradesco, among other). The bank aims to maintain a majority control of the new holding, which is expected to be listed on the stock exchange.

- **Capital increase**
  at the end of January 2009, the Board of Directors of BES announced the market that will propose to the General Meeting of Shareholders to be held on the 16 March 2009 the realisation of a capital increase that will allow the Bank a "gross capital inflow" of up to euro 1,200 million. The capital increase intends to im prove the Bank capital ratio for the levels demanded by the recent regulatory requirements of the Bank of Portugal that must be met until the end of September 2009, allowing the reinforcement of the competitive positioning and the pursuit of a sustained business growth of BES Group.

# Individual Financial Statements and Notes to the Financial Statements

## 2.1 Individual Statement of Income of Banco Espírito Santo

EUR '000

| | 31.12.2007 | 31.12.2008 |
|---|---|---|
| Interest and similar income | 2,724,868 | 3,884,765 |
| Interest expense and similar charges | 2,000,977 | 3,085,705 |
| **Net interest income** | **723,891** | **799,060** |
| Dividend income | 236,770 | 212,031 |
| Fee and commission income | 466,705 | 492,083 |
| Fee and commission expense | 72,711 | 97,169 |
| Net gains from financial assets at fair value throught profit ot loss | (59,172) | (277,478) |
| Net gains from available-for-sale financial assets | 190,448 | 233,976 |
| Net gains from foreign exchange differences | (3,047) | (29,970) |
| Net gains from the sale of other assets | 52 | (1,137) |
| Other operating income and expense | 12,278 | (51,515) |
| **Operating income** | **1,495,214** | **1,279,881** |
| Staff costs | 363,536 | 375,311 |
| General and administrative expenses | 303,549 | 325,656 |
| Depreciation and amortisation | 57,040 | 64,935 |
| Provisions impairment net of reversals | 40,634 | 59,976 |
| Loans impairment net of reversals | 151,892 | 166,040 |
| Impairment on other financial assets net of reversals | 13,762 | 37,370 |
| Impairment on other assets net or reversals | 13,332 | 21,796 |
| **Net income before income tax and minorities** | **551,469** | **228,797** |
| Income tax | | |
| Current tax | 50,626 | 82,393 |
| Deferred tax | 6,144 | (65,474) |
| **Net income** | **494,699** | **211,878** |
| ow: Net income after discontinued operations | 44 | (2,045) |

Chief Accountant

The Board of Directors

## **2.2** Individual Balance Sheet of Banco Espírito Santo at 31 December 2008

EUR ´000

| | 31.12.2008 | | | 31.12.2007 |
|---|---|---|---|---|
| | Amount before provisions, impairmentand depreciations | Provisions, impairmentand Depreciations | Net Amount | |
| **Assets** | | | | |
| Cash and deposits at centarl banks | 1,755,753 | - | 1,755,753 | 1,216,096 |
| Deposits with banks | 337,637 | - | 337,637 | 477,216 |
| Financial assets held for trading | 2,874,846 | - | 2,874,846 | 2,617,896 |
| Other financial assets at fair value through profit or loss | 2,021,218 | - | 2,021,218 | 1,086,683 |
| Available-for-sale financial assets | 7,295,683 | 76,818 | 7,218,865 | 5,589,481 |
| Loans and advances to banks | 7,120,941 | 141 | 7,120,800 | 10,375,037 |
| Loans and advances to customers | 39,677,298 | 627,514 | 39,049,784 | 32,875,867 |
| Held-to-maturity investments | 1,806,473 | - | 1,806,473 | 390,025 |
| Repurchase agreements | - | - | - | - |
| Derivatives for risk management purposes | 986,241 | - | 986,241 | 165,346 |
| Non-current assets held for sale | 149,904 | 23,375 | 126,529 | 43,415 |
| Investment properties | - | - | - | - |
| Propety and equipment | 1,043,167 | 631,933 | 411,234 | 386,223 |
| Intangible assets | 484,271 | 392,739 | 91,532 | 69,961 |
| Investments in associates | 1,147,746 | 109,272 | 1,038,474 | 1,084,641 |
| Current income tax assets | 48,497 | - | 48,497 | 14,434 |
| Deferred income tax assets | 279,119 | - | 279,119 | 157,580 |
| Other assets | 2,270,583 | 12,168 | 2,258,415 | 1,470,259 |
| **Total Assets** | **69,299,377** | **1,873,960** | **67,425,417** | **58,020,160** |
| **Liabilities** | | | | |
| Deposits from central banks | 4,710,444 | - | 4,710,444 | 1,833,114 |
| Financial liabilities held for trading | 1,532,270 | - | 1,532,270 | 1,034,222 |
| Other financial liabilities at fair value through profit or loss | - | - | - | - |
| Deposits from banks | 14,411,923 | - | 14,411,923 | 13,299,938 |
| Due to customers | 22,894,653 | - | 22,894,653 | 21,145,409 |
| Debt securities issued | 14,326,387 | - | 14,326,387 | 12,088,864 |
| Financial liabilities associated to transferred assets | - | - | - | - |
| Derivatives for risk management purposes | 796,523 | - | 796,523 | 189,651 |
| Non-current liabilities held for sale | - | - | - | - |
| Provisions | 541,821 | - | 541,821 | 521,280 |
| Current income tax liabilities | 62,125 | - | 62,125 | 42,545 |
| Deferred income tax liabilities | 164,081 | - | 164,081 | 350,210 |
| Equity instruments | - | - | - | - |
| Subordinates debt | 3,473,819 | - | 3,473,819 | 2,573,805 |
| Other liabilities | 878,663 | - | 878,663 | 503,814 |
| **Total Liabilities** | **63,792,709** | **-** | **63,792,709** | **53,582,852** |
| **Equity** | | | | |
| Share capital | 2,500,000 | - | 2,500,000 | 2,500,000 |
| Share premium | 666,327 | - | 666,327 | 666,327 |
| Other equity instruments | - | - | - | - |
| Treasury stock | (29,838) | - | (29,838) | (41,437) |
| Fair value reserve | (197,391) | - | (197,391) | 597,027 |
| Other reserves and retained earnings | 481,732 | - | 481,732 | 220,692 |
| Profit for the year | 211,878 | - | 211,878 | 494,699 |
| Dividends paid | - | - | - | - |
| **Total Equity** | **3,632,708** | **-** | **3,632,708** | **4,437,308** |
| **Total LIabilities and Equity** | **67,425,417** | **-** | **67,425,417** | **58,020,160** |

Chief Accountant

The Board of Directors

# Income Statement for the period ended in 31 December 2008 and 2007

in thousands of euro

| | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Interest and similar income | 4 | 3,884,765 | 2 724,868 |
| Interest expense and similar charges | 4 | 3,085,705 | 2 000,977 |
| **Net interest income** | | **799,060** | **723,891** |
| Dividend income | 5 | 212,031 | 236,770 |
| Fee and commission income | 6 | 492,083 | 466,705 |
| Fee and commission expense | 6 | ( 97,169) | ( 72,711) |
| Net gains from financial assets at fair value through profit or loss | 7 | ( 277,478) | ( 59,172) |
| Net gains from available-for-sale financial assets | 8 | 233,976 | 190,448 |
| Net gains from foreign exchange differences | 9 | ( 29,970) | ( 3,047) |
| Net gains from sale of other financial assets | | ( 1,878) | 52 |
| Other operating income and expense | 10 | ( 51,515) | 12,278 |
| **Operating income** | | **1,279,140** | **1,495,214** |
| Staff costs | 11 | 375,311 | 363,536 |
| General and administrative expenses | 13 | 325,656 | 303,549 |
| Depreciation and amortisation | 25 to 26 | 64,935 | 57,040 |
| Provisions net of reversals | 33 | 59,976 | 40,634 |
| Loans impairment net of reversals | 20 to 21 | 166,040 | 151,892 |
| Impairment on other financial assets net of reversals | 19 | 37,370 | 13,762 |
| Impairment on other assets net of reversals | 24, 27 to 28 | 21,796 | 13,332 |
| **Operating expenses** | | **1,051,084** | **943,745** |
| Gains on disposal of investments in subsidiaries and associates | 27 | 741 | - |
| **Profit before income tax** | | **228,797** | **551,469** |
| **Income tax** | | | |
| Current tax | 34 | 82,393 | 50,626 |
| Deferred tax | 34 | ( 65,474) | 6,144 |
| **Profit for the period** | | **211,878** | **494,699** |
| Earnings per share of profit attributable to the equity holders of the Bank | | | |
| Basic ( in Euro) | 14 | 0.43 | 1.00 |
| Diluted ( in Euro) | 14 | 0.43 | 1.00 |

The following notes form an integral part of these financial statements

# Balance Sheet as at 31 December 2008 and 2007

in thousands of euro

| | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits at central banks | 15 | 1,755,753 | 1,216,096 |
| Deposits with banks | 16 | 337,637 | 477,216 |
| Financial assets held for trading | 17 | 2,874,846 | 2,617,896 |
| Financial assets at fair value through profit or loss | 18 | 2,021,218 | 1,086,683 |
| Available-for-sale financial assets | 19 | 7,218,865 | 5,589,481 |
| Loans and advances to banks | 20 | 7,120,800 | 10,375,037 |
| Loans and advances to customers | 21 | 39,049,784 | 32,875,867 |
| Held to maturity investments | 22 | 1,806,473 | 390,025 |
| Derivatives for risk management purposes | 23 | 986,241 | 165,346 |
| Non-current assets held for sale | 24 | 126,529 | 43,415 |
| Property and equipment | 25 | 411,234 | 386,223 |
| Intangible assets | 26 | 91,532 | 69,961 |
| Investments in associates | 27 | 1,038,474 | 1,084,641 |
| Current income tax assets | | 48,497 | 14,434 |
| Deferred income tax assets | 34 | 279,119 | 157,580 |
| Other assets | 28 | 2,258,415 | 1,470,259 |
| **Total assets** | | **67,425,417** | **58,020,160** |
| **Liabilities** | | | |
| Deposits from central banks | 29 | 4,710,444 | 1,833,114 |
| Financial liabilities held for trading | 17 | 1,532,270 | 1,034,222 |
| Deposits from banks | 30 | 14,411,923 | 13,299,938 |
| Due to customers | 31 | 22,894,653 | 21,145,409 |
| Debt securities issued | 32 | 14,326,387 | 12,088,864 |
| Derivatives for risk management purposes | 23 | 796,523 | 189,651 |
| Provisions | 33 | 541,821 | 521,280 |
| Current income tax liabilities | | 62,125 | 42,545 |
| Deferred income tax liabilities | 34 | 164,081 | 350,210 |
| Subordinated debt | 35 | 3,473,819 | 2,573,805 |
| Other liabilities | 36 | 878,663 | 503,814 |
| **Total liabilities** | | **63,792,709** | **53,582,852** |
| **Equity** | | | |
| Share capital | 37 | 2,500,000 | 2,500,000 |
| Share premium | 37 | 666,327 | 666,327 |
| Treasury stock | 37 | ( 29,838) | ( 41,437) |
| Fair value reserve | 38 | ( 197,391) | 597,027 |
| Other reserves and retained earnings | 38 | 481,732 | 220,692 |
| Profit for the period | | 211,878 | 494,699 |
| **Total equity** | | **3,632,708** | **4,437,308** |
| **Total equity and liabilities** | | **67,425,417** | **58,020,160** |

The following notes form an integral part of these financial statements

## Statement of Changes in Equity for the years ended 31 December 2008 and 2007

in thousands of euro

| | Share capital | Share premium | Treasury stock | Fair value reserve | Legal reserves, other reserves and retained earnings | Profit for the period | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2006** | **2,500,000** | **666,327** | **( 63,732)** | **482,062** | **229,510** | **257,451** | **4,071,618** |
| Other movements recognised directly in Equity: | | | | | | | |
| Changes in fair value, net of taxes | - | - | - | 115,312 | - | - | 115,312 |
| Pensions | - | - | - | - | ( 31,174) | - | ( 31,174) |
| Share based payment scheme, net of taxes (see Note 12) | - | - | - | - | 1,030 | - | 1,030 |
| Other | - | - | - | - | 470 | - | 470 |
| Profit for the year | - | - | - | - | - | 494,699 | 494,699 |
| **Total gains and losses recognised in the year** | **-** | **-** | **-** | **115,312** | **( 29,674)** | **494,699** | **580,337** |
| Transfer to reserves | - | - | - | - | 59,127 | ( 59,127) | - |
| Dividends on ordinary shares (a) | - | - | - | - | - | ( 198,324) | ( 198,324) |
| Changes in treasury stock | - | - | 22,295 | - | - | - | 22,295 |
| BESSA's merger | - | - | - | ( 347) | ( 38,271) | - | ( 38,618) |
| **Balance as at 31 December 2007** | **2,500,000** | **666,327** | **( 41,437)** | **597,027** | **220,692** | **494,699** | **4,437,308** |
| Other movements recognised directly in Equity: | | | | | | | |
| Changes in fair value, net of taxes | - | - | - | ( 794 418) | - | - | ( 794,418) |
| Pensions | - | - | - | - | ( 23,615) | - | ( 23,615) |
| Share based payment scheme, net of taxes (see Note 12) | - | - | - | - | 517 | - | 517 |
| Other | - | - | - | - | 186 | - | 186 |
| Profit for the year | - | - | - | - | - | 211,878 | 211,878 |
| **Total gains and losses recognised in the year** | **-** | **-** | **-** | **( 794 418)** | **( 22,912)** | **211,878** | **( 605,452)** |
| Transfer to reserves | - | - | - | - | 255,843 | ( 255,843) | - |
| Dividends on ordinary shares (a) | - | - | - | - | - | ( 238,856) | ( 238,856) |
| Changes in treasury stock | - | - | 11,599 | - | - | - | 11,599 |
| Bes Leasing's merger | - | - | - | - | 28,109 | - | 28,109 |
| **Balance as at 31 December 2008** | **2,500,000** | **666,327** | **( 29,838)** | **( 197,391)** | **481,732** | **211,878** | **3,632,708** |

(a) Corresponds to a dividend per share of 0.48 euros and 0.40 euros paid to the shares outstading in respect to the years ended 31 December 2008 and 2007, respectively.

The following notes form an integral part of these financial statements

# Cash Flow Statement for the years ended 31 December 2008 and 2007

in thousands of euro

| | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **Cash flows arising from operating activities** | | | |
| Interest and similar income received | | 3,772,030 | 2,665,455 |
| Interest expense and similar charges paid | | (2,956,212) | (1,884,804) |
| Fee and commission income received | | 513,385 | 505,106 |
| Fee and commission expense paid | | ( 99,986) | ( 80,932) |
| Recoveries on loans previously written off | | 20,904 | 31,574 |
| Contributions to Pensions' Fund | | ( 524,823) | ( 41,056) |
| Cash payments to employees and suppliers | | ( 398,838) | ( 650,172) |
| | | **326,460** | **545,171** |
| **Changes in operational assets and liabilities:** | | | |
| Cash and deposits at central banks | | ( 157,148) | ( 65,425) |
| Financial assets at fair value through profit or loss | | (1,783,571) | 922,291 |
| Loans and advances to banks | | 3,274,737 | 121,743 |
| Deposits from banks | | 964,462 | (1,596,219) |
| Loans and advances to customers | | (2,006,690) | (3,515,997) |
| Due to customers | | 1,720,835 | 1,552,748 |
| Hedging derivatives | | 303,918 | ( 4,031) |
| Other operational assets and liabilities | | 317,886 | ( 45,914) |
| **Net cash flow from operating activities before income taxes** | | **2,960,889** | **(2,085,633)** |
| Income taxes paid | | ( 98,106) | ( 32,502) |
| **Net cash flow from operating activities** | | **2,862,783** | **(2,118,135)** |
| **Cash flows arising from investing activities** | | | |
| Acquisition of subsidiaries and associates | | ( 16,200) | ( 138,920) |
| Disposal of subsidiaries and associates | | 741 | 521 |
| Dividends received | | 212,031 | 236,770 |
| Acquisition of available-for-sale financial assets | | (23,889,805) | (11,830,149) |
| Sale of available-for-sale financial assets | | 20,741,332 | 10,565,454 |
| Held to maturity investments | | ( 976,417) | 117,895 |
| Acquisition of tangible and intangible assets | | (113,667) | ( 145,795) |
| Sale of tangible and intangible assets | | 187 | 212 |
| **Net cash flow from investing activities** | | **(4,041,758)** | **(1,194,012)** |
| **Cash flows arising from financing activities** | | | |
| Capital increase | | | |
| Proceeds from issue of bonds | | 4,219,418 | 3,876,477 |
| Reimbursement of bonds | | (3,339,621) | ( 185,829) |
| Proceeds from issue of subordinated debt | | 749,100 | - |
| Reimbursement of subordinated debt | | - | ( 99,762) |
| Treasury stock | | 11,599 | 22,295 |
| Dividends paid from ordinary shares | | ( 238,856) | ( 198,324) |
| **Net cash flow from financing activities** | | **1,401,640** | **3,414,857** |
| Effect of Bes Leasing's merger on cash and cash equivalents | | 1,196 | - |
| Effect of BESSA's merger on cash and cash equivalents | | - | 28,228 |
| **Net changes in cash and cash equivalents** | | **223,821** | **130,938** |
| Cash and cash equivalents at the beginning of the year | | 1,278,472 | 1,150,408 |
| Effect of exchange rate changes on cash and cash equivalents | | 19,027 | ( 2,874) |
| Net changes in cash and cash equivalents | | 223,821 | 130,938 |
| **Cash and cash equivalents at the end of the period** | | **1,521,320** | **1,278,472** |
| **Cash and cash equivalents includes:** | | | |
| Cash | 15 | 197,588 | 225,073 |
| Deposits at central banks | 15 | 1,558,165 | 991,023 |
| Mandatory deposits with the Bank of Portugal | | ( 572,070) | ( 414,840) |
| Deposits with banks | 16 | 337,637 | 477,216 |
| **Total** | | **1,521,320** | **1,278,472** |

The following notes form an integral part of these financial statements

## Note 1 - ACTIVITY

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

BES's foundation dates back to the last quarter of the 19th century. The Bank began operations as a commercial bank in 1937, following the merger of Banco Espírito Santo and Banco Comercial de Lisboa, from which resulted Banco Espírito Santo e Comercial de Lisboa. By public deed of 6 July 1999, the Bank changed its name to Banco Espírito Santo, S.A.. During December 2005, Banco Internacional de Crédito, S.A. was merged in Banco Espírito Santo, S.A.. During May 2006, Crediflash - Sociedade Financeira para Aquisições a Crédito, S.A. was merged in Banco Espírito Santo, S.A.. During April 2007, Banco Espírito Santo, S.A. (Spain) was merged in Banco Espírito Santo,S.A..

BES is listed on the Euronext Lisbon.

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

BES has a network of 744 branches (at 31 December 2007: 706), 26 of them results from the merger of Banco Espírito Santo, S.A. (Spain), international branches in London, Madrid, New York, Nassau, Cayman Islands and Cape Verde, a branch in the Madeira Free Zone, and twelve overseas representative offices.

## Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation and statement of compliance

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

NCA are composed by all the standards included in the International Financial Reporting Standards (IFRS) as adopted for use in the EU, with the exception of issues regulated by the Bank of Portugal such as loans impairment and recognition in retained earnings of the adjustments related to pensions during the transition period.

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

These individual financial statements as at and for the year ended 31 December 2008 were prepared in accordance with Adjusted Accounting Standards (NCA), which includes the IFRS adopted for use in the EU until 31 December 2008. The accounting policies applied by the Bank in the preparation of these financial statements as at 31 December 2008 are consistent with the ones used in the preparation of the annual financial statements as at and for the year ended 31 December 2007.

In the preparation of the individual financial statements as at 31 December 2008, the Bank adopted the amendments to IAS 39 – Financial Instruments: Recognition and Measurement and to IFRS 7 - Financial Instruments – Disclosures, regarding the reclassification of financial assets between categories, published by IASB in October 2008. Resulting from these amendments, the Bank has adapted its accounting policy regarding reclassifications between categories (see accounting policy described in Note 2.6). The impact from the adoption in 2008 of these amendments is presented in Note 22.

Additionally, the Bank also adopted in 2008 the IFRIC 11 – IFRS 2 – Group and Treasury Share transactions and IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. The adoption of these interpretations had no significant impact in the individual financial statements of the Bank.

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

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

These financial statements were approved in the Board of Directors meeting held on 13 February 2009.

### 2.2 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are accounted for in equity, within the fair value reserve.

### 2.3 Derivative financial instruments and hedge accounting

**Classification**

Derivatives for risk management purposes include (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as being hedging derivatives.

All other derivatives are classified as trading derivatives.

#### Recognition and measurement

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

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

#### Hedge accounting

- **Classification criteria**

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

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

- **Fair value hedge**

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

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

- **Cash flow hedge**

When a derivative financial instrument is designated as a hedge of the variability in highly probable future cash flows, the effective portion of changes in the fair value of the hedging derivatives is recognised in equity. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

During the years covered by these financial statements the Bank did not have any transactions classified as cash flow hedge.

#### Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

## 2.4 Loans and advances to customers

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

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

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

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

**Impairment**

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

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

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

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

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

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

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

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

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

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

## 2.5 Other financial assets

**Classification**

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

- Financial assets at fair value through profit or loss

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

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

- Such financial assets are managed, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

Note 23 includes a summary of the assets and liabilities that were classified at fair value trough profit or loss at inception.

The structured products acquired by BES corresponding to financial instruments containing one or more embedded derivatives meet either of the above mentioned conditions, and, in accordance, are classified under the fair value trough profit or loss category.

• Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold until its maturity and that are not classified, at inception, as at fair value through profit or loss or as available-for-sale.

• Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in the other categories referred to above.

**Initial recognition, measurement and derecognition**

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

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

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

**Subsequent measurement**

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

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

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

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

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

**Reclassifications between categories**

The Bank only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available-for-sale financial assets category to the held-to-maturity investments category, if it has the intention and ability to hold those financial assets until maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

In October 2008, IASB issued an amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. This amendment to IAS 39, permits, in rare circumstances, to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category, to the held-to-maturity investments, available-for-sale financial assets and loans and receivables categories. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category.

Financial assets may be reclassified to the (i) held-to-maturity investments category if the entity has the intention and ability to hold those financial assets until maturity and to the (ii) loans and receivables category if the entity has the intention and ability to hold those financial assets for the foreseeable future and if those financial assets are not traded in an active market.

Following the issuance of this amendment to IAS 39, the Bank reclassified, during the last quarter of 2008, non-derivative financial assets, with fixed or determinable payments and fixed maturities, out of the fair value through profit or loss category to the held-to-maturity investments category.

In accordance with the transitions rules of this amendment to IAS 39, the reclassifications of financial assets performed until 31 October 2008 were made at the fair value of the assets reclassified on 1 July 2008 and any reclassifications of a financial asset made in periods beginning on or after 1 November 2008 were made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value will be recognised in the income statement until maturity, based on the effective interest rate method.

**Impairment**

In accordance with NCA, the Bank assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for equity securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably estimated.

For held-to-maturity investments, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate. The carrying amount of the impaired assets is reduced through the use of an allowance account. If a held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For held-to-maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

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

## 2.6 Sale and repurchase agreements

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

Securities purchased under agreements to resell ('reverse repos') at a fixed price or at the purchase price plus a lender's return are not recognised, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.5. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

## 2.7 Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

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

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

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

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

The structured products issued by the Bank meet either of the above mentioned conditions and, in accordance, are classified under the fair value trough profit or loss category.

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

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

## 2.8 Equity instruments

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

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

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

## 2.9 Offsetting financial instruments

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

## 2.10 Assets acquired in exchange for loans

Assets acquired in exchange for loans are initially reported in 'Other assets' and are initially recognised at the lower of their fair values less costs to sell and the carrying amount of the loans.

Subsequently, those assets are measured at the lower of their carrying amount and the corresponding fair values less costs to sell and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

The value of assets acquired in exchange for loans is periodically reviewed by the Bank, based on valuations performed by experts.

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

## 2.11 Property and equipment

Property and equipment are stated at deemed cost less accumulated depreciation and impairment losses. At the transition date to NCA, 1 January 2004, the Bank elected to consider as deemed cost, the revalue amount of property and equipment as determined in accordance with previous accounting policies of the Bank, which was broadly similar to depreciated cost measured under NCA adjusted to reflect changes in a specific price index. The value includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

## 2.12 Intangible assets

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

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

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

## 2.13 Leases

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

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

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

• As lessor
Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets. Interest included in instalments charged to customers is recorded as interest income, while repayments of principal, also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

## 2.14 Employee benefits

**Pensions**
To cover the liabilities assumed by the Bank within the framework stipulated by the ACT "Acordo Colectivo de Trabalho" for the banking sector, pension funds were set up designed to cover retirement benefits on account of age, including widows and orphans benefits and disability for the entire work force and also health care benefits for employees hired until 31 March 2008. Employees hired after 31 March 2008 are covered by the Social Security general scheme.

During 2008, the Bank obtained the necessary authorizations from the Portuguese Insurance Institute to change the Pension Fund contract in order to allow the coverage of all pension liabilities and health care benefits.

The pension liabilities and heath care benefits are covered by funds that are managed by ESAF – Espírito Santo Fundos de Pensões, S.A.

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

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

The liability with pensions is calculated semi-annually by the Bank, as at 31 December 2008 and 30 June 2008 for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Actuarial gains and losses determined semi-annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) changes in the actuarial assumptions, are recognised as an asset or liability and are recognised in the income statement using the corridor method defined by IAS 19.

This method establishes that the actuarial gains and losses accumulated at the beginning of the semester that exceed the greater of 10% of the pension liabilities or the fair value of the plan assets, as at the beginning of the semester, are charged to the income statement over a period that cannot exceed the average of the remaining working lives of the employees participating in the plan. The Bank has determined on the basis of the above criteria to amortise the actuarial gains and losses that fall outside the corridor during a 15 year period. The actuarial gains and losses accumulated at the beginning of the period that are within the corridor are not recognised in the income statement.

At each period, the Bank recognises as a cost in the income statement a net total amount that comprises (i) the service cost, (ii) the interest cost, (iii) the expected return on plan assets, (iv) a portion of the net cumulative actuarial gains and losses determined using the corridor method, and (v) the effect of curtailment losses related with early retirements, which includes the early amortisation of the respective actuarial gains and losses.

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

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

In preparing these financial statements in accordance with NCA, the recognition of the impact with NCA adoption as at 31 December 2004, that was being amortised until 31 December 2009, with the issue of the Regulation no. 7/2008 of the Bank of Portugal it is now being amortised for an additional period of 3 years until 31 December 2012, except for the medical assistance post employment and changes in mortality tables assumptions, which can be amortised for a period of 7 years.

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

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

**Health care benefits**

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

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

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

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

**Long-term service benefits**

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

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by the Bank in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated semi-annually, at the balance sheet date, by the Bank using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation is determined by reference to interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liabilities.

Annually, the increase in the liability for long-term service premiums, including actuarial gains and losses and past service cost is charged to the income statement.

**Share based incentive scheme (SIBA)**

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

The shares held by the employees under SIBA are accounted for as treasury stock of BES, this scheme being classified as an equity settlement share based payment in accordance with IFRS 2 – Share based payments.

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

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

**Variable remuneration payment plan**

During the first semester of 2008, following the General Shareholders Meeting held on 31 March 2008, BES and its subsidiaries established a benefits payment scheme - Variable remuneration payment plan (PPRV – 2008/2010)

Under this incentive scheme, employees of BES and its subsidiaries have the right to a future cash payment, corresponding to the appreciation of BES shares above a pre-established price (strike price). In order to receive this payment, the employees have to remain in the Bank for a minimum period of three years.

This variable remuneration payment plan is within the scope of IFRS 2 – Share based payments and corresponds to a cash settlement share based payment. The fair value of this benefit plan at inception, determined at its grant date, will be taken to the income statements as staff costs over a period of three years. The recognised liability under the plan is re-measured at each balance sheet date, being the fair value changes recognised in the income statement under the caption net gains from financial assets at fair value through profit or loss.

**Bonus to employees and to the Board of Directors**
In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors are recognised in the income statement in the year to which they relate.

## 2.15 Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available-for-sale financial assets and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

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

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

## 2.16 Provisions

Provisions are recognised when: (i) the Bank has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

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

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

## 2.17 Interest income and expense

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

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

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

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

For derivative financial instruments, except for (i)derivatives for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

## 2.18 Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;

- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

## 2.19 Dividend income

Dividend income is recognised when the right to receive payment is established.

## 2.20 Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

According with IAS 14, paragraph 6, the Bank does not disclose its segment reporting, since these financial statements are reported together with the Bank's individual financial statements.

## 2.21 Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

## 2.22 Non-current assets held for sale

Non-current assets or disposal groups (group of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when (i) their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), (ii) the assets or disposal groups are available for immediate sale and (iii) its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are measured at the lower of their carrying amount or fair value less costs to sell, determined annually in accordance with the applicable IFRS.

## 2.23 Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

## Note 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

## 3.1 Impairment of available-for-sale financial assets

The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices.

Considering the high volatility and the reduced markets liquidity felted throughout 2008, the Bank has considered the following parameters when assessing the existence of impairment losses:

(i) Equity securities: declines in market value above 30% in relation to the acquisition cost (20% in 2007) or market value below the acquisition cost for a period longer than twelve-months (six-months in 2007);
(ii) Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

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

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

## 3.2 Fair value of derivatives

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

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

## 3.3 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2..4, in accordance with the minimum reference values for generic and specific provisions, determined under the regulation no. 3/95, from the Bank of Portugal.

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

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

## 3.4 Held-to-maturity investments

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

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

Held-to-maturity investments are subject to impairment tests made by the Bank. The use of different assumptions and estimates could have an impact on the income statement of the Bank.

## 3.5 Income taxes

The Bank is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

The Tax Authorities are entitled to review the Bank' determination of annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

## 3.6 Pension and other employees' benefits

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

Changes in these assumptions could materially affect these values.

## Note 4 - NET INTEREST INCOME

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Assets/ liabilities at amortised cost and available-for-sale financial assets | Assets / liabilities at fair value through profit or loss | Total | Assets/ liabilities at amortised cost and available-for-sale financial assets | Assets / liabilities at fair value through profit or loss | Total |
| **Interest and similar income** | | | | | | |
| Interest from loans and advances | 2,155,109 | 18,502 | 2,173,611 | 1,777,989 | 6,509 | 1,784,498 |
| Interest from financial assets at fair value through profit or loss | - | 259,287 | 259,287 | - | 316,678 | 316,678 |
| Interest from deposits with banks | 451,189 | 26,109 | 477,298 | 379,724 | 1,315 | 381,039 |
| Interest from available-for-sale financial assets | 207,809 | - | 207,809 | 103,897 | - | 103,897 |
| Interest from derivatives for risk management purposes | - | 729,937 | 729,937 | - | 84,727 | 84,727 |
| Other interest and similar income | 36,823 | - | 36,823 | 54,029 | - | 54,029 |
| | **2,850,930** | **1,033,835** | **3,884,765** | **2,315,639** | **409,229** | **2,724,868** |
| **Interest expense and similar charges** | | | | | | |
| Interest from deposits from central banks and other banks | 680,205 | 22,592 | 702,797 | 671,498 | - | 671,498 |
| Interest from debt securities | 688,121 | 61,999 | 750,120 | 498,954 | 66,459 | 565,413 |
| Interest from amounts due to customers | 606,112 | 13,670 | 619,782 | 434,837 | 4,836 | 439,673 |
| Interest from derivatives for risk management purposes | - | 835,556 | 835,556 | - | 175,162 | 175,162 |
| Interest from subordinated debt | 147,571 | 29,879 | 177,450 | 139,452 | 7,501 | 146,953 |
| Other interest expense and similar charges | - | - | - | 2,278 | - | 2,278 |
| | **2,122,009** | **963,696** | **3,085,705** | **1,747,019** | **253,958** | **2,000,977** |
| | **728,921** | **70,139** | **799,060** | **568,620** | **155,271** | **723,891** |

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Note 2.3, interests from hedging derivatives and from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policy described in Notes 2.4, 2.5 and 2.7.

## Note 5 - DIVIDEND INCOME

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Dividends from subsidiaries and associates | 123,361 | 187,351 |
| Dividends from available-for-sale financial assets | 88,670 | 49,419 |
| | **212,031** | **236,770** |

## Note 6 - NET FEE AND COMMISSION INCOME

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Fee and commission income** | | |
| From banking services | 335,591 | 320,301 |
| From guarantees granted | 72,156 | 60,185 |
| From transactions with securities | 7,134 | 8,178 |
| From commitments assumed to third parties | 20,725 | 18,952 |
| Other fee and commission income | 56,477 | 59,089 |
| | **492,083** | **466,705** |
| **Fee and commission expense** | | |
| From banking services rendered by third parties | 53,172 | 43,610 |
| From transactions with securities | 13,490 | 10,817 |
| From guarantees received | 12,556 | 237 |
| Other fee and commission expense | 17,951 | 18,047 |
| | **97,169** | **72,711** |
| | **394,914** | **393,994** |

## **Note 7 -** NET GAINS / (LOSSES) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Total | Gains | Losses | Total |
| **Assets and liabilities held for trading** | | | | | | |
| Securities | | | | | | |
| Bonds and other fixed income securities | | | | | | |
| Issued by government and public entities | 5,391 | 6,063 | ( 672) | 20,845 | 27,596 | ( 6,751) |
| Issued by other entities | 65,268 | 60,546 | 4,722 | - | 4 | ( 4) |
| Shares | 2,224 | 14,046 | ( 11,822) | 47 | 5,357 | ( 5,310) |
| Other variable income securities | 7,248 | 47,427 | ( 40,179) | 25,281 | 24,493 | 788 |
| | **80,131** | **128,082** | **( 47,951)** | **46,173** | **57,450** | **( 11,277)** |
| Derivative financial instruments | | | | | | |
| Exchange rate contracts | 2,338,992 | 2,287,399 | 51,593 | 915,528 | 1,059,971 | ( 144,443) |
| Interest rate contracts | 6,416,839 | - | 106,188 | 4,790,026 | 4,798,802 | ( 8,776) |
| Equity/Index contracts | 1,177,589 | 1,193,247 | ( 15,658) | 762,214 | 687,569 | 74,645 |
| Credit default contracts | 759,570 | 815,272 | ( 55,702) | 126,931 | 118,649 | 8,282 |
| Other | 205,073 | 478,419 | ( 273,346) | 78,390 | 77,015 | 1,375 |
| | **10,898,063** | **11,081,848** | **( 186,925)** | **6,673,089** | **6,742,006** | **( 68,917)** |
| | **10,978,194** | **11,209,930** | **( 234,876)** | **6,719,262** | **6,799,456** | **( 80,194)** |
| **Financial assets and liabilities at fair value through profit or loss** | | | | | | |
| Securities | | | | | | |
| Bonds and other fixed income securities | | | | | | |
| Issued by other entities | 223,039 | 528,318 | ( 305,279) | 139,501 | 149,722 | ( 10,221) |
| Shares | 3,511 | 19,303 | ( 15,792) | 32,003 | 814 | 31,189 |
| Other variable income securities | 152,157 | 217,083 | ( 64,926) | - | - | - |
| | **378,707** | **764,704** | **( 385,997)** | **171,504** | **150,536** | **20,968** |
| **Other financial assets (1)** | | | | | | |
| Loans and advances to customers | 23,498 | - | 23,498 | 609 | 953 | ( 344) |
| Deposits with banks | 35 | - | 35 | 49 | - | 49 |
| | **23,533** | **-** | **23,533** | **658** | **953** | **( 295)** |
| Financial liabilities (1) | | | | | | |
| Deposits from banks | 31,166 | 3,498 | 27,668 | 13,033 | - | 13,033 |
| Due to customers | 5,685 | - | 5,685 | 1,342 | 2,038 | ( 696) |
| Debt securities issued | 241,667 | 4,327 | 240,480 | 468 | 25,077 | ( 24,609) |
| Subordinated debt | 46,029 | - | 46,029 | 12,621 | - | 12,621 |
| | **327,547** | **7,825** | **319,862** | **27,464** | **27,115** | **349** |
| | **726,787** | **772,529** | **( 42,602)** | **199,626** | **178,604** | **21,022** |
| | **11,704,981** | **11,982,459** | **( 277,478)** | **6,918,888** | **6,978,060** | **( 59 172)** |

(1) includes the fair value changes on hedged assets/liabilities or at fair value option

As at 31 December 2008, this balance includes a positive effect of euro 104,366 thousands (31 December 2007: negative effect of euro 41 thousands) related to the change in fair value of financial liabilities designated at fair value through profit or loss attributable to the entity's credit risk component.

In accordance with the accounting policies followed by the Bank, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instruments at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined on a valuation technique, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

The Bank recognises in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Bank access to the wholesale market.

In 2008, the gains recognised in the income statement arising from the built-in fee (day one profit) amounted to approximately euro 28,438 thousand (31 December 2007: euro 13,291 thousand).

## **Note 8 -** NET GAINS FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Total | Gains | Losses | Total |
| Bonds and other fixed income securities | | | | | | |
| Issued by government and public entities | 4,367 | 4,711 | ( 344) | 3,257 | 32 | 3,225 |
| Issued by other entities | 15,134 | 17,616 | ( 2,482) | 1,808 | 15,806 | ( 13,998) |
| Shares | 312,063 | 76,388 | 235,675 | 198,967 | 1,709 | 197,258 |
| Other variable income securities | 3,505 | 2,378 | 1,127 | 4,571 | 608 | 3,963 |
| | **335,069** | **101,093** | **233,976** | **208,603** | **18,155** | **190,448** |

During the year ended 31 December 2008, BES sold (i) 42.7 million ordinary shares of Bradesco, adjusted from the stock split (realised gain: euro 262.1 million), (ii) 29.3 million ordinary shares of EDP (realised gain: euro 18.8 million) and (iii) 7.6 million shares of Portugal Telecom (realised gain: euro 8.1 million).

During the year ended 31 December 2007, BES sold (i) 7.2 million ordinary shares of Bradesco, adjusted of the stock split (realised gain: euro 85.5 million); (ii) 64.3 million ordinary shares of EDP (realised gain: euro 41.6 million), and (iii) 6.9 million ordinary shares of Portugal Telecom (realised gain: euro 12.8 million).

Related party transactions are described in Note 40.

## **Note 9 -** NET GAINS FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Gain | Losses | Total | Gains | Losses | Total |
| Foreign exchange translation | 1,165,145 | 1,195,115 | ( 29,970) | 440,664 | 443,711 | ( 3,047) |
| | **1,165,145** | **1,195,115** | **( 29,970)** | **440,664** | **443,711** | **( 3,047)** |

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

## **Note 10 -** OTHER OPERATING INCOME AND EXPENSE

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Other operating income** | | |
| Other services | 9,772 | 5,288 |
| Other | 51,220 | 67,111 |
| | **60,992** | **72,399** |
| **Other operating expense** | | |
| Direct and indirect taxes | 2,608 | 4,541 |
| Contributions to the Deposits Guarantee Fund | 3,047 | 2,517 |
| Donations | 12,731 | 4,257 |
| Others | 94,121 | 48,806 |
| | **112,507** | **60,121** |
| | **( 51,515)** | **12,278** |

## **Note 11 -** STAFF COSTS

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Wages and salaries | 275,348 | 257,505 |
| Remuneration | 268,674 | 256,540 |
| Long-term service benefits (see Note 12) | 6,674 | 965 |
| Health-care benefits - SAMS | 18,704 | 19,448 |
| Other mandatory social charges | 33,498 | 30,710 |
| Pension costs (see Note 12) | 39,045 | 47,948 |
| Other costs | 8,716 | 7,925 |
| | **375,311** | **363,536** |

The health-care benefits – SAMS include the amount of euro 8 005 thousands (31 December 2007: euro 9 323 thousands) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation performed(see Note 12).

Other costs include the amount of euro 703 thousands (31 December 2007: euro 1,402 thousands) related with the share based incentive scheme (SIBA) and euro 1 975 thousands related with the variable remuneration payment plan (PPRV), in accordance with the accounting policy described in Note 2.14. The details of these plans are presented in Note 12.

The costs with salaries and other benefits attributed to BES key management personnel are presented as follows:

in thousands of euro

| | Board of Directors | Audit Committe | Other key management [1] | Total |
|---|---|---|---|---|
| **Balance as at 31 December 2008** | | | | |
| Salaries and other short-term benefits | 3,661 | 723 | 5,944 | 10,328 |
| Pension costs and health-care benefits (SAMS) | 5,307 | 15 | 725 | 6,047 |
| Long service benefits | 70 | - | 45 | 115 |
| Bonus | 7,541 | - | 2,340 | 9,881 |
| **Total** | **16,579** | **738** | **9,054** | **26,371** |
| **Balance as at 31 December 2007** | | | | |
| Salaries and other short-term benefits | 3,561 | 691 | 5,344 | 9,596 |
| Pension costs and health-care benefits (SAMS) | 3,593 | 2 | 710 | 4,305 |
| Long service benefits | - | - | 37 | 37 |
| Bonus | 6,502 | - | 1,863 | 8,365 |
| **Total** | **13,656** | **693** | **7,954** | **22,303** |

(1) Other key management includes BES senior management.

As at 31 December 2008 and 2007, loans granted by BES to its key management personnel, amounted to euro 24,141 thousand and euro 24,761 thousand, respectively.

As at 31 December 2008, the number of employees of the Bank is 6,967 (31 December 2007: 6,657) and is presented as follows:

| | 31.12.2008 [1] | 31.12.2007 [1] |
|---|---|---|
| Senior management | 490 | 449 |
| Management | 840 | 771 |
| Specific functions | 2,679 | 2,546 |
| Administrative functions and others | 2,958 | 3,021 |
| | **6,967** | **6,787** |

(1) As at 31 December 2008 and 2007, these numbers include employees from business units which were integrated into BES during the year.

## Note 12 - EMPLOYEE BENEFITS

**Pension and health-care benefits**

In compliance with the collective labour agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force hired until 31 March 2008. Employees hired after 31 March 2008 are covered by the Portuguese Social Security scheme.

As at 30 December 1987, the Bank established a pension fund to cover the above mentioned liabilities with pension payments in relation to the employees in service at that time. In 1998, the Bank decided to set up an autonomous open-up pension fund – the Fundo de Pensões Aberto GES – to fund complementary pension benefits of pensioners and employees in service. During 2008, the Bank obtained the necessary authorisations from the Portuguese Insurance Institute to change the Pension Fund Contract in order to allow the coverage of all pension liabilities and health care benefits. The pension funds in Portugal are managed by ESAF- Espírito Santo Fundo de Pensões, S.A.

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

| | Assumptions | | Actual | |
|---|---|---|---|---|
| | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 |
| **Financial assumptions** | | | | |
| Salaries increase rate | 4.00% | 3.25% | 4.68% | 4.50% |
| Pensions increase rate | 2.00% | 2.25% | 2.04% | 1.59% |
| Expected return of plan assets | 5.80% | 5.25% | -28.82% | 13.23% |
| Discount rate | 5.75% | 5.25% | | |
| **Demographic assumptions and valuation methods** | | | | |
| Mortality table | | | | |
| Men | TV 73/77 (adjusted) | | | |
| Women | TV 88/90 | | | |
| Actuarial method | *Project Unit Credit Method* | | | |

In accordance with the accounting policy described in Note 2.14, the discount rate used to calculate the actuarial present value of the pensions and health care benefits, is determined at the balance sheet date by reference to interest rates of high-quality corporate bonds.

The contributions to SAMS as at 31 December 2008 and 31 December 2007, corresponded to 6.50% of total wages. The percentage of contribution is established by SAMS and no changes are expected for 2009.

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

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Employees | 5,910 | 5,805 |
| Pensioners | 5,577 | 5,475 |
| **Total** | **11,487** | **11,280** |

In accordance with IAS 19, 's liabilities, charges and contributions to the pension funds and respective coverage levels reported as at 31 December 2008 and 2007 are analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| Assets / (liabilities) recognised in the balance sheet | | | | | | |
| Defined benefit obligation | | | | | | |
| Pensioners | (1,270,829) | ( 69,285) | (1,340,114) | (1,380,097) | ( 79,781) | (1,459,878) |
| Employees | ( 633,978) | ( 34,123) | ( 668,101) | ( 538,124) | ( 27,516) | ( 565,640) |
| | **(1,904,807)** | **( 103,408)** | **(2,008,215)** | **(1,918,221)** | **( 107,297)** | **(2,025,518)** |
| **Fair value of plan assets** | **1,899,481** | **103,408** | **2,002,889** | **2,180,186** | **-** | **2,180,186** |
| Overfunded liabilities | - | - | - | 261,965 | - | 261,965 |
| Amounts payable to the fund / Recognised liabilities | ( 5,326) | - | ( 5,326) | - | ( 107,297) | ( 107,297) |
| Unrecognised net actuarial losses | 944,498 | 16,444 | 960,942 | 301,943 | 22,949 | 324,892 |
| Transitional rules | 39,469 | 32,866 | 72,335 | 59,204 | 40,691 | 99,895 |
| **Asset/(liabilities) recognised in the balance sheet** | **978,641** | **49,310** | **1,027,951** | **623,112** | **( 43,657)** | **579,455** |

As at 31 December 2008, following the changes made to the pension fund contract, the fair value of plan assets covers pension liabilities and health -care benefits.

The net assets with pensions and health-care plan are included in the balance other assets (see Note 28).

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

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

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **Defined benefit obligation at the beginning of the year** | **1,918,221** | **107,297** | **2,025,518** | **1,833,600** | **106,589** | **1,940,189** |
| Service cost | 36,135 | 1,999 | 38,134 | 27,996 | 1,828 | 29,824 |
| Interest cost | 102,671 | 5,694 | 108,365 | 84,879 | 4,933 | 89,812 |
| Plan participants' contribution | 2,925 | - | 2,925 | 2,625 | - | 2,625 |
| Actuarial (gains) / losses: | | | | | | |
| - changes in actuarial assumptions | ( 78,655) | ( 6,177) | ( 84,832) | ( 8,250) | ( 198) | ( 8,448) |
| - experience adjustments | 23,994 | 53 | 24,047 | 43,061 | ( 1,813) | 41,248 |
| Benefits paid by the fund | ( 100,300) | - | ( 100,300) | ( 95,383) | - | ( 95,383) |
| Benefits paid by the Bank | - | ( 5,739) | ( 5,739) | - | ( 5,482) | ( 5,482) |
| Curtailment losses related to early retirements | 5,108 | 281 | 5,389 | 22,158 | 1,440 | 23,598 |
| Integration of liabilities from BESSA | - | - | - | 8,465 | - | 8,465 |
| Other | ( 5,292) | - | ( 5,292) | ( 930) | - | ( 930) |
| **Defined benefit obligation at the end of the year** | **1,904,807** | **103,408** | **2,008,215** | **1,918,221** | **107,297** | **2,025,518** |

As at 31 December 2008 the curtailment losses related to early retirements were recognized through the charge-off of provisions (see Note 33).

As at 31 December 2008, the increase of 1% in the contributions to SAMS, would imply an increase in liabilities of euro 15.9 million (31 December 2007: euro 16.5 million) and an increase in costs (service cost and interest cost) of euro 1.2 millions (31 December 2007: euro 1.2 millions).

The change in fair value of the plan assets for the years ended 31 December 2008 and 2007 is analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **Fair value of plan assets at the beginning of the year** | **2,180,186** | **-** | **2,180,186** | **1,970,591** | **-** | **1,970,591** |
| Actual return on plan assets | ( 600,223) | - | ( 600,223) | 256,236 | - | 256,236 |
| Bank contribution | 421,415 | 103,408 | 524,823 | 41,056 | - | 41,056 |
| Plan participants' contribution | 2,925 | - | 2,925 | 2,625 | - | 2,625 |
| Benefits paid by the Fund | ( 100,300) | - | ( 100,300) | ( 95,383) | - | ( 95,383) |
| Integration of BESSA's unfunded liabilities | - | - | - | 6,535 | - | 6,535 |
| Other | ( 4,522) | - | ( 4,522) | ( 1,474) | - | ( 1,474) |
| **Fair value of plan assets at the end of the year** | **1,899,481** | **103,408** | **2,002,889** | **2,180,186** | **-** | **2,180,186** |

The fair value of plan assets can be analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Shares | 593,724 | 1,037,508 |
| Other variable income securities | 497,963 | 238,807 |
| Bonds | 542,012 | 249,162 |
| Real estate assets | 203,413 | 379,911 |
| Other | 165,777 | 274,798 |
| **Total** | **2,002,889** | **2,180,186** |

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Shares | 75,570 | 51,972 |
| Bonds | 11,033 | - |
| Real estate assets | 120,486 | 124,986 |
| **Total** | **207,089** | **176,958** |

As at 31 December 2008, the shares held by the pension fund correspond to 11.3 million shares of BES (31 December 2007: 3.5 million shares of BES).

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

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **Unrecognised net actuarial losses at the beginning of the year** | **301,943** | **22,949** | **324,892** | **436,695** | **26,082** | **462,777** |
| Actuarial (gains) / losses | | | | | | |
| - changes in actuarial assumptions | ( 78,655) | ( 6,177) | ( 84,832) | ( 8,250) | ( 198) | ( 8,448) |
| - experience adjustments | 736,139 | 53 | 736,192 | ( 115,505) | ( 1,813) | ( 117,318) |
| Amortisation of the year | ( 12,161) | ( 312) | ( 12,473) | ( 8,467) | ( 765) | ( 9,232) |
| Additional amortisation (curtailment) | ( 2,588) | ( 69) | ( 2,657) | ( 2,118) | ( 357) | ( 2,475) |
| Other | ( 180) | - | ( 180) | ( 412) | - | ( 412) |
| **Unrecognised net actuarial losses at the end of the year** | **944,498** | **16,444** | **960,942** | **301,943** | **22,949** | **324,892** |
| Of which: | | | | | | |
| Within the corridor | 189,646 | 10,341 | 199,987 | 217,669 | 10,730 | 228,399 |
| Within the adjusted corridor | 52,923 | 3,440 | 56,363 | 61,175 | 4,176 | 65,351 |
| Outside the corridor | 701,929 | 2,663 | 704,592 | 23,099 | 8,043 | 31,142 |

This change in the transitional rules is analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **At the beginning of the year** | **59,204** | **40,691** | **99,895** | **88,805** | **50,863** | **139,668** |
| Amortisation through reserves | ( 19,735) | ( 7,825) | ( 27,560) | ( 29,601) | ( 10,172) | ( 39,773) |
| **At the end of the year** | **39,469** | **32,866** | **72,335** | **59,204** | **40,691** | **99,895** |

The change in the (un)/overfunded liabilities are analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **(Un)/overfunded liabilities at the beginning of the year** | **261,965** | **( 107,297)** | **154,668** | **136,991** | **( 106,589)** | **30,402** |
| Actuarial (gains) / losses on defined benefit obligation | 54,661 | 6,124 | 60,785 | ( 34,811) | 2,011 | ( 32,800) |
| Actuarial (gains) / losses of plan assets | ( 712,145) | - | ( 712,145) | 158,566 | - | 158,566 |
| Charges for the year: | - | - | | | | |
| - Service cost | ( 36,135) | ( 1,999) | ( 38,134) | ( 27,996) | ( 1,828) | ( 29,824) |
| - Interest cost | ( 102,671) | ( 5,694) | ( 108,365) | ( 84,879) | ( 4,933) | ( 89,812) |
| - Expected return on plan assets | 111,922 | - | 111,922 | 97,670 | - | 97,670 |
| - Curtailment losses related to early retirements | ( 5,108) | ( 281) | ( 5,389) | ( 22,158) | ( 1,440) | ( 23,598) |
| Contributions paid by the Bank | 421,415 | 109,147 | 530,562 | 41,056 | 5,482 | 46,538 |
| Integration of BESSA's unfunded liabilities | - | - | - | ( 1,930) | - | ( 1,930) |
| Contributions to the Fund and Others | 770 | - | 770 | ( 544) | - | ( 544) |
| **(Un)/overfunded liabilities at the end of the year** | **( 5,326)** | **-** | **( 5,326)** | **261,965** | **( 107,297)** | **154,668** |

The net periodic benefit cost can be analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| Service cost | 36,135 | 1,999 | 38,134 | 27,996 | 1,828 | 29,824 |
| Interest cost | 102,671 | 5,694 | 108,365 | 84,879 | 4,933 | 89,812 |
| Expected return on plan assets | ( 111,922) | - | ( 111,922) | ( 97,670) | - | ( 97,670) |
| Amortisation of the year | 12,161 | 312 | 12,473 | 8,467 | 765 | 9,232 |
| Curtailment losses related to early retirements | - | - | - | 24,276 | 1,797 | 26,073 |
| **Net benefit cost** | **39,045** | **8,005** | **47,050** | **47,948** | **9,323** | **57,271** |

As at 31 December 2007 the curtailment losses related to early retirements include the effect of the additional amortisation.

The additional amortisation of the unrecognised net actuarial losses related to early retirements in 2008 was recognised through the charge-off of provisions (see Note 33).

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

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Total | Pension plans | Health-care plans | Total |
| **At the beginning of the year** | **623,112** | **( 43,657)** | **579,455** | **662,492** | **( 29,644)** | **632,848** |
| Net periodic benefit cost | ( 39,045) | ( 8,005) | ( 47,050) | ( 47,948) | ( 9,323) | ( 57,271) |
| Charge-off of provisions | ( 7,696) | ( 350) | ( 8,046) | - | - | - |
| Amortisation of transitional rules (reserves) | ( 19,735) | ( 7,825) | ( 27,560) | ( 29,601) | ( 10,172) | ( 39,773) |
| Contributions of the year and pensions paid by the Bank | 421,415 | 109,147 | 530,562 | 41,056 | 5,482 | 46,538 |
| Integration of BESSA's net assets/(liabilities) | - | - | - | ( 1,930) | - | ( 1,930) |
| Other | 590 | - | 590 | ( 957) | - | ( 957) |
| **At the end of the year** | **978,641** | **49,310** | **1,027,951** | **623,112** | **( 43,657)** | **579,455** |

The evolution of the defined benefit obligations, fair value of plan assets and of the experience adjustments gains/ (losses) in the past 5 years, is presented as follows:

in thousands of euro

| | 31.12.2008 | | 31.12.2007 | | 31.12.2006 | | 31.12.2005 | | 31.12.2004 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pension plans | Health-care plans | Pension plans | Health-care plans | Pension plans | Health-care plans | Pension plans | Health-care plans | Pension plans | Health-care plans |
| Defined benefit obligation | (1,904,807) | ( 103,408) | (1,918,221) | ( 107,297) | (1,833,600) | ( 106,589) | (1,772,396) | ( 114,373) | (1,393,000) | ( 86,280) |
| Fair value of plan assets | 1,899,481 | 103,408 | 2,180,186 | - | 1,970,591 | - | 1,766,187 | - | 1,354,289 | - |
| **(Un)/overfunded liabilities** | **( 5,326)** | **-** | **261,965** | **( 107,297)** | **136,991** | **( 106,589)** | **( 6,209)** | **( 114,373)** | **( 38,711)** | **( 86,280)** |
| Experience adjustments arising on plan liabilities - (gains)/losses | 23,994 | 53 | 43,061 | ( 1,813) | 2,916 | ( 11,568) | 28,899 | 5,418 | 2,480 | 144 |
| Experience adjustments arising on plan assets - (gains)/losses | 712,145 | - | ( 158,566) | - | ( 140,259) | - | ( 64,787) | - | 2,243 | - |

As at 31 December 2007, the health-care benefits were fully covered through liabilities recognised in the balance sheet.

**SIBA**

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

The main characteristics of each plan are presented as follows:

| | Plan maturity (expected) | Number of shares at the grant date | Average strike price (Euro) | Number of shares as at 31 December 2008 [1] | Coverage by shares |
|---|---|---|---|---|---|
| Plan 2000 | | | | | |
| 1st block | Expired (Dec-04) | 548,389 | 17.37 | - | - |
| 2nd block | Expired (Dec-05) | 1,279,576 | 17.37 | - | - |
| Plan 2001 | | | | | |
| 1st block | Expired (May-06) | 1,358,149 | 11.51 | - | - |
| 2nd block | Expired (May-07) | 3,169,016 | 11.51 | - | - |
| Plan 2002 | | | | | |
| 1st block | Expired (Apr-07) | 755,408 | 12.02 | - | - |
| 2nd block | Expired (Apr-08) | 1,762,619 | 12.02 | - | - |
| Plan 2003 | | | | | |
| 1st block | Expired (May-08) | 480,576 | 14.00 | - | - |
| 2nd block | May-09 | 1,121,343 | 14.00 | 1,001,231 | 100% |
| Plan 2004 | | | | | |
| 1st block | Dec-09 | 541,599 | 13.54 | 106,836 | 100% |
| 2nd block | Dec-10 | 1,270,175 | 13.54 | 1,371,014 | 100% |

(1) Includes shares attributed under the incorporation of shares premiums as a result of the capital increase in 2006.

The changes in the number of underlying shares to the outstanding plans during the years ended 31 December 2008 and 2007 were as follows:

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Number of shares | Average price (euro) | Number of shares | Average price (euro) |
| Opening balance | 3,484,262 | 11.89 | 5,667,612 | 11.24 |
| Shares sold [1] | (1,005,181) | 11.54 | (2,183,350) | 10.21 |
| **Year-end balance** | **2,479,081** | **12.04** | **3,484,262** | **11.89** |

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

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

| | Plan 2004 | Plan 2003 | Plan 2002 | Plan 2001 | Plan 2000 |
|---|---|---|---|---|---|
| Maturity | | | | | |
| 1st block | 24 months | Expired | Expired | Expired | Expired |
| 2nd block | 60 months | 60 months | Expired | Expired | Expired |
| Volatility | 12% | 12% | 12% | 12% | 12% |
| Risk free interest rate | | | | | |
| 1st block | 3.04% | 2.63% | 2.70% | 4.38% | 4.71% |
| 2nd block | 3.22% | 3.52% | 3.56% | 5.01% | 5.05% |
| Dividend yield | 2.90% | 2.90% | 2.90% | 2.90% | 2.90% |
| Fair value at the grant date (thousands of euro) | 2,305 | 2,137 | 2,830 | 6,530 | 3,056 |

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Total costs of the plans (see Note 11) | 703 | 1,402 |

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

**Variable remuneration payment plan (PPRV)**

During the year of 2008, following the General Shareholders Meeting held on 31 March 2008, BES and its subsidiaries established a benefits payment scheme, named Variable remuneration payment plan (PPRV – 2008/2010).

Under this incentive scheme, BES employees have the right to a future cash payment equivalent to the appreciation of BES shares between the initial reference date and the final reference date. The PPRV is not a plan where stocks or stock options are granted to employees. Under this plan no rights are granted to employees equivalent to a shareholding in BES share capital.

The plans' initial fair value was calculated using an option valuation model with the following assumptions:

| | |
|---|---|
| Initial reference date | 02-Jun-2008 |
| Final reference date | 02-Jun-2011 |
| Rights granted to employees | 3,937,250 |
| Initial stock price | 11.00 |
| Interest rate | 5.22% |
| Volatility | 33.5% |
| Initial fair value of the plan (in thousands of euro) | 9,821 |

In accordance with the accounting policy described in Note 2.14, the initial fair value of the PPRV, in the amount of euro 9,821 thousands, will be recognised during the three year period comprised between the initial and the final reference dates. As such, the Bank recognised during the year, as staff costs, the amount of euro 1 910 thousands. The change in the fair value of the benefit granted to employees during the life of the program will be recognised as a profit/loss from financial assets at fair value through profit or loss.

The fair value of the liability recognised is reameasured at the end of each month, being as at 31 December 2008 of euro 639 thousands.

**Long-term service benefits**

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

As at 31 December 2008 and 2007, the Bank liabilities regarding these benefits amount to euro 25,566 thousands and euro 20,530 thousands, respectively (see Note 36). The costs incurred in the year with long–term service benefits amounted to euro 6,674 thousands (31 December 2007: euro 965 thousands).

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

## Note 13 - GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Rental costs | 50,900 | 46,054 |
| Advertising costs | 36,203 | 36,348 |
| Communication costs | 29,568 | 26,790 |
| Maintenance and related services | 13,514 | 13,770 |
| Travelling and representation costs | 19,202 | 17,960 |
| Water, energy and fuel | 8,471 | 6,461 |
| Transportation | 9,564 | 8,732 |
| Consumables | 4,822 | 4,633 |
| Specialised services | | |
| IT services | 49,566 | 45,223 |
| Temporary work | 5,413 | 4,905 |
| Independent work | 5,588 | 5,597 |
| Electronic payment systems | 11,839 | 11,281 |
| Advisory services | 11,868 | 13,455 |
| Legal services | 8,860 | 8,676 |
| Consultants and external auditors | 3,995 | 3,962 |
| Security and surveillance | 4,245 | 3,229 |
| Other specialised services | 28,132 | 25,936 |
| Other costs | 23,906 | 20,537 |
| | **325,656** | **303,549** |

The balance other specialised services includes, among others, costs from expert evaluation services, call centre, and cost with services made by the "Agrupamento Complementar de Empresas (ACE)".

Non-cancellable operational leasing contracts amount to euro 179 thousands and euro 459 thousand payable until 31 December 2009 and 31 December 2012, respectively.

## Note 14 - EARNINGS PER SHARE

**Basic earnings per share**

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Profit attributable to the equity holders of the Bank** | **211,878** | **494,699** |
| Weighted average number of ordinary shares (thousands) | 500,000 | 500,000 |
| Weighted average number of treasury stock (thousands) | 2,698 | 4,090 |
| Weighted average number of ordinary shares outstanding (thousands) | **497,302** | **495,910** |
| **Basic earnings per share attributable to equity holders of the Bank (in euro)** | **0.43** | **1.00** |

**Diluted earnings per share**

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

The diluted earnings per share is not different from the basic earning per share as the outstanding plans of SIBA do not have a dilutive effect as at 31 December 2008 and 2007.

## Note 15 - CASH AND DEPOSITS AT CENTRAL BANKS

As at 31 December 2008 and 2007, this balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Cash | 197,588 | 225,073 |
| Deposits at central banks | | |
| Bank of Portugal | 1,151,023 | 979,012 |
| Other central banks | 407,142 | 12,011 |
| | 1,558,165 | 991,023 |
| | 1,755,753 | 1,216,096 |

The deposits at Central Banks include mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements, in the amount of euro 572,070 thousands (31 December 2007: euro 414,480 thousands). According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. During 2008, these deposits have earned interest at an average rate of 4.07% (31 December 2007: 3.94%).

## Note 16 - DEPOSITS WITH BANKS

As at 31 December 2008 and 2007, this balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Deposits with banks in Portugal | | |
| Uncollected cheques | 280,877 | 374,395 |
| Repayable on demand | 7,969 | 9,193 |
| | 288,846 | 383,588 |
| Deposits with banks abroad | | |
| Repayable on demand | 48,791 | 93,620 |
| Uncollected cheques | - | 8 |
| | 48,791 | 93,628 |
| | 337,637 | 477,216 |

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

## Note 17 - FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2008 and 2007, this balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Financial assets held for trading** | | |
| **Securities** | | |
| Bonds and other fixed income securities | | |
| Issued by government and public entities | 1,049,091 | 723,364 |
| Issued by other entities | 2,272 | 930 |
| Other variable income securities | - | 698,353 |
| | 1,051,363 | 1,422,647 |
| **Derivatives** | | |
| Derivative financial instruments with positive fair value | 1,823,483 | 1,195,249 |
| | 2,874,846 | 2,617,896 |
| **Financial liabilities held for trading** | | |
| **Derivatives** | | |
| Derivative financial instruments with negative fair value | 1,532,270 | 1,034,222 |

As at 31 December 2008 and 2007, the analysis of the securities held for trading by the period to maturity, is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 560,611 | 347,491 |
| 3 to 12 months | 421,205 | 336,586 |
| 1 to 5 years | 63,397 | 194,466 |
| More than 5 years | 6,150 | 82,458 |
| Undetermined | - | 461,646 |
| | 1,051,363 | 1,422,647 |

In accordance with the accounting policy described in Note 2.5, securities held for trading are those which are bought to be traded in the short-term, regardless of their maturity.

Financial assets held for trading analysed by quoted and unquoted securities, are presented as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Bonds and other fixed income securities | | | | | | |
| Issued by govermment and public entities | 1,049,091 | - | 1,049,091 | 723,364 | - | 723,364 |
| Issued by other entities | 2,189 | 83 | 2,272 | 747 | 183 | 930 |
| Other variable income securities | - | - | - | - | 698,353 | 698,353 |
| | 1,051,280 | 83 | 1,051,363 | 724,111 | 698,536 | 1,422,647 |

As at 31 December 2008 and 2007, derivative financial instruments can be analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Nocional | Fair Value | | Nocional | Fair Value | |
| | | Assets | Liabilities | | Assets | Liabilities |
| **Trading derivatives** | | | | | | |
| **Exchange rate contracts** | | | | | | |
| Forward | | | | | | |
| - buy | 1,471,773 | 40,508 | 75,574 | 12,133,575 | 112,847 | 247,145 |
| - sell | 1,498,026 | | | 12,252,372 | | |
| Currency Swaps | | | | | | |
| - buy | 1,207,649 | 4,099 | 3,723 | 345,984 | 2,056 | 2,243 |
| - sell | 1,222,113 | | | 347,198 | | |
| Currency Interest Rate Swaps | | | | | | |
| - buy | 1,364,308 | 112,550 | 106,995 | 1,657,950 | 187,591 | 176,211 |
| - sell | 1,351,033 | | | 1,660,294 | | |
| Currency Options | 7,698,528 | 289,504 | 212,519 | 4,218,176 | 57,379 | 86,511 |
| | 15,813,430 | 446,661 | 398,811 | 32,615,549 | 359,873 | 512,110 |
| **Interest rate contracts** | | | | | | |
| Forward Rate Agreements | 989,564 | 637 | 1,290 | 5,353,657 | 1,444 | 342 |
| Interest Rate Swaps | 48,794,876 | 1,066,278 | 874,815 | 29,831,122 | 616,970 | 401,020 |
| Swaption - Interest Rate Options | 5,585,336 | 8,662 | 7,756 | 2,330,536 | 3,814 | 2,105 |
| Interest Rate Caps & Floors | 7,339,549 | 61,085 | 34,656 | 5,135,206 | 29,862 | 25,529 |
| Interest Rate Futures | - | - | - | 100,000 | - | - |
| Bonds Options | - | - | - | 30,000 | 665 | 558 |
| Future Options | 20,972,550 | - | - | 3,229,375 | - | - |
| | 83,681,875 | 1,136,662 | 918,517 | 46,009,896 | 652,755 | 429,554 |
| **Equity / index contracts** | | | | | | |
| Equity / Index Swaps | 625,186 | 45,466 | 22,093 | 1,797,380 | 85,468 | 24,648 |
| Equity / Index Options | 2,050,016 | 134,050 | 138,228 | 1,505,819 | 76,345 | 56,716 |
| Equity / Index Futures | 255 | - | - | - | - | - |
| | 2,675,457 | 179,516 | 160,321 | 3,303,199 | 161,813 | 81,364 |
| **Credit default contracts** | | | | | | |
| Credit Default Swaps | 2,840,761 | 60,644 | 54,621 | 1,439,622 | 20,808 | 11,194 |
| **Total** | 105,011,523 | 1,823,483 | 1,532,270 | 83,368,266 | 1,195,249 | 1,034,222 |

As at 31 December 2008 and 2007, the analysis of trading derivatives by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Nocional | Fair value (net) | Nocional | Fair value (net) |
| Up to 3 months | 23,013,193 | ( 44,233) | 27,362,969 | ( 149,180) |
| 3 to 12 months | 23,779,626 | 97,365 | 18,730,128 | 77,424 |
| 1 to 5 years | 39,074,233 | 234,452 | 21,016,696 | 286,240 |
| More than 5 years | 19,144,471 | 3,629 | 16,258,473 | ( 53,457) |
| | **105,011,523** | **291,213** | **83,368,266** | **161,027** |

## Note 18 - OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Bonds and other fixed income securities | | |
| Issued by other entities | 1,183,951 | 894,329 |
| Shares | 7,144 | 192,354 |
| Other securities | 830,123 | - |
| **Book value** | **2,021,218** | **1,086,683** |

In light of IAS 39 and in accordance with the accounting policy described in Note 2.5, the Bank designated these financial assets as at fair value through profit or loss, in accordance with the documented risk management and investment strategy, considering that these financial assets (i) are managed and evaluated on a fair value basis and/or (ii) have embedded derivatives.

As at 31 December 2008 and 2007, the analysis of the financial assets at fair value through profit or loss by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 48,469 | 398,001 |
| 3 to 12 months | 546,218 | 103,330 |
| 1 to 5 years | 542,196 | 63,724 |
| More than 5 years | 608,727 | 329,274 |
| Undetermined | 275,608 | 192,354 |
| | **2,021,218** | **1,086,683** |

Regarding quoted or unquoted securities, the balance financial assets at fair value through profit or loss, is presented as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Bonds and other fixed income securities | | | | | | |
| Issued by other entities | 643,229 | 540,722 | 1,183,951 | 178,708 | 715,621 | 894,329 |
| Shares | 7,144 | - | 7,144 | 192,354 | - | 192,354 |
| Other variable income securities | 166,999 | 663,124 | 830,123 | - | - | - |
| | **817,372** | **1,203,846** | **2,021,218** | **371,062** | **715,621** | **1,086,683** |

## Note 19 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31 December 2008 and 2007, this balance is analysed as follows:

in thousands of euro

| | Cost[1] | Fair value reserve | | Impairment | Book value |
|---|---|---|---|---|---|
| | | Positive | Negative | | |
| Bonds and other fixed income securities | | | | | |
| Issued by government and public entities | 197,375 | 2,538 | ( 1) | - | 199,912 |
| Issued by other entities | 5,124,498 | 5,518 | ( 17,482) | ( 11,690) | 5,100,844 |
| Shares | 1,488,423 | 15,144 | ( 214,562) | ( 50,601) | 1,238,404 |
| Other variable income securities | 684,584 | 16,833 | ( 7,185) | ( 14,527) | 679,705 |
| **Balance as at 31 December 2008** | **7,494,880** | **40,033** | **( 239,230)** | **( 76,818)** | **7,218,865** |
| Bonds and other fixed income securities | | | | | |
| Issued by government and public entities | 259,735 | 820 | ( 922) | - | 259,633 |
| Issued by other entities | 3,224,405 | 1,726 | ( 20,604) | ( 7,492) | 3,198,035 |
| Shares | 1,025,822 | 818,878 | ( 6,822) | ( 28,143) | 1,809,735 |
| Other variable income securities | 335,445 | 4,190 | ( 472) | ( 17,085) | 322,078 |
| **Balance as at 31 December 2007** | **4,845,407** | **825,614** | **( 28,820)** | **( 52,720)** | **5,589,481** |

(1) Acquisition cost relating to shares and other variable income securities and amortised cost relating to debt securities

The securities pledged as collateral by the Group are analysed in Note 39.

In accordance with the accounting policy described in Note 2.5, the Bank assesses periodically whether there is objective evidence of impairment on the available-for-sale financial assets, following the judgment criteria's described in Note 3.1.

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance as at the beginning of the year** | **52,720** | **49,040** |
| Charge for the year | 37,401 | 14,241 |
| Charge off | ( 17,745) | ( 10,845) |
| Write back for the year | ( 31) | ( 479) |
| Transfers | 8,413 | - |
| Exchange differences and other | ( 3,940) | 763 |
| **Balance as at the end of the year** | **76,818** | **52,720** |

As at 31 December 2008 and 2007, the analysis of available-for-sale assets by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 1,271,590 | 642,209 |
| 3 to 12 months | 1,038,639 | 324,453 |
| 1 to 5 years | 511,390 | 799,231 |
| More than 5 years | 2,479,136 | 1,691,775 |
| Undetermined | 1,918,110 | 2,131,813 |
| | **7,218,865** | **5,589,481** |

The main equity exposures that contribute to the fair value reserve, as at 31 December 2008 and 2007, can be analysed as follows:

in thousands of euro

| 31.12.2008 | | | | | |
|---|---|---|---|---|---|
| **Description** | Acquisition cost | Fair value reserve | | Impairment | Book value |
| | | Positive | Negative | | |
| Banco Bradesco | 412,745 | - | ( 20,493) | - | 392,252 |
| Portugal Telecom | 454,356 | - | ( 91,222) | - | 363,134 |
| EDP | 375,893 | - | ( 75,815) | - | 300,078 |
| Banque Marocaine du Commerce Extérieur | 2,480 | 7,963 | - | ( 682) | 9,761 |
| | **1,245,474** | **7,963** | **( 187,530)** | **( 682)** | **1,065,225** |

in thousands of euro

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

As at 31 December 2008, the unrealised losses related with the main equity exposures under the available-for-sale financial assets category were recognised in the fair value reserve, as they did not met with the judgment criteria's applied for impairment recognition, namely (i) the decline in market value above 30% in relation to the acquisition cost or (ii) market value below the acquisition cost for a period longer than twelve-months

During 2008, BES acquired 36.5 million shares of Banco Bradesco, adjusted by the stock split, by an amount of euro 359.8 million. Also during 2008, BES sold 42.7 million shares of Banco Bradesco by an amount of euro 510.7 million, 38 million of which were sold to BES Vida. During 2008, BES Vida sold all Bradesco shares (see Note 8 and Note 40).

Following these transactions, the investment funds managed by ESAF – Fundos de Investimento Mobiliário, S.A. and the Bank's pension fund acquired 25.3 million shares of Banco Bradesco by an amount of euro 290.5 million and 5 million shares of Banco Bradesco by an amount of euro 67.1 million, respectively.

The analysis of the available-for-sale financial assets by quoted and unquoted securities, is presented as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Bonds and other fixed income securities | | | | | | |
| Issued by govermment and public entities | 143,022 | 56,890 | 199,912 | 47,562 | 212,071 | 259,633 |
| Issued by other entities | 1,738,052 | 3,362,792 | 5,100,844 | 11,401 | 3,186,634 | 3,198,035 |
| Shares | 1,122,431 | 115,973 | 1,238,404 | 1,707,688 | 102,047 | 1,809,735 |
| Other variable income securities | - | 679,705 | 679,705 | - | 322,078 | 322,078 |
| | 3,003,505 | 4,215,360 | 7,218,865 | 1,766,651 | 3,822,830 | 5,589,481 |

## Note 20 - LOANS AND ADVANCES TO BANKS

As at 31 December 2008 and 2007, this balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Loans and advances to banks in Portugal** | | |
| Loans | 249,463 | 1,348,181 |
| Inter-bank money market | 53,894 | 1,310,118 |
| Deposits | 913,496 | 580,952 |
| Very short term deposits | 57,931 | 377,260 |
| Other loans and advances | 6,709 | 1,473 |
| | 1,281,493 | 3 ,617,984 |
| **Loans and advances to banks abroad** | | |
| Deposits | 4,000,017 | 4,420,583 |
| Very short term deposits | 372,466 | 1,351,258 |
| Loans | 1,227,416 | 969,433 |
| Other loans and advances | 239,549 | 16,145 |
| | 5,839,448 | 6,757,419 |
| Impairment losses | ( 141) | ( 366) |
| | 7,120,800 | 10,375,037 |

The main loans and advances to banks in Portugal, as at 31 December 2008, bear interest at an average annual interest rate of 4.41% (31 December 2007: 4.47%). Loans and advances to banks abroad bear interest at international market rates where the Bank operates.

As at 31 December 2008, this balance include euro 27,372 thousands (31 December 2007: euro 559,687 thousands) of loans and advances to banks at fair value through profit or loss (see Note 23).

As at 31 December 2008 and 2007, the analysis of loans and advances to banks by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 5,336,780 | 9,703,137 |
| 3 to 12 months | 1,028,700 | 436,419 |
| 1 to 5 years | 399,245 | 103,014 |
| More than 5 years | 351,065 | 132,582 |
| Undetermined | 5,151 | 251 |
| | 7,120,941 | 10,375,403 |

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the begining of the year** | **366** | **1,595** |
| Charge for the year | 253 | 1,114 |
| Write back for the year | ( 486) | ( 2,236) |
| Exchange differences and other | 8 | ( 107) |
| **Balance at the end of the year** | **141** | **366** |

## **Note 21 -** LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2008 and 2007, this balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Domestic loans** | | |
| Corporate | | |
| Commercial lines of credits | 5,655,791 | 8,773,195 |
| Loans | 10,519,673 | 5,295,525 |
| Discounted bills | 899,656 | 1,108,224 |
| Factoring | 1,096,588 | 158,019 |
| Overdrafts | 37,242 | 49,641 |
| Finance leases | 3,086,673 | 1,876 |
| Other loans | 235,612 | 198,124 |
| Retail | | |
| Mortgage loans | 7,355,827 | 8,327,928 |
| Consumer and other loans | 2,313,604 | 2,228,742 |
| | 31,200,666 | 26,141,274 |
| **Foreign loans** | | |
| Corporate | | |
| Loans | 3,950,128 | 3,703,654 |
| Commercial lines of credits | 1,281,973 | 1,050,661 |
| Overdrafts | 24,148 | 27,199 |
| Discounted bills | 179,742 | 135,950 |
| Finance leases | 293,250 | 258,102 |
| Factoring | 77,692 | - |
| Other loans | 1,339,865 | 876,701 |
| Retail | | |
| Mortgage loans | 420,178 | 431,927 |
| Consumer and other loans | 304,262 | 295,332 |
| | 7,871,238 | 6,779,526 |
| **Overdue loans and interest** | | |
| Up to 3 months | 98,706 | 44,478 |
| From 3 to 12 months | 169,116 | 96,709 |
| From 1 to 3 years | 220,355 | 191,110 |
| More than 3 years | 117,217 | 110,574 |
| | 605,394 | 442,871 |
| | 39,677,298 | 33,363,671 |
| **Provision for impaired loans and advances** | ( 627,514) | ( 487,804) |
| | 39,049,784 | 32,875,867 |

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

As at 31 December 2008, this balance includes euro 454,099 thousands (31 December 2007: 156,049 thousands) of loans at fair value through profit or loss (see Note 23).

As at 31 December 2008, loans and advances includes euro 2,722,664 thousands of mortgage loans that collateralise the issue of covered bonds (see Note 32).

During July 2007, BES carried out a mortgage loans securitization transaction (Lusitano Mortgages
No. 6) in the amount of euro 1,100 million. During December 2007 BES, together with other entities of the Bank, participated in a project finance securitization transaction in the amount of euro 1,079 million, from which euro 889 million were transferred from BES (see Note 41). In September 2008, BES carried out a mortgage loans securitization transaction (Lusitano Mortgages No. 7) in the amount of euro 1,900 million.

As at 31 December 2008, loans and advances includes euro 71,822 thousands of restructured loans (31 December 2007: euro 63,102 thousands). These loans correspond, in accordance with definition of the Bank of the Portugal, to loans previously overdue, which through a restructuring process are considered as performing loans.

As at 31 December 2008 and 2007, the analysis of loans and advances to customers by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 6,395,461 | 5,644,786 |
| 3 to 12 months | 4,727,367 | 4,798,897 |
| 1 to 5 years | 9,118,724 | 6,134,674 |
| More than 5 years | 18,830,352 | 16,342,443 |
| Undetermined | 605,394 | 442,871 |
| | 39,677,298 | 33,363,671 |

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance as at the beginning of the year | 487,804 | 369,366 |
| Charge for the year | 187,612 | 172,826 |
| Charge off | ( 80,426) | ( 77,759) |
| Write back for the year | ( 21,339) | ( 19,812) |
| Transfers [(a)] | 35,551 | 36,640 |
| Exchange differences and other [(b)] | 18,312 | 6,543 |
| **Balance as at the end of the year** | **627,514** | **487,804** |

(a) Provisions from credit risk (see Note 33)

(b) As at 31 December 2008, this balance includes euro 18 618 thousands from BES Leasing's merger and as at 31 December 2007 includes euro 6 384 thousands from BESSA's merger

Additionally, as at 31 December 2008, the Bank has a provision for general banking risks in the amount of euro 427,872 thousands (31 December 2007: euro 396,385 thousands), which in accordance to NCA is presented as a liability (see Note 33).

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Fixed interest rate | 4,174,003 | 3,645,911 |
| Variable interest rate | 35,503,295 | 29,717,760 |
| | 39,677,298 | 33,363,671 |

An analysis of finance lease loans by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Gross investment in finance leases, receivable** | | |
| Up to 1 year | 607,861 | 3,239 |
| From 1 to 5 years | 1,597,098 | 130,988 |
| More than 5 years | 1,368,869 | 131,176 |
| | 3,573,828 | 265,403 |
| **Unearned future finance income on finance leases** | | |
| Up to 1 year | 29,963 | - |
| From 1 to 5 years | 75,071 | - |
| More than 5 years | 88,871 | 5,425 |
| | 193,905 | 5,425 |
| **Net investment in finance leases** | | |
| Up to 1 year | 577,898 | 3,239 |
| From 1 to 5 years | 1,522,027 | 130,988 |
| More than 5 years | 1,279,998 | 125,751 |
| | 3,379,923 | 259,978 |

## Note 22 - HELD-TO-MATURITY INVESTMENTS

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Bonds and other fixed income securities | | |
| Issued by government and public entities | 322,337 | 390,025 |
| Issued by other entities | 1,484,136 | - |
| | 1,806,473 | 390,025 |

As at 31 December 2008 and 2007, the analysis of held-to-maturity investments by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 371,053 | 6,085 |
| 3 to 12 months | 118,389 | 9,254 |
| 1 to 5 years | 853,739 | 350,267 |
| More than 5 years | 463,292 | 24,419 |
| | 1,806,473 | 390,025 |

The analysis of the held-to-maturity investments by quoted and unquoted securities, is presented as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Bonds and other fixed income securities | | | | | | |
| Issued by govermment and public entities | 322,337 | - | 322,337 | 374,858 | 15,167 | 390,025 |
| Issued by other entities | 1,094,222 | 389,914 | 1,484,136 | - | - | - |
| | 1,416,559 | 389,914 | 1,806,473 | 374,858 | 15,167 | 390,025 |

The fair value of the held-to-maturity investments is presented in Note 42. BES assessed, with reference to 31 December 2008, the existence of objective evidence of impairment on its held-to-maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

During the year ended 31 December 2008, the Bank has reclassified non-derivative financial assets to the held-to-maturity investments category in the amount of euro 409 millions, as follows:

in thousands of euro

| | 31.12.2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reclassification date | | | | | | |
| | Acquisition cost | Book value | Fair value reserve | | Market value as at 31 December 2008 | Amortisation of the fair value reserve at the year | Impact through profit or loss [(a)] |
| | | | Positive | Negative | | | |
| Available-for-sale financial assets | 433,247 | 408,987 | 366 | ( 24,626) | 380,071 | 726 | - |

a) Impact in the net income as a sequence of the reclassification with reference to 1 July

During the second half of 2008, BES Group acquired to BES Vida securities that were classified upon initial recognition as held-to-maturity investments, in the amount of euro 689.5 million, from which euro 517.9 million were acquired through brokers.

## Note 23 - DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 31 December 2008 and 2007, the fair value of the derivatives for risk management purposes can be analysed as follows:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 |
|---|---|---|---|---|
| | Hedging | Risk management | Total | |
| **Derivatives for risk management purposes** | | | | |
| Derivatives for risk management purposes - assets | 731,440 | 254,801 | 986,241 | 165,346 |
| Derivatives for risk management purposes - liabilities | ( 397,380) | ( 399,143) | ( 796,523) | ( 189,651) |
| | 334,060 | ( 144,342) | 189,718 | ( 24,305) |
| **Fair value component of assets and liabilities being hedged** | | | | |
| Financial assets | | | | |
| Loans and advances to banks | - | ( 6,228) | ( 6,228) | 49 |
| Securities | - | ( 726) | ( 726) | ( 1,805) |
| Loans and advances to customers | 1,895 | 20,924 | 22,819 | ( 158) |
| | 1,895 | 13,970 | 15,865 | ( 1,914) |
| **Financial liabilities** | | | | |
| Deposits from banks | ( 29,920) | 8,899 | ( 21,021) | 7,234 |
| Due to customers | ( 4,088) | 13 | ( 4,075) | 1,723 |
| Debt securities issued | ( 222,323) | 93,443 | ( 128,880) | 5,404 |
| Subordinated debt | ( 17,698) | - | ( 17,698) | 22,455 |
| | ( 274,029) | 102,355 | ( 171,674) | 36,816 |
| | ( 272,134) | 116,325 | ( 155,809) | 34,902 |

As mentioned in the accounting policy described in Note 2.4, derivatives for risk management purposes include hedging derivatives and derivatives contracted to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss (and that were not designated as hedging derivatives).

### Hedging derivatives

As at 31 December 2008 and 2007, the fair value hedge relationships present the following features:

in thousands of euro

| 31.12.2008 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Derivative | Hedged item | Hedged risk | Nocional | Fair value of derivative(1) | Changes in the fair value of the derivative in the year | Fair value component of the hedged item(2) | Changes in the fair value of the hedged item in the year (2) |
| *Interest Rate Swap* | Loans to customers | Interest rate | 66,993 | ( 2,267) | ( 3,218) | 1,895 | 3,183 |
| *Interest Rate Swap* | Deposits from banks | Interest rate | 148,000 | 29,489 | 30,660 | ( 27,677) | ( 30,730) |
| *Interest Rate Swap* | Due to customers | Interest rate | 196,077 | 8,232 | 5,572 | ( 4,088) | ( 5,685) |
| *Interest Rate Swap* | Debt security issued | Interest rate | 10,530,481 | 275,899 | 230,066 | ( 222,323) | ( 235,351) |
| *Interest Rate Swap* | Subordinated debt | Interest rate | 500,000 | 33,860 | 26,712 | ( 26,894) | ( 26,894) |
| *Currency Interest Rate Swap* | Deposits from banks | Interest rate and FX | 299,213 | ( 1,763) | ( 2,415) | ( 2,243) | 2,415 |
| *Currency Interest Rate Swap* | Subordinated debt | Interest rate and FX | 274,098 | ( 9,390) | 19,102 | 9,196 | ( 19,135) |
| | | | 12,014,862 | 334,060 | 306,479 | ( 272,134) | ( 312,197) |

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

in thousands of euro

| 31.12.2007 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Derivative | Hedged item | Hedged risk | Nocional | Fair value of derivative[1] | Changes in the fair value of the derivative in the year | Fair value component of the hedged item[2] | Changes in the fair value of the hedged item in the year [2] |
| *Currency Interest Rate Swap* | Subordinated loans | Exchange and interest rate | 181,895 | ( 22,678) | ( 11,995) | 22,455 | 12,621 |
| *Currency Interest Rate Swap* | Deposits from banks | Exchange and interest rate | 407,405 | ( 4,841) | ( 4,191) | 4,633 | 4,191 |
| *Interest Rate Swap* | Loans | Interest rate | 91,993 | 1,210 | 969 | ( 767) | ( 953) |
| *Interest Rate Swap* | Bonds | Interest rate | 1,306,665 | ( 376) | 22,065 | 7,770 | ( 22,251) |
| *Interest Rate Swap* | Due to customers | Interest rate | 191,077 | 822 | ( 1,463) | 831 | 275 |
| *Interest Rate Swap* | Deposits from banks | Interest rate | 128,000 | ( 1,228) | ( 9,130) | 2,601 | 8,842 |
| | | | **2,307,035** | **( 27,091)** | **( 3,745)** | **37,523** | **2,725** |

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

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under net gains/(losses) from financial assets at fair value through profit or loss.

As at 31 December 2008, the ineffectiveness of the fair value hedge operations amounted to euro 5.7 million (31 December 2007: euro 1.0 million) and was recognised in the income statement. BES evaluates on an ongoing basis the effectiveness of the hedges.

**Other derivatives for risk management purposes**

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

in thousands of euro

| 31.12.2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Derivative | | | Asset/liabilities associated | | | |
| Derivative | Financial assets/liabilities economically hedged | Notional | Fair Value | Changes in the fair value in the year | Fair Value | Changes in the fair value in the year | Book Value | Reimburse - ment amount at maturity date |
| | **Assets** | | | | | | | |
| FX swap | Loans and advances to Banks | 33,670 | ( 145) | ( 145) | ( 6,228) | ( 6,228) | 22,372 | 33,635 |
| Interest Rate Swap | Securities | 231,514 | 280 | 280 | ( 726) | 3,216 | 226,000 | 226,000 |
| Interest Rate Swap | Loans and advances to customers | 631,466 | ( 27,073) | ( 19,204) | 20,924 | 20,315 | 454,099 | 433,175 |
| | **Liabilities** | | | | | | | |
| FX swap | Deposits from banks | 1,494,617 | 1,129 | 1,129 | ( 436) | ( 436) | 1,484,940 | 1,484,940 |
| Credit Default Swap | Deposits from banks | 150,000 | ( 1,050) | ( 1,082) | 9,335 | 9,335 | 157,169 | 150,000 |
| Index Swap / Interest Rate Swap | Due to customers | 193,805 | 5,995 | 6,064 | 13 | - | 2,925 | 2,912 |
| Index Swap | Debt security issued | 43,816 | ( 473) | ( 816) | 170 | 512 | 42,026 | 41,857 |
| Forwards / Interest Rate Swap | Debt security issued | 1,381,292 | ( 123,005) | ( 125,584) | 93,273 | 93,797 | 1,154,438 | 1,234,205 |
| | | **4,160,180** | **( 144,342)** | **( 139,358)** | **116,325** | **122,511** | **3,548,969** | **3,606,724** |

in thousands of euro

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

As at 31 December 2007 and 2008, the analysis of fair value hedge transactions by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | **Notional** | **Fair value** | **Notional** | **Fair value** |
| Up to 3 months | 7,976,450 | ( 107,498) | 620,954 | 4,495 |
| 3 to 12 months | 1,029,227 | ( 33,201) | 273,837 | 1,415 |
| 1 to 5 years | 10,931,118 | 165,934 | 1,160,626 | ( 2,817) |
| More than 5 years | 2,205,509 | 164,483 | 1,354,403 | ( 27,398) |
| | **22,142,304** | **189,718** | **3,409,820** | **( 24,305)** |

## Note 24 - NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

This balance as at 31 December 2008 and 2007 is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Non-current assets held for sale** | | |
| Property | 148,492 | 49,499 |
| Equipment | 1,412 | - |
| | **149,904** | **49,499** |
| Impairment losses | ( 23,375) | ( 6,084) |
| | **126,529** | **43,415** |

As at 31 December 2008, the amount of property held for sale includes euro 31,367 thousand (31 December 2007: euro 15,855 thousands) related to discontinued branches, in relation to which the Bank recognised an impairment loss amounting to euro 6,863 thousand (31 December 2007: euro 2,299 thousands).

The changes occurred in non-current assets held for sale during 2008 and 2007, are presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the begining of the year** | **49,499** | **-** |
| Additions | 99,076 | 60,998 |
| Sales | ( 28,290) | ( 11,744) |
| Other movements a) | 29,619 | 245 |
| **Balance at the end of the year** | **149,904** | **49,499** |

a) As at 31 December, 2008 includes euro 29,625 thousands arising from BES Leasing's merger

The changes occurred in impairment losses of property held for sale are presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the begining of the year** | **6,084** | **-** |
| Charge for the year | 15,699 | 2,605 |
| Charge off | ( 4,848) | ( 2,017) |
| Write back for the year | - | ( 45) |
| Transfers [(a)] | 4,181 | 5,541 |
| Exchange differences and other [(b)] | 2,259 | - |
| **Balance at the end of the year** | **23,375** | **6,084** |

(a) Represents the transfer from Other assets of impairment losses related to property which qualify for recognition as a non current asset held for sale in accordance with the accounting policy described in Note 2.10 (see Note 28).
(b) Includes euro 1,735 thousands from BES Leasing's merger

## Note 25 - PROPERTY AND EQUIPMENT

As at 31 December 2008 and 2007 this balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Property** | | |
| For own use | 293,767 | 293,602 |
| Improvements in leasehold property | 207,652 | 184,823 |
| Other | 14 | 13 |
| | 501,433 | 478,438 |
| **Equipment** | | |
| Computer equipment | 244,613 | 232,841 |
| Fixtures | 112,065 | 95,593 |
| Furniture | 98,412 | 87,994 |
| Security equipment | 28,231 | 22,377 |
| Office equipment | 30,436 | 29,245 |
| Motor vehicles | 1,930 | 1,730 |
| Other | 360 | 338 |
| | 516,047 | 470,118 |
| **Work in progress** | | |
| Improvements in leasehold property | 16,336 | 15,373 |
| Property for own use | 2,087 | 4,741 |
| Equipment | 6,629 | 16,194 |
| Other | 635 | 352 |
| | 25,687 | 36,660 |
| | 1,043,167 | 985,216 |
| **Accumulated depreciation** | ( 631,933) | ( 598,993) |
| | 411,234 | 386,223 |

The movement in this balance was as follows:

in thousands of euro

| | Property | Equipment | Work in progress | Total |
|---|---|---|---|---|
| **Acquisitions cost** | | | | |
| **Balance as at 31 December 2006** | **427,366** | **407,968** | **29,421** | **864,755** |
| Acquisitions | 41,892 | 27,289 | 51,532 | 120,713 |
| Disposals | ( 2,817) | ( 11,925) | - | ( 14,742) |
| Transfers (a) | 10,668 | 20,098 | ( 44,342) | ( 13,576) |
| Exchange differences | ( 5) | ( 347) | 49 | ( 303) |
| Other (b) | 1,334 | 27,035 | - | 28,369 |
| **Balance as at 31 December 2007** | **478,438** | **470,118** | **36,660** | **985,216** |
| Acquisitions | 586 | 23,072 | 43,941 | 67,599 |
| Disposals | ( 2,232) | ( 6,829) | - | ( 9,061) |
| Transfers (c) | 9,628 | 26,743 | ( 54,871) | ( 18,500) |
| Exchange differences | ( 32) | ( 452) | ( 43) | ( 527) |
| Other (d) | 15,045 | 3,395 | - | 18,440 |
| **Balance as at 31 December 2008** | **501,433** | **516,047** | **25,687** | **1,043,167** |
| **Depreciation** | | | | |
| **Balance as at 31 December 2006** | **209,642** | **354,874** | **-** | **564,516** |
| Acquisitions | 14,040 | 20,244 | - | 34,284 |
| Disposals | ( 2,817) | ( 11,908) | - | ( 14,725) |
| Transfers (a) | ( 2,946) | ( 261) | - | ( 3,207) |
| Exchange differences | ( 1) | ( 323) | - | ( 324) |
| Other (b) | 262 | 18,187 | - | 18,449 |
| **Balance as at 31 December 2007** | **218,180** | **380,813** | **-** | **598,993** |
| Acquisitions | 14,393 | 24,976 | - | 39,369 |
| Disposals | ( 2,247) | ( 6,770) | - | ( 9,017) |
| Transfers (c) | ( 1,873) | ( 1,134) | - | ( 3,007) |
| Exchange differences | ( 3) | ( 443) | - | ( 446) |
| Other (d) | 3,216 | 2,825 | - | 6,041 |
| **Balance as at 31 December 2008** | **231,666** | **400,267** | **-** | **631,933** |
| **Net amount as at 31 December 2008** | **269,767** | **115,780** | **25,687** | **411,234** |
| **Net amount as at 31 December 2007** | **260,258** | **89,305** | **36,660** | **386,223** |

(a) Includes the amount of euro 13,576 thousands related to the acquisition costs and euro 3,207 thousands of accumulated depreciations transferred to the balance other assets, referring to discontinued branches.
(b) Refers to BESSA's merger.
(c) Includes the amount of euro 18,500 thousands related to the acquisition costs and euro 3,007 thousands of accumulated depreciations transferred to the balance other assets, referring to discontinued branches.
(d) Refers to BES Leasing's merger.

## Note 26 - INTANGIBLE ASSETS

As at 31 December 2008 and 2007 this balance is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Internally developed** | | |
| Software | 20,064 | 11,994 |
| **Acquired to third parties** | | |
| Software | 444,036 | 400,793 |
| **Work in progress** | **20,171** | **22,735** |
| | **484,271** | **435,522** |
| **Accumulated amortisation** | (392,739) | (365,561) |
| | **91,532** | **69,961** |

The balance internally developed software includes the costs incurred by the Bank in the development and implementation of software applications that will generate economic benefits in the future (see Note 2.12).

The movement in this balance was as follows:

in thousands of euro

| | Software | Other | Work in Progress | Total |
|---|---|---|---|---|
| **Acquisitions cost** | | | | |
| **Balance as at 31 December 2006** | **371,054** | **18,082** | **18,378** | **407,514** |
| Acquisitions: | | | | |
| Internally developed | 22 | - | 6,010 | 6,032 |
| Acquired from third parties | 6,920 | - | 18,162 | 25,082 |
| Disposals | - | ( 18,082) | - | ( 18,082) |
| Transfers | 19,815 | - | ( 19,815) | - |
| Exchange differences | ( 9) | - | - | ( 9) |
| Other (a) | 14,985 | - | - | 14,985 |
| **Balance as at 31 December 2007** | **412,787** | **-** | **22,735** | **435,522** |
| Acquisitions: | | | | |
| Internally developed | - | - | 7,958 | 7,958 |
| Acquired from third parties | 8,279 | - | 29,831 | 38,110 |
| Transfers | 40,347 | - | ( 40,347) | - |
| Exchange differences | 5 | - | ( 5) | - |
| Other (b) | 2,682 | - | ( 1) | 2,681 |
| **Balance as at 31 December 2008** | **464,100** | **-** | **20,171** | **484,271** |
| **Amortisation** | | | | |
| **Balance as at 31 December 2006** | **338,079** | **18,082** | **-** | **356,161** |
| Amortisation of the year | 22,756 | - | - | 22,756 |
| Disposals | - | ( 18,082) | - | ( 18,082) |
| Exchange differences | 27 | - | - | 27 |
| Other (a) | 4,699 | - | - | 4,699 |
| **Balance as at 31 December 2007** | **365,561** | **-** | **-** | **365,561** |
| Amortisation of the year | 25,566 | - | - | 25,566 |
| Exchange differences | 5 | - | - | 5 |
| Other (b) | 1,607 | - | - | 1,607 |
| **Balance as at 31 December 2008** | **392,739** | **-** | **-** | **392,739** |
| **Net balance as at 31 December 2008** | **71,361** | **-** | **20,171** | **91,532** |
| **Net balance as at 31 December 2007** | **47,226** | **-** | **22,735** | **69,961** |

a) Values from BESSA's merger.
b) Values from BES Leasing's merger.

## **Note 27 -** INVESTMENTS IN ASSOCIATES

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

in thousands of euro

| | 31.12.2008 | | | | 31.12.2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | % held by the bank | Par value (euro) | Acquisition cost | Number of shares | % held by the bank | Par value (euro) | Acquisition cost |
| BES AÇORES [a] | 2,013,303 | 57.52% | 5,00 | 9,653 | 2,013,103 | 57.52% | 5,00 | 9,652 |
| BES FINANCE | 100,000 | 100.00% | 1,00 | 25 | 100,000 | 100.00% | 1,00 | 25 |
| BES ORIENTE | 199,500 | 99.75% | 90,01 | 21,341 | 199,500 | 99.75% | 84,57 | 21,341 |
| BES ANGOLA | 799,600 | 79.96% | 7,18 | 9,102 | 799,600 | 79.96% | 6,79 | 9,102 |
| BES-VIDA [a] | 24,999,800 | 50.00% | 5,00 | 474,996 | 24,999,700 | 50.00% | 5,00 | 474,994 |
| BESI | 14,000,000 | 100.00% | 5,00 | 159,834 | 14,000,000 | 100.00% | 5,00 | 159,834 |
| BESLEASING E FACTORING | - | - | - | - | 8,777,241 | 89.36% | 5,00 | 45,934 |
| BESNAC | 1,000 | 100.00% | 0,71 | 36 | 1,000 | 100.00% | 0,67 | 36 |
| BEST | 20,181,680 | 32.03% | 1,00 | 20,182 | 20,181,680 | 32.03% | 1,00 | 20,182 |
| BIC INTERNATIONAL BANK | 10,000,000 | 100.00% | 1,00 | 24,197 | 10,000,000 | 100.00% | 1,00 | 24,197 |
| CÊNTIMO | 500,000 | 100.00% | 1,00 | 925 | 500,000 | 100.00% | 1,00 | 925 |
| E.S. BANK | 6,377,050 | 98.45% | 3,58 | 71,027 | 6,377,050 | 98.45% | 3,39 | 71,027 |
| E.S. PLC [a] | 29,997 | 99.99% | 5,00 | 38 | 29,996 | 99.99% | 5,00 | 38 |
| BES SEGUROS | 749,800 | 24.99% | 5,00 | 3,749 | 749,800 | 24.99% | 5,00 | 3,749 |
| E.S. TECH VENTURES | 65,000,000 | 100.00% | 1,00 | 65,000 | 65,000,000 | 100.00% | 1,00 | 65,000 |
| ESAF SGPS | 1,645,000 | 70.00% | 5,00 | 8,205 | 1,645,000 | 70.00% | 5,00 | 8,205 |
| ESCLINC | 100 | 100.00% | 5,836.68 | 788 | 100 | 100.00% | 5,513.17 | 788 |
| ES CONCESSÕES [c] | 390,000 | 40.96% | 5,00 | 19,794 | 390,000 | 60.00% | 5,00 | 19,794 |
| ESDATA | 1,400,000 | 100.00% | 5,00 | 7,805 | 1,400,000 | 100.00% | 5,00 | 7,805 |
| ESEGUR | 242,000 | 44.00% | 5,00 | 9,634 | 242,000 | 44.00% | 5,00 | 9,634 |
| ESGEST | 20,000 | 100.00% | 5,00 | 100 | 20,000 | 100.00% | 5,00 | 100 |
| ES CONTACT CENTER [b] | - | - | - | - | 525,001 | 35.00% | 1,00 | 739 |
| E.S. F. CONSULTANTS | 700,000 | 100.00% | 5,00 | 3,500 | 700,000 | 100.00% | 5,00 | 3,500 |
| E.S. REPRESENTAÇÕES | 49,995 | 99.99% | 0,30 | 39 | 49,995 | 99.99% | 0,38 | 39 |
| ESUMÉDICA | 74,700 | 24.90% | 5,00 | 395 | 74,700 | 24.90% | 5,00 | 395 |
| EUROP ASSISTANCE | 230,000 | 23.00% | 5,00 | 1,147 | 230,000 | 23.00% | 5,00 | 1,147 |
| FIDUPRIVATE | 6,190 | 24.76% | 5,00 | 31 | 6,190 | 24.76% | 5,00 | 31 |
| LOCARENT | 472,500 | 45.00% | 5,00 | 2,518 | 472,500 | 45.00% | 5,00 | 2,518 |
| QUINTA DOS CÓNEGOS [a] | 599,400 | 81.00% | 5,00 | 4,893 | 488,400 | 66.00% | 5,00 | 3,964 |
| PARSUNI | 1 | 100.00% | 5,000.00 | 5 | 1 | 100.00% | 5,000.00 | 5 |
| SCI GEORGES MANDEL | 15,750 | 22.50% | 152,45 | 2,401 | 15,750 | 22.50% | 152,45 | 2,401 |
| BES BETEILIGUNGS GMBH | 1 | 100.00% | 25,000.00 | 165,025 | 1 | 100.00% | 25,000.00 | 165,025 |
| ES SERVICIOS | 9,998 | 99.98% | 1,50 | 15 | 9,998 | 99.98% | 1,50 | 15 |
| ESAF ESPANHA | 500 | 50.00% | 1,000.00 | 33,515 | 500 | 50.00% | 1,000.00 | 33,515 |
| PRAÇA DO MARQUÊS | 3,185,000 | 100.00% | 4,99 | 27,724 | 3,185,000 | 100.00% | 4,99 | 27,724 |
| Others | | | | 107 | | | | - |
| | | | | 1,147,746 | | | | 1,193,380 |
| **Impairment losses** | | | | ( 109,272) | | | | ( 108,739) |
| | | | | 1,038,474 | | | | 1,084,641 |

(a) Changes arising from BES Leasing's merger.
(b) Associated sold in Jully 2008
(c) As at December 2008, ES Concessões was merged into OPCA Gest, and BES reduced its participation on ES Concessões

During the year 2008, the main changes in BES investments in subsidiaries and associates are highlighted as follows:

- In July 2008, BES sold its investment in ES Contact Center representing 35% of its share capital, to Companhia de Seguros Tranquilidade , S.A., maintaining the Group a 41.67% shareholding position in ES Contact Center – Gestão de Call Centers, S.A., through the participation held by ESTV. From that date, ES Contact Center – Gestão de Call Centers, S.A., is included in the consolidated financial statements under the equity method;
- In the scope of the merger process of ES Concessões and OPCA – GEST – Gestão, Exploração e Administração de Concessões, Obras Públicas, S.A., formalised in 11 December, 2008, ES Concessões increased its share capital and BES started to hold a 40.96% shareholding position in ES Concessões;
- On 31 December 2008, BES Leasing e Factoring - Instituição Financeira de Crédito, S.A., was merged by incorporation into BES. This merger had no impact in the consolidated financial statements of the Group.

The movement occurred in this balance is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the begining of the year** | **108,739** | **74,508** |
| Charge for the year | 532 | 7,001 |
| Other [a] | 1 | 27,230 |
| **Balance at the end of the year** | **109,272** | **108,739** |

a) As at 31 December 2007 the amount refers to BESSA's merger.

## Note 28 - OTHER ASSETS

As at 31 December 2008 and 2007, the balance other assets is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Debtors** | | |
| Deposits placed with futures contracts | 72,689 | 49,880 |
| Recoverable government subsidies on mortgage loans | 42,935 | 52,640 |
| Collateral deposits placed | 359,237 | 126,295 |
| Loans to subsidiaries and associates | 168,607 | 169,792 |
| Public sector | 50,930 | 26,428 |
| Sundry debtors | 133,945 | 169,150 |
| | **828,343** | **594,185** |
| **Impairment losses on debtors** | **( 5,221)** | **( 4,182)** |
| | **823,122** | **590,003** |
| **Other assets** | | |
| Gold, other precious metals, numismatics, and other liquid assets | 13,334 | 13,269 |
| Other assets | 14,236 | 38,609 |
| | **27,570** | **51,878** |
| **Accrued income** | **44,631** | **57,931** |
| **Prepayments and deferred costs** | **198,960** | **100,494** |
| **Other sundry assets** | | |
| Stock exchange transactions pending settlement | 17,935 | 19,376 |
| | **17,935** | **19,376** |
| Assets acquired in exchange for loans | 125,193 | 78,635 |
| Impairment losses on assets acquired in exchange for loans | ( 6,947) | ( 7,513) |
| | **118,246** | **71,122** |
| **Assets recognised on pensions (see Note 12)** | **1,027,951** | **579,455** |
| | **2,258,415** | **1,470,259** |

Loans to subsidiaries and associates include the amount of euro 118,500 thousands related with loans to Locarent – Companhia Portuguesa de Aluguer de Viaturas, SA (31 December 2007: euro 118,500 thousands).

As at 31 December 2008, the balance prepayments and deferred costs includes the amount of euro 105,327 thousands (31 December 2007: euro 79,328 thousands) related to the difference between the nominal amount of loans granted to Bank's employees under the collective labour agreement for the banking sector (ACT) and their respective fair value at grant date, calculated in accordance with IAS 39. This amount is charged to the income statement over the lower period between the remaining maturity of the loan granted, and the estimated remaining service life of the employee.

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

The movements occurred in impairment losses are presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at begining of the year** | **11,695** | **13,088** |
| Charge for the year | 5,648 | 3,813 |
| Charge off | ( 319) | - |
| Write back for the year | ( 83) | ( 42) |
| Transfers [(a)] | ( 4,181) | ( 5,541) |
| Other [(b)] | ( 592) | 377 |
| **Balance at the end of the year** | **12,168** | **11,695** |

(a) Impairment transfered to non-current assets held for sale, as the assets to which the impairment corresponded were also transferred, in accordance with the accounting policy described in Note 2.10 (see Note 24).
(b) At 31 December 2008 includes euros 90 thousands from BES Leasing's merger

## Note 29 - DEPOSITS FROM CENTRAL BANKS

The balance deposits from central banks is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **From the European System of Central Banks** | | |
| Deposits | 40,491 | 71,102 |
| Other funds | 1,300,000 | - |
| | 1,340,491 | 71,102 |
| **From Other Central Banks** | | |
| Deposits | 3,369,953 | 1,762,012 |
| | 3,369,953 | 1,762,012 |
| | 4,710,444 | 1,833,114 |

Other funds from the European System of Central Banks in the amount of euro 1 300 million, are covered by securities from the available-for-sale portfolio pledged as collaterals (see Note 39).

As at 31 December 2008 and 2007, the analysis of deposits from Central Banks by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 4,183,318 | 1,789,206 |
| 3 to 12 months | 527,126 | 43,908 |
| | 4,710,444 | 1,833,114 |

## Note 30 - DEPOSITS FROM BANKS

The balance deposits from banks is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Domestic** | | |
| Deposits | 1,303,768 | 285,536 |
| Very short term funds | 72,149 | 35,710 |
| Loans | 22 | - |
| Repurchase agreements | 1,664 | 1,571 |
| Other funds | 1,492 | 1,614 |
| | 1,379,095 | 324,431 |
| **International** | | |
| Deposits | 9,817,612 | 10,450,189 |
| Loans | 1,829,561 | 1,839,689 |
| Very short term funds | 730,184 | 229,272 |
| Repurchase agreements | 430,769 | 362,760 |
| Other funds | 224,702 | 93,597 |
| | 13,032,828 | 12,975,507 |
| | 14,411,923 | 13,299,938 |

As at 31 December 2008, this balance includes the amount of euro 1,642,109 thousands (31 December 2007: 386,997 thousands) related to deposits recognised on the balance sheet at fair value through profit or loss (see Note 23).

As at 31 December 2008 and 2007, the analysis of deposits from banks by the period to maturity is presented as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 5,729,116 | 4,331,321 |
| 3 to 12 months | 2,925,037 | 2,501,939 |
| 1 to 5 years | 4,069,963 | 5,326,131 |
| More than 5 years | 1,687,807 | 1,140,547 |
| | 14,411,923 | 13,299,938 |

## Note 31 - DUE TO CUSTOMERS

The balance due to customers is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Repayable on demand** | | |
| Demand deposits | 7,863,946 | 9,168,637 |
| **Time deposits** | | |
| Time deposits | 11,894,389 | 8,303,168 |
| Other | 376,409 | 247,172 |
| | 12,270,798 | 8,550,340 |
| **Savings accounts** | | |
| Pensioners | 81,088 | 118,763 |
| Other | 1,611,667 | 1,892,923 |
| | 1,692,755 | 2,011,686 |
| **Other funds** | 1,067,154 | 1,414,746 |
| | 22,894,653 | 21,145,409 |

This balance includes the amount of euro 2,925 thousands (31 December 2007: euro 76,798 thousands) of deposits recognised in the balance sheet at fair value through profit or loss (see Note 23).

The analysis of the amounts due to customers by the period to maturity is as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Repayable on demand** | 7,863,946 | 9,168,637 |
| **With agreed maturity** | | |
| Up to 3 months | 10,815,568 | 8,322,585 |
| 3 to 12 months | 2,938,558 | 1,746,964 |
| 1 to 5 years | 367,883 | 524,439 |
| More than 5 years | 908,698 | 1,382,784 |
| | 15,030,707 | 11,976,772 |
| | 22,894,653 | 21,145,409 |

## Note 32 - DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Certificates of deposit | 3,137,154 | 5,446,975 |
| Bonds | 3,752,907 | 3,438,542 |
| Euro Medium Term Notes | 4,415,544 | 3,203,347 |
| Covered bonds | 2,665,412 | - |
| Other | 355,370 | - |
| | 14,326,387 | 12,088,864 |

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

During the year ended 31 December 2008, BES issued bonds in the amount of euro 4,219.4 million (December 2007: euro 3,173.5 million), and reimbursed euro 723.5 million (December 2007: euro 185.8 million).

Included in the amounts issued during the first semester of 2008, there were issued covered bonds in the amount of euro 2,500 million under the covered bonds programme, which has a maximum amount of euro 10,000 million.

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Regulations 5/2006, 6/2006, 7/2006 and 8/2006 of the Bank of Portugal and Instruction 13/2006 of the Bank of Portugal.

The main characteristics of these issues are presented as follows:

| Designation | Nominal value (In thousands of euro) | Book value (In thousands of euro) | Issue date | Maturity Date | Interest payment | Interest rate | Rating |
|---|---|---|---|---|---|---|---|
| BES covered bonds 25/01/2011 | 1,250,000 | 1,339,189 | 25/1/08 | 25/1/11 | Anual | 4.38% | AAA |
| BES covered bonds 21/07/2010 | 1,250,000 | 1,324,161 | 21/7/08 | 21/7/10 | Anual | 5.50% | AAA |

As at 31 December 2008, the mortgage loans that collateralise these covered bonds amounted to euro 2 722 664 thousands (see Note 21).

The analysis of debt securities issued by the period to maturity is as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 3 months | 3,380,077 | 4,604,083 |
| 3 to 12 months | 185,631 | 1,489,534 |
| 1 to 5 years | 9,575,118 | 3,180,439 |
| More than 5 years | 1,185,561 | 2,814,808 |
| | 14,326,387 | 12,088,864 |

The main characteristics of debt securities issued during the year ended 31 December 2008 are presented as follows:

in thousands of euro

| 31.12.2008 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Issuer | Designation | | Currency | Issue date | Book value | Maturity | Global yield / interest rate |
| BES | BESLEAS.IMOB.00 | | EUR | 2000 | 391 | 2010 | 6 months Euribor+ 0.67% |
| BES | BES EURO RENDA Agosto 2001 | | EUR | 2001 | 15,286 | 2009 | Fixed rate - 5.53% |
| BES | BES Euro Renda | | EUR | 2002 | 22,514 | 2010 | Fixed rate - 5.39% |
| BES | BES-T.14,5% May | a) | EUR | 2004 | 4,693 | 2014 | 12 months Euribor |
| BES | BEF 2004/2014 | | EUR | 2004 | 102,008 | 2014 | 6 months Euribor+ 0.75% |
| BES | BES 12/01/2009 | a) | USD | 2005 | 680 | 2009 | 6 months US Libor |
| BES | BIC EURO VALOR | | EUR | 2005 | 9,847 | 2010 | 6 months Euribor + 3.00% |
| BES | BEF 24ªEM | | EUR | 2005 | 19,199 | 2010 | Fixed rate - 4.50% |
| BES | BEF 2005/2010 | | EUR | 2005 | 17,206 | 2010 | 6 months Euribor+ 0.70% |
| BES | BEF 2005/2011 | | EUR | 2005 | 4,836 | 2011 | 3 months Euribor + 0.715% |
| BES | BIC SNOWBL APR0 | | EUR | 2005 | 11,117 | 2012 | 6 months Euribor |
| BES | BEF 2005/2012 | | EUR | 2005 | 15,053 | 2012 | 3 months Euribor+ 0.73% |
| BES | BES TARGET 10% | | EUR | 2005 | 4,245 | 2013 | Fixed rate - 5.00% |
| BES | BIC E.RENDA 4% | a) | EUR | 2005 | 2,884 | 2013 | Fixed rate 4.15% on 1st, 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES-E.RENDA 4% | a) | EUR | 2005 | 8,240 | 2013 | Fixed rate 4.15% on 1st, 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES ER 4% APR05 | a) | EUR | 2005 | 2,403 | 2013 | Fixed rate 4.08% on 1st, 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES ER 4% APR05 | a) | EUR | 2005 | 1,808 | 2013 | Fixed rate 4.14% on 1st, 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES ER3,75%0805 | a) | EUR | 2005 | 2,400 | 2013 | Fixed rate 3.85% on 1st, 2nd and 8th year + swap tax from 3rd till 7th year |
| BES | BES COMMODIT 7% | a) | EUR | 2005 | 1,733 | 2014 | Fixed rate - 7.00% |
| BES | BEF 2005/2015 | | EUR | 2005 | 10,023 | 2015 | Fixed rate - 4.721% |
| BES | BES FEB 2009 | | EUR | 2006 | 6,738 | 2009 | Fixed rate - 4.00% |
| BES | BES BRIC MAR.06 | a) | EUR | 2006 | 5,197 | 2009 | b) |
| BES | BES CR.JAPAN PL | a) | EUR | 2006 | 4,788 | 2009 | Nikkei 225 |
| BES | BLF L | | EUR | 2006 | 20,422 | 2011 | Fixed rate - 4.74% |
| BES | Cerificate deposit | | EUR | 2007 | 332,694 | 2009 | 3.00 % - 5.60% |
| BES | Cerificate deposit | | USD | 2007 | 26,601 | 2009 | 4.37% - 5.40% |
| BES | BES INF.ESTR.07 | a) | EUR | 2007 | 1,930 | 2009 | c) |
| BES | BES I.EST. 07 | | EUR | 2007 | 2,933 | 2009 | c) |
| BES | BES JAPAN FEB07 | a) | EUR | 2007 | 4,114 | 2010 | Nikkei 225% |
| BES | BES DUE 2010 | | EUR | 2007 | 400,476 | 2010 | 3 months Euribor+ 0.09% |
| BES | BES 4,125% 2010 | | EUR | 2007 | 52,496 | 2010 | Fixed rate - 4.125% |
| BES | BES BRIC MAR.07 | a) | EUR | 2007 | 7,395 | 2010 | S&P BRIC 40 EUR Price Return |
| BES | BES DUE MAY 10 | | EUR | 2007 | 501,984 | 2010 | 3 months Euribor+ 0.07% |
| BES | BES EN.ALT.2010 | a) | EUR | 2007 | 4,792 | 2010 | DAX Global Alternative Energy EUR Price Return |
| BES | BES DUE 2012 | | EUR | 2007 | 1,001,437 | 2012 | 3 months Euribor + 0.10% |
| BES | BES DUE 2013 | | EUR | 2007 | 503,708 | 2013 | 3 months Euribor + 0.125% |
| BES | BES DUE JUN 14 | | EUR | 2007 | 500,443 | 2014 | 3 months Euribor + 0.15% |
| BES | BES BENS AGRIC. | a) | EUR | 2008 | 2,986 | 2010 | Indexed to a Commodities portfolio |
| BES | BES OP. FEB.08 | a) | EUR | 2008 | 858 | 2010 | Index to Dow Jones Euro Stoxx 50% |
| BES | BES OP. MAR.08 | a) | EUR | 2008 | 1,337 | 2010 | Index Dow Jones Euro Stoxx 50% |
| BES | BES DUE MAY 10 | | EUR | 2008 | 1,257,296 | 2010 | 3 months Euribor + 0.07% |
| BES | BES COMM.MAY.08 | a) | EUR | 2008 | 2,889 | 2010 | Indexed to a Commodities portfolio |
| BES | BEF June2008/June2010 | | EUR | 2008 | 57,434 | 2010 | Fixed rate 6.047 % |
| BES | BES COMM.JUN.08 | a) | EUR | 2008 | 826 | 2010 | Indexed to a Commodities portfolio |
| BES | BES 21/07/2010 | | EUR | 2008 | 1,326,223 | 2010 | Fixed rate 5.5% |
| BES | BEF June2008/December2010 | | EUR | 2008 | 40,344 | 2010 | Fixed rate 6.047 % |
| BES | BES 25/01/2011 | | EUR | 2008 | 1,339,189 | 2011 | 4.375% |
| BES | BEF 07_2008//07_2011 | | EUR | 2008 | 124,363 | 2011 | Fixed rate 6.138% |
| BES | BEF 07_2008 / 01_2012 | | EUR | 2008 | 128,474 | 2012 | Fixed rate 6.138% |
| BES | BES DUE 2033 0 | | EUR | 2008 | 35,434 | 2033 | Zero Coupon |
| BES | BES DUE 2034 0 | | EUR | 2008 | 34,245 | 2034 | Zero Coupon |
| BES | BES DUE 2035 0 | | EUR | 2008 | 33,246 | 2035 | Zero Coupon |
| BES | BES DUE 2036 0 | | EUR | 2008 | 32,282 | 2036 | Zero Coupon |
| BES | BES DUE 2037 0 | | EUR | 2008 | 31,393 | 2038 | Zero Coupon |
| BES | BES DUE 2038 0 | | EUR | 2008 | 31,105 | 2038 | Zero Coupon |
| BES (Cayman branch) | BIC CAYMAN 6 2001 | | EUR | 2001 | 52,080 | 2009 | Fixed rate - 5.43% |
| BES (Cayman branch) | BIC CAYMAN 7 2001 | | EUR | 2001 | 52,049 | 2009 | Fixed rate - 5.41% |
| BES (Cayman branch) | BIC CAYMAN 8 2001 | | EUR | 2001 | 52,034 | 2009 | Fixed rate - 5.45% |
| BES (Cayman branch) | BIC CAYMAN 9 2001 | | EUR | 2001 | 52,008 | 2009 | Fixed rate - 5.42% |
| BES (Cayman branch) | BIC CAYMAN 10 2001 | | EUR | 2001 | 52,027 | 2010 | Fixed rate - 5.53% |

in thousands of euro

| 31.12.2008 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Issuer | Designation | | Currency | Issue date | Book value | Maturity | Global yield / interest rate |
| BES (Cayman branch) | BIC CAYMAN 11 2001 | | EUR | 2001 | 51,988 | 2010 | Fixed rate - 5.57% |
| BES (Cayman branch) | BIC CAYMAN 12 2001 | | EUR | 2001 | 51953 | 2010 | Fixed rate - 5.58% |
| BES (Cayman branch) | BIC CAYMAN 13 2001 | | EUR | 2001 | 51,966 | 2010 | Fixed rate - 5.73% |
| BES (Cayman branch) | BIC CAYMAN 2 2001 | | EUR | 2001 | 52,536 | 2011 | Fixed rate - 5.68% |
| BES (Cayman branch) | BIC CAYMAN 14 2001 | | EUR | 2001 | 51,953 | 2011 | Fixed rate - 5.80% |
| BES (Cayman branch) | BIC CAYMAN 15 2001 | | EUR | 2001 | 53,944 | 2011 | Fixed rate - 5.79% |
| BES (Cayman branch) | BIC CAYMAN 16 2001 | | EUR | 2001 | 53,938 | 2011 | Fixed rate - 5.90% |
| BES (Cayman branch) | BES CAYMAN 5.22% | | USD | 2001 | 39,395 | 2011 | Fixed rate - 5.22% |
| BES (Cayman branch) | BES CAYMAN 5.22% | | USD | 2001 | 39,421 | 2011 | Fixed rate - 5.22% |
| BES (Cayman branch) | BIC CAYMAN 29 2001 | | EUR | 2001 | 52,532 | 2011 | Fixed rate - 5.28% |
| BES (Cayman branch) | BIC CAYMAN 30 2001 | | EUR | 2001 | 50,450 | 2011 | Fixed rate - 5.42% |
| BES (Cayman branch) | BIC CAYMAN 17 2001 | | EUR | 2001 | 54,422 | 2012 | Fixed rate - 5.89% |
| BES (Cayman branch) | BIC CAYMAN 18 2001 | | EUR | 2001 | 51,821 | 2012 | Fixed rate - 5.83% |
| BES (Cayman branch) | BIC CAYMAN 19 2001 | | EUR | 2001 | 51,846 | 2012 | Fixed rate - 5.96% |
| BES (Cayman branch) | BIC CAYMAN 20 2001 | | EUR | 2001 | 51,797 | 2012 | Fixed rate - 5.94% |
| BES (Cayman branch) | BIC CAYMAN 21 2001 | | EUR | 2001 | 51,755 | 2013 | Fixed rate - 6.03% |
| BES (Cayman branch) | BIC CAYMAN 22 2001 | | EUR | 2001 | 77,613 | 2013 | Fixed rate - 6.08% |
| BES (Cayman branch) | BIC CAYMAN 23 2001 | | EUR | 2001 | 82,044 | 2013 | Fixed rate - 6.03% |
| BES (Cayman branch) | BIC CAYMAN 24 2001 | | EUR | 2001 | 77,193 | 2014 | Fixed rate - 6.01% |
| BES (Cayman branch) | BIC CAYMAN 25 2001 | | EUR | 2001 | 82,141 | 2014 | Fixed rate - 6.02% |
| BES (Cayman branch) | BIC CAYMAN 26 2001 | | EUR | 2001 | 76,988 | 2015 | Fixed rate - 6.16% |
| BES (Cayman branch) | BIC CAYMAN 27 2001 | | EUR | 2001 | 82,431 | 2015 | Fixed rate - 6.09% |
| BES (Cayman branch) | BIC CAYMAN 1 2002 | | EUR | 2002 | 56,894 | 2012 | Fixed rate - 5.92% |
| BES (Cayman branch) | BIC CAYMAN 2 2002 | | EUR | 2002 | 6,117 | 2012 | Fixed rate - 4.65% |
| BES (Cayman branch) | BES CAYMAN - Zero Cupon | | EUR | 2002 | 58,662 | 2027 | Zero Coupon - Effective rate 5.90% |
| BES (Cayman branch) | BES CAYMAN - Zero Cupon | | EUR | 2002 | 96,619 | 2027 | Zero Coupon - Effective rate 5.90% |
| BES (Cayman branch) | BES CAYMAN - Zero Cupon | | EUR | 2002 | 123,092 | 2027 | Zero Coupon - Effective rate 5.74% |
| BES (Cayman branch) | BES CAYMAN Step Up 07/28/10 | | USD | 2003 | 55,313 | 2010 | StepUp (1st coupon 3.50%) |
| BES (Cayman branch) | BES CAYMAN 4.82% 01/28/13 | | USD | 2003 | 62,777 | 2013 | Fixed rate - 4.82% |
| BES (Cayman branch) | BES CAYMAN 4.83% 02/05/13 | | USD | 2003 | 62,977 | 2013 | Fixed rate - 4.83% |
| BES (Cayman branch) | BES CAYMAN Step Up 07/15/13 | | USD | 2003 | 55,036 | 2013 | StepUp (1st coupon 1.25%) |
| BES (Cayman branch) | BES CAYMAN Step Up 07/25/13 | | USD | 2003 | 55,041 | 2013 | StepUp (1st coupon 1.50%) |
| BES (Cayman branch) | BES CAYMAN Step Up 08/27/13 | | EUR | 2003 | 81,874 | 2013 | StepUp (1st coupon 3.00%) |
| BES (Cayman branch) | BES CAYMAN Step Up 09/02/13 | | EUR | 2003 | 82,033 | 2013 | StepUp (1st coupon 3.00%) |
| BES (Cayman branch) | BES CAYMAN Step Up 09/16/13 | | EUR | 2003 | 76,025 | 2013 | StepUp (1st coupon 2.90%) |
| BES (Cayman branch) | BES CAYMAN Step Up 10/07/13 | | EUR | 2003 | 81,755 | 2013 | StepUp (1st coupon 3.10%) |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2003 | 23,588 | 2013 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN 5.06% 02/11/15 | | USD | 2003 | 61,870 | 2015 | Fixed rate - 5.06% |
| BES (Cayman branch) | BES CAYMAN 5.01% 02/18/15 | | USD | 2003 | 61,802 | 2015 | Fixed rate - 5.01% |
| BES (Cayman branch) | BES CAYMAN 5.37% 03/12/18 | | USD | 2003 | 64,178 | 2018 | Fixed rate - 5.37% |
| BES (Cayman branch) | BES CAYMAN - Zero cupon | | EUR | 2003 | 79,487 | 2028 | Zero coupon- Effective rate 5.50% |
| BES (Cayman branch) | BES CAYMAN - Zero cupon | | EUR | 2003 | 13,711 | 2028 | Zero coupon- Effective rate 5.75% |
| BES (Cayman branch) | BES CAYMAN - Zero cupon | | EUR | 2003 | 83,882 | 2028 | Zero coupon- Effective rate 5.81% |
| BES (Cayman branch) | BES CAYMAN - 4% plus R.E. | a) | EUR | 2004 | 4,262 | 2009 | 6 months Euribor |
| BES (Cayman branch) | BES CAYMAN - 4% plus R.E. | a) | EUR | 2004 | 1,632 | 2009 | 6 months Euribor |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2004 | 11,864 | 2014 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2004 | 29,276 | 2014 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2004 | 7,015 | 2014 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN - FIXED NOTE | | EUR | 2004 | 5,845 | 2014 | Fixed Note |
| BES (Cayman branch) | BES CAYMAN Step Up 07/21/14 | | USD | 2004 | 55,320 | 2014 | StepUp (1st coupon 2.07%) |
| BES (Cayman branch) | BES CAYMAN Step Up 02/02/17 | | USD | 2004 | 37,640 | 2017 | StepUp (1st coupon 1.87%) |
| BES (Cayman branch) | BES CAYMAN Step Up 02/11/19 | | USD | 2004 | 37,588 | 2019 | StepUp (1st coupon 1.78%) |
| BES (Cayman branch) | BES CAYMAN - Zero cupon | | EUR | 2008 | 34,644 | 2033 | Zero coupon- Effective rate 5.81% |
| BES (Spain branch) | Covered bonds | | EUR | 2008 | 153,769 | 2014 | Fixed rate 4.5% |
| BES (Spain branch) | Covered bonds | | EUR | 2008 | 80,368 | 2014 | Fixed rate 4% |
| BES (Spain branch) | Covered bonds | | EUR | 2008 | 81,612 | 2016 | Fixed rate 4.25% |
| BES (London branch) | Cerificate deposit | | EUR | 2007 | 1,028,482 | 2009 | 4.13% - 4.87% |
| BES (London branch) | Cerificate deposit | | GBP | 2007 | 511,810 | 2009 | 5.51% - 6.72% |
| BES (London branch) | Cerificate deposit | | USD | 2007 | 806,040 | 2009 | 4.79% - 5.47% |
| BES (London branch) | Cerificate deposit | | AUD | 2008 | 73,987 | 2009 | 7.35% |
| BES (New York branch) | Cerificate deposit | | USD | 2007 | 357,540 | 2009 | 4.41% - 5.53% |
| | | | | | 14,326,387 | | |

a) Designated liabilities at fair value through profit or loss.
b) Indexed to a basket composed by Nifty India + RDX Russia + HK Hang Seng + Bovespa index
c) Indexed to a share basket (Brisa, Abertis, REW e E.On)

As at 31 December 2008, this balance includes the amount of euro 1,196,464 thousands (31 December 2007: euro 155,723 thousands) related to debt securities issued at fair value through profit or loss (see Note 23).

## Note 33 - PROVISIONS

As at 31 December 2008 and 2007, the balance of provisions presents the following movements:

in thousands of euro

| | General banking risk provisions | Restructuring provision | Other provisions | Total |
|---|---|---|---|---|
| **Balance as at 31 December 2006** | **385,536** | **1,686** | **98,659** | **485,881** |
| Charge for the year | 17,069 | 23,059 | 506 | 40,634 |
| Charge off | - | ( 848) | ( 5,298) | ( 6,146) |
| Transfers | ( 36,640) (a) | - | - | ( 36,640) |
| Exchange differences and other | 30,421 (b) | - | 7,130 (c) | 37,551 |
| **Balance as at 31 December 2007** | **396,386** | **23,897** | **100,997** | **521,280** |
| Charge for the year | 42,931 | 5,688 | 11,357 | 59,976 |
| Charge off | ( 30) | ( 22,049) | ( 5,924) | ( 28,003) |
| Transfers | ( 43,964) (a) | - | - | ( 43,964) |
| Exchange differences and other | 32,549 (d) | - | ( 17) | 32,532 |
| **Balance as at 31 December 2008** | **427,872** | **7,536** | **106,413** | **541,821** |

(a) Provisions transfered to non current assets held for sale and to credit impairment losses (see Note 19 and 21, respectively)
(b) Includes euro 31,236 thousands related to BESSA's merger
(c) Includes euro 7,132 thousands related to BESSA's merger
(d) Includes euro 32,426 thousands related to BES Leasing's merger

In May 2006, Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A. was merged into Banco Espírito Santo, S.A. and it was prepared and approved a restructuring plan, under which was set up a provision in the amount of euro 10.8 million to meet costs with the restructuring. As at 31 December 2008, this provision amounts to euro 1.4 million.

In April 2007, following the merger of BESSA and its subsequent change into a branch of BES, a provision in the amount of euro 23.1 million was booked for the costs associated with this project. In 2008, the restructuring process was discontinued, being a portion of the provision in the amount of euro 9.2 million, related to commitments not yet assumed, written-back to the income statement. As at 31 December 2008, this provision amounts to euro 5.7 million.

In 2008, the Bank has set up a restructuring provision in the amount of euro 14.9 million, in order to face the costs related to the restructuring project "Projecto de Reestruturação 20-10". This project comprises several initiatives, namely the merger of BES Leasing & Factoring into BES. As at 31 December 2008 the remaining provision amounts to euro 0.4 million. The provisions charged-off during the year, in the amount of euro 14.5 million, include approximately euro 8 million related to costs with early retirements (see Note 12).

Other provisions in the amount of euro 106.4 millions (31 December 2007: euro 101.0 millions) are intended to cover certain contingencies related to the Bank's activities, as follows:

- Contingencies in connection with the exchange, during 2000, of Banco Boavista Interatlântico shares for Bradesco shares. The Bank has provisions in the amount of approximately euro 33.4 million (31 December 2007: euro 38.6 million) to cover these contingencies;
- Contingencies in connection with legal processes established following the bankruptcy of clients which might imply losses for the Bank. Provisions in the amount of euro 17.0 million as at 31 December 2008 ( 31 December 2007: euro 7.5 million) were established to cover these losses;
- Contingencies for ongoing tax processes. To cover these contingencies, BES maintains provisions of approximately euro 48.3 million (31 December 2007: euro 46.8 million);
- The remaining balance of approximately euro 7.7 million (31 December 2007: euro 8.1 million), is maintained to cover potential losses within the normal activities of the Bank, such as frauds, robbery and on-going judicial cases.

## Note 34 - INCOME TAXES

The Bank is subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes. BES determined its current and deferred income tax balance for the years ended 31 December 2008 and 2007 on the basis of a nominal rate of 26.5%, in accordance with the Law No. 107-B/2003 from 31 December and Law No. 2/2007 of 15 January (approved Local Tax Law).

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

The deferred tax assets and liabilities recognised in the balance sheet as at 31 December 2008 and 2007 can be analysed as follows:

in thousands of euro

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 |
| Derivative financial instruments | - | - | ( 73,588) | ( 73,588) | ( 73,588) | ( 73,588) |
| Available-for-sale financial assets | 56,357 | 6,586 | ( 23,468) | ( 207,571) | 32,889 | ( 200,985) |
| Loans and advances to customers | 144,525 | 96,479 | - | - | 144,525 | 96,479 |
| Property and equipment | - | - | ( 10,930) | ( 8,922) | ( 10,930) | ( 8,922) |
| Intangible assets | 158 | 186 | - | - | 158 | 186 |
| Investments in subsidiaries and associates | 26,535 | 2,253 | ( 8,547) | ( 8,547) | 17,988 | ( 6,294) |
| Provisions | 16,682 | 18,564 | - | - | 16,682 | 18,564 |
| Pensions | 13,133 | 13,809 | ( 46,505) | ( 50,538) | ( 33,372) | ( 36,729) |
| Health-care (SAMS) | 14,835 | 11,645 | - | - | 14,835 | 11,645 |
| Long-term service benefits | 6,775 | 6,286 | - | - | 6,775 | 6,286 |
| Other | 119 | 1,772 | ( 1,043) | ( 1,044) | ( 924) | 728 |
| **Deferred tax asset / (liability), net** | **279,119** | **157,580** | **( 164,081)** | **( 350,210)** | **115,038** | **( 192,630)** |

The changes in deferred taxes were recognised as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance at the beginning of the year** | **( 192,630)** | **( 174,287)** |
| Recognised in the income statement | 65,474 | ( 6,144) |
| Recognised in fair-value reserve | 225,107 | ( 25,451) |
| Recognised in other reserves | 9,351 | 13,612 |
| Exchange difference and other (a) | 7,736 | (360) |
| **Balance at the end of the year (Assets/liabilities)** | **115,038** | **( 192,630)** |

(a) Includes EUR 8,928 thousands respective to BES Leasing merger by incorporation.

The deferred tax recognised in the income statement and reserves, during 2008 and 2007 is analysed as follows:

in thousands of euro

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Recognised in (profit) /loss | Recognised in reserves | Recognised in (profit) /loss | Recognised in reserves |
| **Deferred taxes** | | | | |
| Derivative financial instruments | - | - | 28,955 | - |
| Available-for-sale financial assets | ( 8,767) | ( 225,107) | ( 4,426) | 25,451 |
| Loans and advances to customers | ( 39,129) | - | ( 46,202) | - |
| Property and equipment | 2,008 | - | ( 165) | - |
| Intangible assets | 39 | - | 854 | - |
| Investments in subsidiaries and associates | ( 24,282) | - | ( 3,579) | - |
| Provisions | 1,882 | - | ( 7,728) | - |
| Pensions | 3,920 | ( 7,277) | ( 17,590) | ( 10,916) |
| Health-care (SAMS) | ( 1,116) | ( 2,074) | ( 1,481) | ( 2,696) |
| Long-term service benefits | ( 489) | - | ( 761) | - |
| Other | 460 | - | ( 1,275) | - |
| Tax losses brought forward and tax credits resulting from double tax treaties | - | - | 59,542 | - |
| **Deferred taxes** | **( 65,474)** | **( 234,458)** | **6,144** | **11,839** |
| **Current taxes** | **82,393** | **3,831** | **50,626** | **5,720** |
| **Total** | **16,919** | **( 230,627)** | **56,770** | **17,559** |

The current tax recognised in reserves includes euro 3,341 thousands related to pensions and euro 186 thousands related to the share based payments scheme (31 December 2007: euro 5,013 thousands and euro 372 thousands, respectively).

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

in thousands of euro

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | % | Amount | % | Amount |
| **Profit before taxes** | | **228,797** | | **551,469** |
| Statutory tax rate | 26.5 | | 26.5 | |
| Income tax calculated based on the statutory tax rate | | 60,631 | | 146,139 |
| Tax-exempt dividends | (19.6) | ( 44,820) | (11.5) | ( 63,204) |
| Tax-exempt profits (off shore) | (0.5) | ( 1,100) | (1.1) | ( 6,246) |
| Tax-exempt gains | (0.9) | ( 1,961) | (2.3) | ( 12,482) |
| Changes in estimates | 1.8 | 4,169 | (1.3) | ( 7,437) |
| | **7.4** | **16,919** | **10.3** | **56,770** |

## Note 35 - SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Bonds | 765,013 | - |
| Loans | 2,693,785 | 2,573,805 |
| Perpetual Bonds | 15,021 | - |
| | **3,473,819** | **2,573,805** |

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

in thousands of euro

| | 31.12.2008 | | | | | |
|---|---|---|---|---|---|---|
| Designation | Currency | Issue Date | Amount Issued | Carrying amount | Interest Rate | Maturity |
| Subordinated loans | USD | 2000 | 50,000 | 36,268 | 7.90% | 2009 |
| Subordinated loans | EUR | 2000 | 300,000 | 316,589 | 6.63% | 2010 |
| Subordinated loans | EUR | 2002 | 400,000 | 414,412 | 6.25% | 2011 |
| Subordinated loans | EUR | 2002 | 500,000 | 518,951 | 6.63% | 2012 |
| Subordinated loans | EUR | 2004 | 500,000 | 542,693 | 4.51% | 2015 a) |
| Subordinated perpetual loans | EUR | 2003 | 310,000 | 316,048 | 5.59% | 2014 |
| Subordinated loans | EUR | 2004 | 100,000 | 102,695 | 5.39% | 2014 |
| Subordinated loans | EUR | 2004 | 100,000 | 102,695 | 5.39% | 2014 |
| Subordinated loans | JPY | 2005 | 213,068 | 228,528 | 3.95% | 2015 |
| Subordinated loans | EUR | 2006 | 12,200 | 12,529 | 5.59% | 2014 |
| Subordinated loans | EUR | 2008 | 20,000 | 20,140 | 6.13% | 2018 |
| Subordinated perpetual loans | EUR | 2004 | 80,000 | 82,237 | 5.50% | - |
| Subordinated loans | EUR | 2008 | 50,000 | 50,200 | 4.99% | 2018 |
| Subordinated loans | EUR | 2008 | 90,000 | 92,224 | 6.13% | 2018 |
| Subordinated loans | EUR | 2008 | 150,000 | 152,909 | 6.13% | 2018 |
| Subordinated loans | EUR | 2008 | 150,000 | 152,424 | 6.13% | 2018 |
| Subordinated loans | EUR | 2008 | 75,964 | 76,714 | 6.13% | 2018 |
| Subordinated loans | EUR | 2008 | 40,650 | 41,651 | 4.43% | 2018 |
| Subordinated loans | EUR | 2008 | 118,547 | 119,121 | 6.13% | 2019 |
| Subordinated loans | EUR | 2008 | 53,939 | 53,953 | 6.13% | 2019 b) |
| Subordinated loans | EUR | 2004 | 25,000 | 25,311 | 6.31% | 2014 |
| Subordinated loans | EUR | 2001 | 7,000 | 506 | 6.05% | 2011 |
| Subordinated perpetual loans | EUR | 2005 | 15,000 | 15,021 | 5.38% | 2015 a) |
| | | | **3,361,368** | **3,473,819** | | |

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

During the period ended 31 December 2008, BES issued subordinated debt securities in the amount of euro 749.1 million (in 31 December 2007 there were no such issues) and during 2008 no reimbursements were made (31 December 2007: euro 99.8 million).

## Note 36 - OTHER LIABILITIES

As at 31 December 2008 and 2007, the balance other liabilities is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Creditors** | | |
| Public sector | 36,924 | 37,349 |
| Creditors arising out from future contracts | 49,355 | 48,523 |
| Deposit accounts | 185,460 | 26,824 |
| Sundry creditors | | |
| Suppliers | 65,432 | 61,211 |
| Creditors from transactions with securities | 17,698 | 26,041 |
| Other sundry creditors | 168,684 | 105,114 |
| | **523,553** | **305,062** |
| **Accrued expenses** | | |
| Long-term service benefits (see Note 12) | 25,566 | 20,530 |
| Other accrued expenses | 129,692 | 108,312 |
| | **155,258** | **128,842** |
| **Deferred income** | **9,492** | **2,966** |
| **Other sundry liabilities** | | |
| Foreign exchange transaction pending settlement | 114,715 | 22,374 |
| Other transactions pending settlement | 75,645 | 44,570 |
| | **190,360** | **66,944** |
| | **878,663** | **503,814** |

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

## Note 37 - SHARE CAPITAL, SHARE PREMIUM, TREASURY STOCK AND PREFERENCE SHARES

### Ordinary shares

As at 31 December 2008, the Bank's share capital was represented by 500 million ordinary shares with a face value of euro 5 each, which were subscribed and fully paid by the following entities:

| | % Share capital | |
|---|---|---|
| | 31.12.2008 | 31.12.2007 |
| BESPAR - Sociedade Gestora de Participações Sociais, S.A. | 40.00% | 40.00% |
| Credit Agricole, S.A. | 10.81% | 10.81% |
| Bradport, SGPS, S.A. (1) | 3.05% | 3.05% |
| Credit Suisse Group | 2.70% | - |
| Previsão - Sociedade Gestora de Fundos de Pensões, S.A. (2) | 2.62% | 2.62% |
| Fundo de Pensões BES | 2.22% | |
| Hermes Pensions Management Limited | 2.02% | 2.03% |
| Others | 36.58% | 41.49% |
| | **100.00%** | **100.00%** |

(1) Portuguese company fully owned by Banco Bradesco, S.A.(Brazil)
(1) The entity's voting rights are attributable to Portugal Telecom

### Share premium

As at 31 December 2008, share premium are represented by euro 666,327 thousands related to the premium paid by the shareholders following the share capital increases occurred in the first half of 2002 and 2006.

### Treasury stock

The Bank's General Meeting of 20 June 2000 approved the set up of a stock-based incentive scheme, which started in 2000. As at 31 December 2008, 2,479 thousand shares of BES (0.50% of total share capital), are allocated (31 December 2007: 3 484 thousand of shares, 0.70% of total share capital), for an overall amount of euro 29.8 million (31 December 2007: euro 41.4 million). These shares are recognised as treasury stock, as described in Note 2.14.

The movement in treasury stocks is analysed as follows:

| | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | Number of shares | Amount (thousands of euro) | Number of shares | Amount (thousands of euro) |
| Opening balance | 3,484,262 | 41,437 | 5,667,612 | 63,732 |
| Shares sold | (1,005,181) | ( 11,599) | (2,183,350) | ( 22,295) |
| **Year-end balance** | **2,479,081** | **29,838** | **3,484,262** | **41,437** |

## Note 38 - FAIR VALUE RESERVE, OTHER RESERVES AND RETAINED EARNINGS AND MINORITY INTEREST

### Legal reserve

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

### Fair value reserve

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

During the years ended 31 December 2008 and 2007, the changes in these balances were as follows:

in thousands of euro

| | Fair value reserve | | | Other reserves and retained earnings | | |
|---|---|---|---|---|---|---|
| | Available for-sale financial assets | Deferred tax reserve | Total fair value reserve | Legal reserve | Other reserves and retained earnings | Total Other reserves and retained earnings |
| **Balance as at 31 December 2006** | **656,378** | **( 174,316)** | **482,062** | **140,910** | **88,600** | **229,510** |
| Share-based incentive plan (SIBA) | - | - | - | - | 1,030 | 1,030 |
| Changes in fair value | 140,934 | ( 25,622) | 115,312 | - | - | - |
| Transfer to reserves | - | - | - | 26,000 | 33,127 | 59,127 |
| Pensions - Transitional rules | - | - | - | - | ( 31,174) | ( 31,174) |
| Effect of BESSA´s merger | ( 518) | 171 | ( 347) | - | ( 38,271) | ( 38,271) |
| Other | - | - | - | - | 470 | 470 |
| **Balance as at 31 December 2007** | **796,794** | **( 199,767)** | **597,027** | **166,910** | **53,782** | **220,692** |
| Share-based incentive plan (SIBA) | - | - | - | - | 517 | 517 |
| Changes in fair value | (1,019,525) | 225,107 | ( 794,418) | - | - | - |
| Transfer to reserves | - | - | - | 50,000 | 205,843 | 255,843 |
| Pensions - Transitional rules | - | - | - | - | ( 23,615) | ( 23,615) |
| Effect of BES Leasing´s merger | - | - | - | 11,753 | 16,356 | 28,109 |
| Other | - | - | - | - | 186 | 186 |
| **Balance as at 31 December 2008** | **( 222,731)** | **25,340** | **( 197,391)** | **228,663** | **253,069** | **481,732** |

The fair value reserve is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Amortised cost of available-for-sale financial assets | 7,494,880 | 4,845,407 |
| Accumulated impairment losses recognised | ( 76,818) | ( 52,720) |
| Amortised cost of available-for-sale financial assets, net of impairment | 7,418,062 | 4,792,687 |
| **Fair value of available-for-sale financial assets** | **7,218,865** | **5,589,481** |
| Net unrealised gains/(losses) recognised in the fair value reserve | ( 199,197) | 796,794 |
| Fair value reserves related to securities reclassified as held-to-maturity investments (see Note 22) | ( 23,534) | - |
| Deferred taxes | 25,340 | ( 199,767) |
| | **( 197,391)** | **597,027** |

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance as at the beginning of the year** | **597,027** | **482,062** |
| Changes in fair value | ( 822,919) | 317,100 |
| Disposals during the year | ( 233,976) | ( 190,446) |
| Impairment recognised during the year | 37,370 | 13,762 |
| Deferred taxes recognised in reserves during the year ( See Note 34) | 225,107 | ( 25,451) |
| **Balance as at the end of the year** | **( 197,391)** | **597,027** |

## Note 39 - OFF-BALANCE SHEET ITEMS

As at 31 December 2008 and 2007, this balance can be analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and stand by letters of credit | 15,684,795 | 16,117,094 |
| Assets pleged as collateral | 2,133,150 | 582,299 |
| Open documentary credits | 1,620,305 | 887,476 |
| Other | 107,670 | 101,814 |
| | 19,545,920 | 17,688,683 |
| **Commitments** | | |
| Revocable commitments | 11,185,595 | 6,539,978 |
| Irrevocable commitments | 4,281,531 | 2,747,108 |
| | 15,467,126 | 9,287,086 |

Guarantees and standby letters of credit are banking operations that do not imply any out-flow by the Bank.

As at 31 December 2008, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Bank of Portugal (i) for the use of the money transfer system (Sistema de Pagamento de Grandes Transacções) in the amount of euro 134,400 thousands (31 December 2007 euro 131,183 thousands) and (ii) in the scope of a liquidity facility collateralised by securities in the amount of euro 1,400,000 million (as at 31 December 2008, securities eligible for rediscount at the Bank of Portugal amounted to euro 4,568,649);

- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 15,000 thousands (31 December 2007: euro 52,912 thousands);

- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) in the amount of euro 62,150 thousands (31 December 2007: euro 61,664 thousands);

- Securities pledged as collateral to the European Investment Bank in the amount of euro 521,600 thousands (31 December 2007: euro 287,000 thousands).

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

The documentary credits are irrevocable commitments from the Bank on behalf of its clients, to pay/order to pay a determined amount to the supplier of a given commodity or service, within a stipulated period, against the presentation of documents referring to the expedition of the commodity or rendering of the service. The condition of irrevocability consists on the fact of not being viable his cancellation or alteration without the agreement of all the involved parties.

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with the Bank clients which, in general, are contracted by fixed periods or with other expiring requisites and, normally, apply for the payment of a commission. Substantially, all commitments of credit concession in force require clients to maintain certain requisites which are verified at the time of the respective formalisation.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that the Bank requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

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

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Securities and other items held for safekeeping on behalf of customers | 54,556,472 | 63,016,007 |
| Assets for collection on behalf of clients | 279,912 | 195,075 |
| Securitised loans under management (servicing) | 7,919,687 | 6,066,469 |
| Other responsabilities related with banking services | 3,387,637 | 4,384,662 |
| | 66,143,708 | 73,662,213 |

## **Note 40 -** RELATED PARTIES TRANSACTIONS

As at 31 December 2008 and 2007, the balances and transactions with related parties are presented as follows:

in thousands of euro

| | 31.12.2008 | | | | | 31.12.2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Assets | Liabilities | Guarantees | Income | Expenses | Assets | Liabilities | Guarantees | Income | Expenses |
| **Subsidiaries** | | | | | | | | | | |
| BESLEASING & FACTORING | - | - | - | - | - | 1,763,290 | 70 | 847,878 | 60,175 | 882 |
| ES RECUPERAÇÃO DE CRÉDITO | - | - | - | - | 5,680 | - | - | - | - | 6,213 |
| ES CONCESSÕES | 161,380 | 51 | - | 8,896 | - | 91,495 | 34 | - | 1,993 | - |
| ES ACE 2 | - | - | - | - | 2,824 | - | - | - | - | 1,440 |
| ESAF | - | 65,777 | - | 21,739 | 2,878 | - | 29,484 | - | 29,917 | 2,128 |
| ESAF ESPANHA | 2,277 | 15,754 | - | 7,746 | 598 | - | - | - | 7,162 | 392 |
| ES SERVICIOS | 6,534 | 235 | - | 3,198 | 381 | - | - | - | 215 | 1,902 |
| BESSA | - | - | - | - | - | - | - | - | 8,836 | 2,838 |
| ESGEST | - | 442 | - | - | 1,273 | - | 212 | - | - | 1,063 |
| ESDATA | - | 2,405 | - | - | 11 | - | 2,555 | - | - | 11 |
| ESINF | - | 2 | - | - | 5,284 | - | - | - | - | 6,251 |
| BESNAC | - | 363,790 | 366,458 | - | 6,124 | - | 213,801 | 217,377 | - | 4,290 |
| CÊNTIMO | 1,819 | - | - | - | - | 1,819 | 327 | - | - | - |
| BESI | 1,061,704 | 197,758 | - | 18,771 | 9,525 | 218,337 | 262,210 | - | 13,825 | 4,978 |
| BES GMBH | - | 58 | - | - | 15 | - | 115 | - | 61 | 77 |
| BES ORIENTE | 38 | 492 | - | - | 16 | - | 211 | - | - | 16 |
| BES FINANCE | 164,851 | 8,184,347 | 8,468,257 | 117,938 | 477,749 | - | 9,660,968 | 9,862,641 | 1 | 480,356 |
| ES PLC | 389,063 | 482,805 | 990,491 | 20,021 | 11,327 | 568,507 | 194,155 | 195,500 | 24,756 | 2,524 |
| ES BANK | - | 2,757 | - | - | - | - | 2,124 | - | - | - |
| ES TECH VENTURES | 82,594 | 22,675 | - | 4,344 | 527 | 70,977 | 7,045 | - | 4,332 | 158 |
| ES REPRESENTAÇÕES | - | - | - | - | 1,010 | - | - | - | - | 1,340 |
| ES CONTACT CENTER | - | - | - | - | 2,605 | 488 | - | - | - | 4,508 |
| ESCLINC | - | - | - | - | 1,204 | - | - | - | - | 991 |
| BEST | - | 338,544 | - | 177 | 13,008 | - | 168,954 | - | 549 | 1,650 |
| BES AÇORES | 56,566 | 89,890 | - | 1,743 | - | 21,757 | 18,584 | - | 313 | 685 |
| BES ANGOLA | 1,549358 | 61,999 | - | 26,085 | 2,883 | 23,033 | 29,443 | - | - | 4,062 |
| ES FIN. CONSULTANTS | 163 | - | - | - | - | 143 | - | - | - | - |
| QUINTA DOS CONEGOS | 269 | - | - | - | | 1,417 | - | - | - | - |
| BIBL | 699,977 | 310,694 | 1,257,455 | 45,808 | 26,220 | 764,730 | 65,461 | - | 24,931 | 3,280 |
| FCR PME | - | 1,975 | - | - | 94 | - | 2,010 | - | - | 79 |
| FIQ VENTURES II | 10,113 | 1,071 | - | 372 | - | - | 361 | - | - | 363 |
| CLN'S | - | - | - | - | - | - | - | - | 6,846 | 11,877 |
| SPE-LM6 | 108,234 | - | - | 1,152 | 3,141 | - | - | - | - | - |
| SPE-LM7 | 1,443,642 | - | - | 20,661 | - | - | - | - | - | - |
| SPE-PF1 | 786,258 | - | - | 45,877 | - | - | - | - | 1,416 | - |
| PRAÇA DO MARQUES | 7,120 | 499 | - | - | 1,440 | 7,120 | 263 | - | - | - |
| | **6,531,960** | **10,144,020** | **11,082,661** | **344,528** | **575,817** | **3,533,113** | **10,658,387** | **11,123,396** | **185,328** | **544,354** |
| **Associated companies** | | | | | | | | | | |
| BES VIDA | 663,133 | 104,260 | - | 270,871 | 290 | 29,242 | 162,778 | 8 | 38,499 | 3,006 |
| ES VÉNÉTIE | 381,688 | 76 | 3,037 | 16 | 15 | 309,107 | 617 | - | 10,872 | 80 |
| LOCARENT | 118,932 | - | - | 7,142 | 7,850 | 123,657 | 2,057 | - | 5,529 | 6,103 |
| BES SEGUROS | - | 177 | - | | | - | 3,931 | - | 8,020 | 36 |
| EUROP ASSISTANCE | - | 1,072 | - | - | 88 | - | 1,787 | 7 | 1 | 65 |
| ESUMÉDICA | 1,859 | - | - | 69 | - | 1,850 | 30 | - | 58 | - |
| FIDUPRIVATE | 3 | - | - | - | 9 | 825 | 773 | - | - | - |
| ESEGUR | - | 191 | 1,651 | 64 | 14 | 399 | 183 | 1,887 | 10 | 12 |
| OTHER | 4,000 | 1,890 | - | 213 | 2 | 2,598 | 644 | - | 144 | 2 |
| | **1,169,615** | **107,666** | **4,688** | **278,375** | **8,268** | **467,678** | **172,800** | **1,902** | **63,133** | **9,304** |

During 2008, BES sold 38 million shares of Banco Bradesco to BES Vida, adjusted by the stock split, by the amount of euro 438.4 million. During the same period, BES Vida sold all Bradesco shares. The gain from this event reached an amount of euro 234.6 millions (see Note 8 and Note 19).

In the scope of the distribution and operating management agreement between BES, BES Vida and Crédit Agricole, BES granted BES Vida a guaranteed return over a group of assets associated to insurance and investment contracts. BES recognises this guarantee on its balance sheet as a liability at fair value against the income statement, when the expected return of assets is lower than the minimum guaranteed return to the policy holders. Based on the valuation performed as at 31 December 2008, no liabilities arising from this guarantee were identified.

As at 31 December 2008 and 2007, the total amount of assets and liabilities of BES with ESFG (Bank holding) and related companies, is as follows:

in thousands of euro

| | 31.12.2008 | | | | | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Assets | | | | | | | | | |
| | Loans and advances to banks | Loans | Securities | Other | Total | Guarantees | Liabilities | Assets | Guarantees | Liabilities |
| GRUPO ESPÍRITO SANTO INTERNATIONAL | - | 85,793 | 83 | 7,268 | 93,144 | 5,684 | 11,190 | 160,830 | 10,349 | 15,763 |
| ESPÍRITO SANTO FINANCIÉRE, SA | - | 133,097 | - | - | 133,097 | - | 10,104 | 137,847 | - | 27,299 |
| ES SAUDE | - | 101,981 | 15,810 | 4,000 | 121,791 | 2,784 | 8,956 | 50,510 | 3 | 1,105 |
| GRUPO CRÉDIT AGRICOLE | 973 | 13,602 | 50 | 12,362 | 26,987 | 11,384 | 21,311 | 15,260 | 1,676 | 132 |
| PARTRAN | - | - | - | - | - | - | 123 | - | - | 188 |
| BANQUE PRIVÉE ESPÍRITO SANTO | 27,964 | - | - | - | 27,964 | - | 34,428 | 4,835 | 960 | 145,059 |
| COMPANHIA SEGUROS TRANQUILIDADE | - | 1,187 | - | - | 1,187 | 1,029 | 66,059 | 31 | 1,257 | 89,288 |
| ES BANK PANAMA | - | 3,984 | - | - | 3,984 | - | - | - | - | 9,000 |
| BESPAR | - | - | - | - | - | - | 3,887 | - | - | 1,867 |
| ESF PORTUGAL | - | - | - | - | - | - | 256 | - | - | 148 |
| OTHER | - | 3,221 | 455 | - | 3,676 | 95 | 7,756 | 66,840 | 2,002 | 20,670 |
| **TOTAL** | **28,937** | **342,865** | **16,398** | **23,630** | **411,830** | **20,976** | **164,070** | **436,153** | **16,247** | **310,519** |

The costs with salaries and other benefits attributed to BES key management personnel, as well as the transactions performed with BES key management personnel are presented in Note 11.

As at 31 December 2008, loans granted by BES to the members of the Board of Directors of ESFG that are not simultaneously members of the Board of Directors of BES, amounted to euro 6,520 thousands (31 December 2007: euro 10,789 thousands).

The transactions made and the balances as at 31 December 2008 with the Group pensions funds are analysed in Note 12.

## Note 41 - SECURITIZATION TRANSACTIONS

As at 31 December 2008, the outstanding securitisation transactions performed by the Bank were as follows:

in thousands of euro

| Designation | Initial date | Original amount | Current amount | Asset securitised |
|---|---|---|---|---|
| Lusitano Global CDO No.1 plc | August 2001 | 1,144,300 | 71,528 | Domestic bonds and eurobonds |
| Lusitano Mortgages No.1 plc | December 2002 | 1,000,000 | 528,872 | Mortgage loans (subsidised regime) |
| Lusitano Mortgages No.2 plc | November 2003 | 1,000,000 | 536,348 | Mortgage loans (subsidised and general regime) |
| Lusitano Mortgages No.3 plc | November 2004 | 1,200,000 | 750,571 | Mortgage loans (general regime) |
| Lusitano Mortgages No.4 plc | September 2005 | 1,200,000 | 842,092 | Mortgage loans (general regime) |
| Lusitano Mortgages No.5 plc | September 2006 | 1,400,000 | 1,108,546 | Mortgage loans (general regime) |
| Lusitano SME No.1 plc | October 2006 | 862,607 | 818,200 | Loans to small and medium entities |
| Lusitano Mortgages No.6 plc | July 2007 | 1,100,000 | 946,807 | Mortgage loans (general regime) |
| Lusitano Project Finance No.1 plc (*) | December 2007 | 1,079,100 | 788,931 | Project Finance loans |
| Lusitano Mortgages No.7 plc | September 2008 | 1,900,000 | 1,865,103 | Mortgage loans (general regime) |

(*) This security includes euro 888,600 thousands from loans from BES and euro 190,500 thousands from loans from other entitites.

The main characteristics of these transactions, as at 31 December 2008, can be analysed as follows:

in thousands of euro

| Designation | Notes issued | Issued amount (par value) | Current amount (par value) | Securities held by BES (par value) | Maturity date | *Ratings* (initial) | | | *Ratings* (initial) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Fitch | Moody's | S&P | Fitch | Moody's | S&P |
| Lusitano Global CDO No.1 plc | Class A1 | 350,000 | - | - | December 2015 | - | - | - | - | - | - |
| | Class A2 | 623,800 | - | - | December 2015 | AAA | Aaa | AAA | n.a. | n.a | NR |
| | Class B | 42,300 | - | - | December 2015 | AA | Aa1 | AA | n.a. | n.a | NR |
| | Class C | 25,200 | - | - | December 2015 | A | A1 | A+ | n.a. | Aaa | NR |
| | Class D | 103,000 | 72,586 | - | December 2015 | - | - | - | - | - | - |
| Lusitano Mortgages No.1 plc | Class A | 915,000 | 433,512 | - | December 2035 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 32,500 | 32,500 | - | December 2035 | AA | Aa3 | AA | AA | Aa3 | AA |
| | Class C | 25,000 | 25,000 | 3,000 | December 2035 | A | A2 | A | A | A2 | A |
| | Class D | 22,500 | 22,500 | - | December 2035 | BBB | Baa2 | BBB | BBB | Baa2 | BBB |
| | Class E | 5,000 | 5,000 | - | December 2035 | BB | Ba1 | BB | BB | Ba1 | BB |
| | Class F | 10,000 | 10,000 | - | December 2035 | - | - | - | - | - | - |
| Lusitano Mortgages No.2 plc | Class A | 920,000 | 461,488 | - | December 2036 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 30,000 | 30,000 | 10,000 | December 2046 | AA | Aa3 | AA | AA | Aa3 | AA |
| | Class C | 28,000 | 28,000 | 5,000 | December 2046 | A | A3 | A | A | A3 | A |
| | Class D | 16,000 | 16,000 | - | December 2046 | BBB | Baa3 | BBB | BBB | Baa3 | BBB |
| | Class E | 6,000 | 6,000 | - | December 2046 | BBB- | Ba1 | BB | BBB- | Ba1 | BB |
| | Class F | 9,000 | 9,000 | - | December 2046 | - | - | - | - | - | - |
| Lusitano Mortgages No.3 plc | Class A | 1,140,000 | 683,619 | - | December 2047 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 27,000 | 23,506 | - | December 2047 | AA | Aa2 | AA | AA | Aa2 | AA |
| | Class C | 18,600 | 16,193 | - | December 2047 | A | A2 | A | A | Baa1 | A |
| | Class D | 14,400 | 12,536 | - | December 2047 | BBB | Baa2 | BBB | BBB | Ba3 | BBB |
| | Class E | 10,800 | 10,800 | - | December 2047 | - | - | - | - | - | - |
| Lusitano Mortgages No.4 plc | Class A | 1,134,000 | 784,693 | 1,500 | December 2048 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 22,800 | 22,110 | - | December 2048 | AA | Aa2 | AA | AA | Aa2 | AA |
| | Class C | 19,200 | 18,619 | - | December 2048 | A+ | A1 | A+ | A+ | A3 | A+ |
| | Class D | 24,000 | 23,273 | - | December 2048 | BBB+ | Baa1 | BBB+ | BBB+ | B2 | BBB+ |
| | Class E | 10,200 | 10,200 | - | December 2048 | - | - | - | - | - | - |
| Lusitano Mortgages No.5 plc | Class A | 1,323,000 | 1,031,839 | - | December 2059 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 26,600 | 26,600 | - | December 2059 | AA | Aa2 | AA | AA | A2 | AA |
| | Class C | 22,400 | 22,400 | - | December 2059 | A | A1 | A | A | Baa2 | A |
| | Class D | 28,000 | 28,000 | - | December 2059 | BBB+ | Baa2 | BBB | BBB+ | B3 | BBB |
| | Class E | 11,900 | 11,900 | - | December 2059 | - | - | - | - | - | - |
| Lusitano SME No.1 plc | Class A | 759,525 | 759,525 | - | December 2028 | AAA | - | AAA | AAA | - | AAA |
| | Class B | 40,974 | 40,974 | - | December 2028 | AAA | - | AAA | AAA | - | AAA |
| | Class C | 34,073 | 34,073 | - | December 2028 | BB | - | BB | BB | - | BB |
| | Class D | 28,035 | 28,035 | - | December 2028 | - | - | - | - | - | - |
| | Class E | 8,626 | 8,626 | - | December 2028 | - | - | - | - | - | - |
| Lusitano Mortgages No.6 plc | Class A | 943,250 | 794,013 | 22,650 | March 2060 | AAA | Aaa | AAA | AAA | Aaa | AAA |
| | Class B | 65,450 | 65,450 | 42,075 | March 2060 | AA | Aa3 | AA | AA | Aa3 | AA |
| | Class C | 41,800 | 41,800 | 20,000 | March 2060 | A | A3 | A | A | A3 | A |
| | Class D | 17,600 | 17,600 | 8,700 | March 2060 | BBB | Baa3 | BBB | BBB | Baa3 | BBB |
| | Class E | 31,900 | 31,900 | 15,950 | March 2060 | BB | - | BB | BB | - | BB |
| | Class F | 22,000 | 22,000 | - | March 2060 | - | - | - | - | - | - |
| Lusitano Project Finance No.1 plc | Class A | 890,256 | 814,767 | 708,848 | December 2037 | - | - | AAA | - | - | AAA |
| | Class B | 35,610 | 35,610 | 30,981 | December 2037 | - | - | AA | - | - | AA |
| | Class C | 39,926 | 39,926 | 34,736 | December 2037 | - | - | A | - | - | A |
| | Class D | 23,741 | 23,741 | 8,309 | December 2037 | - | - | BBB | - | - | BBB |
| | Class E | 11,871 | 11,871 | 2,374 | December 2037 | - | - | BB | - | - | BB |
| | Class F | 77,696 | 77,696 | - | December 2037 | - | - | - | - | - | - |
| Lusitano Mortgages No.7 plc | Class A | 1,425,000 | 1 425,000 | 1,423,000 | October 2064 | - | - | AAA | - | - | AAA |
| | Class B | 294,500 | 294,500 | - | October 2064 | - | - | BBB- | - | - | BBB- |
| | Class C | 180,500 | 180,500 | - | October 2064 | - | - | - | - | - | - |
| | Class D | 57,000 | 57,000 | - | October 2064 | - | - | - | - | - | - |

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

The assets sold in the securitisation transactions performed after 1 January 2004, were derecognised considering that the Bank has transferred substantially all the risks and rewards of ownership.

## Note 42 - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

in thousands of euro

| | Amortised Cost | At Fair Value | | Book Value | Fair Value |
|---|---|---|---|---|---|
| | | Quoted market prices | Non-quoted valuation models | | |
| **Balance as at 31 December 2008** | | | | | |
| Cash and deposits at Central Banks | 1,755,753 | - | - | 1,755,753 | 1,755,753 |
| Deposits with banks | 337,637 | - | - | 337,637 | 337,637 |
| Other financial assets held for trading | - | 1,616,331 | 1,258,515 | 2,874,846 | 2,874,846 |
| Financial assets at fair value through profit or loss | - | 890,599 | 1,130,619 | 2,021,218 | 2,021,218 |
| Available-for-sale financial assets | - | 4,191,382 | 3,027,483 | 7,218,865 | 7,218,865 |
| Loans and advances to banks | 7,093,428 | - | 27,372 | 7,120,800 | 7,120,800 |
| Loans and advances to customers | 38,527,547 | - | 522,237 | 39,049,784 | 39,494,571 |
| Held to maturity investments | 1,806,473 | - | - | 1,806,473 | 1,718,838 |
| Derivatives for risk management purposes | - | - | 986,241 | 986,241 | 986,241 |
| **Financial assets** | **45,520,838** | **6,698,312** | **6,952,467** | **63,171,617** | **63,528,769** |
| Deposits from central banks | 4,710,444 | - | - | 4,710,444 | 4,710,444 |
| Financial liabilities held for trading | - | - | 1,532,270 | 1,532,270 | 1,532,270 |
| Deposits from banks | 12,348,036 | - | 2,063,887 | 14,411,923 | 14,411,923 |
| Due to customers | 22,693,875 | - | 200,778 | 22,894,653 | 22,894,653 |
| Debt securities issued | 9,512,342 | - | 4,805,045 | 14,326,387 | 13,493,742 |
| Derivatives for risk management purposes | - | - | 796,523 | 796,523 | 796,523 |
| Subordinated debt | 3,245,184 | - | 228,635 | 3 473,819 | 3,339,612 |
| **Financial liabilities** | **52,518,881** | **-** | **9,627,138** | **62,146,019** | **61,179,167** |
| **Balance as at 31 December 2007** | | | | | |
| Cash and deposits at Central Banks | 1,216,096 | - | - | 1,216,096 | 1,216,096 |
| Deposits with banks | 477,216 | - | - | 477,216 | 477,216 |
| Other financial assets held for trading | - | 724,111 | 1,893,785 | 2,617,896 | 2,617,896 |
| Financial assets at fair value through profit or loss | - | 371,062 | 715,621 | 1,086,683 | 1,086,683 |
| Financial assets available-for-sale | - | 1,766,651 | 3,822,830 | 5,589,481 | 5,589,481 |
| Loans and advances to banks | 9,815,350 | - | 559,687 | 10,375,037 | 10,375,037 |
| Loans and advances to customers | 32,719,818 | - | 156,049 | 32,875,867 | 33,176,679 |
| Held to maturity investments | 390,025 | - | - | 390,025 | 384,100 |
| Derivatives for risk management purposes | - | - | 165,346 | 165,346 | 165,346 |
| **Financial assets** | **44,618,505** | **2,861,824** | **7,313,318** | **54,793,647** | **55,088,534** |
| Deposits from central banks | 1,833,114 | - | - | 1,833,114 | 1,833,114 |
| Financial liabilities held for trading | - | - | 1,034,222 | 1,034,222 | 1,034,222 |
| Deposits from banks | 13,299,938 | - | - | 13,299,938 | 13,299,938 |
| Due to customers | 21,068,611 | - | 76,798 | 21,145,409 | 21,145,409 |
| Debt securities issued | 11,933,141 | - | 155,723 | 12,088,864 | 11,725,864 |
| Derivatives for risk management purposes | - | - | 189,651 | 189,651 | 189,651 |
| Subordinated debt | 2,573,805 | - | - | 2,573,805 | 2,558,570 |
| **Financial liabilities** | **50,708,609** | **-** | **1,456,394** | **52,165,003** | **51,786,768** |

The assets and liabilities at fair value of BES are measured in accordance with the following hierarchy:

**Quoted market prices** – this category includes financial assets (i) with available quoted market prices in official markets and (ii) with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities.

**Valuation models based on observable market information** – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, the Bank uses observable market data such as market inputs, like interest rate curves, credit spreads, volatility and market indexes.

The main assumptions and inputs used during 2008 in the valuation models, are presented as follows:

### Interest rates curves

The short term rates presented reflect benchmark interest rates for money market, being that for the long term the presented values represent the quotations for interest rate swap for the respective periods:

%

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | EUR | USD | GBP | EUR | USD | GBP |
| Overnight | 2.0000 | 0.1250 | 1.5000 | 4.0000 | 5.0300 | 5.5000 |
| 1 month | 2.6950 | 0.9500 | 2.2500 | 4.2450 | 4.7000 | 5.7900 |
| 3 months | 2.9450 | 1.7500 | 2.7800 | 4.6600 | 4.7900 | 5.8900 |
| 6 months | 3.0100 | 2.0000 | 2.8200 | 4.6500 | 4.6500 | 5.8450 |
| 9 months | 3.0450 | 2.2500 | 2.8800 | 4.6700 | 4.4350 | 5.7800 |
| 1 year | 2.6790 | 1.2100 | 2.0090 | 4.7060 | 4.0890 | 5.5860 |
| 3 years | 2.9260 | 1.6850 | 2.8930 | 4.5220 | 3.9340 | 5.1849 |
| 5 years | 3.2360 | 2.0770 | 3.1891 | 4.5500 | 4.2080 | 5.1257 |
| 7 years | 3.4630 | 2.2780 | 3.3541 | 4.6100 | 4.4490 | 5.0932 |
| 10 years | 3.7350 | 2.4740 | 3.4850 | 4.7200 | 4.7040 | 5.0420 |
| 15 years | 3.8980 | 2.6750 | 3.7091 | 4.8560 | 4.9240 | 4.9532 |
| 20 years | 3.8450 | 2.7085 | 3.6216 | 4.9070 | 5.0130 | 4.8607 |
| 25 years | 3.6730 | 2.6670 | 3.4716 | 4.9100 | 5.0450 | 4.7732 |
| 30 years | 3.5400 | 2.6310 | 3.3591 | 4.8870 | 5.0710 | 4.7032 |

### Credit spreads

The credit spreads used by the Bank on the valuation of the credit derivatives are disclosed on a daily basis by Markit representing observations constituted for around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spreads behavior in the market throughout the year, is presented as follows:

basis points

| Index | Series | 1 year | 3 year | 5 year | 7 year | 10 years |
|---|---|---|---|---|---|---|
| **Year 2008** | | | | | | |
| CDX USD Main | 11 | 241.88 | 228.50 | 197.54 | 164.67 | 148.71 |
| iTraxx Eur Main | 10 | - | 201.61 | 177.50 | 161.00 | 150.71 |
| iTraxx Eur Senior Financial | 10 | - | - | 118.79 | - | 119.00 |
| **Year 2007** | | | | | | |
| CDX USD Main | 9 | 76.00 | 72.00 | 77.88 | 79.00 | 85.72 |
| iTraxx Eur Main | 8 | - | 57.44 | 49.98 | 38.75 | 65.19 |
| iTraxx Eur Senior Financial | 8 | - | - | 45.91 | - | 49.21 |

### Interest rates volatility

The values presented below, refer to the implicit volatilities (at the money) used for the valuation of the interest rate options:

%

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | EUR | USD | GBP | EUR | USD | GBP |
| 1 year | 43.99 | 79.02 | 81.40 | 12.22 | 27.26 | 17.30 |
| 3 year | 33.03 | 59.69 | 45.60 | 15.10 | 29.55 | 17.70 |
| 5 year | 27.26 | 47.94 | 33.30 | 14.77 | 26.24 | 15.90 |
| 7 year | 23.94 | 41.54 | 26.80 | 14.31 | 23.78 | 14.80 |
| 10 years | 21.12 | 36.03 | 22.10 | 13.63 | 21.63 | 13.70 |
| 15 years | 19.37 | 29.84 | 18.00 | 12.72 | 18.86 | 13.00 |

**Exchange rates and volatility**

We present below the exchange rates (European Central bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used on the derivatives valuation:

%

| | | | Volatility (%) | | | | |
|---|---|---|---|---|---|---|---|
| **Exchange rates** | **31.12.2008** | **31.12.2007** | **1 month** | **3 months** | **6 months** | **9 months** | **1 year** |
| EUR/USD | 1.3917 | 1.4721 | 23.75 | 23.00 | 21.00 | 19.80 | 19.50 |
| EUR/GBP | 0.9525 | 0.7334 | 16.90 | 18.78 | 18.65 | 18.26 | 17.88 |
| EUR/CHF | 1.4850 | 1.6547 | 11.70 | 11.00 | 10.00 | 9.60 | 9.20 |
| EUR/NOK | 9.7500 | 7.9580 | 20.50 | 18.75 | 16.80 | 15.90 | 15.45 |
| USD/BRL a) | 2.3307 | 1.7637 | 35.00 | 33.00 | 30.50 | 29.01 | 27.50 |
| USD/TRY b) | 1.5440 | 1.1664 | 21.50 | 21.45 | 21.20 | 21.00 | 20.65 |

a) Calculation based on EUR/USD and EUR/BRL exchange rate
b) Calculation based on EUR/USD and EUR/TRY exchange rate

Concerning the exchange rates, the Bank uses in the valuation models the spot rate observed in the market at the time of the valuation.

**Equity indexes**

In the table below, we present the evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives:

| | Quote | | | Historical volatility | | Implied volatility | |
|---|---|---|---|---|---|---|---|
| | **31.12.2008** | **31.12.2007** | **Change %** | **1 month** | **3 months** | ***Call*** | ***Put*** |
| DJ Euro Stoxx 50 | 2,448 | 4,400 | ( 44.4) | 41.62 | 62.93 | 38.60 | 38.91 |
| PSI 20 | 6,341 | 13,019 | ( 51.3) | 21.06 | 46.98 | - | - |
| IBEX 35 | 9,196 | 15,182 | ( 39.4) | 39.32 | 62.97 | - | - |
| FTSE 100 | 4,434 | 6,457 | ( 31.3) | 30.89 | 58.88 | 35.65 | 36.79 |
| DAX | 4,810 | 8,067 | ( 40.4) | 44.83 | 65.10 | 37.52 | 37.76 |
| S&P 500 | 903 | 1,468 | ( 38.5) | 38.04 | 70.29 | 38.69 | 38.69 |
| BOVESPA | 37,550 | 63,886 | ( 41.2) | 43.80 | 81.22 | 50.82 | 46.83 |

The methods and assumptions used in estimating the fair values of financial assets and liabilities measured at amortised cost in the balance sheet are analysed as follows:

Cash and deposits at central banks, Deposits with banks and Loans and advances to banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

**Loans and advances to customers**

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

**Held-to-maturity investments**

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

**Deposits from central banks and Deposits from banks**

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

**Due to customers**

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the installments are paid on the dates that have been contractually defined. The discount rates used by the Bank are the current interest rates used in instruments with similar characteristics. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

**Debt securities issued and subordinated debt**

For the instruments where the Bank adopts the hedge accounting (as described in Note 23), its fair value is already reflected in the financial statements. For the remaining instruments, the fair value is based on market prices, when available. When not available, the Bank estimates its fair value by discounting the expected future cash-flows.

## Note 43 - RISK MANAGEMENT

A qualitative outlook of the risk management at the Bank is presented bellow:

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

**Credit risk**

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

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

The risk profile of BES's credit portfolios is analysed on a regular basis by the Risk Committee. In these meetings the Committee monitors and analyses the risk profile of BES and respective business units under four major perspectives: evolution of credit exposures, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

The credit risk exposure of BES is analysed as follows:

in thousands of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Deposits with banks | 6,973,732 | 10,014,731 |
| Financial assets held for trading | 2,874,846 | 1,919,543 |
| Financial assets at fair value through profit or loss | 1,183,951 | 894,329 |
| Available-for-sale financial assets | 5,300,756 | 3,457,668 |
| Loans and advances to customers | 39,049,784 | 32,875,867 |
| Held to maturity investments | 1,806,473 | 390,025 |
| Derivatives for risk management purposes | 986,241 | 165,346 |
| Other assets | 492,352 | 389,025 |
| Guarantees granted | 15,684,795 | 16,117,094 |
| Stand by letters of credit | 1,620,305 | 887,476 |
| Irrevocable commitments | 4,281,531 | 2,747,108 |
| | **80,254,766** | **69,858,212** |

The analysis of the risk exposure by sector of activity, as at 31 December 2008 and 2007, can be analysed as follows:

in thousands of euro

| | 31.12.2008 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Loans and advances to customers | | Financial assets held for tranding | Other financial assets as at fair value through profit or loss | Available-for-sale financial assets | | Held to maturity investments | | Guarantees granted |
| | Gross amount | Impairment [a] | | | Gross amount | Impairment | Gross amount | Impairment | |
| Agriculture | 524,269 | ( 18,558) | 4,576 | - | 1,761 | - | - | - | 24,536 |
| Mining | 292,215 | ( 4,572) | 2,472 | - | - | - | - | - | 47,404 |
| Food, beverage and tobacco | 713,251 | ( 13,927) | 10,513 | - | 49,329 | ( 52) | 4,306 | - | 97,848 |
| Textiles | 356,592 | ( 30,367) | 9,171 | - | 22,781 | ( 2,238) | - | - | 26,444 |
| Shoes | 61,351 | ( 5,074) | 1,037 | - | 499 | ( 499) | - | - | 2,995 |
| Wood and cork | 162,414 | ( 11,481) | 3,521 | - | 3,038 | - | - | - | 6,604 |
| Priting and publishing | 219,205 | ( 5,196) | 491 | - | 76,165 | - | - | - | 40,228 |
| Refining and oil | 56,183 | ( 71) | - | - | - | - | - | - | 3,004 |
| Chemicals and rubber | 560,989 | ( 8,850) | 15,565 | - | 43,832 | ( 5) | 13,119 | - | 70,888 |
| Non-metalic minerals | 287,610 | ( 10,432) | 1,557 | - | 8,507 | - | - | - | 47,458 |
| Metalic products | 489,042 | ( 13,000) | 3,381 | - | 8,014 | - | - | - | 67,999 |
| Production of machinery, equipment and electric devices | 175,464 | ( 5,067) | 1,474 | 1,981 | 1,280 | ( 770) | 12,053 | - | 180,607 |
| Production of transport material | 192,865 | ( 4,860) | 238,693 | - | 7,419 | - | 41,601 | - | 76,320 |
| Other transforming industries | 450,643 | ( 12,274) | 1,186 | - | 912 | ( 815) | - | - | 15,552 |
| Electricity, gas and water | 804,289 | ( 6,358) | 13,212 | - | 325,661 | - | 11,116 | - | 306,905 |
| Construction | 4,831,726 | ( 127,700) | 52,973 | - | 320,180 | ( 1,811) | - | - | 1,572,892 |
| Wholesale na retail | 2,794,919 | ( 111,345) | 25,194 | - | 122,664 | ( 8,469) | 9,570 | - | 452,980 |
| Tourism | 974,469 | ( 18,436) | 10,340 | - | 8,701 | ( 376) | - | - | 67,936 |
| Transports and communications | 1,479,561 | ( 20,778) | 8,116 | - | 921,422 | ( 1,890) | 116,186 | - | 578,127 |
| Financial activities | 1,710,220 | ( 23,585) | 1,269,979 | 1,988,811 | 4,081,752 | ( 21,183) | 783,533 | - | 10,109,809 |
| Real estates activities | 4,858,290 | ( 113,203) | 66,978 | - | 3,546 | ( 968) | - | - | 433,729 |
| Services provided to companies | 4,571,467 | ( 80,732) | 12,074 | 18 | 895,350 | ( 13,444) | 2,352 | - | 979,003 |
| Public services | 665,445 | ( 9,380) | 1,049,157 | - | 199,912 | - | 322,337 | - | 37,620 |
| Non-profit organisations | 1,601,649 | ( 47,700) | 4,835 | 30,408 | 180,845 | ( 24,295) | 437,487 | - | 150,940 |
| Mortgage loans | 7,849,862 | ( 215,644) | - | - | - | - | - | - | - |
| Consumers loans | 2,703,244 | ( 124,221) | - | - | - | - | - | - | 118,531 |
| Other | 290,064 | ( 12,575) | 68,351 | - | 12,113 | ( 3) | 52,813 | - | 168,436 |
| **TOTAL** | **39,677,298** | **( 1,055,386)** | **2,874,846** | **2,021,218** | **7,295,683** | **( 76,818)** | **1,806,473** | **-** | **15,684,795** |

(a) Includes the amount of euro 627,514 thousands related to provision for impaired loans (see Note 21) and provisions for general banking risks in the amount of euro 427,872 thousands (see Note 33).

in thousands of euro

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

(a) Includes the amount of euro 487,804 thousands related to provision for impairment loans (see Note 21) and provisions for general banking risks in the amount of euro 396,386 thousands (see note 33).

## Market risk

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

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. BES's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR stress testing have been developed, allowing to evaluate the impact of potential losses higher than the ones considered by VaR.

in millions of euro

| | 31.12.2008 | | | | 31.12.2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | December | Annual Average | Maximum | Minimum | December | Annual Average | Maximum | Minimum |
| Exchange Risk | 16 | 19 | 16 | 11 | 10 | 12 | 17 | 9 |
| Interest rate risk | 29 | 13 | 29 | 9 | 5 | 10 | 21 | 9 |
| Shares | 9 | 13 | 9 | 12 | 20 | 8 | 2 | 2 |
| Commodity | 0 | 1 | 0 | 2 | 2 | 3 | 4 | 3 |
| Diversification effect | -16 | -18 | -16 | -15 | -15 | -13 | -14 | -9 |
| **Total** | **38** | **28** | **38** | **19** | **23** | **20** | **30** | **14** |

BES has a VaR of euro 38 million (31 December 2007: euro 22 million), for its trading positions.

Following the recommendations of Basel II (Pilar 2) and Instructions nª19/2005, of the Bank of Portugal BES calculates its exposure to interest rate risk in the balance based on the methodology of the Bank of International Settlement (BIS) classifying all balance and off-balance balances which are not part of the trading portfolio, by reprising intervals.

in millions of euro

| | 31.12.2008 | | | | | | | 31.12.2007 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Elegible amount | Non sensitive | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years | Elegible amount | Non sensitive | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years |
| Cash and deposits | 198 | 198 | - | - | - | - | - | 225 | 225 | - | - | - | - | - |
| Loans and advances to banks | 8,684 | - | 7,568 | 399 | 302 | 315 | 100 | 11,446 | - | 10,401 | 705 | 93 | 79 | 168 |
| Loans and advances to customers | 38,818 | - | 25,677 | 8,787 | 2,161 | 1,589 | 604 | 32,747 | - | 20,814 | 8,203 | 2,079 | 1,038 | 613 |
| Securities | 11,277 | 1,999 | 7,117 | 706 | 974 | 243 | 238 | 8,525 | 3,081 | 3,423 | 453 | 1,379 | 141 | 48 |
| Off balance sheet | | | 3,966 | 156 | 5 | ( 3,736) | ( 377) | | - | 77 | 53 | - | ( 82) | ( 49) |
| **Total** | | | | **44,328** | **10,048** | **3,442** | **( 1,589)** | | **565** | **34,715** | **9,414** | **3,551** | **1,176** | **780** |
| Deposits from banks | 19,432 | - | 16,933 | 1,503 | 117 | 644 | 235 | 15,539 | - | 13,214 | 1,214 | 185 | 626 | 301 |
| Due to customers | 21,716 | - | 19,155 | 1,350 | 1,142 | 4 | 65 | 19,647 | - | 17,699 | 851 | 717 | 13 | 367 |
| Repo´s with clients | 527 | - | 194 | 112 | 218 | 2 | 1 | 491 | - | 477 | - | 14 | - | - |
| Debt securities issued and subordinated debt* | 18,622 | - | 8,436 | 441 | 193 | 5,544 | 4,008 | 14,697 | - | 7,740 | 1,318 | 316 | 2,494 | 3,679 |
| Off balance sheet | | | | 5,587 | 488 | 6 | ( 4,583) | ( 1,538) | - | 1,684 | 687 | ( 152) | ( 1,084) | ( 1,099) |
| **Total** | | | | **50,305** | **3,894** | **1,676** | **1,611** | **2,771** | | **40,814** | **4,070** | **1,080** | **2,049** | **3,248** |
| **GAP** | | | | **5,977** | **6,154** | **1,766** | **( 3,200)** | **( 2,206)** | | **( 6,099)** | **5,344** | **2,471** | **( 873)** | **( 2,468)** |

* Amounts presented at its nominal value

The model used to monitor the sensitivity of BES to interest rate risk is based on the duration model, and consider scenario of a 100 b.p. parallel shift in the interest rate curve for all maturities.

in millions of euro

| | 31.12.2008 | | | | 31.12.2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Parallel increase of 100 bp | Parallel decrease of 100 bp | Increase of 50 bp after 1 year | Decrease of 50 bp after 1 year | Parallel increase of 100 bp | Parallel decrease of 100 bp | Increase of 50 bp after 1 year | Decrease of 50 bp after 1 year |
| 31 December | 90 | (90) | 61 | (61) | 90 | (90) | 63 | (63) |
| Average for the year | 88 | (88) | 57 | (57) | 158 | (158) | 92 | (92) |
| Maximum for the year | 128 | (128) | 73 | (73) | 244 | (244) | 131 | (131) |
| Minimum for the year | 57 | (57) | 41 | (41) | 90 | (90) | 63 | (63) |

The following table presents the average balances, interests and interest rates in relation to the BES's major assets and liabilities categories, for the year ended 31 December 2008 and 2007:

in thousands of euro

| | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | Average balance for the year | Interest for the year | Average interest rate | Average balance for the year | Interest for the year | Average interest rate |
| Monetary assets | 11,220,082 | 426,356 | 3.80% | 8,297,881 | 449,290 | 5.41% |
| Loans and advances to customers | 35,247,449 | 2,173,612 | 6.17% | 31,173,299 | 1,790,296 | 5.74% |
| Securities | 6,665,523 | 428,059 | 6.42% | 4,855,918 | 319,639 | 6.58% |
| Differencial loans | 991,129 | - | - | 122,766 | - | - |
| **Financial Assets** | **54,124,183** | **3,028,027** | **5.59%** | **44,449,864** | **2,559,225** | **5.76%** |
| Monetary liabilities | 16,692,402 | 702,797 | 4.21% | 14,711,601 | 683,172 | 4.64% |
| Due to consumers | 19,700,782 | 619,782 | 3.15% | 15,653,158 | 435,359 | 2.78% |
| Other | 17,730,999 | 906,388 | 5.11% | 14,085,105 | 716,803 | 5.09% |
| **Financial Liabilities** | **54,124,183** | **2,228,967** | **4.12%** | **44,449,864** | **1,835,334** | **4.13%** |
| **Net interest income** | | **799,060** | **1.48%** | | **723,891** | **1.63%** |

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 31 of December of 2008 and 2007, is analysed as it follows:

in thousands of euro

| | | 31.12.2008 | | | | 31.12.2007 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Spot | Forward | Other elements | Net exposure | Spot | Forward | Other elements | Net exposure |
| USD | UNITED STATES DOLLAR | (3,993,923) | 4,111,050 | ( 55,055) | 62,072 | (3,467,345) | 3,564,426 | 69,187 | 166,268 |
| GBP | GREAT BRITAIN POUND | (1,044,813) | 1,003,697 | 33,779 | ( 7,337) | ( 846,369) | 911,065 | ( 198,612) | ( 133,916) |
| BRL | BRAZILIAN REAL | 372,261 | - | 7,043 | 379,304 | 421,810 | - | 1,237 | 423,047 |
| DKK | DANISH KRONE | 36,590 | ( 3,773) | - | 32,817 | 358,187 | ( 356,478) | - | 1,709 |
| JPY | JAPANESE YENE | ( 213,520) | 277,067 | ( 20,843) | 42,704 | ( 62,503) | 134,941 | 10,720 | 83,158 |
| CHF | SWISS FRANC | 63,579 | ( 56,229) | ( 42,878) | ( 35,528) | ( 18,099) | 21,293 | 30,983 | 34,177 |
| SEK | SWEDISH KRONA | 23,639 | ( 25,577) | 5,227 | 3,289 | ( 21,910) | 19,872 | ( 5,213) | ( 7,251) |
| NOK | NORWEGIAN KRONE | ( 8,377) | ( 7,542) | 22,017 | 6,098 | 10,026 | ( 7,860) | 65,604 | 67,770 |
| CAD | CANADIAN DOLLAR | ( 2,863) | 1,193 | ( 203) | ( 1,873) | ( 41,621) | 43,201 | ( 6,400) | ( 4,820) |
| ZAR | RAND | ( 2,012) | 685 | ( 51) | ( 1,378) | 4,629 | ( 4,959) | 0 | ( 330) |
| AUD | AUSTRALIAN DOLLAR | 29,499 | ( 29,892) | 14 | ( 379) | 65,114 | ( 63,710) | 1,606 | 3,010 |
| CZK | CZECH KORUNA | ( 9,916) | 9,302 | ( 17,039) | ( 17,653) | ( 17,806) | 18,777 | ( 5,302) | ( 4,331) |
| OTHER | | 60,511 | 12,060 | ( 22,954) | 49,617 | 34,537 | ( 14) | ( 41,839) | ( 7,316) |
| | | **(4,689,345)** | **5,292,041** | **( 90,943)** | **511,753** | **(3,581,350)** | **4,280,554** | **( 78,029)** | **621,175** |

(Note: assets/liabilities)

**Liquidity risk**

Liquidity risk derives from the potential inability to fund assets while satisfying commitments on due dates and from potential difficulties in liquidating positions in portfolio without incurring in excessive losses. The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Further information regarding BES strategy is included in the management report.

BES prepares regulatory specific reports that allow the identification of negative mismatch and permits their dynamic coverage. In addition, the Bank calculates the liquidity ratios in accordance with the Bank of Portugal rules.

**Operational risk**

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

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

**Capital management and solvability ratio**

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

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

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

In the scope of the new capital accord implementation process, Basel II, the Bank concluded on 28 November 2008 the formal application process for the usage of internal models for credit risks (Foundation Internal Rating Based Approach – IRBF) and the Standardized Approach (– TSA) for operational risk.

Currently for the purpose of the reporting to the Bank of Portugal, the Group presents the solvency ratios in accordance with standard method for credit risk and the basic indicator method for operational risk.

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

- **Basic Own Funds (BOF):** This category includes the realized capital, the eligible reserves (excluding the fair value reserves), the retained earnings of the year, minority interests and preference shares. The unrealised losses recognised under the fair value reserve and associated with equity securities, book value of goodwill, intangible assets and negative actuarial deviations from employees' benefits up to 31 December 2007 are deducted in full. From. In 2007, 50% of the book value of investments in banking and insurance associates over 10% also has to be deducted.

- **Complementary Own Funds (COF):** Essentially incorporates the subordinated eligible debt and 45% of the positive fair value reserve associated with equity securities. The book value of investments in banking and insurance associates is deducted in 50% of its value.

• **Deductions (D):** Essentially incorporates the prudential amortization of assets received as a recovery of non-performing loans.

Additionally there are several rules that limit the composition of the capital basis. The prudential rules determine that the COF can't exceed the BOF. Also, some components of the COF (Lower Tier II) can't exceed 50% of the BOF.

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

In December 2008, the Bank of Portugal issued the Notice 11/2008, establishing a transitory period of four years, from December 2009 to December 2012, for the recognition of the actuarial gains/losses determined in 2008, deducted from the expected return of the fund plan assets for the same year.

At 2008 and 2007, the main movements occurred in BOF are as follows:

in millions of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Balance as at 1 January** | **3,230** | **3,237** |
| Retain profit for the year | 132 | 255 |
| Changes on actuarial losses | ( 106) | 187 |
| Recognition of the impact of adopting IFRS | ( 19) | ( 140) |
| Deduction inconnection with investments held in banking and insurance entities | ( 6) | ( 236) |
| Intangible assets | ( 22) | ( 19) |
| Fair value reserves with an impact in BOF | ( 206) | ( 9) |
| Other effects | 18 | ( 45) |
| **Balance as at 31 December** | **3,021** | **3,230** |

The capital adequacy of BES as at 31 December 2008 and 31 December 2007 is presented as follows:

in millions of euro

| | | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **A - Capital Requirements** | | | |
| Share Capital, Issue Premium and Treasury stock | | 3,136 | 3,125 |
| Elegible reserves and retained earnings (excluding fair value reserves) | | 614 | 475 |
| Intangible assets | | ( 92) | ( 70) |
| Changes on actuarial losses | | ( 237) | ( 131) |
| Fair value reserves with an impact on BOF | | ( 214) | ( 8 |
| Recognition of the impact of adopting IFRS | | 56 | 75 |
| **Basic own funds excluding preference shares (Core Tier I)** | **( A1 )** | **3,263** | **3,466** |
| Deductions in connection with investments held in banking and insurance entities | | ( 242) | ( 236) |
| **Basic own funds (Tier I)** | **( A2 )** | **3,021** | **3,230** |
| Positive fair value reserves and others (45%) | | 30 | 361 |
| Eligible subordinated debt | | 2,871 | 2,287 |
| Deductions in connection with investments held in banking and insurance entities | | ( 243) | ( 236) |
| **Complementary own funds (Tier II)** | | **2,658** | **2,412** |
| **Deductions** | | **( 51)** | **( 5)** |
| **Eligible own funds (Standard method)** | **( A3 )** | **5,628** | **5,637** |
| | | | |
| **B1- Risk weighted assets (Basel I)** | | | |
| Calculated according Notice 1/93 (Credit Portfolio) | | n.a. | 44,368 |
| Calculated according Notice 7/96 (Trading Portfolio) | | n.a. | 3,785 |
| **Risk weighted assets (Basel I)** | **( B1 )** | **n.a.** | **48,153** |
| | | | |
| **B2- Risk weighted assets (Basel II - Standard)** | | | |
| Calculated according Notice 7/2007 (Credit Risk) | | 49,514 | n.a. |
| Calculated according Notice 8/2007 (Market Risk) | | 2,233 | n.a. |
| Calculated according Notice 9/2007 (Operational Risk) | | 2,056 | n.a. |
| **Risk weighted assets (Basel II - Standard)** | **( B2 )** | **53,803** | **n.a.** |
| | | | |
| **C1- Prudential Ratios Basel I** | | | |
| Core Tier 1 | ( A1 / B1 ) | n.a. | 7.2% |
| Tier 1 | ( A2 / B1 ) | n.a. | 6.7% |
| **Solvency Ratio** | **( A3 / B1 )** | **n.a.** | **11.7%** |
| | | | |
| **C2- Prudential Ratios Basel II - Standard** | | | |
| Core Tier 1 | ( A1 / B2 ) | 6.1% | n.a. |
| Tier 1 | ( A2 / B2 ) | 5.6% | n.a. |
| **Solvency Ratio** | **( A3 / B2 )** | **10.5%** | **n.a.** |

### Financial branches' activities

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

Through the Madeira off-shore branch, BES develops its funding activity, with clients and non-resident banks, and emigrants. These deposits from clients and banks are applied abroad so as to meet the requirements of its tax statute.

As at 31 December 2008, the total net assets of Madeira off-shore Branch are structured as follows:

in millions of euro

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Financial assets at fair value through profit or loss | 280 | 156 |
| Available-for-sale financial assets | 65 | 409 |
| Loans and advances to banks | 2,811 | 1,519 |
| Loans and advances to customers | 383 | 289 |
| Other assets | 174 | 36 |
| | **3,713** | **2,409** |
| Deposits from central banks | 1,569 | 540 |
| Due to customers | 2,005 | 1,754 |
| Other liabilities | 54 | 70 |
| Own funds | 85 | 45 |
| | **3,713** | **2,409** |

The Madeira off-shore branch uses the shared services of BES, and so the internal control procedures are the same as those used in the global structure of the Bank.

Through the Cayman Islands branch, BES develops mainly its funding activity with (i) non resident clients, through time deposits and issue of bonds and (ii) credit institutions. This activity represent around 90% of the Branch total assets which, as at 31 December 2008 amounted to euro 13,814 million (31 December 2007: euro 14,756 million). Funding amounts are applied in the global liquidity management of the Bank in the development of minor investment activities, such as loans and securities, that as at 31 December 2008 amounted to euro 54 million (31 December 2007: euro 254 million).

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

## Note 44 - BES LEASING & FACTORING – INSTITUIÇÃO FINANCEIRA DE CRÉDITO, SA'S MERGER

As at 31 December 2008 BES Leasing & Factoring (BE) was merged in Banco Espírito Santo, S.A.

As BES owned 100% of BESLEASING share capital, its integration was performed based on its accounting records as at the merger date. BESLEASING balances related with the fair value reserve and other reserves and retained earnings where added to the respective balances in BES equity, being the profit for the year ended 31 December 2008 incorporated in the balance other reserves and retained earnings. The difference between the carrying amount of this investment in BES individual financial statements and the equity of BESLEASING was reflected as a merger reserve deducted to BES equity.

BESLEASING balance sheet as at the merger date is analysed as follows:

in thousands of euro

| | 31.12.2008 |
|---|---|
| **Assets** | |
| Cash and deposits at central banks | 4 |
| Deposits with banks | 1,192 |
| Financial assets held for trading | 10 |
| Loans and advances to customers | 4,286,222 |
| Available-for-sale financial assets | 27,889 |
| Property and equipment | 6,982 |
| Intangible assets | 1,075 |
| Current income tax assets | 5 |
| Deferred income tax assets | 8,928 |
| Other assets | 98,401 |
| **Total assets** | **4,430,708** |
| **Liabilities** | |
| Deposits from banks | 3,071,664 |
| Debt securities issued | 990,624 |
| Provisions | 32,426 |
| Current income tax liabilities | 1,235 |
| Subordinated debt | 47,402 |
| Other liabilities | 197,262 |
| **Total liabilities** | **4,340,613** |
| **Equity** | |
| Share capital | 49,114 |
| Other reserves and retained earnings | 30,264 |
| Profit for the period | 15,530 |
| (Dividends paid) | ( 4,813) |
| **Total equity** | **90,095** |
| **Total equity and liabilities** | **4,430,708** |

## **Note 45 -** RECENTLY ISSUED PRONOUNCEMENTS

The new standards and interpretations that have been issued, but that are not yet effective and that the Bank has not yet applied, can be analysed as follows:

**IFRS 1 (Amendment) - First-time adoption of IFRS and IAS 27 - Consolidated and separate financial statements**

The amendments to IFRS 1 First-time adoption of IFRS and IAS 27, Consolidated and separate financial statements are effective for periods beginning on or after 1 January 2009.

These amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.
The Bank does not expect any impact on its financial statements from the adoption of these amendments.

**IFRS 2 (amendments) – Share based payments**

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

The amendment to IFRS 2 (i) clarified that vesting conditions are limited to service conditions and performance conditions, (ii) introduced the concept of non vesting conditions and (ii) requires that cancellations, whether by the entity or by other parties, receive the same accounting treatment.

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

**IFRS 3 (revised) Business Combination and IAS 27 (amendment) Consolidate and Separate Financial Statements**

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

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

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

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

**IFRS 8 – Operating Segments**

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

The IFRS 8 Operational segments sets out requirements for disclosures of information about an entity's operating segments. This standard specifies how an entity should disclose its information in the annual financial statements and, as a consequential amendment to IAS 34 Interim Financial Reporting, regarding the information to be disclosed in the interim financial reporting. Each entity should also provide a description of the segmental information disclosed namely income statement and of segment assets, as well as a brief description of how the segmental information is produced.

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

The Bank has not adopted IFRS 8 retrospectively, however, as the new standard requires a 'management approach', it is expected that in 2009 the reportable segments will change in comparison with the 2008 reportable segments presented in Note 4 – Segment Reporting.

**IAS 1 (amended) – Presentation of Financial Statements**

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

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

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

In addition, where entities restate or reclassify comparative information, namely as a consequence of the adoption of a new accounting standard, they will be required to present a restated balance sheet as at the beginning of the comparative period presented in the financial statements.

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

**IAS 23 (amended) – Borrowing Costs**

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

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

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

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

**IAS 32 – Financial Instruments: presentation – Puttable financial instruments and obligations arising on liquidation**

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

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

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

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

**IAS 39 (amendment)- Financial Instruments: recognition and measurement - Eligible hedged items**

The International Accounting Standards Board (IASB) issued an amendment to IAS 39 Financial Instruments: recognition and measurement – Eligible hedged items, which is mandatory for periods beginning on or after 1 July 2009.

This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

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

**IFRIC 13 –Customer Loyalty Programmes**

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

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

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

**IFRIC 15 - Agreements for construction of real estates**

The IFRIC 15 Agreements for construction of real estates is effective for periods beginning on or after 1 January 2009.

This interpretation clarifies whether IAS 18 Revenue or IAS 11 Construction contracts should be applied to particular transactions and will likely result in IAS 18 being applied to a wider range of transactions.

The Bank does not expect significant impacts of adopting this interpretation on its financial statements.

**IFRIC 16 - Hedges of a net investment in a foreign operation**

The IFRIC 16 Hedges of a net investment in a foreign operation is effective for periods beginning on or after 1 October 2008.

This interpretation clarifies that:

- net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal or less than the net assets of the foreign operation;
- the hedging instrument may be held by any entity within the Bank except the foreign operation that is being hedged; and
- on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to the income statement.

This interpretation allows an entity that uses the step-by-step method of consolidation, an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to the income statement on disposal of a net investment as if the direct method of consolidation had been used.

This interpretation should be applied prospectively. The Bank is currently in the process of evaluating the potential effect of this interpretation on its financial statements.

**IFRIC 17 - Distributions of non-cash assets to owners**
The IFRIC 17 Distributions of non-cash assets to owners is effective on for periods beginning on or after 1 July 2009.

This interpretation clarifies the accounting treatment of distributions of non-cash assets to owners. This interpretation clarifies that an entity should measure the distribution of non-cash assets at the fair value of the assets to be distributed and that the difference between the fair value of the net assets distributed and the respective carrying amount in recognised in the income statement.

The Bank does not expect significant impacts of adopting this interpretation on its financial statements.

**IFRIC 18 – Transfers of assets from customers**
The IFRIC 18 Transfers of assets from customers is effective for periods beginning on or after 1 July 2009.

This interpretation clarifies the requirements of IFER for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

The interpretation clarifies:
- the circumstances in which the definition of an asset is met;
- the recognition of the asset and the measurement of its cost on initial recognition;
- the identification of the separately identifiable services (one or more services in exchange for the transferred asset),
- the recognition of revenue; and
- the accounting for transfers of cash from customers.

The Bank does not expect significant impacts of adopting this interpretation on its financial statements.

**Annual Improvement Project**

In May 2008, IASB published the Annual Improvement Project making certain amendments to existing standards. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 consolidated financial statements.

The main amendments arising from the Annual Improvement Project are summarised as follows:
- IFRS 5 Non-current assets held for sale and discontinued operations, effective for periods beginning on or after 1 July 2009. This amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. The Bank will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010;

- IAS 1 Presentation of financial statements, effective on for periods beginning on or after 1 January 2009. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading are examples of current assets and liabilities respectively. The Bank will apply the IAS 39 (amendment) from 1 January 2009, but is not expected to have an impact on the Bank's financial statements.

- IAS 16 Property, plant and equipment, effective on for periods beginning on or after 1 January 2009. The amendment establishes that entities whose ordinary activities comprise renting and subsequently selling assets (i) present proceeds from the sale of those assets as revenue and (ii) should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. The amendment will not have a significant impact on the Bank financial statements.

- IAS 19 Employee benefits, effective for periods beginning on or after 1 January 2009. The amendment clarifies (i) that an amendment that changes benefits at tributable to past service gives rise to a negative past service cost, (ii) the definition of return on plan assets to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation and (iii) that the distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The Bank will apply the amendments to IAS 19 from 1 January 2009, but is not expected to have a significant impact on its financial statements.

- IAS 20 Accounting for government grants and disclosure of government assistance, effective on for periods beginning on or after 1 January 2009. This amendment establishes that the benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 Financial instruments: recognition and measurement and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have a significant impact on the Bank financial statements.

- IAS 23 Borrowing costs, effective for periods beginning on or after 1 January 2009. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 Financial instruments: recognition and measurement. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Bank will apply the amendments to IAS 23 prospectively although no significant impacts on the Bank financial statements are expected.

- IAS 27 Consolidated and separate financial statements, effective for periods beginning on or after 1 January 2009. The amendment determines that where an investment in a subsidiary that is accounted for under IAS 39 Financial instruments: recognition and measurement is classified as held for sale under IFRS 5 Non-current assets held for sale and discontinued operations, IAS 39 would continue to be applied. The amendment will not have an impact on the financial statements of the Bank entities, because it is the Bank's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity in accordance with IAS 27.

- IAS 28 Investments in associates, effective for periods beginning on or after 1 January 2009. The amendments to IAS 28 clarified that (i) an investment in an associate is treated as a single asset for the purposes of impairment testing, (ii) any impairment loss is not allocated to specific assets included within the investment, for example, goodwill and (iii) reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the amendments to IAS 28 in 2009 although no significant impacts on the Group financial statements are expected.

- IAS 38 Intangible assets, effective for periods beginning on or after 1 January 2009. The amendment clarifies that a pre-payment, made in the scope of adverti sing and promotional activities, may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The expenses shall be recognised in the income statement when the entity has the right to access the goods and the services have been received. The amendment is not expected to have a significant impact on the Group financial statements.

- IAS 39 Financial instruments: recognition and measurement, effective for periods beginning on or after 1 January 2009. The amendments consisted mainly in (i) clarifying that is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge, (ii) changing the definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading, clarifying that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition, (iii) changing the current guidance on documentation and effectiveness tests for hedge accounting to be applied at segment level in accordance with IFRS 8 . Operating segments and (iv) clarifying that when remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, a revised effective interest rate (calculated at the date fair value hedge accounting ceases) should be used. The Group will apply the amendments to IAS 39 in 2009 although no significant impacts on the Group financial statements are expected.

- IAS 40 Investment property, effective for periods beginning on or after 1 January 2009. Following this amendment, property that is under construction or development for future use as investment property is within the scope of IAS 40 (previously under the scope of IAS 16 Property and equipment). Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost. The amendment will not currently have a significant impact on the Group financial statements.

## **Note 46 -** SUBSEQUENT EVENTS

- On the 9th of January 2009, BES placed a 3 year euro 1 500 000 million debt guaranteed by the Portuguese Republic. International investors subscribed around 80% of this amount, originating a pro-rata allocation, since the total order book reached euro 1,900 million.

- BES informed the market that it will create a holding for the stakes held in the available for sale portfolio, where the bank will place the non strategic stakes (Portugal Telecom, EDP – Energias de Portugal, Banco Bradesco, among other). The bank aims to maintain a majority control of the new holding, which is expected to be listed on the stock exchange.

- **Capital increase:** On the end of January 2009, the Board of Directors of BES announced the market that will propose to the General Meeting of Shareholders to be held on the 16 March 2009 the realisation of a capital increase that will allow the Bank a "gross capital inflow" of up to euro 1,200 million. The capital increase intends to improve the Bank capital ratio for the levels demanded by the recent regulatory requirements of the Bank of Portugal that must be met until the end of September 2009, allowing the reinforcement of the competitive positioning and the pursuit of a sustained business growth of BES.

# Annex - Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

(Banco of Portugal's Circular Letter no. 97/2008/DSB, of 3 December)

## I BUSINESS MODEL

**1. Description of the Business Model**

A detailed description of the Group's Business Model is provided in the Item 3 of the Management Report, in the 2008 Annual Report.

**2. Strategies and Objectives**

A detailed description of the Group's strategy and objectives is provided in the Item 3 of the Management Report, in the 2008 Annual Report. The securitization transactions are detailed in item 5 of the Management report.

**3., 4. and 5. Activities developed and contribution to the business**

Item 3 of the Management Report and Note no. 4 contain detailed information about the activity and contribution to the business.

## II RISK AND RISK MANAGEMENT

**6. and 7. Description and Nature of the Risks Incurred**

Item 06 of the 2008 Management Report describes how the Risk Management function is organised within BES Group. Note 44 contains diverse information that in total allows the market to gain knowledge about the risks incurred by the BES Group and the management mechanisms for their monitoring and control.

## III IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

**8.,9. and 10. Qualitative and quantitative description of the results**

Item 7.1.5 of the Management Report contains information regarding impacts of the financial turmoil.

**11. Comparison of impacts between periods**

The direct and indirect impacts on BES Group of the turbulence period are presented in item 7.1.5 of the Management Report.

**12. Decomposition of realised and not realised write-downs**

The profit and loss of assets and liabilities held for trading and of assets at fair value and assets available for sale are detailed by financial instruments in Notes 7 and 8. Non realised gains and losses on assets available for sale are detailed in Notes 19 and 38, while the most significant positions are decomposed in Note 19.

**13. Financial turmoil and the price of the BES share**

Item 2.4 of the Management Report presents the BES share price performance that decreased in line with the financial sector shares in general.

**14. Maximum loss risk**

Item 6.4 the Management Report and Note 44 contains the relevant information about potential losses in market stress situations.

**15. Debt issued by the Group and results**

Item 7.1.5 the Management Report and Note 43 contains information on the impact of debt revaluation and the methods used to calculate their impact on the results.

## IV LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

**16. Nominal and fair value of exposures**

**17. Credit risk mitigators**

**18. Information about the Group's exposures**

Items 5, 6 and 7 of the Management Report contain information on exposures affected by the turmoil period.

**19. Movement in exposures between periods**

As expressed in item 7.1.5 of the Management Report the impacts had effect in 2008. However, the explanatory Notes contain diverse information comparing the exposures and results, with strong market exposures in 2007 and 2008.

**20. Non consolidated exposures**

All the operations related securitisation structures originated by the Group are presented in Note 42.
None of the SPEs were consolidated due to the market turbulence.

**21. Exposure to monolines insurers and quality of the assets insured**

The Group does not have exposures to monolines insurers.

## V ACCOUNTING POLICIES AND VALUATION METHODS

**22. Structured Products**

These situations are described in Note 2 – Main accounting policies.

**23. Special Purpose Entities (SPEs) and consolidation**

Disclosure available in Notes 2 and 42.

**24. e 25. Fair value of financial instruments**

See the comments to item 16 of this annex. Note 2 contains the conditions for utilisation of the fair value option as well as the methodology used to value the financial instruments.

## VI OTHER RELEVANT ASPECTS OF DISCLOSURE

**26. Description of the disclosure policies and principles**

The BES Group, withint the context of accounting and financial information disclosure, aims to satisfy all the regulatory requirements, defínced by the accounting standards or by the supervisory and regulatory entities.

At the same time, the Group aims to meet the best market practice in information disclosure, balancing the cost of preparing the relevant information with the benefit that it may provide to the users.

From the information made available to the Group's shareholders, clients, employees, supervisory entities and the public in general, we highlight the Management Report, the Financial Statements and the respective Notes, the Corporate Governance Report and the Social Responsibility Report.

The financial statements are prepared under IFRS that comply with the highest degree of disclosure and transparency and facilitate comparison to other domestic and international banks. The Corporate Governance Report and the Social Responsibility Report also provide a detailed view about the governing structure of the Group and the Social Responsibility assumed in light of numerous challenges that the modern world faces, from the environmental, to social, to innovation and entrepreneurship.

In addition, the Group establishes regular contacts with the stakeholders, mainly when releasing quarterly results, organising the Strategy Day on an annual basis and during the roadshows. Whenever necessary, the Group promptly releases relevant facts, in addition to the news flow through the media.

KPMG & Associados – Sociedade de Revisores
Oficiais de Contas, S. A.
Edifício Monumental
Av. Praia da Vitória, 71 – A, 11º
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Telephone: +351 210 110 000
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Internet: www.kpmg.pt

# AUDITORS' REPORT
# CONSOLIDATED FINANCIAL STATEMENTS

**(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)**

**(This report is a free translation to English from the original Portuguese version)**

## Introduction

**1.** In accordance with the applicable legislation, we present our Audit Report on the financial information included in the Report of the Board of Directors and in the accompanying consolidated financial statements as at and for the year ended 31 December 2008, of **Banco Espírito Santo, S.A.**, which comprise the consolidated balance sheet as at 31 December 2008 (showing total consolidated assets of Euro 75,186,728 thousand and total equity attributable to the equity holders of the Bank of Euro 4,499,435 thousand, including a net profit attributable to the equity holders of the Bank of Euro 402,284 thousand), the consolidated statements of income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and the corresponding notes to the accounts.

## Responsibilities

**2.** The Board of Directors is responsible for:

a) the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, that present fairly, the consolidated financial position of the Bank, the consolidated results of its operations, its consolidated changes in equity and its consolidated cash flows;

b) maintaining historical financial information, prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

e) the communication of any relevant matter that may have influenced the activity of the bank and its subsidiaries, their financial position or results.

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

KPMG

**Scope**

4. We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our audit included:
   - verification that the financial statements of the companies included in the consolidation have been properly audited and, in those significant cases in which they were not, verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
   - verification of the consolidation procedures and of the application of the equity method;
   - evaluation of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
   - assessing the applicability of the going concern basis of accounting;
   - assessment of the appropriateness of the overall presentation of the financial statements; and
   - assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.
5. Our audit also included the verification that the consolidated financial information included in the Report of the Board of Directors is consistent with the consolidated financial statements presented.
6. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

7. In our opinion, the consolidated financial statements referred to above present fairly in all material respects the consolidated financial position of **Banco Espírito Santo, S.A.** as at 31 December 2008, the consolidated results of its operations, consolidated changes in equity and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 25 February 2009

**KPMG & Associados, SROC, S.A.**
**Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)**
represented by
Inês Maria Bastos Viegas Clare Neves Girão de Almeida
(ROC nº 967)

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S. A.
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# AUDITORS' REPORT

**(ISSUED BY THE STATUTORY AUDITOR, A CMVM REGISTERED AUDITOR)**

**(This report is a free translation to English from the original Portuguese version)**

## Introduction

**1.** In accordance with the applicable legislation, we present our Auditors' Report on the financial information included in the Report of the Board of Directors and in the accompanying financial statements as at and for the year ended 31 December 2008, of **Banco Espírito Santo, S.A.**, which comprise the balance sheet as at 31 December 2008 (showing total assets of Euro 67,425,417 thousand and total equity of Euro 3,632,708 thousand, including a net profit of Euro 211,878 thousand), the statement of income, the statement of changes in equity and the statement of cash flows for the year then ended, and the corresponding notes to the accounts.

## Responsibilities

**2.** The Board of Directors is responsible for:

a) the preparation of financial statements in accordance with the Adjusted Accounting Standards ("NCA") issued by the Bank of Portugal, which are based on the application of International Financial Reporting Standards ("IFRS") as adopted by the European Union, with exception of the issues defined in n. 2 and n. 3 of Regulation no. 1/2005 and n. 2 of Regulation n. 4/2005 both issued by the Bank of Portugal, that present fairly, in all material respects, the financial position of the Bank, the results of its operations, changes in equity and its cash flows;

b) maintaining historical financial information prepared in accordance with generally accepted accounting principles which is complete, true, current, clear, objective and lawful as required by the Stock Exchange Code ("Código dos Valores Mobiliários");

c) the adoption of adequate accounting policies and criteria;

d) maintaining an appropriate system of internal control; and

e) the communication of any relevant matter that may have influenced the activity of the bank, its financial position or results.

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

## Scope

**4.** We conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Accordingly our audit included:

- verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
- evaluating the appropriateness of the accounting principles used and of their disclosure, taking into account the applicable circumstances;
- assessing the applicability of the going concern basis of accounting;
- assessment of the appropriateness of the overall presentation of the financial statements; and
- assessment of whether the financial information is complete, true, current, clear, objective and lawful.

**5.** Our audit also included the verification that the financial information included in the Report of the Board of Directors is consistent with the financial statements presented.

**6.** We believe that our audit provides a reasonable basis for our opinion.

## Opinion

**7.** In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Banco Espírito Santo, S.A.** as at 31 December 2008, the results of its operations, changes in equity and its cash flows for the year then ended in accordance with the Adjusted Accounting Standards defined by the Bank of Portugal, and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 25 February 2009

**KPMG & Associados**
**Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)**
represented by
Inês Maria Bastos Viegas Clare Neves Girão de Almeida
(ROC nº 967)

BANCO ESPIRITO SANTO

Comissão de Auditoria
Av. da Liberdade, 195-13º
1250-142 Lisboa

# REPORT OF THE AUDIT COMMITTEE FOR THE YEAR 2008

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

As required by the Portuguese law, we present our Report which comprises a summary of the activity performed by the Comissão de Auditoria (Audit Committee) during the year 2008 and our opinion on the Annual Report of the Board of Directors and the related unconsolidated and consolidated financial statements prepared by the Management of **Banco Espírito Santo, S.A.** for the year ended 31 December 2008, as well as on the related Board of Directors' proposal for the appropriation of the unconsolidated profit for the financial year 2008.

In compliance with the applicable legal, regulatory, and statutory responsibilities, during 2008 the Audit Committee of **Banco Espírito Santo, S.A.** has been informed of the more significant Management decisions, as well as of all the Board of Directors' deliberations regarding the business of the bank, and has also assessed the adequacy and efficiency of the systems of internal control, risk management, and internal audit adopted by the bank.

As part of our functions, we have also overlooked the external audit of the unconsolidated and consolidated financial statements of the bank, including the verification of the accounting records and related supporting documents, as well as the appropriateness of the accounting policies and procedures underlying the abovementioned financial statements. The audit has been performed by KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A. (KPMG), the Accounting Firm which had been appointed by the General Meeting of Shareholders as the bank's Statutory Auditors for the financial years 2008 through to 2011.

BANCO ESPIRITO SANTO

We have reviewed the Reports of the bank's Statutory Auditors on the unconsolidated and consolidated financial statements of **Banco Espírito Santo, S.A**. for the year ended 31 December 2008, which contain their unqualified professional opinions, with which we concur, issued on 25 February 2009 on those financial statements.

We have also reviewed the Annual Report of the Board of Directors which describes the bank's activity during the financial year 2008, both on an unconsolidated and consolidated basis, and was prepared in conformity with the applicable legal, regulatory, and statutory requirements.

All considered, we are of the opinion that the Annual General Meeting of Shareholders of **Banco Espírito Santo, S.A.** may approve:

a) The Annual Report of the Board of Directors and the related Unconsolidated and Consolidated Financial Statements of the bank for the financial year ended 31 December 2008;

b) The Board of Directors' proposal for the appropriation of the unconsolidated net profit for the financial year 2008, amounting to 211,877,805.11 euros.

Furthermore, as required under nº. 4 of article 397º of the Portuguese Companies Act, we report that, on 13 March 2008, the Audit Committee has issued a favourable opinion on the required authorization to be granted by the Board of Directors on the decision of **Banco Espírito Santo, S. A.** not to exercise their pre-emption right as regards the planned sale by PT.COM, Comunicações Interactivas, S.A. to Espírito Santo Financial Group, S.A. of their shares at BEST – Banco Electrónico de Serviço Total, S.A..

Lisbon, 26 February 2009

**The Audit Committee**

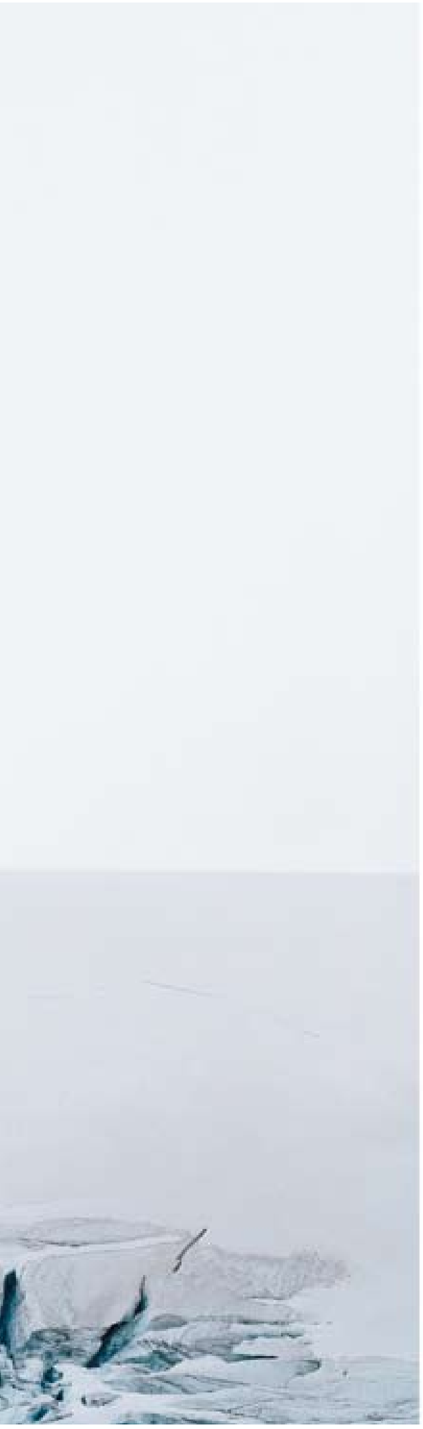
Dr. José Manuel Ruivo da Pena (Chairman)

Mr. Luis Daun e Lorena

Dr. João Faria Rodrigues

AXEL HÜTTE
1951, Essen, Germany
*Djupavatnet, Diptychoc, Norway*, 2000
Chromogenic Process (C-Print)
mounted on Diasec
2 x (187 x 147 cm)
Edition 3/4

Courtesy Mário Sequeira Gallery



# 03
# CORPORATE GOVERNANCE REPORT

BANCO ESPÍRITO SANTO

## INDEX

# 03

## CORPORATE GOVERNANCE REPORT

The structure and practices described in the Banco Espírito Santo ("BES") 2008 Corporate Governance Report follow the information disclosure and model requirements of the Regulation number 1/2007 of CMVM, effective as of the 1st of January 2009.

## Statement of Compliance

### 0.1. Location where the public may find the Corporate Governance Codes to which the issuer is subject to or those which the issuer voluntarily abides by.

BES is subject to the rules and recommendations on Corporate Governance approved by the Portuguese Securities Market Commission (CMVM), currently contained in the CMVM Regulation No. 1/2007, and to the Corporate Governance Code, approved in September 2007.

### 0.2. Detailed description of the recommendations contained in the CMVM Corporate Governance Code that have or have not been adopted.

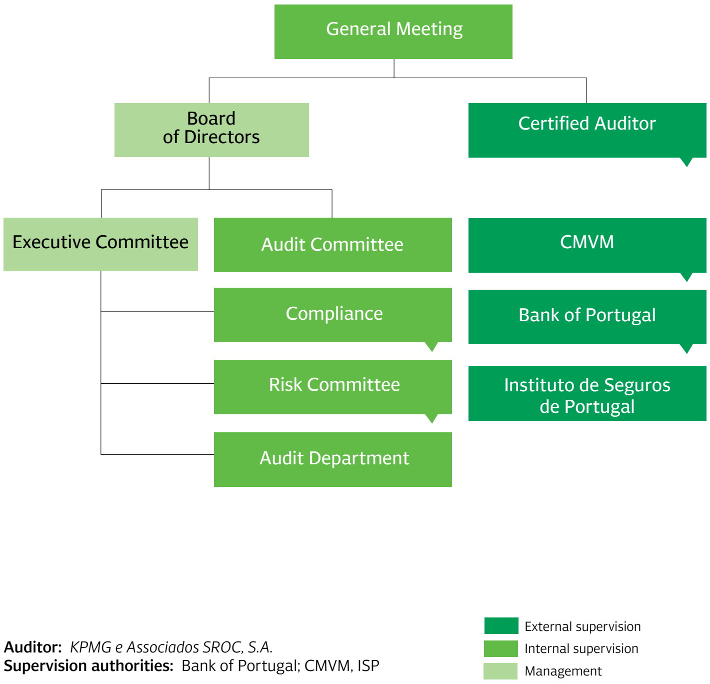
| CMVM Recommendations | Implemented | Not implemented | BES Report |
|---|---|---|---|
| I.1.1 O The Chair of the General Meeting Board shall be equipped with the necessary and adequate human resources and logistic support, taking the financial position of the company into consideration. | X | | I.1 |
| I.1.2 A The remuneration of the Chair of the General Meeting Board shall be disclosed in the annual report on corporate governance. | X | | I.3 |
| I.2.1 The obligation to deposit or block shares before the General Meeting, contained in the by-laws, shall not exceed 5 working days. | X | | I.4 |
| I.2.2 Should the General Meeting be suspended, the company shall not compel share blocking during that period until the meeting is resumed and shall then follow the standard requirement of the first session. | X | | I.5 |
| I.3.1 Companies may not impose any statutory restriction on postal voting | X | | I.8 |
| I.3.2 The statutory deadline for receiving early voting ballots by mail shall not exceed 3 working days. | X | | I.10 |
| I.3.3 The company's by-laws shall provide for the one share-one vote principal | | X | I.6 |
| I.4.1 Companies shall not set a constitutive or deliberating quorum that outnumbers that which is prescribed by Law. | | X | I.7 |
| I.5.1 The minutes of the General Meetings shall be made available to shareholders on the company's website within a 5 day period, irrespective of the fact that such information may not be legally classified as material information. The list of attendees, agenda items of the minutes and resolutions passed during such meetings shall be kept on file on the company's website for a 3 year period. | X | | I.1 |
| I.6.1 Measures aimed at preventing successful takeover bids, shall respect both the company's and the shareholders' interests. | X | | III.1 |
| I.6.2 In observance to the principle of the previous sub-paragraph, the company's by-laws that restrict/limit the number of votes that may be held or exercised by a sole shareholder, either individually or in concert with other shareholders, shall also foresee for a resolution by the General Meeting, (5 year intervals, at least) on whether that statutory provision is to prevail – without super quorum requirements as to the one legally in force – and that in said resolution, all votes issued be counted, without applying said restriction | | NA | |
| I.6.3 In cases such as change of control or changes to the composition of the Board of Directors, defensive measures should not be adopted that instigate an immediate and serious asset erosion in the company, and further disturb the free transmission of shares and voluntary assessment of the performance of the Board of Directors by the shareholders. | X | | I.13 to I.14 |
| II.1.1.1 The Board of Directors shall assess the adopted model in its governance report and pin-point possible hold-ups to its functioning and shall propose measures that it deems fit for surpassing such obstacles. | X | | 0.3 |
| II.1.1.2 Companies shall set up internal control systems in order to efficiently detect any risk to the company's activity by protecting its assets and keeping its corporate governance transparent. | X | | II.4 |
| II.1.1.3 The Management and Supervisory Boards shall establish internal regulations and shall have these disclosed on its website | X | | II.6 |
| II.1.2.1 The Board of Directors shall include a number of non-executive members that ensure the efficient supervision, auditing and assessment of the executive members' activity. | X | | II.9 |
| II.1.2.2 Non-executive members must include an adequate number of independent members. The size of the company and its shareholder structure must be taken into account when devising this number and may never be less than a fourth of the total number of Directors. | X | | II.9 |
| II.1.3.1 Depending on the applicable model, the Chair of the Audit Board, the Audit Committee or the Financial Matters Committees shall be independent and be adequately capable to carry out its duties. | X | | II.9 to II.10 |
| II.1.4.1 The company shall adopt a policy whereby irregularities occurring within the company, are reported. Such reports should contain the following information: i) the means through which such irregularities may be reported internally, including the persons that are entitled to receive the reports; ii) how the report is to be handled, including confidential treatment, should it be required by the reporter. | X | | II.22 |
| II.1.4.2 The general guidelines on this policy should be disclosed in the corporate governance report. | X | | II.22 |

| CMVM Recommendations | Implemented | Not implemented | BES Report |
|---|---|---|---|
| II.1.5.1 The remuneration of the members of the Board of Directors shall be aligned with the interests of the shareholders. Thus: i) The remuneration of Directors carrying out executive duties should be based on performance and a performance assessment shall be carried out periodically by the competent body or committee; ii) the level of remuneration shall be consistent with the maximization of the long term performance of the company, and shall be dependent on sustainability of the levels of the adopted performance; iii) when the remuneration of non-executive members of the Board of Directors is not legally imposed, a fixed amount should be set. | X | | II.18 to II.20 |
| II.1.5.2 The Remuneration Committee and the Board of Directors shall submit a statement on the remuneration policy to be presented at the Annual Shareholders General Meeting on the Management and Supervisory bodies and other directors as provided for in Article 248/3/b of the Securities Code. The shareholders shall be informed on the proposed criteria and main factors to be used in the assessment of the performance for determining the level (share bonuses; option on share acquisition, annual bonuses or other awards). | X | | II.18 |
| II.1.5.3 At least one of the Remuneration Committee's representatives shall be present at the Annual Shareholders' General Meeting. | X | | II.19 |
| II.1.5.4 A proposal shall be submitted at the General Meeting on the approval of plans for the allotment of shares and/or options for share purchase or further yet on the variations in share prices, to members of the Management and Supervisory Boards and other Directors within the context of Article 248/3/B of the Securities Code. The proposal shall mention all the necessary information for its correct assessment. The proposal shall contain the regulation plan or in its absence, the plan's general conditions. The main characteristics of the retirement benefit plans for members of the Management and Supervisory Boards and other Directors within the context of Article 248/3/B of the Securities Code, shall also be approved at the General Meeting. | X | | II.20 |
| II.1.5.5 The remuneration of the members of the Management and Supervisory Boards shall be individually and annually disclosed and, information on fixed and variable remuneration must be discriminated as well as any other remuneration received from other companies within the group of companies or companies controlled by shareholders of qualifying holdings. | X | | II.20 |
| II.2.1 Within the limits established by Law for each Management and Supervisory structure, and unless the company is of a reduced size, the Board of Directors shall delegate the day-to-day running and the delegated duties should be identified in the Annual Report on Corporate Governance. . | X | | II.2 to II.3 |
| II.2.2 The Board of Directors shall ensure that the company acts in accordance with its goals, and should not delegate its duties, namely in what concerns: i) definition of the company's strategy and general policies; ii) definition of the corporate structure of the group; iii) decisions taken that are considered to be strategic due to the amounts, risk and particular characteristics involved. | X | | II.3 |
| II.2.3 Should the Chair of the Board of Directors carry out executive duties, the Board of Directors shall set up efficient mechanisms for coordinating non-executive members that can ensure that these may decide upon, in an independent and informed manner, and furthermore shall explain these mechanisms to the shareholders in the corporate governance report. | | NA | |
| II.2.4 The annual management report shall include a description of the activity carried out by the non-executive Board Members and shall mention any restraints encountered. | X | | II.9 |
| II.2.5. The management body should promote member replacement for financial matters at least after a 2 year mandate. | X | | II.3 |
| II.3.1 When Directors that carry out executive duties are requested by other Board Members to supply information, the former shall do so in a timely manner and the information supplied must adequately suffice the request made. | X | | II.3 |
| II.3.2 The Chair of the Executive Committee shall send the convening notices and minutes of the meetings to the Chair of the Board of the Directors and, when applicable, to the Chair of the Supervisory Board or the Auditing Committee. | X | | II.3 |
| II.3.3 The Chair of the Executive Board of Directors shall send the convening notices and minutes of the meetings to the Chair of the General and Supervisory Board and to the Chair of the Financial Matters Committee. | | NA | |
| II.4.1 Besides fulfilling its supervisory duties, the General and Supervisory Board shall advise, follow-up and carry out on an on-going basis, the assessment on the management of the company by the Executive Board of Directors. Besides other subject matters, the General and Supervisory Board shall decide on: i) definition of the strategy and general policies of the company; ii) the corporate structure of the group; and iii) decisions taken that are considered to be strategic due to the amounts, risk and particular characteristics involved. | | NA | |
| II.4.2 The annual reports and financial information on the activity carried out by the General and Supervisory Committee, the Financial Matters Committee, the Audit Committee and the Audit Board shall be disclosed on the company's website together with the financial statements. | x | | II.3 |
| II.4.3 The annual reports on the activity carried out by the General and Supervisory Board, the Financial Matters Committee, the Audit Committee and the Audit Board shall include a description on the supervisory activity and shall mention any restraints that they may have come up against. | x | | II.3 |
| II.4.4 A The Financial Matters Committee, the Audit Committee and the Audit Board (depending on the applicable model) shall represent the company for all purposes at the external auditor, and shall propose the services supplier, the respective remuneration, ensure that adequate conditions for the supply of these services are in place within the company, as well as being the liaison officer between the company and the first recipient of the reports. | X | | II.3 |
| II.4.5 According to the applicable model, the Committees for Financial Matters, Audit Committee and the Audit Board, shall assess the external auditor on an annual basis and advise the General Meeting that he/she be discharged whenever justifiable grounds are present. | X | | II.3 |
| II.5.1 Unless the company is of a reduced size and depending on the adopted model, the Board of Directors and the General and Supervisory Committees, shall set up the necessary Committees in order to: i) ensure that a competent and independent assessment of the Executive Directors' performance is carried out, as well as its own overall performance and further yet, the performance of all existing Committees; ii) study the adopted governance system and verify its efficiency and propose to the competent bodies, measures to be carried out with a view to its improvement. | | X | |
| II.5.2 Members of the Remuneration Committee or alike, shall be independent from the Members of the Board of Directors. | X | | II.19 |
| II.5.3 All the Committees shall draw up minutes of the meetings held. | X | | II.6 |
| III.1.2 Companies shall maintain permanent contact with the market thus upholding the principle of equality for shareholders and ensure that investors are able to access information in a uniform fashion. To this end, the company shall create an Investor Assistance Unit. | X | | II.12 |

| CMVM Recommendations | Implemented | Not implemented | BES Report |
|---|---|---|---|
| III.1.3 The following information that is made available on the company's Internet website, shall be disclosed in the English language:<br>a) The company, public company status, headquarters and remaining data provided for in Article 171 of the Commercial Companies Code;<br>b) By-laws;<br>c) Credentials of the members of the Board of Directors and the Market Liaison Officer;<br>d) Investor Assistance Unit – its functions and access tools;<br>e) Accounts Reporting documents;<br>f) Half-yearly calendar on company events;<br>g) Proposals sent through for discussion and voting during the General Meeting;<br>h) Notices convening general meetings. | X | | II.12 |

**0.3. When the structure or the corporate governance practices deviate from the CMVM's Recommendations or from other Corporate Governance Codes that the company is subject to or had voluntarily applied to, the company shall explain which parts of each code have not been complied with and the reasons therefore.**

BES has the following corporate governance structure:




**Auditor:** *KPMG e Associados SROC, S.A.*
**Supervision authorities:** Bank of Portugal; CMVM, ISP

The General Meeting of Shareholders meets at least once a year. Its main duties are to assess and resolve on the management report, accounts and distribution of earnings for each financial year, and to elect the corporate bodies.

The management of the company is entrusted to a Board of Directors, elected for four-year periods, the re-election of its members being permitted.

Currently, the Board of Directors consists of 26 members, of which 7 are qualified as independent Board Members (see II.9)

The Board of Directors delegates the day-to-day running of the company to an Executive Committee that meets every week or whenever convened by its Chairman. The Executive Committee consists of 11 members.

The company's supervisory body is the Audit Committee of the Board of Directors, which is composed of three independent directors.

BES' Statutory Auditor and External Auditor are KPMG & Associados SROC, S.A.

BES is subject to supervision by the Bank of Portugal, the Instituto de Seguros de Portugal and the Portuguese Securities Market Commission (CMVM).

In its assessment of the corporate governance model made in 2008, the Board of Directors did not find any relevant restraints to the corporate governance model approved by BES' shareholders in 2006, which opted for the Anglo-Saxon model, composed of a Board of Directors, with an Audit Committee and a Certified Auditor.

The table below lists the recommendations of the Corporate Government Code that are not followed by BES as well as the reason for the existing deviation.

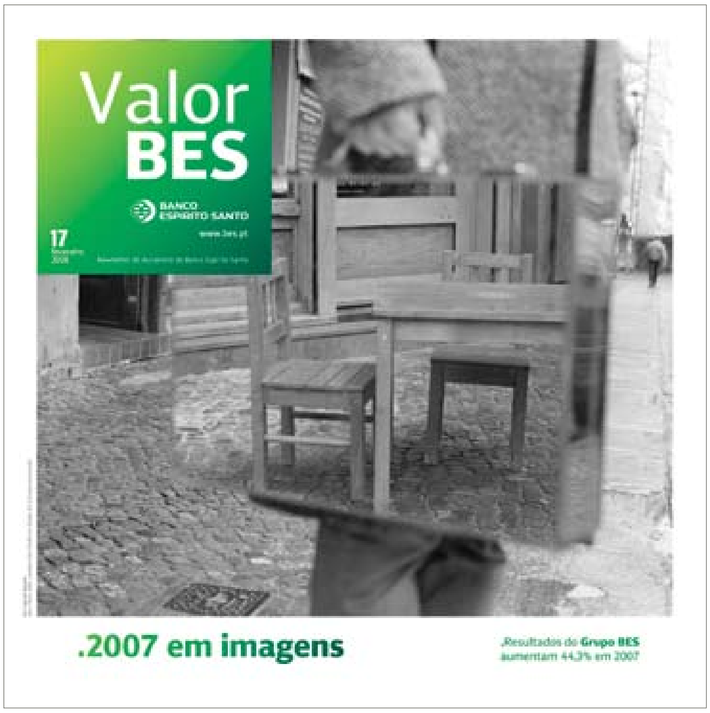
| CMVM Recommendation | Reason for deviation |
|---|---|
| I.3.3 The company's by-laws shall provide for the one share-one vote principal. | BES ensures the required proportionality between equity ownership and voting rights. Each 100 shares are entitled to one vote. |
| I.4.1 Companies shall not set a constitutive or deliberating quorum that outnumbers that which is prescribed by Law. | BES requires that shareholders representing at least 50% of the share capital be present or represented for the General Meeting to be held on first call.<br>Matters for which the law requires a qualified majority must be approved by two thirds of the votes expressed, whether the Meeting is held on first or second call.<br>BES believes that these rules ensure that resolutions are passed by a sufficiently representative number of shareholders |
| II.5.1 Unless the company is of a reduced size and depending on the adopted model, the Board of Directors and the General and Supervisory Committees, shall set up the necessary Committees in order to: i) ensure that a competent and independent assessment of the Executive Directors' performance is carried out, as well as its own overall performance and further yet, the performance of all existing Committees; ii) study the adopted governance system and verify its efficiency and propose to the competent bodies, measures to be carried out with a view to its improvement. | The performance of the Board of Directors is assessed by BES' Remuneration Committee a well as by the Shareholders' General Meeting. The appraisal of the corporate governance system adopted is made directly by the Board of Directors. |
| III.1.5.5 The remuneration of the members of the Management and Supervisory Boards shall be individually and annually disclosed and, information on fixed and variable remuneration must be discriminated as well as any other remuneration received from other companies within the group of companies or companies controlled by shareholders of qualifying holdings. | The recommendation was partially implemented. BES believes that disclosure of the individual remuneration of the Board of Directors does not provide additional value to the overall remuneration information provided to the Shareholders and does not allow to evaluate performance of each Board Member. The remuneration received from companies controlled by shareholders of qualifying holdings is not disclosed. |

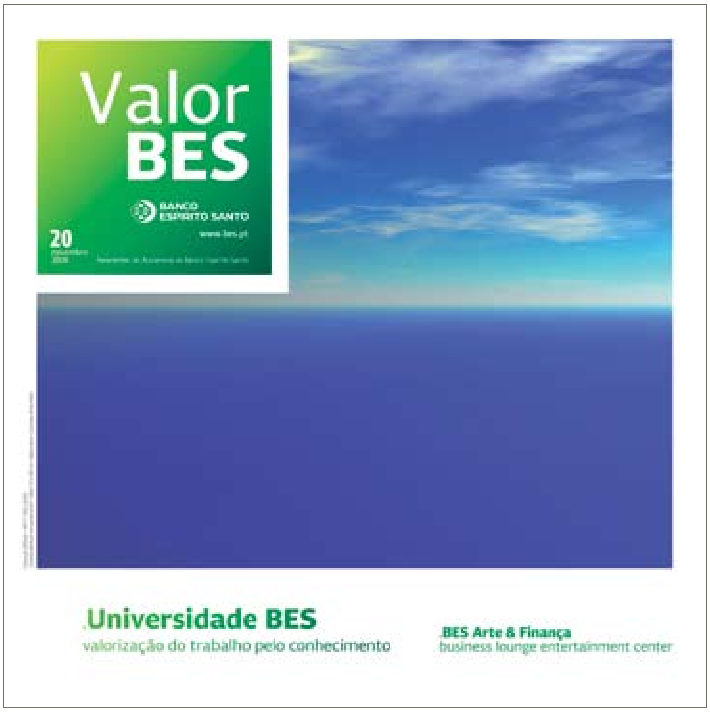
**0.4. The corporate body or the committee shall at all times, assess the independency of each of its members and shall inform the shareholders, via a statement included in the corporate governance report, on its assessment both at the time of the appointment and following the loss of independency.**

At the end of 2008 a Questionnaire was drawn up and a copy sent to each of the members of the Audit Committee, to the remaining non executive members of the Board of Directors, and members of the Board of the General Meeting in order to assess the respective independence. These questionnaires contain questions about the circumstances upon which the Companies Code makes independence conditional, and about the incompatibilities established in the same code.

Having ascertained that the replies to these questionnaires did not contain information differing from that provided at the time of appointment of the members in question, the Board of Directors was able to ascertain that independence was maintained with regard to the 3 members of the Audit Committee, the other 4 non executive members of the Board of Directors, including its Chairman (namely Alberto Oliveira Pinto, Nuno Godinho de Matos, Isabel de Sousa Coutinho and José Epifânio da Franca) and all the members of the Board of the General Meeting.

For further information regarding independent Board Members please see II.9.



### I.1. Identification of the members of the General Meeting Board

The Board of the General Meeting is composed of one Chairman, one Vice-Chairman and one Secretary. Its members may or may not be Shareholders, they are elected for periods of four years, and their re-election is permitted.

**Paulo de Pitta e Cunha (Chairman)**

Graduate in Law from the Law School of the Lisbon University, with a PhD in Law (Legal and Economic Sciences) from the same university, where he is a professor since 1980. He is also a professor at the Portuguese Catholic University since 1984. Chairman of the Board of the European Institute of the Lisbon University Law school. Practicing lawyer and jurisconsult in Lisbon. "Specialist lawyer" in Tax and European Law.

**Fernão de Carvalho Fernandes Thomaz (Vice-Chairman)**

Graduate in Law (Legal Sciences) from the Law School of the Lisbon University, with a postgraduate degree in Taxation from the Instituto Superior de Gestão. A practicing lawyer since 1960, he also serves in the Board of companies and is a university lecturer.

**Nuno Miguel Matos Silva Pires Pombo (Secretary)**

Graduate in Law from the Portuguese Catholic University, with a master's degree from the same university and a postgraduate degree in Taxation from the Instituto Superior de Gestão. Trainee assistant at the Portuguese Catholic University Law School since September 1999. Legal Advisor to the Board of Directors of ESCOM – Espírito Santo Commerce, S.A. since October 2005.

The Company secretary and respective support team coordinate the human resources and logistic services required for the preparation of general meetings.

To this end there is a Committee formed by representatives of the Organisation, Compliance and Execution of Operations Departments, the Investor Relations Office and ES Informática to monitor and coordinate the provision of services and logistics support to the General Meeting. Among others, this committee is responsible for the voting process in general meetings and for coordinating this process with the Chairman of the General Meeting Board. The Chairman of the General Meeting Board considers that the resources herein described are sufficient and adequate to his needs.

The minutes of the General Meetings are made available to shareholders on the company's website, within 5 days after the meeting, where the list of attendees, agenda items of the minutes and resolutions passed during such meetings are also available for at least 3 years.

### I.2. Indication of the commencement and end of the mandates

The current members of the Board of the General Meeting were elected on December 18th, 2006 for the term of office ending on December 31st, 2007, and were re-elected by the General Meeting of March 30th, 2008, to serve in the 2008 – 2011 four-year mandate.

### I.3. Indication of the remuneration of the Chairman of the General Meeting Board

In 2008 the Chairman of the Board of the General Meeting was paid a monthly remuneration of EUR 1 500.00, making a total of EUR 13 500.00 for the year.

### I.4. Indication of the prior notice for deposit of shares or share-blocking for participation at the General Meeting

Only those shareholders with voting rights, whose shares are registered in their name in a securities account on the fifth working day preceding the date of the General Meeting may attend and participate in the General Meeting, or in each of its sessions, in case the meeting is suspended.

The prior notice required for deposit of shares or share-blocking for participation in the General Meeting is five working days, during which period a declaration attesting to the deposit or blocking must be delivered to the company. The Chairman of the Board of the General Meeting may, however, permit the participation in the meeting of representatives not indicated within this time limit if this will not disturb the proceedings of the meeting.

The Board of Directors will submit to the General Meeting of March 16th, 2009 a proposal on the amendment of the Company's Bylaws, namely the amendment of article 16, number 1, of article 19, number 2, and the addition of a number 3 in article 19, as well as on the amendment of article 4 of the General Shareholders' Meeting Regulation, to the effect of facilitating the participation of shareholders in the Company, by clarifying that although the prior period required for the blocking of shares for purposes of participating in general meetings is of five working days,

### I.5. Indication of the applicable rules for share-blocking should the General Meeting be suspended

BES does not oblige the blocking of the shares until the General Meeting is restarted. The ordinary anticipation for the first session is sufficient.

As referred in point I.4. above, the General Meeting to be held on March 16th, 2009 will resolve on the clarification of the rules applicable to the blocking of shares in case of suspension of general meetings.

### I.6. Number of shares that correspond to one vote

Each one hundred shares are entitled to one vote. However, Shareholders owning less than one hundred shares may form a group so as to complete the required number or a higher number and nominate one representative from among the group.

### I.7. The existence of statutory rules on the exercise of voting rights, including constitutive or deliberating quorums or systems for equity rights

Shareholders owning more than one vote are not allowed to divide their votes so as to vote differently on the same proposal, or to withhold from voting with all their shares having voting rights.

Shareholders acting as proxies for others may vote differently with their shares and the shares of the represented parties, and may also withhold from voting with their shares or with the shares of the represented parties.

These are the statutory rules on quorums:

**Article 18 / Quorum**

1. The General Meeting of Shareholders may not be held on first call when Shareholders holding at least fifty per cent of the share capital are not present or represented, regardless of the matters in the agenda.

2. The General Meeting may be held on second call to pass resolutions regardless of the number of Shareholders present or represented and the percentage of the share capital represented by them.

**Article 19 / Deliberating Quorum**

1. Without prejudice to cases in which the law or bylaws require a qualified majority, the General Meeting of Shareholders shall pass resolutions by majority of votes.

2. Resolutions on amendments to the company's bylaws, mergers, splits, transformation, winding up or any other matters for which the law requires a qualified majority, without specifying, must be approved by two-thirds of the votes issued, whether the General Meeting of Shareholders meets on first or second call.

The company has no systems in place for detaching voting rights from ownership rights.

### I.8. Existence of statutory rules on the exercise of voting rights via postal voting

Postal voting does not prevent a shareholder from being represented in the General Meeting. Postal votes count towards the constitution of the General Meeting quorum and are equally valid for the same general meeting when convened on second call.

Postal votes count as votes against motions submitted after their date of issue.

The Company Secretary and the Chairman of the Board of the General Meeting are responsible for checking the authenticity of postal votes and for ensuring their confidentiality up to the time of voting, under the following terms: postal votes are immediately placed in the care of the Company Secretary, who keeps them and hands them over to the Chairman of the Board of the General Meeting at the time each item is being voted.

Postal votes can at any time be revoked. Postal votes cast by a shareholder who is present or represented at the General Meeting shall be ignored.

There are no statutory restrictions to exercise the rights via postal means.

### I.9. Availability of a model format for exercising the right to vote via postal means

Convening notices to General Meetings refer that voting rights may be exercised by post, also setting out the manner in which the scrutiny of votes cast by correspondence is conducted, this being also referred in the Regulation of the General Meeting of BES (available at www.bes.pt)

Shareholders who wish to vote by correspondence may easily obtain draft voting instructions for the exercise of postal voting either from BES' Secretary (at Avenida da Liberdade, 195, 14.º andar, 1250-142 Lisboa) or from the Company's website (www.bes.pt). These draft voting instructions set out the items in the agenda of the meeting as well as, when appropriate, the specific motions to which they relate.

### I.10. A deadline requirement for the receipt of the postal ballots and the date on which the General Meeting is held

Postal votes must be received at least three working days date prior to the date when the General Meeting is held.

### I.11. The exercise of voting rights via electronic means

The exercise of voting rights by electronic means is not allowed.

### I.12. Information of the intervention by the General Meeting on matters concerning the remuneration policy of the company and the performance assessment of the members of the Board of Directors

The General Meeting decides annually on the remuneration policy of the corporate bodies of Banco Espírito Santo.

The proposals of the Board of Directors and of the Remuneration Committee concerning the remuneration of the corporate bodies are approved by the General Meeting, as described in point I.18.

Every year, the meeting also makes a general assessment of the management of the company based on its performance appraisal of corporate activities in the previous financial year.

### I.13. Indication of the defensive measures that are intended to immediately instigate asset erosion in cases such as changes in the control or to the composition of the Board of Directors.

No such measures exist.

### I.14. Main agreements to which the company is a part of and that come into force, are changed or end in cases such as change in company control, as well as related outcome, unless the disclosure of same, due to its nature, is highly damaging to the company and save when the company is specifically obliged to disclose such information by force of legal imperatives

In 2006 BES reorganised its holdings in the Portuguese insurance sector, having purchased 50% of the share capital and voting rights in BES Vida, Companhia de Seguros, S.A., and sold a 15% holding in BES, Companhia de Seguros, S.A., where it maintained a stake of 25%.

Both transactions were supported by a shareholders agreement entered into with this company's shareholder, Crédit Agricole, S.A., which has meanwhile transferred its position to Crédit Agricole Assurances. Pursuant to this agreement, if the shareholder BESPAR – Sociedade Gestora de Participações Sociais ceases to hold, for any reason, at least 33% of the share capital or voting rights in BES, Crédit Agricole Assurances has the potestative right to sell to BES or to whomever BES may appoint all its shares in BES Vida, Companhia de Seguros, S.A. and BES, Companhia de Seguros, S.A..

### I.15. Agreements between the company and the Board of Directors, within the meaning of article 248/B/3 of the Securities Code, that provide for compensation if they resign or are made redundant without a valid reason or if their employment ceases following a change in company control

No such agreements exist.

# Management and Supervisory Boards

## II.1 Identification and composition of the corporate bodies

**Board of General Meeting**

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

**Board of Directors**

Alberto Alves de Oliveira Pinto **Chairman**
Ricardo Espírito Santo Silva Salgado **Vice-Chairman**
Jean-Frédéric de Leusse **Vice-Chairman**
José Manuel Pinheiro Espírito Santo Silva
António José Baptista do Souto
Jorge Alberto Carvalho Martins
Aníbal da Costa Reis de Oliveira
Manuel Fernando Moniz Galvão Espírito Santo Silva
José Maria Espírito Santo Silva Ricciardi
Jean-Luc Louis Marie Guinoiseau
Rui Manuel Duarte Sousa da Silveira
Joaquim Aníbal Brito Feixial de Goes
Pedro José de Sousa Fernandes Homem
Luís António Burnay Pinto de Carvalho Daun e Lorena
Ricardo Abecassis Espírito Santo Silva
José Manuel Ruivo da Pena
Amilcar Carlos Ferreira de Morais Pires
Bernard Delas
Nuno Maria Monteiro Godinho de Matos
João Eduardo Moura da Silva Freixa
Bernard Octave Mary [1]
Michel Joseph Paul Goutorbe
Pedro Mosqueira do Amaral
Isabel Maria Osório de Antas Mégre de Sousa Coutinho
João de Faria Rodrigues
José de Albuquerque Epifânio da Franca

**Audit Committee**
José Manuel Ruivo da Pena **Chairman**
Luis António Burnay Pinto de Carvalho Daun e Lorena
João de Faria Rodrigues

**Certified Statutory Auditor (ROC)**
KPMG Associados, SROC SA, represented by Inês Maria Bastos Viegas Clare Neves Girão de Almeida
Deputy Certified Statutory Auditor, Jean-Éric Gaign (ROC)

**Company Secretaty**
Eugénio Fernando Quintais Lopes **Secretary**
Pedro Moreira de Almeida Queiroz de Barros **Deputy Secretaty**

[1] Bernard Octave Mary was co-opted by the Board of Directors on October 31st, 2008, to replace Gilles Roland Maurice Jacquin de Margerie, who had been co-opted by the Board of Directors on July 1st, 2008, to replace Jean-Yves Hocher. The ratification of the cooptation of Bernard Octave Mary will be proposed to the General Meeting of 16th of March 2009.

## II.2. Identification and composition of other committees created with responsibilities for the management or the supervision of the company

**Executive Committee**

Ricardo Espírito Santo Silva Salgado **Chairman**
José Manuel Pinheiro Espírito Santo Silva
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

**Business Units Monitoring Committees[1] :**

i) *Corporate / Wholesale / Investment banking*
Monitors the development of these business areas, ensuring that there is coordination between BES' corporate banking activity and the activity of Banco Espírito Santo de Investimento, and at international level, promoting coordinated action with the Branch in Spain and with Banco Espírito Santo de Investimento do Brasil.

ii) *Retail banking (Individual Clients and Small Businesses)*
Monitors the evolution of business in each of the retail segments (Affluent Clients, Small Companies and Independent Professionals and Mass Market), and promotes cross-segment business with other business areas (namely medium sized and large corporates). The committee also oversees Assurfinance activities, promoting the acquisition of Companhia de Seguros Tranquilidade clients.

iii) *Private Banking*
Monitors the development of the business, ensures coordination with other business areas - taking advantage of the increasing interconnection between the Private Banking Centres and the Corporate Centres -, and develops International Private Banking activities, where it focuses on the Portuguese residents abroad.

iv) *International Banking*
Monitors and promotes the development of BES Group's international banking activity, contributing to foster the business of subsidiaries and branches and evaluating and submitting to the Executive Committee new initiatives in previously untapped markets or businesses areas. The committee also ensures that there is coordination between BES' activity in Portugal and that of the various units abroad, specifically in Spain, Brazil and Angola.

[1] The composition of each Committee can be consulted in point II.3. of this document.

**Group-wide Committees[2]:**

i) *Assets and Liabilities (ALCO)*
The Assets and Liabilities Committee analyses macroeconomic data from Portugal and from the main economic areas in the world, making impact projections on the banking business. The ALCO also monitors the evolution of BES Group's consolidated balance sheet and that of its main business units, specifically the balances of customer loans and customer funds and margins, providing the Executive Committee with the data required to set growth targets for customer loans and deposits, and define a funding strategy (management of balance sheet mismatch) and price/margins targets. Its functions also include monitoring and benchmarking products sold by competitors and approving the product offer and pricing within the scope of the established strategy.

ii) *Information Systems, Operations, Quality and Costs (CIOQC)*
The CIOQC committee prioritises investments in information systems and the operations and monitors their implementation. It also monitors the development of special projects in the areas of operations, systems, quality and costs. In particular, the committee oversees the Bank's overall performance in terms of quality indicators – with particular regard to customer service quality and the support provided by the central areas to the commercial areas.

iii) *Risk*
The Risk Committee is responsible for all matters related to BES Group's overall risk, and in particular for monitoring the evolution of risk in each of the main client segments and product categories. It also oversees special projects in the area of Risk, specifically the Basel II project.

iV) *Credit Committee*
The Credit Committee decides on all credit operations that fall outside the scope of the credit granting limits established for each board member.

### II.3. Organisational structure or functional chart concerning the delegation of responsibilities among the various corporate bodies, committees and/or departments within the company, including information on the scope of delegating responsibilities or distributing duties among the members of the Management or Supervisory bodies, as well as a list of non-delegable subject matters

### a). Organisational structure or functional chart concerning the delegation of responsibilities among the various corporate bodies, committees and/or departments within the company:


[2] The composition of each Committee may be consulted in point II.3 of this document

### b). Information on the scope of delegating responsibilities or distributing duties among the members of the Management or Supervisory bodies

The distribution of areas of responsibility among the members of the Executive Committee is as follows:

## Ricardo Espírito Santo Silva Salgado

**Current areas of responsibility:**
Chairman of the Executive Committee, Financial and Credit Committee and ALCO Committee. Planning and Accounting, Compliance, Corporate Communication, and Divestitures Departments, Investor Relations Office, General Secretariat of the Executive Committee, Purchases and Property Division. Furthermore, ensures coordination between BES and ESAF, ES Ventures, Banco BEST, BES Angola and ES Bank.

**Member of the following Committees:**
Retail; Corporate Banking; International Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Private Banking; Financial and Credit Committee.

## José Manuel Pinheiro Espírito Santo Silva

**Current areas of responsibility:**
Coordinates Private Banking in BES Group, Madeira Offshore Branch, Emigrants, and BES History Research Centre. Ensures coordination between BES and the branch in Spain.

**Member of the following Committees:**
Private Banking; International Banking; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC).

## António José Baptista do Souto

**Current areas of responsibility:**
Middle market (North and South), Corporate Banking, Corporate and Institutional Marketing, Municipalities and Institutional Clients and Human Resources Department.

**Member of the following Committees:**
Corporate Banking; International Banking; Assets and Liabilities (ALCO); Risk; Information Systems; Operations, Quality and Costs (CIOQC); Financial and Credit Committee.

## Jorge Alberto Carvalho Martins

**Current areas of responsibility:**
Chairman of the Credit Board (Porto), Commercial Department North, Mortgage Credit Department, Real Estate Companies and External Promoters, Real Estate Technical Department. Ensures coordination with Locarent - Companhia Portuguesa de Aluguer de Viaturas.

**Member of the following Committees:**
Retail; Private Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC); Corporate Banking; Financial and Credit Committee.

## José Maria Espírito Santo Silva Ricciardi

**Current areas of responsibility:**
Global Risk; ensures coordination with Banco Espírito Santo de Investimento, of which he is Chairman of the Executive Committee.

**Member of the following Committees:**
Corporate Banking; International Banking; Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC)

## Jean-Luc Louis Marie Guinoiseau

**Current areas of responsibility:**
Organisation; Execution of Operations Department, ensures coordination with ES Informática, ESDATA and ES Recuperação de Crédito.

**Member of the following Committees:**
Assets and Liabilities (ALCO); Risk; Information Systems, Operations, Quality and Costs (CIOQC).

## Rui Manuel Duarte Sousa da Silveira

**Current areas of responsibility:**
Legal assistance to BES' Board of Directors, Legal Department, Internal Audit Department, Security Coordination Department and Subsidiaries Office.

## Joaquim Aníbal Brito Freixial de Goes

**Current areas of responsibility:**
Strategic Marketing, Retail Marketing, Communication Marketing and Consumer Surveys, Management Information, Service Quality and Direct and Self Banking Departments, Universities, Assurfinance, and Credit to Tourism Real Estate Offices. Ensures coordination with BES Companhia de Seguros e ES Contact Center.

**Member of the following Committees:**
Retail; Corporate Banking; Assets and Liabilities (ALCO), Information Systems, Operations, Quality and Costs (CIOQC); Risk.

## Pedro José de Sousa Fernandes Homem

**Current areas of responsibility:**
Transactional Banking and International Banking Department, International Branches - in coordination with Amílcar Morais Pires (New York, London and Cape Verde), ES Bank and other international holdings.

**Member of the following Committees:**
International Banking; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC).

## Amílcar Carlos Ferreira de Morais Pires

**Current areas of responsibility:**
Financial, Markets and Research Department, Credit Structuring and Securitisation Department, Savings Management Department, Procurement Department, Costs Control Office, Management Control (shared with Ricardo Salgado), ES Research; ensures coordination with BES Vida, Companhia de Seguros, BES Finance, BES Cayman, BESIL, BIBL and BES GmbH.

**Member of the following Committees:**
Private Banking; Corporate Banking; International Banking; Assets and Liabilities (ALCO); Information Systems, Operations, Quality and Costs (CIOQC); Risk; Financial and Credit Committee.

**Note**
Board Member Amílcar Carlos Ferreira de Morais Pires is the CFO of BES, and has held this responsibility for less than two mandates.

Banco Espírito Santo takes the view that the attributes required for the post of CFO do not justify the rotation of the Board member in charge of the financial area, thus disagreeing in this respect with the CMVM Recommendation.

## João Eduardo Moura da Silva Freixa

**Current areas of responsibility:**
Commercial Department South, Consumer Credit, Acquiring and Cards Department. Ensures coordination with BES Azores and with the Branch in Spain (shared with José Manuel Pinheiro Espírito Santo Silva).

**Member of the following Committees:**
Assets and Liabilities (ALCO); Retail; Information Systems, Operations, Quality and Costs (CIOQC); Risk.

### c.) List of non-delegable subject matters

In addition to the subject matters which by law are non-delegable in the Executive Committee, the Regulation of the Board of Directors and of the Executive Committee (available for consultation at www.bes.pt/ir) also establishes the following duties that are the exclusive responsibility of the Board of Directors:

a. to define the company's strategy and general policies;
b. to define the corporate structure of the Group;
c. to take all decisions considered to be strategic due to the amounts, risk and particular characteristics involved.

### d.) Provision of information:

The Chairman of the Executive Committee shall send the convening notices and minutes of the meetings of the Executive Committee to the Chairman of the Board of the Directors and to the Chairman of the Audit Committee.

All members of the Executive Committee shall provide any information requested by the other corporate bodies.

### e.) Audit Committee

The Audit Committee is the supervisory body of BES, responsible for supervision of the Bank management in general, for verification of the effectiveness of the risk management system, the internal control system and of the internal audit system, as well as represent BES, for all purposes, to the external auditor, which is annually evaluated by this Committee.

The annual report about the activities of the Audit Committee includes the description of the supervisory activity undertaken and is disclosed on the BES website, at www.bes.pt, together with the

The Audit Committee is composed of three non executive directors qualified as independent: José Manuel Ruivo da Pena, Luís António Burnay Pinto de Carvalho Daun e Lorena e João de Faria Rodrigues. Please refere to item II.9 of this document for full description and item II.10. for the respective professional qualifications and activity in the last five years.

## II.4. Description of the internal control and risk management systems within the company, namely as regards the financial information disclosure system

**Banco Espirito Santo has in place an Internal Control System which is managed by the Compliance Department.**
To assist it in carrying out these duties, the Compliance Department has set up a separate independent unit, **the Internal Control System Management Unit** (UGSCI).

The UGSCI is responsible for all the assessment, systematisation, monitoring and maintenance tasks required by BES' Internal Control System, and for guaranteeing an overall perspective and integrated management of the entire Internal Control System of BES Group as the guarantor of the reliability of the financial information, the protection of assets and the adequate prevention of risks.

The UGSCI is also responsible for internal reporting, namely through monthly update briefings, as well as for external reporting to the national and international regulatory authorities, thus ensuring the overall perspective and integrated management of the Internal Control System.

For the design and assessment of its Internal Control System, BES Group adopted COSO methodologies and principles (the COSO - Committee of Sponsoring Organizations of the Treadway Commission - was created in 1985 in the US to identify and combat the primary causes of fraudulent financial reporting, establishing for the purpose recommendations and frameworks for companies):

- the internal control culture promoted within the organisation determines the conduct and awareness of its employees;
- the organisation faces a diversity of risks which must be assessed at the level of the entity and processes;
- the control procedures established must ensure that management directives are complied with;
- all relevant information must be obtained and reported;
- the ICS must be supported by a monitoring process.

**Risk Control System**
At BES Group, the risk function is organised in such a way as to cover the credit, market, liquidity, on balance sheet interest rate, exchange rate and operational risks.

It is the responsibility of the Executive Committee of Banco Espírito Santo to define the objective risk profile, for which it establishes global and specific limits. Its responsibility also includes establishing the general principles of risk management and control, and ensuring that BES Group has the necessary competences and resources for the purpose.

The main units dedicated to the prevention of risk in the Bank's activity are the Risk Committee, the Global Risk Department, the Credit Risk Monitoring Committee and the Internal Audit Department (the risk control system is explained in detail in Chapter 6 of the Management Report).

The **Risk Committee** is responsible for monitoring the Group's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, operational and market risk, liquidity risk and on-balance sheet interest rate risk. This Committee also analysis the evolution of risk adjusted return and the value added by the main segments/clients. The Risk Committee holds monthly meetings, which are attended by the Chairman of the Executive Committee.

The **Global Risk Department** (GRD) centralises the risk function of the Banco Espírito Santo Group, having as main responsibilities to:

- identify, assess and control the different types of risk assumed, thus managing the Group's overall risk exposure;

- implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Group's units;

- contribute towards the achievement of BES Group's value creation objectives, by fine-tuning tools to support the structuring and pricing of operations, and by developing internal techniques for performance assessment and for optimising the capital position.

**The Credit Risk Monitoring Committee has the following main objectives:**

- to analyse and assess clients whose creditworthiness shows signs of deteriorating, based on:
  - the client's economic and financial profile;
  - type of credit exposure;
  - nature and value of the guarantees received, paying attention to the dates when the assets provided as security were evaluated and the entities which carried out these evaluations;
  - warning signals detected in the behavioural profile of clients in their relations with the bank and with the financial system in general.
- to formulate strategic options regarding the commercial relations and levels of active vigilance required for and better adjusted to the profile and specific circumstances of each of the entities/groups under analysis;
- to analyse and validate the credit impairment levels established for the group of entities in question, in accordance with predetermined objective criteria.

The Internal Audit Department assesses the effectiveness and adequacy of risk management, internal control and governance processes in the companies of BES Group with the objective of reducing risk conditions.
Its responsibilities include:

- analysing operational and business processes, assessing the effectiveness of the respective risk management and controls, as well as compliance with applicable legal /regulatory provisions and internal regulations;
- cooperating with all the bodies of BES Group viewing the implementation and correct application of policies established at senior management level, particularly with regard to the understanding and application of internal control procedures;
- checking and assessing the protection and safety of money, recording and documentary assets that are the property of the BES Group or were entrusted to it for safeguarding;
- within the scope of its powers, ensuring and promoting the relations with Legal and Police authorities, with the Bank of Portugal, the CMVM and other supervision authorities, also addressing requests from other public and private institutions;
- participating in the definition and preparation of an internal regulatory framework, both through the issue of specific regulations and by taking part in consultations carried out in the field of control and safety principles applicable to banking procedures;
- ensuring the prompt correction of practices that breach regulatory texts and/or internal regulations, while making sure that the procedures adopted for the execution of operations are duly regulated.

### II.5. Powers of the Management Body, particularly as regards resolutions on capital increase

BES' Board of Directors has no powers to decide on a capital increase.

### II.6. Indication on the existence of regulations on the functioning of the corporate bodies or any internally defined rules on incompatibility and the maximum number of positions that a member is entitled to hold and the place where these rules may be consulted at

All the company's corporate bodies have internal regulations, namely the Board of Directors and Executive Committee Regulation, the Audit Committee Regulation and the General Meeting Regulation, which are all disclosed in the Company's website (www.bes.pt).

The company has no internally defined rules on incompatibility nor has it established a maximum number of positions that a member is entitled to hold.

### II.7. Rules applicable to the appointment and replacement of members of the Management and Supervisory Body

The members of the Company's management and supervisory bodies are elected by the General Shareholders' Meeting.

In the case of definitive absence or impediment of any member of the Board, a substitute member will be co-opted, and this co-optation ratified in the next General Meeting. The mandate of the member so elected will expire at the end of the office period for which the replaced member had been elected.

### II.8. Number of meetings held by the Management and Supervisory Body and other created Committees that are responsible for managing and supervising during that time

In 2008 BES' Board of Directors held 8 meetings, the Audit Committee 14 meetings and the Executive Committee 81 meetings. The number of meetings indicated for the Audit Committee and Executive Committee concerns the meetings held exclusively by each of these bodies.

### II.9. Identification of the members of the Board of Directors and other Committees created within the company and their distinction between executive and non-executive Members and from among the latter, which members comply with the incompatibility rules provided for in article 414/ A/1, except for item b/ and the independence criterion mentioned in article 414/5, both from the Commercial Company Code

| Board Member | Date of birth | Nationality | Executive Committee | Independent | Reason for not independent |
|---|---|---|---|---|---|
| Alberto Oliveira Pinto | 26/06/1932 | Portuguese | No | Yes | |
| Ricardo Salgado | 25/06/1944 | Portuguese | Yes | No | Executive |
| Jea-Fréderic de Leusse | 29/10/1957 | French | Yes | No | Board Member or contract with the shareholder Crédit Agricole, S.A. |
| José Manuel Espírito Santo | 02/05/1945 | Portuguese | Yes | No | Executive |
| António Souto | 17/04/1950 | Portuguese | Yes | No | Executive |
| Jorge Martins | 17/07/1957 | Portuguese | Yes | No | Executive |
| Aníbal Oliveira | 24/09/1935 | Portuguese | No | No | Member of Espírito Santo Financial (Portugal) - SGPS, S.A. |
| Manuel Fernando Espírito Santo | 20/07/1958 | Portuguese | No | No | Member of Espírito Santo Financial Group, S.A. |
| José Maria Ricciardi | 27/10/1954 | Portuguese | Yes | No | Executive |
| Jean-Luc Guinoiseau | 20/12/1954 | French | Yes | No | Executive |
| Rui Silveira | 11/12/1954 | Portuguese | Yes | No | Executive |
| Joaquim Goes | 09/09/1966 | Portuguese | Yes | No | Executive |
| Pedro Homem | 19/07/1947 | Portuguese | Yes | No | Executive |
| Luís Daun e Lorena | 11/10/1944 | Portuguese | No | Yes | |
| Ricardo Espírito Santo Silva | 04/11/1958 | Portuguese | No | No | Member of Espírito Santo Financial (Portugal) - SGPS, S.A. |
| José Pena | 05/11/1940 | Portuguese | No | Yes | |
| Amílcar Morais Pires | 30/05/1961 | Portuguese | Yes | No | Executive |
| Bernard Delas | 01/08/1948 | Portuguese | No | No | |
| Nuno Godinho de Matos | 31/10/1949 | Portuguese | No | Yes | |
| João Freixa | 24/06/1956 | Portuguese | Yes | No | Executive |
| Bernard Octave Mary (1) | 24/08/1955 | French | No | No | Board Member or contract with the shareholder Crédit Agricole, S.A. |
| Michel Goutorbe | 16/11/1956 | French | No | No | Board Member or contract with the shareholder Crédit Agricole, S.A. |
| Pedro Amaral | 27/06/1968 | Portuguese | No | No | Contract with BES |
| Isabel de Sousa Coutinho | 12/12/1946 | Portuguese | No | Yes | |
| João de Faria Rodrigues | 31/10/1955 | Portuguese | No | Yes | |
| José Epifânio da Franca | 02/01/1955 | Portuguese | No | Yes | |

(1) Bernard Octave Mary was co-opted by the Board of Directors on October 31st, to replace Gilles Roland Maurice Jacquin de Margerie. that renounced his duties on the 7th of November 2008.
(2) Mr Gilles Roland Maurice Jacquin de Margerie was co-opted by the Board of Directors in JUly 2008 to Substitute Mr. Jean-Yves Hocher that had renounced his duties.

The Board of Directors consists of 26 members, of which 11 are executive and 15 are non-executive. BES considers that this type of composition guarantees the effective capacity for supervision, audit and evaluation of the activity undertaken by the Executive Committee members.

From the 15 non-executive Board Members, 7 qualify as independent directors, representing more than 25% of the Board. Hence in this regard they all also conform to the regime of incompatibilities set out in the Companies Code.

The independent Board members are: the 3 members of the Audit Committee (José Pena, Luís Daun e Lorena and João Faria Rodrigues) while the remaining 4 Board non-executive Board members are Alberto de Oliveira Pinto (Chairman of the Board of Directors), Nuno Godinho de Matos, Isabel de Sousa Coutinho and José Epifânio da Franca.
The process of verification of the independence of the non executive board Members is described in point 0.4 of this report.

These independent directors take part in all the meetings of the Board of Directors and therefore are on a par with the progress of BES' activity, for which they can also request information from any other corporate bodies or internal units of BES Group.
In the exercise of its functions the Board of Directors did not come up against any constraint to its functioning.

## II.10. Professional qualifications of the members of the Board of Directors, the professional activities carried out by them at least during the last five years, the number of company shares they hold and the date of the commencement and end of the first mandate

### Alberto Alves de Oliveira Pinto Chairman

**Academic qualification:** Graduated in Economic Sciences from Instituto Superior de Ciências Económicas e Financeiras, Lisbon

**Professional activities carried out during the last five years:** Chairman of the Board of Directors of Banco Nacional de Crédito Imobiliário from 1991 to 2005. Non Executive member of the Board of Directors of Banco Espírito Santo from February 2006 to March 2008. Non Executive member of the Board of Directors of Galp Energia from 2006 to 2008. Chairman of the Board of Directors of BES since March 2008.

**No. of shares held on 31/12/2008:** 0

**First appointment:** February 2006

**Mandate ends in:** 2011

### Ricardo Espírito Santo Silva Salgado Vice-Chairman

**Academic qualification:** Graduated in Economics from Instituto Superior de Ciências Económicas e Financeiras of the Universidade Técnica de Lisboa.

**Professional activities carried out during the last five years:** Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of Banco Espírito Santo, Chairman of the Board of Directors of Espírito Santo Financial Group, S.A., Bespar - SGPS, S.A. e Partran, SGPS, S.A.. Member of the Executive Committee of the Institut Internacional d'Études Bancaires and its Chairman between October 2005 and December 2006. Member of the Board of Directors of Banco Bradesco (Brazil) since 2003. Member of the Board of Directors, Human Resources Compensation Committee, and Nominating and Governance Committee of the NYSE Euronext.

**No. of shares held on 31/12/2008:** 500 214

**First appointment:** September 1991

**Mandate ends in:** 2011

### Jean-Frédéric de Leusse Vice-Chairman

**Academic qualification:** École Polytechnique; École Nationale d'Administration.

**Professional activities carried out during the last five years:** Director of the international retail area of Crédit Agricole and Chairman of Crédit Agricole Private Equity from 2003 to 2005. Director of the international area of Crédit Agricole since 2006. Appointed executive Vice-Chairman of Crédit Agricole and Director of the specialised business division in October 2008. Member of the Board of Directors of Banco Espírito Santo since 2004.

**No. of shares held on 31/12/2008:** 0

**First appointment:** March 2004

**Mandate ends in:** 2011

### José Manuel Pinheiro Espírito Santo Silva

**Academic qualification:** Graduated in Economics, specialising in Company Administration and Management, form Évora University (former Instituto de Estudos Superiores de Évora).

**Professional activities carried out during the last five years:** Chairman of Banque Privée Espírito Santo S.A., Executive member of the Board of Directors of Banco Espírito Santo and Vice-Chairman of Espírito Santo Financial Group, S.A.

**No. of shares held on 31/12/2008:** 158 725

**First appointment:** April 1992

**Mandate ends in:** 2011

### António José Baptista do Souto

**Academic qualification:** Graduated in Economics from the School of Economics of Porto University.

**Professional activities carried out during the last five years:** Executive member of the Board of Directors of Banco Espírito Santo, Chairman of the Board of Directors of E.S. Data. S.G.P.S.

**No. of shares held on 31/12/2008:** 28 795

**First appointment:** November 1990

**Mandate ends in:** 2011

### Jorge Alberto Carvalho Martins

**Academic qualification:** Graduated in Economics from the School of Economics of Porto University.

**Professional activities carried out during the last five years:** Executive member of the Board of Directors of Banco Espírito Santo.

**No. of shares held on 31/12/2008:** 66 742

**First appointment:** July 1993

**Mandate ends in:** 2011

### Aníbal Costa Reis de Oliveira

**Academic qualification:** General Commercial Management (Porto); Chemical Engineering (Germany).

**Professional activities carried out during the last five years:** executive positions in companies of the Riopele Group.

**No. of shares held on 31/12/2008:** 328 000

**First appointment:** April 1992

**Mandate ends in:** 2011

### Manuel Fernando Moniz Galvão Espírito Santo Silva

**Academic qualification:** B.A. Business Administration, Richmond College, London International Bankers' Course at Barclays and Midland Bank, London; INSEAD, Fontainebleau - "Inter-Alpha Banking Programme".

**Professional activities carried out during the last five years:** Chairman of the Executive Committee of Espírito Santo Resources. Executive Member of the World Travel & Tourism Council since 2003.

**No. of shares held on 31/12/2008:** 1 064

**First appointment:** April 1992

**Mandate ends in:** 2011

### José Maria Espírito Santo Silva Ricciardi

**Academic qualification:** Graduated in "Sciences Economiques Appliquées" from the Université Catholique de Louvain, Faculté des Sciences Économiques, Sociales et Politiques, Institut d'Administration et de Gestion, Belgium.

**Professional activities carried out during the last five years:** Executive member of the Board of Directors of Banco Espírito Santo. Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of BES Investimento. Chairman of the Board of Directors of BES Investimento do Brasil, S.A. Non Executive member of the Board of Directors of EDP – Energias de Portugal, S.A. from March to June 2006 and Member of the Supervisory Board since July 2006.

**No. of shares held on 31/12/2008:** 16 342

**First appointment:** March 1999

**Mandate ends in:** 2011

### Jean-Luc Guinoiseau

**Academic qualification:** Graduated in Higher Economic Studies from Conservatoire National des Arts et Métiers (Paris), taking the CESA course on Strategic Management – HEC, Paris.

**Professional activities carried out during the last five years:** Executive member of the Board of Directors of Banco Espírito Santo.

**No. of shares held on 31/12/2008:** 51 507

**First appointment:** September 1999

**Mandate ends in:** 2011

### Rui Manuel Duarte Sousa da Silveira

**Academic qualification:** Graduated in Law from the Law School of the Lisbon University and is a Lawyer.

**Professional activities carried out during the last five years:** Lawyer, Executive member of the Board of Directors of Banco Espírito Santo. Member of the Fiscal Committee of Companhia de Seguros Tranquilidade.

**No. of shares held on 31/12/2008:** 30 462

**First appointment:** March 2000

**Mandate ends in:** 2011

### Joaquim Aníbal Brito Freixial de Goes

**Academic qualification:** Graduated in Corporate Management and Administration, specialising in Marketing and Finance from Lisbon's Universidade Católica Portuguesa. In 1994 took a Masters Degree in Business Administration from INSEAD, Fontainebleau.

**Professional activities carried out during the last five years:** Executive member of the Board of Directors of Banco Espírito Santo. Member of the Board of Directors of Portugal Telecom.

**No. of shares held on 31/12/2008:** 49 327

**First appointment:** March 2000

**Mandate ends in:** 2011

### Pedro José de Sousa Fernandes Homem

**Academic qualification:** Graduated in Law from the Law School of the Lisbon University.

**Professional activities carried out during the last five years:** Executive member of the Board of Directors of Banco Espírito Santo.

**No. of shares held on 31/12/2008:** 23 345

**First appointment:** June 2000

**Mandate ends in:** 2011

### Luis António Burnay Pinto de Carvalho Daun e Lorena

**Academic qualification:** third year of Law from the Law School of the Lisbon University.

**Professional activities carried out during the last five years:** Member of the Board of Directors and Executive Committee of Banco Espírito Santo.

**No. of shares held on 31/12/2008:** 0

**First appointment:** March 2002

**Mandate ends in:** 2011

### Ricardo Abecassis Espírito Santo Silva

**Academic qualification:** Graduated in Economics from The City University, London, UK.

**Professional activities carried out during the last five years:** Executive Vice-Chairman of BES Investimento do Brasil, Member of the Board of Directors of BES Investimento since 2003, where he was appointed Executive Director in 2005. Member of the Board of Directors of Banco Espírito Santo since 2002.

**No. of shares held on 31/12/2008:** 41 841

**First appointment:** March 2002

**Mandate ends in:** 2011

### José Manuel Ruivo da Pena

**Academic qualification:** Graduated in Company Organisation and Management from Instituto Superior das Ciências do Trabalho e da Empresa (ISCTE); subsequently attended the International Advanced Executive Program (IAEP) of the JL Kellog Graduate School of Management, Northwestern University, Chicago, USA.

**Professional activities carried out during the last five years:** Non executive member of the Board of Directors of Banco Espírito Santo since 2003 and member of the Audit Committee until 2007. Chairman of the Supervisory Boards of BES Seguros, S.A. and BES Vida, S.A. since 2006. Chairman of the Supervisory Boards of Companhia de Seguros Tranquilidade, S.A. and Patran, S.A since 2007. Appointed Chairman of BES' Audit Committee in March 2008.

**No. of shares held on 31/12/2008:** 0

**First appointment:** May 2003

**Mandate ends in:** 2011

### Amílcar Carlos Ferreira de Morais Pires

**Academic qualification:** Graduated in Economic Sciences from Universidade Católica Portuguesa.

**Professional activities carried out during the last five years:** Advisor to the Board of Directors and Coordinator of the Financial Department, Markets and Surveys of Banco Espírito Santo until 2004. Executive member of the Board of Directors of Banco Espírito Santo since March 2004 and Member of the Board of Directors of BES Investimento since 2005. Member of the Board of Directors of Portugal Telecom since 2006.

**No. of shares held on 31/12/2008:** 24 291

**First appointment:** March 2004

**Mandate ends in:** 2011

### Bernard Delas

**Academic qualification:** Graduated in Economic Sciences from Université de Paris.

**Professional activities carried out during the last five years:** General Manager of Crédit Agricole Assurances since 2004. Member of the Board of Directors of Banco Espírito Santo since 2005 and Vice-Chairman of BES Vida and BES Seguros.

**No. of shares held on 31/12/2008:** 0

**First appointment:** March 2005

**Mandate ends in:** 2011

### Nuno Maria Monteiro Godinho de Matos

**Academic qualification:** Graduated in Law from Universidade Clássica de Lisboa.

**Professional activities carried out during the last five years:** practicing lawyer.

**No. of shares held on 31/12/2008:** 0

**First appointment:** February 2006

**Mandate ends in:** 2011

### João Eduardo Moura da Silva Freixa

**Academic qualification:** Graduated in Business Management from Instituto Superior de Economia, Lisbon; MBA from Universidade Nova de Lisboa.

**Professional activities carried out during the last five years:** Vice-Chairman of Caixa Geral de Depósitos and Caixa - Banco de Investimento (Caixa BI) and Non Executive member of the Board of Directors of EDP - Energias de Portugal from 2004 to 2005. Advisor to the Board of Directors of BES since October 2005 and Member of the Board of Directors of BES since 2006. Vice-Chairman of BES dos Açores since November 2006.

**No. of shares held on 31/12/2008:** 0

**First appointment:** September 2006

**Mandate ends in:** 2011

### Bernard Octave Mary

**Academic qualification:** Degree in Etudes Comptables Supérieures - DESS Systèmes d'Information ; MBA from University of Chicago.

**Professional activities carried out during the last five years:** General Manager of Crédit Agricole du Nord Est and CEO of Crédit Agricole. Member of the Board of Directors of BES since October 2008.

**No. of shares held on 31/12/2008:** 0

**First appointment:** October 2008

**Mandate ends in:** 2011

### Michel Goutorbe

**Academic qualification:** Graduated in Law.

**Professional activities carried out during the last five years:** Vice General Manager of PREDICA from 2005 to 2007. Chairman of the Executive Committee of BES Vida and BES, Companhia de Seguros and Member of the Board of Directors of BES since 2007.

**No. of shares held on 31/12/2008:** 0

**First appointment:** July 2007

**Mandate ends in:** 2011

### Pedro Mosqueira do Amaral

**Academic qualification:** Graduated in Business Management from the European University, Brussels, Belgium.

**Professional activities carried out during the last five years:** Member of the Board of Directors of BES GmbH since 2006 and Member of the Board of Directors of BES since 2008.

**No. of shares held on 31/12/2008:** 0

**First appointment:** March 2008

**Mandate ends in:** 2011

### Isabel Maria Osório de Antas Megre de Sousa Coutinho

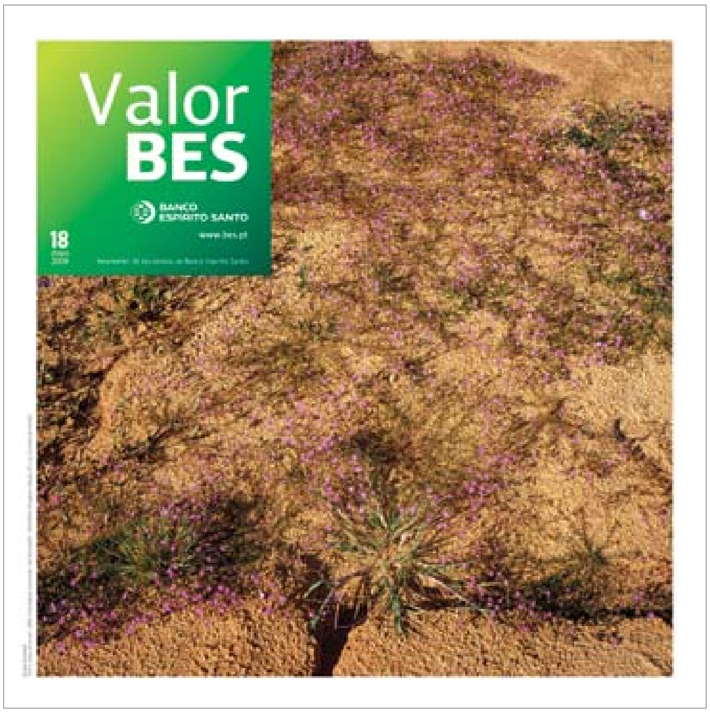
**Academic qualification:** Graduated in Finance from Instituto Superior de Ciências Económicas e Financeiras (ISCEF), Lisbon, in 1969.
**Professional activities carried out during the last five years:** Chairman of Fundação Pão de Açúcar – Auchan until 2007. Member of the Board of Directors of BES since 2008.
**No. of shares held on 31/12/2008:** 0
**First appointment:** March 2008
**Mandate ends in:** 2011

### João de Faria Rodrigues

**Academic qualification:** Graduated in Company Organisation and Management from Instituto Superior de Economia, Lisbon (1980).
**Professional activities carried out during the last five years:** Certified Auditor since 1992. Senior Audit Manager with Grant Thornton & Associados – SROC, Lda from 1997 to 2008. Member of the Board of Directors of BES since 2008; member of the Audit Committee.
**No. of shares held on 31/12/2008:** 0
**First appointment:** March 2008
**Mandate ends in:** 2011

### João Epifânio da Franca

**Academic qualification:** Graduated from Instituto Superior Técnico (IST) in 1978. PhD at the Imperial College of Science and Technology (London, UK); in 1985 and 1992 obtained the "agregado" academic title from Universidade Técnica de Lisboa; Invited full professor at the Electronics and IT Department of the IST and Adjunct Professor at the Electronics Engineering School of the Hong Kong Chinese University.
**Professional activities carried out during the last five years:** founder of CHIPIDEA, which for several consecutive years ranked amongst the 500 European companies with better business development and job creation indicators (Europe 500) and was world leader of the analog/mixed-signal Semiconductor Intellectual Property market. In 2007, when Chipidea was acquired by MIPS Technologies Inc. (Mountain View, California), a NASDAQ listed company, João Epifânio da Franca joined its Board of Directors and remained Chairman of the Board of Directors of CHIPIDEA's Portuguese subsidiary until September 2008. Member of the BES Board of Directors since 2008.
**No. of shares held on 31/12/2008:** 0
**First appointment:** March 2008
**Mandate ends in:** 2011




## Bond and Share holdings of the Members of the Corporate Bodies

| Shareholders/Bondholders | Securities | securities held as of 31/12/2007 | Transactions in 2008 | | | | securities held as of 31/12/2008 |
|---|---|---|---|---|---|---|---|
| | | | Date | Acquisitions | Disposals | Unit price (euro) | |
| Ricardo Espírito Santo Silva Salgado | BES Shares | 436,880 | 7/1/08 | 33,334 | 0 | 14,50 | |
| | | | 1/7/08 | 10,000 | 0 | 9,45 | |
| | | | 8/7/08 | 10,000 | 0 | 8,87 | |
| | | | 22/8/08 | 10,000 | 0 | 8,80 | 500,214 |
| | Fiduprivate Shares | 20 | | 0 | 0 | | 20 |
| José Manuel Pinheiro E. S. Silva | BES Shares | 124,725 | 29/1/08 | 10,000 | 0 | 12,21 | |
| | | | 11/4/08 | 5,000 | 0 | 11,48 | |
| | | | 24/6/08 | 1,000 | 0 | 10,45 | |
| | | | 13/10/08 | 18,000 | 0 | 8,30 | 158,725 |
| | Fiduprivate Shares | 20 | | 0 | 0 | | 20 |
| António José Baptista do Souto | BES Shares | 46,950 | 9/4/08 | 0 | 18,155 | 11,95 | 28,795 |
| | Bonds Besi Dual 5% | 2,500 | | 0 | 0 | | 2,500 |
| Jorge Alberto Carvalho Martins | BES Shares | 66,742 | | 0 | 0 | | 66,742 |
| Aníbal da Costa Reis de Oliveira | BES Shares | 195,832 | 25/6/08 | 54,168 | | 10,79 | |
| | | | 10/7/08 | 25,000 | | 8,99 | |
| | | | 11/7/08 | 25,000 | | 8,95 | |
| | | | 17/11/08 | 28,000 | | 7,01 | 328,000 |
| | Bonds ES Invest PLC 5% 28/05/2010 | 25 | | 0 | 0 | | 25 |
| | Bonds BES Inv 30/11/2011 | 6,000 | 24/4/08 | 0 | 6,000 | 42,11 | 0 |
| | Bonds BESI Range Accrual | 10,000 | | 0 | 0 | | 10,000 |
| | Bonds BES Subord 2008 3ª S | 0 | 30/9/08 | 400 | 0 | 1,000,00 | 400 |
| Manuel F. Moniz G. E.S. Silva | BES Shares | 1,064 | | 0 | 0 | | 1,064 |
| José Maria Espirito Santo S. Ricciardi | BES Shares | 19,555 | 8/5/08 | 0 | 3,213 | 12,41 | 16,342 |
| Jean-Luc Louis Marie Guinoiseau | BES Shares | 51,507 | | 0 | 0 | | 51,507 |
| Rui Manuel Duarte Sousa da Silveira | BES Shares | 30,462 | | 0 | 0 | | 30,462 |
| Joaquim Aníbal B. Freixial de Goes | BES Shares | 47,917 | 8/5/08 | 0 | 4,590 | 12,41 | |
| | | | 14/7/08 | 6,000 | | 9,05 | 49,327 |
| | Bonds BES Finance 2035 | 160 | | 0 | 0 | | 160 |
| | Bonds BES Subord 2008 3ª S | 0 | 30/9/08 | 45 | 0 | 1,000,00 | 45 |
| Pedro J. de Sousa Fernandes Homem | BES Shares | 41,501 | 17/10/08 | 0 | 18,156 | 8,03 | 23,345 |
| Ricardo Abecassis Espirito Santo Silva | BES Shares | 43,004 | 31/1/08 | 470 | 0 | 11,69 | |
| | | | 1/2/08 | 1,530 | 0 | 11,96 | |
| | | | 7/5/08 | 320 | 0 | 12,43 | |
| | | | 7/5/08 | 0 | 3,963 | 12,41 | |
| | | | 17/6/08 | 480 | 0 | 10,96 | 41,841 |
| Amílcar Carlos Ferreira de Morais Pires | BES Shares | 24,291 | | 0 | 0 | | 24,291 |
| José Manuel Ruivo da Pena | Bonds BES Finance 2035 | 60 | | 0 | 0 | | 60 |
| João Eduardo Moura Silva Freixa | Bonds BES Finance 17/05/2011 | 0 | 11/8/08 | 30 | | 1,000,00 | 30 |
| José Albergaria Epifânio da Franca | Bonds BES Subord 2008 3ª S | 0 | 30/9/08 | 1,000 | 0 | 1,000,00 | 1,000 |

## II.11 Duties that the members of the Board of Directors carry out in other companies as well as those carried out in companies of the same holding

**Alberto Alves de Oliveira Pinto**
Holds no positions in other companies

**Ricardo Espírito Santo Silva Salgado**
**A.Corporate positions held in companies of BES Group**
**Board of Directors**
Banco Espírito Santo de Investimento, S.A. (Chairman)
BES Finance, Ltd. (Member)
BEST - Banco Electrónico de Serviço Total, S.A. (Chairman)
ES Tech Ventures - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
ESAF - Espírito Santo Activos Financeiros - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Bank (Member)
Espírito Santo – Empresa de Prestação de Serviços 2, A.C.E. (Chairman)
Espírito Santo Financial Services Inc. (Member)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Chairman)
**B.Corporate positions held in companies outside BES Group**
**Board of Directors**
Banco Bradesco, S.A. (Member)

Bespar - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Banque Espírito Santo et de la Vénétie (Vogal)
Banque Privée Espírito Santo, S.A. (Member)
Casa dos Pórticos - Sociedade de Administração de Bens, S.A. (Chairman)
ES Bankers (Dubai) Limited (Chairman)
Espírito Santo Control, S.A. (Member)
E.S. Holding Administração e Participações, S.A. (Vice-Chairman)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Financial Group, S.A. (Chairman)
ESFG Overseas, Limited (Chairman)
Espírito Santo International, S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Saúde - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Services, S.A (Member)
NYSE Euronext (Membro do "Board of Directors"; Membro do "*Human Resources & Compensation Committee* e Membro do "*Nominating & Governance Committee*")
Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade de Administração de Bens Pedra da Nau, S.A. (Chairman)

**Jean-Fréderic Marie Jacques de Leusse**
**Corporate positions held in companies outside BES Group**
**Board of Directors**
BESPAR – Sociedade Gestora de Participações Sociais, S.A. (Member)
BSF Bank Saudi Al Fransi (Arábia Saudita) (Member)
Calyon (Member of the Board of Directors and Executive Committee)
Credit Agricole Asset Management (Member)
Crédit Agricole Egypt S.A.E. (Vice-Chairman)
Credit Agricole Luxembourg (Chairman)
De Dietrich (França) (Member of the Supervisory Board)
Emporiki Bank (Grécia) (Chairman)
Sofinco (Member)
Union de Banques Árabes et Francaises (Member of the Supervisory Board)
**Other Positions**
Credit Agricole,S.A.(CEO, head of 'Métiers Spécialisés", member of the Executive Committee)

**José Manuel Pinheiro Espírito Santo Silva**
**A. Corporate positions held in companies of BES Group**
**Board of Directors**
Banco Espírito Santo de Investimento, S.A. (Member)
ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Bank (Member)
Espírito Santo Financial Consultants, Gestão de Patrimónios, S.A (Chairman)
**B. Corporate positions held in companies outside BES Group**
**Board of Directors**
Banque Espírito Santo et de la Vénétie, S.A. (Member)
Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)
Banque Privée Espírito Santo, S.A. (Chairman)
Espírito Santo Control, S.A. (Member)
ESFG Overseas Limited (Vice-Chairman)
Espírito Santo Financial Group, S.A. (Vice-Chairman)
Espírito Santo Financial (Portugal) - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)
Espírito Santo International, S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Services, S.A (Member)
Europ Assistance - Companhia Portuguesa Seguros Assistência, S.A. (Member)
Fiduprivate - Sociedade de Serviços, Consultoria, Administração de Empresas, S.A. (Chairman)

**António José Baptista do Souto**
**A. Corporate positions held in companies of BES Group**
**Board of Directors**
Espírito Santo Data - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
**B. Corporate positions held in companies outside BES Group**
**Board of Directors**
Angra Moura - Sociedade de Administração de Bens, S.A. (Chairman)
Companhia de Seguros Tranquilidade, SA (Member)
SIBS - Sociedade Interbancária de Serviços, S.A. (Member)

**Jorge Alberto Carvalho Martins**
**Corporate positions held in companies outside BES Group**
**Fiscal Board**
Agência de Desenvolvimento Regional de Entre-o-Douro e Tâmega (Chairman)
**Board of Directors**
Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (Member)
**Higher Council**
Primus, Promoção e Desenvolvimento Regional, S.A. (Member)

**Aníbal da Costa Reis de Oliveira**
**Corporate positions held in companies outside BES Group**
**Board of Directors**
ACRO, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Diliva - Sociedade de Investimentos Imobiliários, S.A. (Chairman)
Espírito Santo Financial (Portugal), Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Financial Group, S.A. (Member)
Espírito Santo International, S.A. (Member)
Olinerg – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Oliren – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Olinveste, Sociedade Gestora de Participações Sociais, Lda. (Member)
Saramagos – Sociedade Produtora de Energia, S.A. (Chairman)
**Board of the General Meeting**
Olifil Têxteis, S.A (Chairman)
Texarte Têxteis, S.A. (Chairman)

**Manuel Fernando Moniz Galvão Espírito Santo Silva**
**A.Corporate positions held in companies of BES Group**
**Board of Directors**
Espírito Santo Bank (Member)
**B.Corporate positions held in companies outside BES Group**
**Board of Directors**
Academia de Música de Santa Cecília (Non Executive Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Control, S.A. (Member)
Espírito Santo Financial Group, S.A. (Member)
Espírito Santo Health & SPA, S.A. (Chairman)
Espírito Santo Industrial S.A. (Chairman)
Espírito Santo International, S.A. (Member)
Espírito Santo Resources, Limited (Chairman of the Executive Committee)
Espírito Santo Resources (Portugal), S.A. (Member)
Espírito Santo Services, S.A (Member)
Espírito Santo Tourism (Europe), S.A. (Chairman)
Euroamerican Finance Corporation, Inc. (Chairman)
Herdade da Comporta – Actividades Agro Silvícolas e Turísticas, S.A. (Chairman)
Santogal – Sociedade Gestora de Participações Sociais, S.A. (Member)
Sociedade de Investimentos Imobiliários Sodim, S.A. (Member)
**Board of the General Meeting**
Espart - Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Sociedade Imobiliária e Turística da Quinta do Peru, S.A. (Chairman)

**José Maria Espírito Santo Silva Ricciardi**
**A. Corporate positions held in companies of BES Group**
**Board of Directors**
Banco Espírito Santo de Investimento, S.A. (Vice-Chairman and Chairman of the Executive Committee)
BES Investimento do Brasil, S.A. (Chairman)
ES Recuperação de Crédito, ACE (Member)
**Board of the General Meeting**
ESAF – Espírito Santo Gestão de Patrimónios, S.A (Vice-Chairman)
**B. Corporate positions held in companies outside BES Group**
**Board of Directors**
Espírito Santo Financial Group S.A. (Member)
**General and Supervisory Board**
EDP – Energias de Portugal, S.A (Member)
**Board of the General Meeting**
Espart - Espírito Santo Participações Financeiras - Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)
**Fiscal Board**
Sporting Clube de Portugal (Vice-Chairman)

**Jean-Luc Louis Marie Guinoiseau**
**A. Corporate positions held in companies of BES Group**
**Board of Directors**
Espírito Santo – Informática, ACE (Chairman)
ES Recuperação de Crédito, ACE (Chairman)

**Rui Manuel Duarte Sousa da Silveira**
**A.Corporate positions held in companies of BES Group**
**Board of the General Meeting**
Banco Espírito Santo dos Açores, S.A. (Chairman)
BEST - Banco Electrónico de Serviço Total, S.A. (Chairman)
Capital Mais - Assessoria Financeira, S.A. (Chairman)
ES Tech Ventures – SGPS, S.A. (Chairman)
ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Data - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
ESAF - Espírito Santo Fundos de Investimento Imobiliário, S.A. (Chairman)
ESAF - Espírito Santo Fundos de Investimento Mobiliário, S.A. (Chairman)
ESAF - Espírito Santo Fundos de Pensões, S.A. (Chairman)
ESAF - Espírito Santo Participações Internacionais, SGPS, S.A. (Chairman)
ESAF – Espírito Santo Gestão de Patrimónios, S.A (Chairman)
Espirito Santo Ventures – Sociedade de Capital de Risco, S.A (Chairman)
**B. Corporate positions held in companies outside BES Group**
**Board of Directors**
Cimigest – SGPS, S.A. (Member)
Sociedade de Administração de Bens, Casa de Bons Ares, S.A. (Member)
Sociedade de Silvicultura Monte do Arneirinho, Lda. (Member)
**Fiscal Board**
Companhia de Seguros Tranquilidade, S.A. (Member)
**Board of the General Meeting**
BES, Companhia de Seguros, S.A. (Chairman)
Bespar - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Secretary)
ESEGUR - Empresa de Segurança, S.A. (Vice-Chairman)
Espírito Santo Equipamentos de Segurança, S.A. (Chairman)
SGPICE – Sociedade de Serviços de Gestão de Portais na Internet e de Consultoria de Empresas, S.A. (Secretary) - cargo cessou em 5 de Janeiro de 2009
Esumédica – Prestação de Serviços Médicos, S.A. (Chairman)
Europ Assistance - Companhia Portuguesa de Seguros de Assistência, S.A. (Vice-Chairman)
Espírito Santo Saúde - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Fundo de Turismo - Capital de Risco, S.A. (Chairman)
FT Turismo Fundos - SGFII,S.A.(Chairman)
Oblog Consulting, S.A. (Chairman)
Partran - Sociedade Gestora de Participações Sociais, S.A. (Chairman)
T - Vida – Companhia de Seguros, S.A. (Chairman)

**Joaquim Aníbal Brito Freixial de Goes**
**A.Corporate positions held in companies of BES Group**
**Board of Directors**
Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Member)
ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Ventures - Sociedade de Capital de Risco, S.A. (Member)
**B.Corporate positions held in companies of BES Group**
**Board of Directors**
BES - Companhia de Seguros, S.A (Member)
Glintt – Global Intelligent Technologies, SGPS, S.A. (Member)
Portugal Telecom, Sociedade Gestora de Participações Sociais, S.A. (Member)
**Fiscal Board**
Centro Social e Paroquial de Nossa Senhora da Ajuda (Chairman)
Fundação da Universidade Católica Portuguesa (Chairman)

**Pedro José de Sousa Fernandes Homem**
**A. Corporate positions held in companies of BES Group**
**Board of Directors**
Banco Espírito Santo do Oriente, S.A. (Member)
ESAF - Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Bank (EUA) (Member)
Espírito Santo Financial Consultants, Gestão de Patrimónios, S.A. (Member)
**B. Corporate positions held in companies outside BES Group**
**Board of Directors**
Advita – Associação para o Desenvolvimento de Novas Iniciativas para a Vida (Substitute Director)
Spinnaker Global Opportunity Fund Ltd. (Member)

**Luís António Burnay Pinto de Carvalho Daun e Lorena**
**Corporate positions held in companies outside BES Group**
**Board of Directors**
Campeque, Lda (Member)

**Ricardo Abecassis Espírito Santo Silva**
**A. Corporate positions held in companies of BES Group**
**Board of Directors**
Banco Espírito Santo de Angola, SARL (Chairman)
Banco Espírito Santo de Investimento, S.A. (Member)
BES Finance Limited (Member)
BES Investimento do Brasil, S.A. (Member)
Espírito Santo Bank (EUA) (Vice-Chairman)
Espírito Santo Investimentos, S.A. (Brasil) (Chairman)
**Top Management**
BES Investimento do Brasil, S.A. (Chairman)
Espírito Santo Investimentos, S.A (Brasil) (Chairman)
GESPAR S/C Ltda. (Brasil) (Director)
**Fiscal Board**
Banco Espírito Santo do Oriente, S.A. (Chairman)
**B.Corporate positions held in companies outside BES Group**
**Board of Directors**
Agriways, S.A. (Brasil) (Vice-Chairman)
Bradespar, S.A. (Brasil) (Member)
Câmara Portuguesa de Comércio no Brasil (Member)
Companhia Agrícola Botucatu (Chairman)
Companhia Brasileira de Desenvolvimento Imobiliário Turístico - Invest Tur Brasil (Member)
Espírito Santo Control, S.A. (Member)
Espírito Santo International, S.A (Member)
Espírito Santo Property (Brasil), S.A., (Member)

Euroamerican Finance Corporation, Inc. (BVI) (Member)
Monteiro Aranha, S.A. (Brasil) (Member)
Pojuca, S.A. (Brasil) (Chairman)
**Top Management**
Associação Espírito Santo Cultura (Brasil) (Manager)
Companhia Agrícola Botucatu (Chairman)
ESAI - Espírito Santo Activos Imobiliários Ltda. (Brasil) (Manager)
ESAP Brasil Agro-Pecuária (Manager)
ESAP Espírito Santo Agro-Pecuária, S.A. (Uruguai) (Manager)
ESCAE - Administração e Participações Ltda. (Brasil) (Manager)
ES Consultoria, Ltda. (Brasil) (Manager)
E.S. Holding Administração e Participações, S.A. (Brasil) (Chairman)
Europ Assistance (Brasil) (Manager)
InterAtlântico S.A. (Brasil) (Chairman)
Pojuca Administração, S.A. (Brasil) (Chairman)
Quinta da Baroneza Emp.e Part. Ltda. (Manager)
Sintra Empreendimentos Imobiliários Ltda (Manager)
Terras de Bragança Participações Ltda. (Manager)
**Fiscal Board**
Banco Bradesco, S.A. (Member)
**Advisory Board**
Associação Brasileira de Bancos Internacionais, S.A (Member)
Portugal Telecom - Brasil (Member)

**José Manuel Ruivo da Pena**
**Corporate positions held in companies outside BES Group**
**Fiscal Board**
BES, Companhia de Seguros, S.A. (Chairman)
BES - Vida, Companhia de Seguros, S.A. (Chairman)
Companhia de Seguros Tranquilidade, S.A. (Chairman)
Partran - Sociedade Gestora de Participações Sociais, S.A.(Chairman)

**Amílcar Carlos Ferreira de Morais Pires**
**A.Corporate positions held in companies of BES Group**
**Board of Directors**
BES Finance Limited (Member)
Banco Espírito Santo do Oriente, S.A. (Member)
Banco Espírito Santo de Investimento, S.A. (Member)
Bank Espírito Santo International Limited (Chairman)
BIC – International Bank, Limited (Chairman)
ESAF - Espírito Santo Activos Financeiros - Sociedade Gestora de Participações Sociais, S.A. (Member)
Espirito Santo PLC (Member)
Espírito Santo – Empresa de Prestação de Serviços 2, A.C.E. (Member)
**B.Corporate positions held in companies outside BES Group**
**Board of Directors**
BES - Vida, Companhia de Seguros, S.A (Member)
Portugal Telecom, SGPS, S.A. (Member)

**Bernard Delas**
**Corporate positions held in companies outside BES Group**
**Board of Directors**
BES – Companhia de Seguros, S.A (Vice-Chairman)
BES – Vida, Companhia de Seguros, S.A (Vice-Chairman)
Credit Agricole Assicurazione (Vice-Chairman)
Credit Agricole Assurance Itália Holding (Chairman)
Credit Agricole Life Insurance (Sérvia) (Chairman of the Supervisory Board)
Credit Agricole Reinsurance (Member)
Crédit Agricole Risk Insurance (Member)
Credit Agricole Vita (Vice-Chairman)
Gimar Finance (França) (Member of the Supervisory Board)
Pacifica (França) (Member)
**Other Positions**
Credit Agricole Assurances (Head of International Insurance Division)
Credit Agricole Life Insurance Japan Ltd. (Director)
Finaref Insurance Company Ltd. (Director)
Finaref Life Ltd. (Director)
Space Holding (Irlanda) (Director)
Space Reinsurance Company Ltd. (Director)

**Nuno Maria Monteiro Godinho de Matos**
**Corporate positions held in companies outside BES Group**
**Board of the General Meeting**
VAA – Vista Alegre Atlantis, SGPS, S.A (Chairman)

**João Eduardo Moura da Silva Freixa**
**Corporate positions held in companies of BES Group**
**Board of Directors**
Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)

**Bernard Octave Mary**
**A.Corporate positions held in companies outside BES Group**
**Board of Directors**
Caisse Locale de Credit Agricole Mutuel Developpement Partage (Member)
Credit Agricole – NV Landbouwkrediet (Member)
FRCA Champagne Ardennes (Member)
FRCA Picardie (Member)
Industries et Agro Ressources pôle de Compétitivité (Member of the Board of Directors and Chairman in representation of CR 802 Nord Est)
Le Clos Barrois (Manager)
Points Passarelle du Credit Agricole (Member)
Synergie (GIE) (Chairman)
**Other Positions**
CR 802 Nord Est (General Manager)
Crédit Agricole, S. A. CEO)
FRCA Champagne Ardennes (General Secretary)

**Michel Joseph Paul Goutorbe**
**A.Corporate positions held in companies of BES Group**
**Board of Directors**
ESAF – Espírito Santo Activos Financeiros - Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Ventures, Sociedade de Capital de Risco, S.A. (Member)
**B.Corporate positions held in companies outside BES Group**
**Board of Directors**
BES, Companhia de Seguros, S.A. (Member of the BD and Chairman of the Executive Committee)
Bespar - Sociedade Gestora de Participações Sociais, S.A. (Member)
BES - Vida, Companhia de Seguros, S.A (Member of the BD and Chairman of the Executive Committee)
Câmara de Comércio Luso-Francesa (Member)

**Pedro Mosqueira do Amaral**
**Corporate positions held in companies of BES Group**
**Board of Directors**
BES Beteiligungs GmbH (Member)

**Isabel Maria Osório de Antas Mégre de Sousa Coutinho**
**Corporate positions held in companies outside BES Group**
Associação Novo Futuro (IPSS) (Member of the Board of Directors)

**João de Faria Rodrigues**
Holds no positions in other companies

**José de Albuquerque Epifânio da Franca**
Holds no positions in other companies

## II.12 to II.17
Non applicable

### II.18 Description of the remuneration policy and the alignment of the Directors' interests with those of the company and the performance assessment, distinguishing executive from non-executive Directors, a summary and reasoning behind the company's policy on compensations negotiated on contracts or via transactions for cases of impeachment or severance pay

**Remuneration Policy**
The remuneration of the members of BES' corporate bodies is determined by the Remuneration Committee. However, in order to ensure the transparency of the remuneration setting process, every year the Remuneration Committee submits to the attention of the general meeting a proposal setting out the remuneration policy of the corporate bodies and of other managers of BES (a declaration about the remuneration policy of managers will be submitted at the 2009 AGM). The Remuneration Committee submitted the following proposal to the General Meeting of March 31st, 2008:

**1.** The members of the Board of the General Meeting receive a fixed monthly remuneration paid twelve times per year.
**2.** The members of the Audit Committee receive a fixed remuneration paid fourteen times a year.
**3.** The members of the Board of Directors are remunerated under the following terms:
- a) The remuneration of the members of the Executive Committee consists of a fixed component and possibly a variable component, which may never exceed five percent of the individual net income for the financial year.
- b) The members of the Executive Committee also benefit from the 2008-2010 Variable Remuneration Plan (PPRV 2008-2010), which consists in the allocation of a right to receive a variable remuneration tied to the potential increase in the BES share price.
- c) The members of the Executive Committee who hold executive positions in the management body of companies in a control and/or group relationship with BES may be remunerated by these companies, in which case they may not be remunerated for carrying out executive functions in BES.
- d) The fixed and variable remuneration of the members of the Executive Committee shall be aligned to the strategic objectives of the Group, al though taking into account the current practices in the Portuguese market
- e) The non executive members of the Board of Directors who are not part of the Audit Committee receive the following remuneration:
  - I. non executive Board members receive a fixed amount attendance fee for each Board meeting attendance.
  - II. independent non executive Board members receive a fixed monthly remuneration, paid twelve times per year;
  - III. members who hold executive positions in the management body of companies in a control and/or group relationship with BES, or who carry out specific functions assigned to them by the Board of Directors, may be remunerated by these companies or by BES, in accordance with the nature of these functions.

**4.** In 2008 the Remuneration Committee also recommended to the Board of Directors that the Bank's management be remunerated as follows:
- a) in accordance with the respective employment contracts, respecting the Bank's wage policy;
- b) in addition to this remuneration and in line with the practice in previous years, payment of an annual bonus in the form of a share in the profits of the Bank; the Committee recommends that this bonus be approved by the independent members of the Board of Directors and in accordance with individual performance;
- c) in addition to the salary, management staff may also qualify to benefit from the 2008-2010 Variable Remuneration Plan (PPRV 2008-2010), which consists in the allocation of a right to receive a variable remuneration tied to the potential increase in the BES share price.

**5.** The remuneration of the Remuneration Committee is established by the General Meeting.

There are no compensations negotiated on contracts or via transactions for cases of impeachment or severance pay.

### II.19 Indication of the composition of the Remuneration Committee or similar body, whenever applicable, identifying the relevant members that are likewise members of the Board of Directors, as well as their spouses, next of kin up to and including third-degree lineage

The Company's Remuneration Committee has the following composition:

**Rita Maria Lagos do Amaral Cabral**
A practicing lawyer, Rita Maria Lagos do Amaral Cabral was a founder and is the Director of Sociedade Amaral Cabral & Associados, a law firm; she is invited assistant professor at the Law School of the Portuguese Catholic University and a non-executive director of Cimigest, SGPS, S.A. and Semapa – Sociedade de Investimento e Gestão, SGPS, S.A.

**Daniel Proença de Carvalho**
Chairman of the Strategic Board of Hospital Amadora-Sintra Sociedade Gestora, S.A from 2007 to 2008, Daniel Proença de Carvalho is currently Chairman of the Board of Directors of ZON Multimédia, Chairman of the Advisory Board of Explorer Investments - Sociedade de Capital de Risco, a venture capital firm, member of the Board of Directors or SINDCOM - Sociedade de Investimentos na Indústria e Comércio, and Chairman of the Board of Curators of the D. Anna de Sommer Champalimaud e Dr. Carlos Montez Champalimaud Foundation since 2005.

**Jacques dos Santos**
Partner and Senior Partner with MAZARS AUDITORES PORTUGAL since 1991, Jacques dos Santos was Chairman of the Fiscal Board of Banco Espírito Santo from 1992 to 2006 and is Chairman of the Fiscal Board of BESPAR since 1992. he is also Chairman of the Fiscal Boards of Fromageries BEL (since 1995) and Solubema – Sociedade luso-belga de Mármores (since1993). He is a member of the Fiscal Board of ESAF – SGPS SA.

None of the members of the Remuneration Committee is a member of the Board of Directors or has any family connection with any of its members.
A representative of the Remuneration Committee is present in every General Shareholders' meeting.

**II.20 Indication of the individual and collective remuneration that amply includes performance pay bonuses earned by the members of the Board of Directors. The following information shall also be made available:**

**a) Explanation on the amount concerning the variable and fixed components of the directors' remuneration, as well as the possible instalment payment of the variable component;**

**b) The distinction between the amounts owing to the executive directors and to the non-executive directors .**

BES' Board of Directors is composed of 26 members, of whom 11 are executive members and 15 are non executive members. From the non executive directors, 3 are members of the Audit Committee and two hold executive positions in other companies of BES Group.

The remuneration of BES' Board of Directors follows the criteria referred in point II.18 above.

The members of the Executive Committee also benefit from the 2008-2010 Variable Remuneration Plan (PPRV 2008-2010), which consists in the allocation of a right to receive a variable remuneration tied to the potential increase in the BES share price (please see item "c)" below).

The fixed and variable remunerations of the members of the Executive Committee are established by the Remuneration Committee, which is elected by the General Meeting. The criteria are to align these remunerations to the Group's strategic objectives, also taking into account current practices in the Portuguese market, as described in point II.18 of this Report.

| (eur thousand) | 2008 |
|---|---|
| Executive Committee | 12,651 |
| Fixed Component | 3,808 |
| Variable Component | 8,843 |
| Audit Committee | 765 |
| Others | 971 |
| **Board of Directors** | **14,387** |

The amounts earned for functions exercised on the Board of Directors of other companies of BES Group are included in the calculation of the remuneration of the members of BES' Board of Directors. The total amount paid by other companies of BES Group to members of BES' Board of Directors was EUR 1,297,000.

The remuneration of the executive Board members represented 88% of the overall remuneration paid to all the members of the Board of Directors. The variable remuneration paid in 2008 to the executive Board members, on the other hand, represented 1.5% of the 2007 net income, corresponding to 70% of the total remuneration paid to these Board members and to 61% of the overall Board of Directors remuneration.

**c) Sufficient information on the criteria on which any right to shares, share options or the variable component of the remuneration are based;**

The General Meeting of March 30th, 2008 approved the Variable Remuneration Plan – PPRV 2008-2010, which consists in the allocation of a right to receive a variable remuneration tied to the increase in the BES share price in the 3-year period ending in 2010.

Each beneficiary of the Plan is allocated a certain number of units of account (these are not shares) which will form the basis for calculating the variable remuneration payment.

The PPRV 2008-2010 involves the issuance of a maximum of 5 000 000 (five million) units of account, to be divided among all the beneficiaries. This number may be exceeded as a result of adjustments which may become necessary.

The variable remuneration to be paid to each beneficiary will be the amount in Euro that results from the application of the following formula:

**VR = (Final Value – Initial Value) x N**

Where:

**VR = Variable Remuneration**

**Final Value =** the simple arithmetic mean of the closing price of the BES share on Euronext Lisbon Stock Exchange (or the exchange that succeeds it by virtue of its integration into another, or other, stock exchanges) in the 10 days of trading prior to the End Date.

**Initial Value =** the reference unit value for each unit of account allocated, as defined on the Start Date. This Initial Value can be adjusted during the period of the plan, under the terms set forth in Clause Six. The Initial value was fixed at 11 euros by the Board of Directors.

The **Initial value** was fixed at 11 euros by the Board of Directors.

**N =** number of units of account allocated to each beneficiary and subject to adjustment under the terms of Clause Six of the Plan.

The beneficiaries receive the variable remuneration as a performance-related bonus, to be paid into their normal salary account at the end of the first month following the End Date, after deduction of the applicable taxes.

The following are eligible to become beneficiaries of the PPRV 2008-2010:

a) Members of the Executive Committee of BES' Board of Directors.
b) Permanent employees of the BES Group with a valid employment contract

It is the duty of BES' Board of Directors (the "BoD") to execute the PPRV 2008-2010.

Upon a proposal from BES' Executive Committee, it is the duty of the BoD to select the beneficiaries and decide the division of units among them. The decision of the BoD will need to be ratified by BES' Salaries Committee with regard to the units of account to be allocated to the members of the Executive Committee.

PPRV 2008-2010 replaced the previous incentive system – the Share Based Incentive System (SIBA) – which had been approved in 2000 and was terminated in 2008, with only some of its issues remaining outstanding up to maturity.

**d) Sufficient information on the relation between remuneration and performance;**

**e) The main factors and reasons for any such annual bonus scheme or any other non-financial benefits;**

Only the members of the Executive Committee receive a variable remuneration, defined by the Remuneration Committee, while all other corporate bodies' members receive a fixed remuneration only.

The performance-related factors determine the variable share of the remuneration, which is established on an annual basis and aligned to the Group's strategic objectives, as well as the possible remuneration arising from execution of the PPRV 2008-2010, as described in points II.18 and II.20.

There are no non-financial benefits attributed to the members of the Board of Directors.

**f) The allotment of shares and/or rights to acquire share options and/or any other incentive system involving shares;**

There are no schemes in place for the allotment of shares or options to purchase shares, but only the PPRV 2008-2010, described in point II.18, which replaced the Share Based Incentive System (SIBA).

**g) Remuneration paid in the form of a share in the profits and/or the payment of bonuses and the rationale behind the act of awarding such bonuses and/or share in profits;**

The variable component of the remuneration of the executive Board members is paid in the form of a share in the profits of the Company, which, as referred in point II.18, cannot exceed 5% of the year's net income. In 2008 the executive Board members received a 1.5% share of the 2007 net income, corresponding to EUR 8,843,000.

**h) Compensation paid or owed to former executive directors in relation to early contract termination ;**

In 2008 no indemnities were paid to ex-Board Members

**i) Amounts paid on any basis by other companies in a group relationship or exercising control over the company;**

The total amount paid by other companies of BES Group to the BES Board Members was 1,297,000 euros.

**j) Description of the main characteristics of the supplementary pension or retirement schemes set up for directors;**

The members of the Board of Directors are entitled to receive retirement pensions or complementary pension benefits if they were members of the Executive Committee.

The main points of the regulation on the members of the Board of Directors' entitlement to receive retirement pensions or complementary pension benefits for old age or disability may be summed up as follows:

a. The right to receive a retirement pension or complementary pension benefits falls due on reaching sixty five years of age, or twenty five years of professional activity, or in the event of disability, when disability occurs.
b. The right to receive retirement pension or complementary pension benefits may be brought forward to the age of fifty five, providing the board member has served on BES' Board of Directors for a minimum period of 9 consecutive or non consecutive years. Positions held in the senior management or Board of Directors of the former "Banco Espírito Santo e Comercial de Lisboa, S.A." count for purposes of calculating seniority in the post.
c. Complementary pension benefits may exist as a way of topping up other retirement schemes that may be granted under any other social security system.

In any case, retirement pensions or complementary pension benefits shall never exceed the pensionable salary of the board member in question, although they may be of a lower amount. The pensionable salary corresponds to one hundred per cent of the last annual gross remuneration paid to the board member in question.

**l) An estimate of the non-financial benefits considered as remuneration which do not fall under the categories listed above.**

There are no non-financial benefits considered as remuneration attributed to the members of the Board of Directors.

**II.21. Individual information on the amounts payable, regardless of their nature, should the duties cease during the respective mandate, whenever they surpass the monthly salary by twofold**

No such payments were made in 2008.

**II.22. Information on the irregularities disclosure policy adopted by the company.**

**b. Irregularities disclosure policy**

The broad guidelines of BES' policy for the reporting of irregularities are given below

a) Complementary nature: the reporting of irregularities by BES employees shall only take place when the institutional mechanisms (audits and inspections) fail to function or do not function in a timely manner.
b) Categories of employees subject to the obligation to inform: all BES employees.
c) Anonymous reporting: anonymous communications shall not be admitted or taken into account, however absolute confidentiality is guaranteed with regard to the identity of the reporting employee, providing he/she so requests.
d) Non retaliation: no measures whatsoever shall be taken against employees who report irregular behaviours. However, they should bear in mind that when reporting such practices, specific behaviours and the alleged cause of irregularity must be indicated, no vague allegations against people being admitted.
e) Entity that collects the notifications: the Audit Committee, under the terms of the law.
f) Entity that investigates the notifications: depending on the matter in hand, the Audit Committee entrusts the investigation process to the Audit Department or to the Compliance Officer.
g) Notifications file: notifications that clearly lack credibility are immediately destroyed. When an internal investigation process occurs, they are filed and remain confidential until the respective processes are concluded. When the investigations do not lead to further proceedings, whether disciplinary or legal, the notifications are destroyed within 3 months of the date on which they were sent.

# Information

### III.1. The equity structure including those shares that are not admitted to trading, the different category of shares, rights and duties of these shares and the equity percentage that each category represents

BES has share capital of EUR 2.5 billion, represented by 500 million shares with nominal value of EUR 5 each. BES shares are listed on the NYSE Euronext Stock Exchange and are part of 28 indices, namely the PSI 20, Euronext 100, Dow Jones Eurostoxx, Dow Jones Stoxx 600 Banks, FTSE All World Developed.

Banco Espírito Santo has:

a) no capital subscribed and not paid up or non-issued authorised capital;
b) no convertible bonds, warrants and/or shares conferring special rights or privileges;
c) no forms of exponentially increasing the influence of shareholders, or figures such as golden shares or priority shares;
d) no shareholder agreements on the exercise of voting rights, as far as BES is aware;
e) no shares carrying multiple voting rights;
f) no limits on the exercise of voting rights;
g) no statutory restriction on the acquisition or transferability of shares;
h) any increase in the share capital must be previously authorised by deliberation of the General Meeting of Shareholders.

BES Group also has non-voting preference shares issued by the subsidiary BES Finance, Ltd. (a wholly owned subsidiary of BES), totalling EUR 600 million, represented by 600 000 shares with nominal value of EUR 1 000 each. This issue is fully guaranteed by BES. These preference shares are listed on the Luxembourg Stock Exchange.

### III.2. Qualifying holdings in the issuer's equity calculated as per article 20 of the Securities Code

| QUALIFIED HOLDINGS | | Number of shares | % of voting rights |
|---|---|---|---|
| **BESPAR - SOCIEDADE GESTORA DE PARTICIPAÇÕES SOCIAIS, S.A.** | | | |
| - directly | | 200,000,000 | 40.00% |
| - through the members of its Board of Directors and Supervisory Bodies | | 1,029,555 | 0.21% |
| | **Total Attributable** | **201,029,555** | **40.21%** |
| **CRÉDIT AGRICOLE, S.A. (França)** | | | |
| - directly | | 54,032,850 | 10.81% |
| | **Total Attributable** | **54,032,850** | **10.81%** |
| **BRADPORT, SGPS, S.A. (sociedade de direito português inteiramente detida pelo Banco Bradesco, Brasil)** | | | |
| - directly | | 15,250,000 | 3.05% |
| | **Total Attributable** | **15,250,000** | **3.05%** |
| **CREDIT SUISSE GROUP** | | | |
| - indirectly | | 13,497 468 | 2.70% |
| | **Total Attributable** | **13,497,468** | **2.70%** |
| **FUNDO PENSÕES BES** | | | |
| - (voting rights attributed to BES) - (through ESAF-Espírito Santo Fundo de Pensões, S.A.) | | 11,080,134 | 2.22% |
| | **Total Attributable** | **11,080,134** | **2.22%** |
| **HERMES PENSIONS MANAGEMENT LIMITED** | | | |
| - indirectly | | 10,114,631 | 2.02% |
| | **Total Attributable** | **10,114,631** | **2.02%** |
| **PORTUGAL TELECOM, SGPS, S.A.** | | | |
| - through the pension funds whose associates are companies of PT Group which are managed by Previsão - Sociedade Gestora de Fundos de Pensões, S.A. | | 13,107,904 | 2.62% |
| - through the members of PT Group's Board of Directors and Supervisory Bodies | | 72,137 | 0.01% |
| | **Total Attributable** | **13,180,041** | **2.64%** |
| **ESPIRITO SANTO FINANCIAL GROUP, S.A. (Luxemburgo)** | | | |
| - directly | | 6,479,695 | 1.30% |
| - through BESPAR, SGPS, S.A. (controlled by Espírito Santo Financial (Portugal) - SGPS, S.A. which in turn is wholly owned by Espírito Santo Financial Group S.A.) | | 201,029,555 | 40.21% |
| - through the members of its Board of Directors and Supervisory Bodies | | 94,495 | 0.02% |
| - through companies controlled by it directly and indirectly and/or members of their Boards of Directors and Supervisory Bodies | | 5,553,654 | 1.11% |
| | **Total Attributable** | **213,157,399** | **42.63%** |
| **ESPIRITO SANTO INTERNATIONAL, S.A. (Luxemburgo)** | | | |
| - through Espírito Santo Financial Group, S.A. | | 213,157,399 | 42.63% |
| - through companies controlled by it directly and indirectly and/or members of their Boards of Directors and Supervisory Bodies | | 84,587 | 0.02% |
| | **Total Attributable** | **213,241,986** | **42.65%** |

### III.3. Identification of the shareholders that detain special rights and a description of those rights

No shareholders detain special rights.

### III.4. Any restrictions to transfer of shares, such as consent clause on sell orders or shareholder limitations.

There are no restrictions to the transfer of shares.

### III.5. Shareholder agreements of which the firm is aware and may lead to restrictions in the area of transmission of securities or voting rights.

The Company is unaware of any shareholder agreements.

### III.6. Rules applicable to the amendment of the by-laws

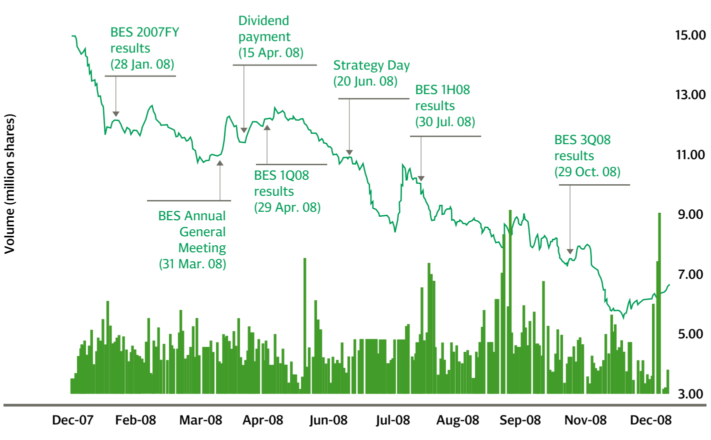
Resolutions concerning changes in the by-laws must be approved by two thirds of the votes expressed, for which purpose at least fifty percent of the votes must be present, whether the General Meeting is held on first or second call. When held on first call, the General Meeting can only pass resolutions if Shareholders holding at least fifty per cent of the share capital are present or represented. When held on second call, the General Meeting may pass resolutions regardless of the number of Shareholders present or the percentage of the share capital represented by them.

### III.7. Control mechanisms for a possible employee-shareholder system inasmuch as the voting rights are not directly exercised by them

The PPRV 2008-2010 replaced the previous incentive system – the Share Based Incentive System (SIBA) – which had been approved in 2000 and was terminated in 2008, with only some of its issues remaining outstanding up to maturity. In the former SIBA system, which implied employee participation in the Company's share capital, the voting rights were exercised directly by the Employees, therefore being subject to no control mechanisms (cfr. Points II.18 and II.20).

### III.8. Description concerning the evolution of the issuer's share price and taking the following into account:

a) The issuance of shares or other securities that entitle the subscription or acquisition of shares;
b) The announcement of results;
c) The dividend payment for each share category including the net value per share.




### III.9. Description of the dividend distribution policy adopted by the company, including the dividend value per share distributed during the last three periods.

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 2008 net income, BES' Board of Directors will submit at the General Shareholders' Meeting a proposal to pay a gross dividend per share of EUR 0.16, which corresponds to a 67% decrease versus the amount distributed in 2007. The dividend yield (gross dividend per share/share price) declined from 3.20% to 2.39%, with the consolidated pay-out ratio standing at 19.9% (39.5% in 2007).

Dividend distribution in the last six years:

| | | | | Payout Ratio | |
|---|---|---|---|---|---|
| | Gross dividend (EUR)) | Shares outstanding | Gross dividend per share (EUR) | Individual | Consolidated |
| 2002 | 86,100,000 | 300,000,000 | 0.287 | 66.6% | 38.7% |
| 2003 | 99,000,000 | 300,000,000 | 0.330 | 51.6% | 39.6% |
| 2004 | 110,400,000 | 300,000,000 | 0.368 | 54.0% | 40.1% |
| 2005 | 120,000,000 | 300,000,000 | 0.400 | 63.1% | 42.8% |
| 2006 | 200,000,000 | 500,000,000 | 0.400 | 77.7% | 47.5% |
| 2007 | 240,000,000 | 500,000,000 | 0.480 | 48.5% | 39.5%* |
| 2008 | 80,000,000 | 500,000,000 | 0.160 | 37.8% | **19.9%** |

* Excluding non recurrent items (extraordinary results) the consolidated payout ratio would be 43.0%

### III.10. Description of the main characteristics of the share and stock option plans adopted or valid for the financial year in question, the reason for adopting said scheme and details of the category and number of persons included in the scheme, share-assignment conditions, non-transfer of share clauses, criteria on share-pricing and the exercising option price, the period during which the options may be exercised, the characteristics of the shares to be distributed, the existence of incentives to purchase and/or exercise options, and the responsibilities of the Board of Directors for executing and/or changing the plan.

**Details about the following:**

**The number of shares required for the share allotment and the number of shares required for the exercise of the exercisable options at the start and end of the year in question;**

**The number of allotted, exercisable and extinct shares during the year;**

**The General Meetings' appraisal of the plans adopted or in force during the period in question.**

There are no schemes in place for the allotment of shares or options to purchase shares, but only the PPRV 2008-2010, described in points II.18 and II.20, which consists in the allocation of a right to receive a variable remuneration tied to the potential increase in the BES share price during the 3-year period ending in 2010.

**III.11. Description of the main business data and transactions carried out between the company and the members of the Management and Supervisory Board, the owners of qualified holdings or parent companies, affiliates or group companies in an amount that is economically significant for any of the parties involved, except for those businesses or transactions that are cumulatively considered within the bounds of normal market conditions for similar transactions and are part of the company's current business.**

All the businesses and transactions carried out by the Company with members of its Board of Directors and Audit Committee, with holders of qualified stakes or with companies under a parent-subsidiary or group relationship with it are cumulatively undertaken under normal market conditions for similar operations and are part of the Bank's day-to-day activity.

**III.12. Reference to an Investor Assistance Unit or a similar service, describing:**

**The role of said office;**
**Type of information made available;**
**Access means to said Office;**
**The company's website;**
**The market liaison officer's credentials.**

**Investor Relations**
Investor Relations communicates to the market all the information on results, events or any other facts concerning BES Group that may be of interest to the financial community in general. It also provides direct information to shareholders, investors and analysts. The Investor Relations division also organises annual update meetings with the Fitch, Standard & Poors and Moodys rating agencies. The Representative for Relations with the Portuguese Securities Market Commission (CMVM) is responsible for BES' relationship with the CMVM and for disclosure of information through this supervising authority, by means of announcements or "privileged information" notices.

Investor Relations regularly issues presentations, notices or press releases on quarterly, interim and annual results, as well as on any other facts concerning the life of the Company that may be of interest to the financial community in general, and to the Shareholders and investors in particular. Regular meetings are also arranged with shareholders and potential investors. BES also participates in a number of international conferences organised by investment banks.

The website (www.bes.pt/ir) as well as "ValorBES", a quarterly newsletter for shareholders, are used as favoured tools for disclosing relevant information (including compulsory disclosure information and other). BES also publishes on its website information concerning its Corporate Governance model, General Meetings and a calendar of company events, among others. Shareholders, investors and analysts can also contact the Bank, make inquiries or ask for clarifications through the Company's website. Finally, anyone can request to be sent the annual report of BES or of any other Group company, or other information on a regular basis. In addition to the website, e-mail (investor.relations@bes.pt) is increasingly used to answer or clarify questions addressed to BES.

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Shareholders, investors and analysts should address their queries or requests for information to:

**Investor Relations**
**Avenida da Liberdade, 195 – 11th**
**1250-142 Lisbon - Portugal**
**Tel. / Fax: + 351 21 359 7390 / + 351 21 359 7001**
**E-mail: investor.relations@bes.pt**
**Website: http://www.bes.pt/ir**

**Representative for Relations with the Portuguese Securities Market Commission**
**Júlio André**
**Avenida da Liberdade, 195 – 14th**
**1250-142 Lisbon - Portugal**
**Tel. / Fax: + 351 21 350 88 38 / + 351 21 35012 89**
**E-mail: juandre@bes.pt**

**III. 13. Indication of the annual compensation paid to the auditor and to other individuals or groups that belong to the same network supported by the company and/or by any group that bears with it a control or group relationship and the percentage of the total amount paid for the following services:**

**a) Statutory account review services;**
**b) Other reliability assurance services;**
**c) Tax consulting services;**
**d) Other non-statutory auditing services;**

eur

| Banco Espirito Santo Group | Domestic | | International | | Total | |
|---|---|---|---|---|---|---|
| 1) Audit and legal review of the accounts service | 1,223,500 | 33% | 846,304 | 43% | 2,069,804 | 36% |
| 2) Other services of audit/reliability guarantee related to the Official Account Audit function | 708,900 | 19% | 205,800 | 10% | 914,700 | 16% |
| 1) + 2) | 1,932,400 | 51% | 1,052,104 | 53% | 2,984,504 | 52% |
| 3) Tax consulting services | 286,546 | 8% | 129,224 | 7% | 415,771 | 7% |
| 4) Other non-audit related services | 1,544,572 | 41% | 799,273 | 40% | 2,343,845 | 41% |
| Total amount of the services rendered | 3,763,518 | 100% | 1,980,601 | 100% | 5,744,119 | 100% |

**A description of the auditor's independency safeguarding measures is required, should the auditor provide any of the services described in sub-paragraphs c/ and d/.**

Fiscal consultancy services and other non-audit services provided to BES Group either by the Auditors or by other entities belonging to the same professional network, assume that both BES Group and KPMG have the adequate means to safeguard the professional independence of the External Auditors. These means may be summarised as follows:

**a. At BES Group level**
Within the scope of compliance with the rules on independence established for external auditors, BES' Audit Committee defined the criteria which should be used in the approval of non-audit services to be provided by KPMG. In this context, all proposals concerning the provision of fiscal consultancy or other non-audit services must obligatorily be subject to the analysis and

prior approval of the Audit Committee with a view to safeguarding the professional independence of the External Auditors.

For practical reasons, the Audit Committee has defined a set of non-audit services which, on account of their nature, do not require prior analysis and approval providing that the remuneration paid for such services falls below a specified pre-established amount. However, the Audit Committee has also determined not only that it must obligatorily be informed of these automatically approved proposals, for ratification, on a quarterly basis, but also that all the proposals submitted by the External Auditors concerning the provision of non-audit services whose remuneration exceeds the specified limit and/or which by their very nature are not liable to automatic approval be subject to prior analysis and approval by that Committee.

**b. At the level of BES Group's Statutory Auditor/External Auditor**

KPMG, BES Group's Statutory Auditor/External Auditor, has prepared specific internal instructions concerning the procedures that must obligatorily be followed by all the entities included in their professional network whenever they propose to provide services to any entity of the BES Group.

In addition, the international network to which KPMG belongs has implemented an intranet service (called "Sentinel") under which no service can be provided by any entity of that network to any client with listed securities without the previous authorisation of the Global Lead Partner responsible for that client. This procedure obliges any partner of KPMG, or of any other entity belonging to the same professional network, who proposes to provide a service to an audit client, to previously request the respective Global Lead Partner's authorisation to provide that service. In that request for authorisation, the KPMG's partner responsible for submitting the proposal to the client is obliged to justify the reasons why it considers that not only the service to be provided to the audit client does not jeopardise the independence of KPMG in relation to that client, but also that it complies with applicable rules on professional risk management.

Furthermore, before authorising any proposal to provide services to be submitted to the BES Group, the Global Lead Partner of KPMG in charge of the professional relations between them and BES Group is responsible for verifying if the services to be proposed fall within the scope of the pre-approval requirement for non-audit services, and, should that be the case, for taking the necessary steps with the BES Group entity to which the proposal is addressed in order to obtain assurance that applicable independence rules are strictly complied with. In case of doubt, the Global Lead Partner should also consult with its Risk Management Partner.

Finally, it should also be noted that all these procedures are subject to compliance tests within the scope of the internal Quality Control process carried out every year by KPMG at international level.

For the purposes of this text, the 'network' concept derives from the EC Recommendation No. C (2002) 1873 of 16 May.

Excerpt from the minutes of the Annual General Shareholders' Meeting of Banco Espírito Santo, S.A.

## Minutes no. 71

At ten hours on March sixteenth, in the year two thousand and nine, the Annual General Meeting of the Shareholders of Banco Espírito Santo, S.A. was held at the Hotel Ritz – Salão Nobre, at number seventy seven, Rua Rodrigo da Fonseca, in Lisbon, with the following Agenda:

1. To sanction the appointment of Mr. Bernard Octave Mary as member of the Board of Directors, made by co-optation on 31 October 2008.
2. To resolve on the Management Report, the Corporate Governance Report and the remaining reporting documents for the financial year of 2008.
3. To resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents for the financial year of 2008.
4. To resolve on the allocation of earnings.
5. To make a general assessment of the Bank's management and supervision.
6. To resolve on the reduction of the share capital from EUR 2,500,000,000.00 to EUR 500,000,000.00 through the reduction of the nominal value of all the shares representative of the share capital from EUR 5 to EUR 1 and constitution of a corresponding reserve in the amount of EUR 2,000,000,000.00 with the special purpose of enabling a share capital increase through new cash entries, that will be subject to the specific rules regarding the reserve's inalienability, with the consequent amendment of article 4 (Share Capital) of the Company's Bylaws.
7. Conditional upon the approval of the resolution included in item 6 of the Agenda, to approve a special balance sheet that reflects the accounts after the share nominal value reduction and consequent constitution of the special reserve.
8. Conditional upon the approval of the resolution included in item 6 of the Agenda, to resolve on a cash share capital increase from EUR 500,000,000.00 to up to EUR 1,700,000,000.00, with a premium to be resolved upon, and the issue of up to 1,200,000,000 new book-entry registered shares, with the nominal value of EUR 1, through public subscription and reserve of a pre-emption right for shareholders, with the consequent amendment of article 4 (Share Capital) of the Company's Bylaws.
9. Conditional upon the approval of the resolutions included in items 6 to 8 of the Agenda, to resolve on the increase of the nominal value of all the shares representative of the share capital to an amount to be resolved upon by the General Shareholders' Meeting, including the shares resulting from the share capital increase foreseen in item 8 of the Agenda to be made immediately after their creation, through a new share capital increase to up to EUR 4,500,000,000.00, through the incorporation of reserves up to the limit of EUR 3,300,000,000.00, which include the special reserve created by means of the resolution foreseen in item 6 of the Agenda in the amount of EUR 2,000,000,000.00 and share premium and free reserves up to the limit of EUR 1,300,000,000.00, with the corresponding amendment of article 4 (Share Capital) of the Company's Bylaws.
10. To resolve on the partial amendment to the Company's Bylaws, namely the amendment of article 16, number 1, of article 19, number 2, and the addition of a number 3 in article 19; and to further resolve on the amendment of article 4 of the General Shareholders' Meeting Regulation.
11. To resolve on a proposal for the acquisition and sale of own shares, by BES or companies under BES' control.
12. To consider the Remuneration Commission and Board of Directors' statements on the remuneration policy of BES' corporate and supervision bodies and remaining BES managers, respectively.

The Board of the General Meeting consisted of its elected Chairman, Vice-Chairmen, and Secretary, respectively Messrs. Paulo de Pitta e Cunha, Fernão de Carvalho Fernandes Thomaz, Nuno Miguel Matos Silva Pires Pombo and Eugénio Fernando de Jesus Quintais Lopes, the latter in the capacity as Company Secretary. Also present in the meeting were the majority of the members of the Board of Directors, all the members of the Audit Committee, and Ms. Inês Maria Bastos Viegas Clare Neves Girão de Almeida, in representation of the Certified Auditor. Ms. Rita Lagos do Amaral Cabral also attended the meeting in representation of the Remuneration Committee.

The Chairman of the General Meeting declared the session opened, after ascertaining that there was a quorum of shareholders present or represented owning 331,797,678 shares, corresponding to 66.36% of the share capital and to 3,317,910 votes, and that the General Meeting had been regularly called as per notices published on the DGRN-Publicações website of the Ministry of Justice, on February 13th, 2009, on the website of the Portuguese Securities Market Commission (CMVM), on February 12th, 2009, on the website of BES, on the same date, and also on the Jornal de Notícias, Correio da Manhã, Diário de Notícias, Público, Diário de Notícias – Madeira and Açoriano Oriental newspapers, all on February 14th, 2009. The list of shareholders whose individual holdings exceed 2% of the Bank's share capital were also published on the Diário de Notícias and Correio da Manhã newspapers of March 11th, 2009.

Going into the Agenda (...)

The Chairman of the General Meeting then asked the meeting to assess and discuss the following three items in the Agenda: 2 – To resolve on the Management Report, the Corporate Governance Report and the remaining reporting documents for the financial year of 2008; 3 - To resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents for the financial year of 2008; and 4 - To resolve on the allocation of earnings.

(...)
Concerning item 2 - To resolve on the Management Report, the Corporate Governance Report and the remaining reporting documents for the financial year of 2008, the following proposal was read aloud and is transcribed herein: "The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Management Report, the Corporate Governance Report and other individual reporting documents of BANCO ESPÍRITO SANTO, S.A. for the financial year of 2008 to the Shareholders, for appreciation and discussion, proposing their approval." (...) This proposal was put to the vote and approved by a majority of 2,949,834 votes, with 1 dissenting vote.

The proposal concerning item 3 in the Agenda - To resolve on the Consolidated Management Report, the consolidated accounts and the remaining consolidated reporting documents for the financial year of 2008 - was then read aloud, as transcribed herein: “The Board of Directors of BANCO ESPÍRITO SANTO, S.A. hereby submits the Consolidated Management Report, the Consolidated Accounts and other consolidated reporting documents of BANCO ESPÍRITO SANTO, S.A. relative to the financial year of 2008 to the Shareholders, for appreciation and discussion, proposing their approval.” (...) This proposal was put to the vote and approved by a majority of 2.950,012 votes, with 41 dissenting votes.

As regards item 4 in the Agenda - To resolve on the allocation of earnings – the following proposal was read aloud, as transcribed herein, “The Board of Directors of BANCO ESPÍRITO SANTO, S.A. proposes that:

pursuant to Article 376 (paragraph b)) of the Companies Code, and in accordance with the Management Report, the Company’s net earnings of the year, amounting to EUR 211,877,805.11, be allocated as follows:

| | Euro |
|---|---|
| TO LEGAL RESERVE: | 22,000,000.00 |
| FOR DISTRIBUTION TO THE SHAREHOLDERS: | 80,000,000.00 |
| TO OTHER RESERVES: | 109,877,805.11 |

(...)
and put to the vote, having been approved by a majority of 3,504,279 votes, with 20,072 dissenting votes.

(...)
There being no further matters to discuss, the Chairman of the General Meeting declared the meeting closed at fourteen hours and twenty minutes, in record whereof these minutes have been drawn up and will be signed by the Members of the Board of the General Meeting and by the Company Secretary.

General
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