

PROSPECTUS

Banco Espírito Santo, S.A.

(Incorporated with limited liability in Portugal)
(acting through its head office or its Madeira Free Trade Zone branch
or its Cayman Islands branch or its London branch)

and

BES Finance Ltd.

(Incorporated with limited liability in the Cayman Islands)

unconditionally and irrevocably guaranteed by

Banco Espírito Santo S.A.

(Incorporated with limited liability in Portugal)
(acting through its London branch)

€20,000,000,000 EURO MEDIUM TERM NOTE PROGRAMME

This Prospectus supersedes the Prospectus dated 7th December, 2005 and any previous Prospectus or offering circular or supplements thereto and is valid for the purpose of the listing of Notes on the Luxembourg Stock Exchange, for a period of one year from the date of publication. Any Notes (as defined below) issued under the Programme on or after the date of this Prospectus are issued subject to the provisions herein. This Prospectus does not affect any Notes already issued.

Under the €20,000,000,000 Euro Medium Term Note Programme (the "Programme"), each of Banco Espírito Santo S.A. (the "Bank" or "BES"), acting through its head office or its Madeira Free Trade Zone branch or its Cayman Islands branch or its London branch, and BES Finance Ltd. ("BES Finance" and, together with the Bank in its capacity as an issuer of Notes under the Programme, the "Issuers" and each an "Issuer") may from time to time issue notes (the "Notes", which will include Senior Notes, Dated Subordinated Notes and Undated Subordinated Notes (as such terms are defined below)) denominated in any currency agreed between the Issuer of such Notes (the "relevant Issuer") and the relevant Dealer (as defined below).

The payments of all amounts owing in respect of the Notes issued by BES Finance will be unconditionally and irrevocably guaranteed by the Bank, acting through its London branch, pursuant to the Trust Deed (as defined herein).

The Final Terms (as defined below) for each Tranche (as defined on page 36 below) of Notes will state whether the Notes of such Tranche are to be (i) senior Notes which, in the case of Notes issued by BES Finance, will be guaranteed on an unsubordinated basis ("Senior Notes"), (ii) dated subordinated Notes which, in the case of Notes issued by BES Finance, will be guaranteed on a subordinated basis ("Dated Subordinated Notes") or (iii) undated subordinated Notes which, in the case of Notes issued by BES Finance, will be guaranteed on a subordinated basis ("Undated Subordinated Notes").

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €20,000,000,000 or such greater amount as may be agreed from time to time in accordance with the terms of the Programme Agreement (or its equivalent in other currencies calculated as described herein).

The Notes may be issued on a continuing basis to one or more of the Dealers specified on page 4 and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers"). References in this Prospectus to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "CSSF") in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 on prospectuses for securities to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set forth in the final terms (the "Final Terms") which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be filed with the CSSF.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer, and the relevant Dealer. Each Issuer may also issue unlisted Notes.

The Notes of each Tranche will either be in dematerialised book-entry form (in the case of Interbolsa Notes, as defined herein) or in bearer form. Bearer Notes will (unless otherwise specified in the applicable Final Terms) initially be represented by a temporary global Note, which may be in new global note form, which will be exchangeable either for interests in a permanent global Note or for definitive Notes, as indicated in the applicable Final Terms, all as further described in "Form of the Notes" below.

The relevant Issuer, the Bank, acting through its London branch, (where the relevant Issuer is BES Finance) and (in respect of Notes other than Interbolsa Notes) the Trustee may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to this Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

LEHMAN BROTHERS

Dealers

ABN AMRO
BARCLAYS CAPITAL
CITIGROUP
DEUTSCHE BANK
GOLDMAN SACHS INTERNATIONAL
JPMORGAN
MERRILL LYNCH INTERNATIONAL
SOCIETE GENERALE CORPORATE & INVESTMENT BANKING
UNICREDIT GROUP (UBM)

BANCO ESPÍRITO SANTO
CALYON CORPORATE AND INVESTMENT BANK
CREDIT SUISSE
DRESDNER KLEINWORT
HSBC
LEHMAN BROTHERS
MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC
UBS INVESTMENT BANK

The date of this Prospectus is 23 February, 2007.

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”).

RESPONSIBILITY STATEMENT

Each of BES Finance and the Bank accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of BES Finance and the Bank (each having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

Neither the Dealers nor the Trustee have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by BES Finance or the Bank in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of BES Finance and the Bank under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by BES Finance, the Bank, the Trustee or any of the Dealers.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by BES Finance, the Bank, the Trustee or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of BES Finance and/or the Bank.

The delivery of this Prospectus does not at any time imply that the information contained herein concerning BES Finance and/or the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of BES Finance or the Bank during the life of the Programme. Investors should review, *inter alia*, the documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. BES Finance, the Bank, the Trustee and the Dealers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by BES Finance, the Bank, the Trustee or the Dealers which would permit a public offering of any Notes outside Luxembourg or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction,

except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and Portugal), Japan and the Cayman Islands (see “Subscription and Sale” below).

The Notes have not been and will not be registered under the United States Securities Act 1933, as amended (the “Securities Act”), and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see “Subscription and Sale” below).

All references in this document to “U.S. dollars” and “U.S.\$” refer to United States dollars, those to “Sterling”, and “£” refer to pounds sterling, and those to “euro”, “EUR” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

No invitation may be made to the public in the Cayman Islands to subscribe for the Notes.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on a regulated market in the European Economic Area, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this summary.

Issuers: BES Finance Ltd., a Cayman Island incorporated finance subsidiary of Banco Espírito Santo S.A.
Banco Espírito Santo S.A., a Portuguese incorporated bank.
In acting as an Issuer in relation to an issue of Notes, the Bank may specify that for the purpose of such issue it is acting through its head office or its Madeira Free Trade Zone branch or its Cayman Islands branch or its London branch.

Guarantor: Banco Espírito Santo S.A., a Portuguese incorporated bank.
In acting as a Guarantor in relation to an issue of Notes by BES Finance, the Bank will be acting through its London branch.

Risk Factors: There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “*Risk Factors*” below. There are also certain factors that may affect the Guarantor’s ability to fulfil its obligations under the Guarantee. These are also set out under “*Risk Factors*” below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme, see “*Risk Factors*”.

Description: Euro Medium Term Note Programme

Arranger: Lehman Brothers International (Europe)

Dealers: ABN AMRO Bank N.V.
Banco Espírito Santo S.A.
Barclays Bank PLC
CALYON
Citigroup Global Markets Limited
Credit Suisse Securities (Europe) Limited
Deutsche Bank AG, London Branch
Dresdner Bank Aktiengesellschaft
Goldman Sachs International
HSBC Bank plc
J.P. Morgan Securities Ltd.
Lehman Brothers International (Europe)
Merrill Lynch International
Mitsubishi UFJ Securities International plc
Société Générale
UBS Limited
UniCredit Banca Mobiliare S.p.A.

and any other Dealers appointed in accordance with the Programme Agreement.

Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale” on page 126).
Notes having a maturity of less than one year:	Notes issued by BES Finance which have a maturity of less than one year will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent in other currencies.
Trustee:	J.P. Morgan Trustee and Depositary Company Limited
Issuing and Principal Paying Agent:	JPMorgan Chase Bank, N.A. or, in the case of Interbolsa Notes, the Portuguese Paying Agent
Portuguese Paying Agent:	Banco Espírito Santo, S.A.
Size:	Up to €20,000,000,000 (or its equivalent in other currencies calculated as described herein on page 18) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Programme Agreement (following the production of a supplement to the Prospectus by the Issuers) and any further or other documents required by the relevant Stock Exchange for the purpose of listing any Notes to be issued on the relevant Stock Exchange.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the relevant Issuer and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 21.
Maturities:	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer and the Bank (where the Issuer is BES Finance) or the relevant Specified Currency, provided that Dated Subordinated Notes will have a minimum maturity of five years and Undated Subordinated Notes will have no fixed maturity.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes (except for Interbolsa Notes) will be in bearer form and each Tranche will on issue be represented by a temporary global Note which will be exchangeable either for interests in a permanent global Note or for definitive Notes as indicated in the applicable Final Terms. Permanent global Notes will be exchangeable for definitive Notes upon either (i) not less than 60 days’ written notice from Euroclear Bank S.A./N.V. (“Euroclear”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) (acting on the instructions of any holder of an interest in such permanent global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event as described under “Form of the Notes”. A permanent global Note representing Notes having denominations consisting of a minimum

Specified Denomination and one or more higher Specified Denominations which are not an integral multiple of such minimum Specified Denomination may only be exchanged for definitive Notes upon an Exchange Event. Any interest in a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and/or any other agreed clearing system, as appropriate.

Interbolsa Notes will be issued in dematerialised book-entry registered form, as further described under “Form of the Notes”. Interbolsa Notes may only be transferred in accordance with the applicable procedures established by the Portuguese Securities Code and the regulations issued by the Comissão do Mercado de Valores Mobiliários (Portuguese Securities Market Commission, the “CMVM”) and Interbolsa.

Fixed Rate Notes: Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer,

in each case as indicated in the applicable Final Terms.

The Margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the

relevant Dealer may agree (as indicated in the applicable Final Terms). No Interbolsa Note will be a Dual Currency Note.

Zero Coupon Notes: Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption: The Final Terms relating to each Tranche of Notes will indicate either that the Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving not less than 30 nor more than 60 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.

Any early redemption of a Dated Subordinated Note or an Undated Subordinated Note will be subject to the prior consent of the Bank of Portugal.

The Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Denomination of Notes: Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer and as indicated in the applicable Final Terms save that the minimum denomination of each Note admitted to trading on a European Economic Area exchange and/or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €1,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) or such higher amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Taxation: All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within any Relevant Tax Jurisdiction (as defined in Condition 7), subject as provided in Condition 8.

Negative Pledge: The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 3. The terms of the Dated Subordinated Notes and the Undated Subordinated Notes will contain no negative pledge.

Cross Default: The terms of the Senior Notes will contain a cross default provision as further described in Condition 10(A). The terms of the Dated Subordinated Notes and the Undated Subordinated Notes will contain no cross default provision.

Status of the Notes: The Senior Notes and the relative Receipts and Coupons will constitute direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the relevant Issuer and will rank *pari passu* with all present and future unsecured and unsubordinated obligations of the relevant Issuer, without any preference among themselves by reason of priority of date of issue, currency of payment or otherwise, except for obligations given priority by law.

The Dated Subordinated Notes and the relative Receipts and Coupons will constitute direct, unsecured and subordinated obligations of the relevant Issuer and will rank *pari passu* among themselves and at least *pari passu* with all other present and future dated subordinated obligations of the relevant Issuer, save for those that have been accorded by law preferential rights. Without prejudice to the foregoing, the Dated Subordinated Notes will, in the event of a

distribution of the assets in the dissolution or liquidation of the relevant Issuer, rank senior to the share capital of the relevant Issuer.

The Undated Subordinated Notes and the relative Receipts and Coupons (if any) will constitute direct and unsecured obligations of the relevant Issuer, subordinated as hereinafter referred to, and will rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future undated subordinated obligations of the relevant Issuer, save for those that have been accorded by law preferential rights. Without prejudice to the foregoing, the Undated Subordinated Notes will, in the event of a distribution of the assets in the dissolution or liquidation of the relevant Issuer rank senior to the share capital of the relevant Issuer.

In order to allow each of the Issuers or the Bank to continue its business activities (in accordance with the Bank of Portugal Regulation 12/92 as amended), any amounts which would be payable as principal or interest on the Undated Subordinated Notes, will be available to meet the losses of the Issuer or of the Bank provided: (a) that there has been (i) consumption of the whole of the reserves and retained earnings; (ii) writing down of the ordinary share capital of the Issuer and the Bank and (iii) writing down of the Issuer's and the Bank's preference shares (including any preference share capital guaranteed by the Bank); and (b) that therefore the Issuer's and the Bank's total shareholders' equity and the preference shares interests of the Issuer and the Bank have been reduced to zero.

In the above circumstances where unpaid principal and interest may be used to meet the losses of the Issuer or of the Bank, the unpaid amounts of interest first and then principal will be cancelled and utilised to the extent that may be necessary to meet the losses of the Issuer or of the Bank. The cancelled amounts will only be reinstated as subordinated credits of the corresponding holders as if such amounts had never been written down or cancelled in the event of (i) the winding-up, liquidation or bankruptcy of the Issuer or of the Bank, in which event such reinstatement will be deemed to take effect at the moment which immediately precedes the commencement of the winding-up, liquidation or bankruptcy proceedings; or of (ii) a decision being taken by the shareholders of the Issuer or of the Bank to allow a dividend to be paid or to reinstate the cancelled or written down amounts, in each case subject to the approval of the Bank of Portugal. In both the above cases and at all times, cancelled or written down amounts will revert to being treated as subordinated credits of the corresponding holders, without prejudice to the subordination regime applying thereto.

During any period of cancellation or writing down such cancelled or written down amounts shall not bear interest.

In the event of liquidation, bankruptcy or analogous proceedings of the Issuer, no Noteholder (having a debt or a liability towards the Issuer) may exercise any set-off or other similar rights against any amounts held by the Issuer.

Status of the Guarantee: The payment of the principal of, and interest on, the Notes issued by BES Finance will be unconditionally and irrevocably guaranteed (the "Guarantee") by the Bank pursuant to the Trust Deed. The obligations of the Bank under such guarantee will:

- (1) in the case of Senior Notes, constitute direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Bank and will rank *pari passu* with all present and future unsecured (subject as aforesaid) and unsubordinated obligations (including those arising under deposits received in its banking business) of the Bank, except for obligations given priority by law;

- (2) in the case of Dated Subordinated Notes, constitute direct, unsecured obligations of the Bank but, in the event of dissolution or liquidation of the Bank, subordinated in right of payment to the claims of depositors and other unsecured creditors of the Bank (other than creditors in respect of indebtedness which is subordinated to at least the same extent as the obligations of the Bank under its guarantee in respect of the Dated Subordinated Notes); and
- (3) in the case of Undated Subordinated Notes, constitute direct, unsecured obligations of the Bank which, to the extent permitted by Portuguese law, are subordinated to the claims of Senior Creditors of the Bank, in that payment under the Guarantee is conditional upon the Bank being solvent at the time of payment and that no such payment shall be made except to the extent that the Bank could make such payment and still be solvent immediately thereafter. For this purpose, the Bank shall be considered to be solvent if both (i) it is able to pay its debts to the Senior Creditors of the Bank as they fall due and (ii) its Assets exceed its Liabilities to Senior Creditors of the Bank.

A report as to the solvency of the Bank by (a) two directors of the Bank or, if the directors have not reported to BES Finance within 14 days before any payment needs to be made pursuant to Condition 4(iii), the auditors of the Bank or (b) if the Bank is being wound up, its liquidator shall, in each case in the absence of manifest error, be treated and accepted by BES Finance, the Bank, the Trustee and the holders of Undated Subordinated Notes issued by BES Finance as correct and sufficient evidence thereof.

For the purposes of Condition 4(iii):

- (A) “Assets” means the total consolidated gross assets of the Bank and “Liabilities” means the total consolidated gross liabilities of the Bank, all as shown by the latest published audited consolidated balance sheet of the Bank but adjusted for contingencies and for subsequent events in such manner and to such extent as such directors, auditors or liquidator, as the case may be, may determine to be appropriate; and
- (B) “Senior Creditors of the Bank” means creditors of the Bank who (x) are depositors or other unsubordinated creditors of the Bank or (y) are subordinated creditors of the Bank other than those whose claims rank *pari passu* with or junior to the claims of the holders of Undated Subordinated Notes and persons entitled to claim under the Guarantee in respect of such Notes.

The obligations of the Bank under the Guarantee in respect of Undated Subordinated Notes are conditional upon the Bank being solvent immediately before and after payment by the Bank. Any amount which might otherwise have been allocated in or towards payment by BES Finance of principal and interest in respect of the Undated Subordinated Notes will be available to meet the losses of the Bank.

In the event of liquidation, bankruptcy or analogous proceedings of the Bank, no Noteholder (having a debt or a liability towards the Bank) may exercise any set-off or other similar rights against any amounts held by the Bank.

Listing and admission to trading:

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Luxembourg Stock Exchange.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law:

Bearer Notes will be governed by and construed in accordance with English law, except that Conditions 2(ii) and 2(iii) where the Bank acts in its capacity as issuer or guarantor, as the case may be and Conditions 4(ii) and 4(iii) will be governed by and construed in accordance with Portuguese law. Interbolsa Notes will be governed by and construed in accordance with Portuguese law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Portugal), Japan and the Cayman Islands. See "Subscription and Sale" below.

RISK FACTORS

Each of the Issuers and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

RISK FACTORS RELATING TO BES

1. Factors that may affect BES' ability to fulfil its obligations under Notes issued under the Programme or under the Deed of Guarantee

1.1 Banking Markets

Structural changes in the Portuguese economy over the past several years have significantly increased competition in the Portuguese banking sector. These changes principally relate to the privatisation of several sectors of the economy, including banking and insurance, as well as to the integration of the Portuguese economy into the European Union and the introduction of the euro.

BES, together with its consolidated subsidiaries (the "BES Group"), faces intense competition in all of its areas of operation (including, among others, banking, investment banking, specialised credit and asset management). The BES Group's competitors in the Portuguese markets are Portuguese commercial banks, savings and investment banks and foreign banks, many of which have recently entered the Portuguese market. Over the last years, mergers and acquisitions involving the largest Portuguese banks have resulted in a significant concentration of market shares, a process which BES expects may continue. Competition has increased further with the emergence of non-traditional distribution channels, such as internet and telephone banking. The BES Group's principal competitors in the banking sector (ranking in terms of assets as of 31st December, 2005) are Caixa Geral de Depósitos, the Millennium BCP Group, the Santander/Totta Group and the BPI Group.

Although BES believes that it is in a strong position to continue to compete in the Portuguese market, there is no assurance that it will be able to compete effectively in the markets in which it operates, or that it will be able to maintain or increase the level of its results of operations.

1.2 Economic Environment

As a financial group whose core businesses is banking (taking deposits and using them to grant loans) in Portugal, the state of the Portuguese economy affects the performance of the BES Group. To a lesser extent, BES's performance, results of operations and financial condition are also affected by the economic conditions and levels of economic activity in other countries where the BES Group operates, such as Spain, Brazil and Angola. A downturn in the economy of any of these countries, particularly Portugal, could lead to an increase in the defaults by the BES Group's customers on the loans extended to them. In addition, protracted economic declines could reduce the overall level of economic activity in the market, thereby reducing BES' ability to collect deposits and forcing it to satisfy its liquidity requirements by resort to the more expensive capital markets as a result.

A downturn in the Portuguese economy could have a material adverse effect on the BES Group's business. The BES Group's ability to grow may be restricted by slower growth in the banking markets in which it operates.

1.3 Regulation

The BES Group operates in a highly regulated industry. The BES Group's banking activities are subject to extensive regulation by the ECB and the Bank of Portugal, mainly relating to liquidity levels, solvency and provisioning.

The minimum cash requirement applicable to Portuguese banks is currently fixed at 2 per cent. of the total amount of deposits. An increase in the minimum cash reserves or a decline in the rate accrued on those cash reserves would have an adverse impact on the BES Group's net income.

Portuguese banks are required to maintain a solvency ratio of at least 8.0 per cent. The solvency ratio is defined as Tier I capital plus Tier II capital divided by risk-weighted assets. At 31st December, 2005, the BES Group's solvency ratio was 12.3 per cent. The capital adequacy requirements applicable to the BES Group limit BES' ability to extend loans to customers and may require it to issue additional equity capital or subordinated debt in the future, which are expensive sources of funds. Recent changes have been proposed by the Basel Committee on Banking Regulations and Supervisory Practices to capital requirements. The implementation of the new capital adequacy accord (Basel II) is set to start in 2007 and will increase sensitivity of capital requirements to credit risk and establish operational risk cover requirements.

In addition, the Bank of Portugal has established minimum provisioning requirements regarding current loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies. Therefore, any change in these requirements could have an adverse impact on the BES Group's results of operations.

1.4 Risks associated with the implementation of its risk management policies.

The BES Group is exposed to a number of risks, including, among others, market risk, credit risk, liquidity risk and operational risk. Although BES has implemented risk management policies for each of the risks that it is exposed to, taking into account worst case scenarios, the policies and procedures it employs to identify, monitor and manage these risks may not be fully effective.

RISK FACTORS RELATING TO BES FINANCE

2. Factors that may affect BES Finance's ability to fulfil its obligations under the Notes issued under the Programme

BES Finance Ltd is a funding vehicle of the BES Group. As such it raises funds to BES by way of intra-group loans. In the event that BES fails to make a payment under an intra-group loan, BES Finance may not be able to meet its payment obligations under the issued Notes.

RISK FACTORS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME

3. Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

3.1 The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement to this Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes

will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

3.2 Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Notes other than Interbolsa Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Issuer's obligations under Subordinated Notes are subordinated

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to its obligations to Senior Creditors. "Senior Creditors" means creditors of the Issuer or, as the case may be, the Bank who (x) are depositors or other unsubordinated creditors of the Issuer or, as the case may be, the Bank or (y) are subordinated creditors of the Issuer or, as the case may be, the Bank other than those whose claims rank pari passu with or junior to the claims of the holders of Subordinated Notes or (in respect of the Bank) persons entitled to claim under the Guarantee in respect of such Notes. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

Under certain conditions, interest payments under Undated Subordinated Notes may be deferred

If on any Interest Payment Date in relation to which no dividend or other distribution has been declared, paid or made on any class of the stock or share capital of the Issuer or, where the Issuer is BES Finance, the Bank in the immediately preceding interest period, then the Issuer may defer the payment of interest on the Undated Subordinated Notes.

In no event will holders of Undated Subordinated Notes be able to accelerate the maturity of their Undated Subordinated Notes; such holders will have claims only for amounts then due and payable on their Undated Subordinated Notes. After the Issuer has fully paid all deferred interest on any issue of Undated Subordinated Notes and if that issue of Undated Subordinated Notes remains outstanding, future interest

payments on that issue of Undated Subordinated Notes will be subject to further deferral as described above.

Any deferral of interest payments will likely have an adverse effect on the market price of the Undated Subordinated Notes. In addition, as a result of the interest deferral provision of the Undated Subordinated Notes, the market price of the Undated Subordinated Notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's financial condition.

3.3 Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification and substitution

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the bearer Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) modifications of the Notes which are not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or (ii) modifications to the Notes or the Trust Deed of a formal, minor or technical nature or which are made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 18 of the conditions of the Notes. Interbolsa Notes are not constituted by the Trust Deed and thus any such modification or substitution will have to be agreed in accordance with the provisions of meetings of holders of Interbolsa Notes (see Condition 15(b)).

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Trading in the clearing systems

In relation to any issue of Notes which have a denomination consisting of a minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

3.4 Risks relating to Interbolsa Notes

Reliance upon Interbolsa procedures and Portuguese law

Investments in Interbolsa Notes will be subject to Interbolsa procedures and Portuguese law with respect to the following:

(a) *Form and Transfer of Interbolsa Notes*

Notes held through accounts of Affiliate Members of Interbolsa will be represented in dematerialised book-entry form (*forma escritural*) and are registered notes (*nominativas*). Interbolsa Notes shall not be issued in bearer form (*ao portador*), whether in definitive bearer form or otherwise. Interbolsa Notes will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by the Affiliate Members of Interbolsa on behalf of the relevant Noteholders. Such control accounts will reflect at all times the aggregate number of Interbolsa Notes held in the individual securities accounts opened by the clients of the Affiliate Members of Interbolsa (which may include Euroclear and Clearstream, Luxembourg). The transfer of Interbolsa Notes and their beneficial interests will be made through Interbolsa.

(b) *Payments on Interbolsa Notes*

All payments on Interbolsa Notes (including without limitation the payment of accrued interest, coupons and principal) will be (i) made by the Issuer to the Portuguese Paying Agent, (ii) transferred, in accordance with the procedures and regulations of Interbolsa, from the account held by the Portuguese Paying Agent with the Bank of Portugal to the accounts of the Affiliate Members of Interbolsa who hold control accounts on behalf of the Noteholders and, thereafter, (iii) transferred by the Affiliate Members of Interbolsa from their accounts to the accounts of their clients (which may include Euroclear Bank and Clearstream, Luxembourg).

The Noteholders must rely on the procedures of Interbolsa to receive payment under the Interbolsa Notes. The records relating to payments made in respect of beneficial interests in the Interbolsa Notes are maintained by the Affiliate Members of Interbolsa and the Issuer accepts no responsibility for, and will not be liable in respect of, the maintenance of such records.

(c) *Portuguese Tax Rules*

Pursuant to Decree-Law 193/2005, of 7th November, 2005, as amended from time to time, investment income paid to holders of Interbolsa Notes, and capital gains derived from a sale or other disposition of such Notes, will be exempt from Portuguese income tax only if certain documentation requirements are duly complied with.

If the Notes are held in an account with an international clearing system (such as Euroclear or Clearstream, Luxembourg), the management entity of such clearing system may not provide the necessary registration services in respect of the Interbolsa Notes, and, therefore, to be eligible for the exemption, the holders of the Interbolsa Notes are required to submit to the management entity of the relevant clearing system, by courier, hand delivery or mail (there is no procedure for electronic filing), on an annual basis:

- (i) a certificate with the name of each beneficial owner, address, tax payer number (if applicable), the identity of the securities, the quantity held and also the reference to the legislation supporting the exemption or the waiver of Portuguese withholding tax; or
- (ii) a declaration that the beneficial owners are exempt from, or not subject to, Portuguese withholding tax.

The certificate and declaration are set out in “*Taxation in Portugal (including Madeira)*” on page 111 hereto.

The Issuer will not gross up payments in respect of any such withholding tax in any of the cases indicated in Condition 8 of the Interbolsa Notes, including failure to deliver or incorrect filling of the certificate or declaration referred to above. Accordingly, holders of Interbolsa Notes must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Interbolsa Notes.

3.5 Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

3.6 Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuers may from time to time issue Notes denominated in any currency agreed between the relevant Issuer and the relevant Dealer, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes is set out in “Summary of the Programme” above. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified by Part A of the applicable Final Terms attached to, endorsed on or incorporated by reference into such Notes, as more fully described under “Form of the Notes” below.

This Prospectus and any supplement to this Prospectus will only be valid for listing Notes on the Luxembourg Stock Exchange, or any other stock exchange in the European Economic Area, in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €20,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Notes, described under “Applicable Final Terms”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for general business in London and Lisbon, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the euro equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Final Terms in relation to the relevant Notes, described under “Form of the Notes”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes, regardless of the subscription price paid); and
- (c) the euro equivalent of Zero Coupon Notes (as specified in the applicable Final Terms in relation to the relevant Notes, described under “Form of the Notes”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus. Information contained in the documents incorporated by reference other than information listed in the table below is for information only.

- (a) the auditors' report and audited annual financial statements of BES Finance for the financial year ended 31st December, 2004, as set out on pages 1 to 12 of BES Finance's 2004 Annual Report, including:
 - (i) profit and loss accounts (page 3);
 - (ii) balance sheets (page 2);
 - (iii) cashflow statements (page 5);
 - (iv) accounting policies and explanatory notes (pages 6 to 12); and
 - (v) auditors' report (page 1).
- (b) the auditors' report and audited annual financial statements of BES Finance for the financial year ended 31st December 2005, as set out on pages 1 to 12 of BES Finance's 2005 Annual Report, including:
 - (i) profit and loss account (page 4);
 - (ii) balance sheet (page 3);
 - (iii) cashflow statements (page 6);
 - (iv) accounting policies and explanatory notes (pages 7 to 12); and
 - (v) auditors' report (page 1).
- (c) the auditors' report and audited consolidated and non-consolidated annual financial statements of the Bank for the financial year ended 31st December, 2004, as set out on pages 110 to 237 of the 2004 Annual Report, including:
 - (i) profit and loss account (page 112/113 and 132/133);
 - (ii) balance sheet (page 110/111 and 130/131);
 - (iii) cashflow statements (page 135);
 - (iv) accounting policies and explanatory notes (pages 136 to 230); and
 - (v) auditors' report (page 231 to 237).
- (d) the auditors' report and audited consolidated and non-consolidated annual financial statements of the Bank for the financial year ended 31st December, 2005, as set out on pages 96 to 311 of the 2005 Annual Report, including:
 - (i) profit and loss accounts (page 96, 98, 210 and 212);
 - (ii) balance sheets (page 97, 99, 211 and 213);
 - (iii) cashflow statements (page 101 and 215);
 - (iv) accounting policies and explanatory notes (pages 102 to 209 and 216 to 307); and
 - (v) auditors' reports (page 308 to 311).

All information included in the 2004 and 2005 Annual Reports of BES Finance and the Bank but not expressly identified above is provided for information purposes only.

Following the publication of this Prospectus a supplement to this Prospectus may be prepared by the relevant Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement to this Prospectus (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the relevant Issuer and from the specified office of the Paying Agent for the time being in Luxembourg.

In addition, such documents will be published on the Luxembourg Stock Exchange's web site (*www.bourse.lu*).

The Issuer and the Bank will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes. The Issuer and the Bank have undertaken to the Dealers in the Programme Agreement (as defined in "Subscription and Sale") that they will comply with section 87G of the Financial Services and Markets Act 2000.

FORM OF THE NOTES

1. Bearer Notes

Each Tranche of Notes (except Interbolsa Notes) will be initially represented by a temporary global Note without receipts, interest coupons or talons, which on issue will:

- (i) if the temporary global Note is intended to be issued in new global note (“NGN”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “Common Safekeeper”) outside the United States for Euroclear and Clearstream, Luxembourg; and
- (ii) if the temporary global Note is not intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the relevant Tranche to a common depository (the “Common Depository”) outside the United States for Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made outside the United States (against presentation of the temporary global Note if the temporary global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Any reference in this section “Form of the Notes” to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Agent and the Trustee.

On and after the date (the “Exchange Date”) which is 40 days after the date on which any temporary global Note is issued, interests in such temporary global Note unless otherwise specified in the applicable Final Terms or the temporary global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a permanent global Note without receipts, interest coupons or talons or for definitive Notes with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described in the immediately preceding paragraph unless such certification has already been given. The holder of a temporary global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the temporary global Note is improperly withheld or refused. Pursuant to the Principal Agency Agreement (as defined under “Terms and Conditions of the Notes” below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) on a permanent global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the permanent global Note if the permanent global Note is not intended to be issued in NGN form) without any requirement for certification. Unless otherwise specified in the applicable Final Terms, a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon not less than 60 days’ written notice to the Agent as described therein, save that a permanent global Note representing Notes having denominations consisting of a minimum Specified Denomination and one or more higher Specified Denominations which are not an integral multiple of such minimum Specified Denomination may only be exchanged for definitive Notes upon an Exchange Event. “Exchange Event” means that the Issuer and/or the Guarantor has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearance system satisfactory to the Trustee is available. The Issuer shall promptly give notice to the Noteholders in accordance with the Conditions if an Exchange Event occurs. Global Notes and definitive Notes will be issued pursuant to the Principal Agency Agreement.

The following legend will appear on all bearer Notes which have an original maturity of more than 365 days and on all receipts, interest coupons and talons relating to such Notes:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

2. Interbolsa Notes

Notes held through Interbolsa – *Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.* (“Interbolsa”) (each an “Interbolsa Note”) will be represented in dematerialised book-entry (“*escriturais*”) registered (“*nominativas*”) form.

Title to Interbolsa Notes will be evidenced by book-entries in accordance with the Portuguese Securities Code and the regulations issued by *Comissão do Mercado de Valores Mobiliários* (Portuguese Securities Market Commission, the “CMVM”), by Interbolsa or otherwise applicable thereto. Each person shown in the book-entry records of a financial institution, which is licensed to act as a financial intermediary and which is entitled to hold control accounts (each such institution an “Affiliate Member of Interbolsa”), as having an interest in the Interbolsa Notes shall be the holder of the principal amount of the Interbolsa Notes recorded.

Title to the Interbolsa Notes is subject to compliance with all rules, restrictions and requirements applicable to the activities of Interbolsa and to Portuguese law.

One or more certificates in relation to the Interbolsa Notes (each, a “Certificate”) will be delivered by the relevant Affiliate Member of Interbolsa in respect of a registered holding of Interbolsa Notes upon the request by the relevant Noteholder and in accordance with that Affiliate Member of Interbolsa’s procedures pursuant to article 78 of the Portuguese Securities Code.

The Interbolsa Notes will be registered in the relevant control issue account of the Issuer with Interbolsa and will be held in control accounts by each Affiliate Member of Interbolsa on behalf of the Noteholders. Such control accounts will reflect at all times the aggregate number of Interbolsa Notes held in individual securities accounts opened with the Affiliate Members of Interbolsa by Noteholders, which are clients of the Affiliate Members of Interbolsa and include Euroclear and Clearstream, Luxembourg.

The person or entity registered in the relevant individual securities accounts of an Affiliate Member of Interbolsa (the “Book-Entry Registry” and each such entry therein, a “Book Entry”) as the holder of any Interbolsa Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein).

The Issuer and the Paying Agents may (to the fullest extent permitted by applicable law) deem and treat the person or entity registered in the Book-Entry Registry as the holder of any Interbolsa Note and the absolute owner for all purposes. Proof of such registration is made by means of a Certificate issued by the relevant Affiliate Member of Interbolsa pursuant to article 78 of the Portuguese Securities Code.

No Noteholder will be able to transfer Interbolsa Notes, or any interest therein, except in accordance with Portuguese law and regulations. Interbolsa Notes may only be transferred in accordance with the applicable procedures established by the Portuguese Securities Code and the regulations issued by the CMVM and Interbolsa.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

**[BES FINANCE LTD./BANCO ESPÍRITO SANTO S.A.
(acting through its [head office]/[Madeira Free Trade Zone branch]/[Cayman Islands branch]
/[London branch])**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
[Guaranteed by Banco Espírito Santo S.A.
[acting through London branch]]¹
under the €20,000,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [date] [and the supplement to the Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplement to the Prospectus] [is/are] available for viewing at [address] and [website] and copies may be obtained from [address].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus (or equivalent) with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the [Prospectus/Offering Circular] dated [original date] [and the supplement to the Prospectus/Offering Circular dated [date]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplement to the Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Prospectus/Offering Circular] dated [original date] [and the supplement[s] to the [Offering Circular and the] [Prospectuses]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated [current date] [as so supplemented] and the [Prospectus/Offering Circular] dated [original date] [as so supplemented]. Copies of the [Offering Circular and the] Prospectus[es] [as so supplemented] are available for viewing at [address] [and] [website] and copies may be obtained from [address].

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

[In respect of Notes issued by BES Finance Ltd. which have a maturity of less than one year, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. Issuer: [BES Finance Ltd./Banco Espírito Santo S.A. (acting through its [head office]/[Madeira Free Trade Zone branch]/[Cayman Islands branch]/[London branch])] ¹
- [Guarantor: Banco Espírito Santo S.A. (acting through its London branch)] ¹

¹ Delete as appropriate.

2. Series Number:
- [Tranche Number:
- (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3. Specified Currency or Currencies:
4. Aggregate Nominal Amount:
- Series:
- Tranche:
5. Issue Price of Tranche: per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
6. (i) Specified Denominations:
- (Where multiple denominations above [€50,000] (which multiples are less than [€50,000]) or equivalent are being used, the following wording should be followed: "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000].")*
- (N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €1,000 minimum denomination is not required.)*
- (ii) Calculation Amount:
- (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note, there must be a common factor in the case of two or more Specified Denominations.)*
7. [(i)] Issue Date [and Interest Commencement Date]:
- [(ii)] Interest Commencement Date (if different from the Issue Date):
8. Maturity Date: *[Fixed rate – specify date/Floating rate where the Interest Period and date(s) are adjusted or any other rate where the Interest Period end date(s) are adjusted – Interest Payment Date falling in or nearest to [specify month and year]]*
9. Interest Basis: per cent. Fixed Rate]
- [[LIBOR/EURIBOR]+/- per cent. Floating Rate]
- [Zero Coupon]
- [Index Linked Interest]
- [Dual Currency Interest]
- [specify other]
- (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]
- [Dual Currency Redemption]
- [Partly Paid]
- [Instalment]
- [specify other]
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative*

securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
(further particulars specified below)
13. [(i) Status of the Notes: [Senior/Dated Subordinated/Undated Subordinated]
[(ii) Status of the Guarantee: [Senior/Dated Subordinated/Undated Subordinated]]¹
[(iii) [Date [Board] approval for issuance of Notes [and Guarantee] obtained: [●] [and [●], respectively]] (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate(s) of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
(If payable other than annually, consider amending Condition 5(a))
- (ii) Interest Payment Date(s): [[●] in each year up to and including the Maturity Date]/[specify other]
(NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction: [Actual/Actual (ICMA) or 30/360 or specify other] (NB: if interest is not payable on a regular basis (for example, if there are Broken Amounts specified) Actual/Actual (ICMA) may not be a suitable Day Count Fraction)
- (vi) Determination Date(s): [●] in each year
[Insert interest payment dates except where there are long or short periods. In these cases, insert regular interest payment dates] (NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA))
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: [●]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]

(1) Delete as appropriate.

- (iii) Additional Business Centre(s):
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):
- (vi) Screen Rate Determination:
- Reference Rate:
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s):
(Second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than sterling or euro LIBOR), first day of each Interest Period if sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page:
(In the case of EURIBOR, if not Reuters EURIBOR01 (formerly Telerate 248) ensure it is a page which shows a composite rate or amend the fallback provisions approximately)
- (vii) If ISDA Determination:
- Floating Rate Option:
 - Designated Maturity:
 - Reset Date:
- (viii) Margin(s): [+/-] per cent. per annum
- (ix) Minimum Rate of Interest: per cent. per annum
- (x) Maximum Rate of Interest: per cent. per annum
- (xi) Day Count Fraction: [Actual/365 or Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See 5(b)(iv) for alternatives)
- (xii) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:
17. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: per cent. per annum
 - (ii) Reference Price:

- (iii) Any other formula/basis of determining amount payable:
(Consider applicable day count fraction if euro denominated)
- (iv) Day Count Fraction in relation to Early Redemption amounts and late payment:
[Conditions 7(e)(iii) and 7(j) apply/specify other]
18. Index Linked Interest Note Provisions
[Applicable/Not applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula:
[give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due:
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:
[need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (iv) Specified Period(s)/Specified Interest Payment Dates:
- (v) Business Day Convention:
[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vi) Additional Business Centre(s):
- (vii) Minimum Rate of Interest: per cent. per annum
- (viii) Maximum Rate of Interest: per cent. per annum
- (ix) Day Count Fraction:
19. Dual Currency Interest Note Provisions
[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange:
[give or annex details]
- (ii) Calculation Agent, if any, responsible for calculating the interest payable:
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:
[need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (iv) Person at whose option Specified Currency(ies) is/are payable:

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call:
[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s):
- (ii) Optional Redemption Amount(s) and method, if any, of calculating of such amount(s): per Calculation Amount
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount:
- (b) Higher Redemption Amount:

- (iv) Notice period (if other than as set out in the Conditions):

[●]

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)

21. Investor Put:

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Optional Redemption Date(s):
(ii) Optional Redemption Amount(s) and method, if any, of calculating of such amount(s):
(iii) Notice period (if other than as set out in the Conditions):

[●]

[●] per Calculation Amount

[●]

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)

22. Final Redemption Amount of each Note:

[[●] per Calculation Amount/specify other/see Appendix]

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

23. Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)):

[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. (i) Form of Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on not less than 60 days' notice given at any time]/[only upon an Exchange Event].]

(The 'exchange upon 60 days' notice' option should not be expressed to be applicable if the Specified Denomination in paragraph 6 includes language substantially to the following effect: "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000].")

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.]

[Dematerialised book-entry registered form (Interbolsa Notes)]

- (ii) New Global Note: [Yes/No]
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which subparagraphs 16 (iii) and 18 (vi) relate)
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any rights of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
28. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/give details]
29. Redenomination: Redenomination [not] applicable
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
30. Other final terms: [Not Applicable/give details]
(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

31. If syndicated, names and [addresses]** of Managers [and underwriting commitments]**: [Not Applicable/give names [and addresses and underwriting commitments]**]
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers)***
- Date of Subscription Agreement**: [●]**
Stabilising Manager (if any): [Not Applicable/give name]
32. If non-syndicated, name [and address]** and address of relevant Dealer: [Name [and address]**]
33. Total commission and concession**: [●] per cent. of the Aggregate Nominal Amount**
34. Whether TEFRA D rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA not applicable]

35. Additional selling restrictions: [Not Applicable/*give details*]

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €20,000,000,000 Euro Medium Term Note Programme of [ISSUER]].

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

By:
Duly authorised

By:
Duly authorised]

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].]
[Not Applicable.]
- (Where documenting a fungible issue need to indicate that original securities are already admitted to trading.**)
- (iii) Estimate of total expenses related to admission to trading:* [●]*

2. RATINGS

- Ratings: The Notes to be issued have been rated:
- [S & P: [●]]
- [Moody's: [●]]
- [[Other]: [●]]
- [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]**
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. NOTIFICATION

The CSSF [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – Amend as appropriate if there are other interests]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer [●]
- (See “Use of Proceeds” wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)**
- [(ii)] Estimated net proceeds: [●]
- (If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)**

[(iii)] Estimated total expenses: [●]. [Expenses are required to be broken down into each principal intended “use” and presented in order of priority of such “uses”.]**

(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)

6. YIELD (Fixed Rate Notes only)

Indication of yield: [●]

[Calculated as [include details of method of calculation in summary form] on the Issue Date.]**

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. HISTORIC INTEREST RATES (Floating Rate Notes only)**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Index-Linked Notes only)

[Need to include a statement setting out the type of the underlying and details of where information on the underlying can be obtained.]

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is a security, need to include the name of the Issuer of the security, the ISIN (International Security Identification Number) or other such security identification code.]

[Where the underlying is an index need to include the name of the index and a description of the index if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is an interest rate, need to include a description of the interest rate. Where the underlying does not fall within the categories specified above, need to include equivalent information. Where the underlying is a basket of underlying, need to include the relevant weightings of each underlying in the basket.]

[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]**

9. [TERMS AND CONDITIONS OF THE OFFER:] [DELETE IF NOT APPLICABLE]

Conditions to which the offer is subject: [●]

The time period, including any possible amendments, during which the offer will be open and description of the application process: [●]

Details of the minimum and/or maximum amount of application: ¹ [●]

Description of possibility to reduce subscriptions and manner for

refunding excess amount paid by applicants: [●]

Details of method and time limits for paying up and delivering the Notes: [●]

Manner and date in which results of the offer are to be made public: [●]

Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: [●]

Categories of potential investors to which the Notes are offered: ² [●]

[For example:

“Legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities.

Any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts.”]

Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made: [●]

Amount of any expenses and taxes specifically charged to the subscriber or purchaser: [●]

10. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT *(Dual Currency Notes only)*

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***

(1) Whether in number of securities or aggregate amount to invest.

(2) If the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.

11. OPERATIONAL INFORMATION

- (i) ISIN Code: [●]
- (ii) Common Code: [●]
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)/LCH Clearnet, S.A., identification number []***]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [●]
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes/No]

[Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositaries (“ICSD”) as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] [include this text if “yes” selected, in which case Notes other than Interbolsa Notes must be issued in NGN form.]

Notes:

If an issue of Notes is (i) NOT admitted to trading on a regulated market within the European Economic Area and (ii) only offered in the European Economic Area in circumstances in which a prospectus is not required to be published under the Prospectus Directive, the Issuer may elect to amend and/or delete certain of the above paragraphs of Part B.

* *Delete if the minimum denomination is less than €50,000.*

** *Delete if the minimum denomination is €50,000 or above.*

*** *For Interbolsa Notes only.*

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Note settled by LCH Clearnet, S.A. the clearing system operated at Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários S.A., each global Note and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange or other relevant authority (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue. If not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global Note and definitive Note and will be incorporated into and applicable to each Interbolsa Note (as defined below). Reference should be made to “Form of the Notes” above for form of the Final Terms which will include the definitions of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Banco Espírito Santo S.A. (formerly known as Banco Espírito Santo e Comercial de Lisboa, S.A.) (the “Bank”), or BES Finance Ltd. (“BES Finance” and, together with the Bank in its capacity as an issuer of Notes, the “Issuers” and each an “Issuer”) as specified in the applicable Final Terms constituted, except in the case of Interbolsa Notes (as defined below), by a Trust Deed dated 3rd February, 1997 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “Trust Deed”) made between the Issuers, the Bank in its capacity as guarantor of Notes issued by BES Finance (in such capacity, the “Guarantor”) and J.P. Morgan Trustee and Depositary Company Limited (under its former name of Chase Manhattan Trustees Limited) (the “Trustee”, which expression shall wherever the context permits include all other persons or companies for the time being acting as trustee under the Trust Deed). Interbolsa Notes are constituted by entries in the individual securities accounts opened by Noteholders with the Affiliate Members of Interbolsa (as defined below).

References herein to the “Notes” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note, units of each Specified Denomination in the Specified Currency;
- (ii) definitive Notes issued in exchange for a global Note;
- (iii) any global Note; and
- (iv) Notes held through Interbolsa – *Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.* (“Interbolsa”) (each an “Interbolsa Note”). Interbolsa Notes will only be issued by the Bank acting through its head office, and will not be issued by BES Finance.

References herein to “the Issuer” shall be to whichever of the Bank or BES Finance is specified as the Issuer in the applicable Final Terms.

The Notes (other than Interbolsa Notes), the Receipts (as defined below) and the Coupons (as defined below) also have the benefit of an amended and restated Agency Agreement (the “Principal Agency Agreement”) dated 23 February, 2007 made among the Issuers, the Guarantor, the Trustee, JPMorgan Chase Bank, N.A. as issuing and principal paying agent and agent bank (the “Agent”, which expression shall include any successor agent specified in the applicable Final Terms) and the other paying agents named therein. The Interbolsa Notes have the benefit of the Principal Agency Agreement, as amended by an amendment agreement (the “Interbolsa Notes Agency Agreement”) dated 23 February, 2007 made among the Issuers, the Guarantor, the Trustee, the Agent, the Bank acting through its head office acting as paying agent in Portugal (the “Portuguese Paying Agent” which expression shall include any successor Portuguese Paying Agent) and the other paying agents named therein (together with the Agent, the Portuguese Paying Agent and the other paying agents named in the Principal Agency Agreement, the “Paying Agents”, which expression shall include any additional or successor paying agents) and of the common representative appointment agreement dated 23 February, such agreement as amended and/or

supplemented and/or restated from time to time (the “Common Representative Appointment Agreement”) made between the Bank, as issuer, and Vieira de Almeida & Associados – Sociedade de Advogados R.L., as common representative of the holders of Interbolsa Notes (*representante comum dos obrigacionistas*) (the “Common Representative”).

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (“Coupons”) and, if indicated in the applicable Final Terms, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (“Receipts”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Neither Interbolsa Notes nor global Notes have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to, endorsed on or incorporated into this Note which supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the “applicable Final Terms” are to Part A of the Final Terms (or the relevant provisions thereof) attached to, endorsed on or incorporated into this Note.

The applicable Final Terms will state whether this Note is (i) a senior Note issued by BES Finance or the Bank and, where the Issuer is BES Finance, that such Note is guaranteed on an unsubordinated basis by the Bank, acting through its London branch, as described in Condition 4(i) (a “Senior Note”), (ii) a dated subordinated Note issued by BES Finance or the Bank and, where the Issuer is BES Finance, guaranteed on a subordinated basis by the Bank, acting through its London branch, as described in Condition 4(ii) (a “Dated Subordinated Note”) or (iii) an undated subordinated Note issued by BES Finance or the Bank and, where the Issuer is BES Finance, guaranteed on a subordinated basis by the Bank, acting through its London branch, as described in Condition 4(iii) (an “Undated Subordinated Note”).

Any reference to “Noteholders” or “holders” in relation to any Notes shall mean (i) in the case of bearer Notes, the holders of the global Notes and definitive Notes and shall, in relation to any Notes represented by a global Note, be construed as provided below or (ii) in the case of Interbolsa Notes, each person shown in the book-entry records of a financial institution, which is licensed to act as a financial intermediary under the Portuguese Securities Code (“*Código dos Valores Mobiliários*”) (the “Portuguese Securities Code”) and which is entitled to hold control accounts with Interbolsa on behalf of their customers (and includes any depositary banks appointed by Euroclear and/or Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and/or Clearstream, Luxembourg) (each such institution an “Affiliate Member of Interbolsa”), as having an interest in the principal amount of the Interbolsa Notes. Any reference herein to “Receiptholders” shall mean the holders of the Receipts and any reference herein to “Couponholders” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

The Trustee acts for the benefit of the holders of the Notes, other than Interbolsa Notes, and for the Receiptholders and the Couponholders, all in accordance with the provisions of the Trust Deed. The holders of Interbolsa Notes shall at all times be entitled, by means of an Extraordinary Resolution, to appoint and dismiss a Common Representative to act as their common representative, as further described in Condition 23.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Principal Agency Agreement, the Interbolsa Notes Agency Agreement and the Common Representative Appointment Agreement are available for inspection at, and a copy of the applicable Final Terms may be obtained from, the specified office of each of the Trustee (being as at 23 February, 2007 at One Canada Square, London E14 5AL, the Agent, the Paying Agent whose specified office is in Luxembourg (in relation to any Notes listed on the Luxembourg Stock Exchange) and the other Paying Agents during normal business hours save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European

Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, and the relevant Paying Agent as to its holding of such Notes and identity. In the case of bearer Notes, the Noteholders, the Receipholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Principal Agency Agreement and the applicable Final Terms which are applicable to them. In the case of Interbolsa Notes, the Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Principal Agency Agreement, to the extent amended by the Interbolsa Notes Agency Agreement and the applicable Final Terms which are applicable to them.

Words and expressions defined in the Trust Deed or the Principal Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Principal Agency Agreement, the Principal Agency Agreement will prevail in respect of Interbolsa Notes and the Trust Deed will prevail in all other cases and, in the event of inconsistency between the Trust Deed or the Principal Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

Where the Bank is acting as an Issuer through its head office or its Madeira Free Trade Zone branch or its Cayman Islands branch or its London branch in relation to the relevant Notes as specified in the applicable Final Terms, all references in these Terms and Conditions to the Bank shall be deemed to be references to the Bank acting through its head office or the branch specified therein. Where the Bank is acting as Guarantor in relation to Notes issued by BES Finance, as indicated in the applicable Final Terms, all references in these Terms and Conditions to the Bank shall be deemed to be references to the Bank acting through its London branch.

1. Form, Denomination, Title and Transfer

The Notes are in bearer form or, in the case of Interbolsa Notes, represented in dematerialised book-entry ("*escriturais*") registered ("*nominativas*") form, as specified in the applicable Final Terms. Definitive Notes shall be serially numbered, and in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Senior Note, a Dated Subordinated Note or an Undated Subordinated Note, as indicated in the applicable Final Terms.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, and if applicable Talons for further Coupons unless they are Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes (except Interbolsa Notes), Receipts and Coupons will pass by delivery. The Issuer, the Bank (where the Issuer is BES Finance), the Trustee and any Paying Agent may deem and treat the bearer of any such Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear S.A./N.V. ("*Euroclear*") and/or Clearstream Banking, société anonyme ("*Clearstream, Luxembourg*") each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the

nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Bank (where the Issuer is BES Finance), the Trustee and any Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Note shall be treated by the Issuer, the Bank (where the Issuer is BES Finance), the Trustee and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the Trust Deed and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly. Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg and/or Interbolsa shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Bank (where the Issuer is BES Finance), the Trustee (except in respect of references to Interbolsa), the Common Representative (in respect of references to Interbolsa only) and the Agent or specified in the applicable Final Terms.

Title to the Interbolsa Notes will be evidenced by book-entries in accordance with the Portuguese Securities Code and the regulations issued by *Comissão do Mercado de Valores Mobiliários* (Portuguese Securities Market Commission, the “CMVM”), by Interbolsa or otherwise applicable thereto. Each person shown in the book-entry records of a financial institution, which is licensed to act as a financial intermediary and which is entitled to hold control accounts (each such institution an “Affiliate Member of Interbolsa”), as having an interest in the Interbolsa Notes shall be the holder of the principal amount of the Interbolsa Notes recorded.

Title to the Interbolsa Notes is subject to compliance with all rules, restrictions and requirements applicable to the activities of Interbolsa.

One or more certificates in relation to the Interbolsa Notes (each, a “Certificate”) will be delivered by the relevant Affiliate Member of Interbolsa in respect of a registered holding of Interbolsa Notes upon the request by the relevant Noteholder and in accordance with that Affiliate Member of Interbolsa’s procedures pursuant to article 78 of the Portuguese Securities Code.

The Interbolsa Notes will be registered in the relevant control issue account of the Issuer with Interbolsa and will be held in control accounts by each Affiliate Member of Interbolsa on behalf of the Noteholders. Such control accounts will reflect at all times the aggregate number of Interbolsa Notes held in individual securities accounts opened with the Affiliate Members of Interbolsa by Noteholders, which are clients of the Affiliate Members of Interbolsa and include Euroclear and Clearstream, Luxembourg.

The person or entity registered in the relevant individual securities accounts of an Affiliate Member of Interbolsa book-entry registry of the *Central de Valores Mobiliários* (the “Book-Entry Registry” and each such entry therein, a “Book Entry”) as the holder of any Interbolsa Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein).

The Issuer and the Paying Agents may (to the fullest extent permitted by applicable law) deem and treat the person or entity registered in the Book-Entry Registry as the holder of any Interbolsa Note and the absolute owner for all purposes. Proof of such registration is made by means of a Certificate issued by the relevant Affiliate Member of Interbolsa pursuant to article 78 of the Portuguese Securities Code.

No Noteholder will be able to transfer Interbolsa Notes, or any interest therein, except in accordance with Portuguese law and regulations. Interbolsa Notes may only be transferred in accordance with the applicable procedures established by the Portuguese Securities Code and the regulations issued by the CMVM and Interbolsa.

2. Status of the Notes

(i) The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Issuer and rank and will rank *pari passu* with all present and future unsecured and unsubordinated obligations of the Issuer, without any preference among themselves by reason of priority of date of issue, currency of payment or otherwise, except for obligations given priority by law.

(ii) Dated Subordinated Notes and any relative Receipts and Coupons are direct, unsecured obligations of the Issuer and rank and will rank *pari passu* among themselves and at least *pari passu* with all other present and future dated subordinated obligations of the Issuer, save for those that have been accorded by law preferential rights.

In the event of the insolvency or winding up of the Issuer, the claims of the holders of the Dated Subordinated Notes and any relative Receipts and Coupons against the Issuer will be subordinated in right of payment to the claims of depositors and all other unsecured creditors (other than holders of Subordinated Indebtedness, if any) of the Issuer.

“Subordinated Indebtedness” means all indebtedness of the Issuer under the terms of which the right to payment of the person(s) entitled thereto is, or is expressed to be, subordinated, in the event of the winding up of the Issuer, to the right to payment of all unsubordinated creditors of the Issuer and so that for the purpose of this definition indebtedness shall include all liabilities, whether actual or contingent, under guarantees or indemnities.

(iii) The Undated Subordinated Notes and any relative Receipts and Coupons relating thereto constitute direct, unsecured obligations of the Issuer which are subordinated to the claims of Senior Creditors of the Issuer in that payments are conditional upon the Issuer and (where the Issuer is BES Finance) the Bank being solvent at the time of payment and no such payment shall be made except to the extent that such payment could be made and the Issuer and (where the Issuer is BES Finance) the Bank would still be solvent immediately thereafter. For this purpose, BES Finance or, as the case may be, the Bank shall be considered to be solvent if both (i) it is able to pay its debts to its Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities to its Senior Creditors.

Furthermore, in order to allow each of the Issuer and the Bank to continue its business activities (in accordance with the Bank of Portugal Regulation 12/92 as amended), any amounts which, under these Terms and Conditions, would be payable as principal or interest under the Undated Subordinated Notes, will be available to meet the losses of the Issuer or of the Bank, provided: (a) that there has been (i) consumption of the whole of the reserves and retained earnings; (ii) writing down of the ordinary share capital of the Issuer and the Bank and (iii) writing down of the Issuer’s and the Bank’s preference shares (including any preference share capital guaranteed by the Bank); and (b) that therefore the Issuer’s and the Bank’s total shareholders’ equity and the preference shares interests of the Issuer and the Bank have been reduced to zero.

In the above circumstances where unpaid principal and interest may be used to meet the losses of the Issuer or of the Bank, the unpaid amounts of interest first and then principal will be cancelled and utilised to the extent that may be necessary to meet the losses of the Issuer or of the Bank. The cancelled amounts will only be reinstated as subordinated credits of the corresponding holders as if such amounts had never been written down or cancelled in the event of (i) the winding-up, liquidation or bankruptcy of the Issuer or of the Bank, in which event such reinstatement will be deemed to take effect at the moment which immediately precedes the commencement of the winding-up, liquidation or bankruptcy proceedings; or of (ii) a decision being taken by the shareholders of the Issuer or of the Bank to allow a dividend to be paid or to reinstate the cancelled or written down amounts, in each case subject to the approval of the Bank of Portugal. In both the above cases and at all times, cancelled or written down amounts will revert to being treated as subordinated credits of the corresponding holders, without prejudice to the subordination regime applying thereto.

During any period of cancellation or writing down such cancelled or written down amounts shall not bear interest.

In the event of liquidation, bankruptcy or analogous proceedings of the Issuer, no Noteholder (having a debt or a liability towards the Issuer) may exercise any set-off or other similar rights against any amounts held by the Issuer.

Without prejudice to the foregoing, the Undated Subordinated Notes will, in the event of a distribution of the assets in the dissolution or liquidation of the Issuer, rank senior to the share capital of the Issuer.

A report as to the solvency of BES Finance or, as the case may be, the Bank by (a) two directors of BES Finance or, as the case may be, the Bank or, if the directors have not reported to BES Finance or, as

the case may be, the Bank within 14 days before any payment needs to be made pursuant to Condition 6, the auditors of BES Finance or, as the case may be, the Bank or (b) if BES Finance or, as the case may be, the Bank is being wound up, its liquidator shall, in each case in the absence of manifest error, be treated and accepted by the Issuer, the Bank (where the Issuer is BES Finance), the Trustee and the holders of Undated Subordinated Notes as correct and sufficient evidence thereof.

For the purposes of this Condition 2(iii):

- (A) “Assets” means, in the case of BES Finance, the total gross assets of BES Finance and, in the case of the Bank, the total consolidated gross assets of the Bank and “Liabilities” means, in the case of BES Finance, the total gross liabilities of BES Finance and, in the case of the Bank, the total consolidated gross liabilities of the Bank, all as shown by, in the case of BES Finance, the latest published audited balance sheet of BES Finance and, in the case of the Bank, the latest published audited consolidated balance sheet of the Bank, but in each case adjusted for contingencies and for subsequent events in such manner and to such extent as such directors, auditors or liquidator, as the case may be, may determine to be appropriate; and
- (B) “Senior Creditors” means creditors of the Issuer or, as the case may be, the Bank who (x) are depositors or other unsubordinated creditors of the Issuer or, as the case may be, the Bank or (y) are subordinated creditors of the Issuer or, as the case may be, the Bank other than those whose claims rank *pari passu* with or junior to the claims of the holders of Undated Subordinated Notes or (in respect of the Bank) persons entitled to claim under the Guarantee in respect of such Notes.

3. Negative Pledge

This Condition 3 shall apply only to Senior Notes and references to “Notes” shall be construed accordingly.

So long as any of the Notes remains outstanding (as defined in the Trust Deed or, in respect of Interbolsa Notes, as defined in the Principal Agency Agreement, as amended by the Interbolsa Notes Agency Agreement), neither the Issuer nor the Bank (where the Issuer is BES Finance) shall create or permit to be outstanding any mortgage, charge, lien, pledge or other similar encumbrance or security interest upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Indebtedness (as defined below) or any guarantee or indemnity given in respect of any Indebtedness, without, in the case of the creation of an encumbrance or security interest, at the same time and, in any other case, promptly granting to the Noteholders either, at the option of the relevant Issuer, an equal and rateable interest in the same or providing to the Noteholders such other security as either (i) (except in the case of Interbolsa Notes) the Trustee shall, in its absolute discretion, deem to be not materially less beneficial to the Noteholders or (ii) (in the case of any Notes, including Interbolsa Notes) as shall be approved by an Extraordinary Resolution (as described in Condition 15 and in the Trust Deed or, in respect of Interbolsa Notes, in the Principal Agency Agreement, as amended by the Interbolsa Notes Agency Agreement) of the Noteholders.

“Indebtedness” means any borrowings having an original maturity of more than one year in the form of or represented by bonds, notes, debentures or other securities (not comprising, for the avoidance of doubt preference shares or other equity securities) but excluding any Covered Bonds (as defined below):

- (1) where more than 50 per cent. in aggregate principal amount of such bonds, notes, debentures or other securities are initially offered outside the Portuguese Republic; and
- (2) which with the consent of the Issuer or the Bank (where the Issuer is BES Finance), are, or are intended to be, listed or traded on any non-Portuguese domestic stock exchange, over-the-counter or other organised market for securities (whether or not initially distributed by way of private placing).

“Covered Bonds” means any mortgage-backed bonds and/or covered bonds or notes (*Obrigações Hipotecárias*) issued by any of the Issuers, the obligations of which benefit from a special creditor privilege (“*privilégio creditório especial*”) as a result of them being collateralised by a defined pool of assets comprised of mortgage loans or other loans permitted by applicable Portuguese legislation to be included in the pool of assets and where the requirements for that collateralisation are regulated by applicable Portuguese legislation.

4. Status of the Guarantee

The Bank, acting through its London branch, has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment by BES Finance of the principal of, and interest on, the Notes issued by BES Finance and all other amounts payable under or pursuant to the Trust Deed.

The obligations of the Bank, acting through its London branch, under the Guarantee constitute:

- (i) in the case of Senior Notes issued by BES Finance, direct, unconditional, unsecured (subject to the provisions of Condition 3) and unsubordinated obligations of the Bank and rank *pari passu* with all present and future unsecured (subject as aforesaid) and unsubordinated obligations (including those arising under deposits received in its banking business) of the Bank, except for obligations given priority by law;
- (ii) in the case of Dated Subordinated Notes issued by BES Finance, direct, unsecured obligations of the Bank but, in the event of the insolvency or liquidation of the Bank, subordinated in right of payment to the claims of depositors and all other unsecured creditors of the Bank (other than creditors in respect of indebtedness of the Bank which is subordinated to at least the same extent as the obligations of the Bank under its guarantee in respect of such Dated Subordinated Notes); and
- (iii) in the case of Undated Subordinated Notes issued by BES Finance, direct, unsecured obligations of the Bank which, to the extent permitted by Portuguese law, are subordinated to the claims of Senior Creditors of the Bank, in that payment under the Guarantee is conditional upon the Bank being solvent at the time of payment and that no such payment shall be made except to the extent that the Bank could make such payment and still be solvent immediately thereafter. For this purpose, the Bank shall be considered to be solvent if both (i) it is able to pay its debts to the Senior Creditors of the Bank as they fall due and (ii) its Assets exceed its Liabilities to Senior Creditors of the Bank.

Without prejudice to the foregoing, the obligations of the Bank, acting through its London branch, under the Guarantee in respect of Undated Subordinated Notes issued by BES Finance will, in the event of a distribution of the assets in the dissolution or liquidation of the Bank, rank senior to the share capital of the Bank.

A report as to the solvency of the Bank by (a) two directors of the Bank or, if the directors have not reported to BES Finance within 14 days before any payment needs to be made pursuant to this Condition 4(iii), the auditors of the Bank or (b) if the Bank is being wound up, its liquidator shall, in each case in the absence of manifest error, be treated and accepted by BES Finance, the Bank, the Trustee and the holders of Undated Subordinated Notes issued by BES Finance as correct and sufficient evidence thereof.

For the purposes of this Condition 4(iii):

(A) "Assets" means the total consolidated gross assets of the Bank and "Liabilities" means the total consolidated gross liabilities of the Bank, all as shown by the latest published audited consolidated balance sheet of the Bank but adjusted for contingencies and for subsequent events in such manner and to such extent as such directors, auditors or liquidator, as the case may be, may determine to be appropriate; and

(B) "Senior Creditors of the Bank" means creditors of the Bank who (x) are depositors or other unsubordinated creditors of the Bank or (y) are subordinated creditors of the Bank other than those whose claims rank *pari passu* with or junior to the claims of the holders of Undated Subordinated Notes and persons entitled to claim under the Guarantee in respect of such Notes.

The obligations of the Bank under the Guarantee in respect of Undated Subordinated Notes issued by BES Finance are conditional upon the Bank being solvent immediately before and after payment by the Bank. Any amount which might otherwise have been allocated in or towards payment by BES Finance of principal and interest in respect of the Undated Subordinated Notes will be available to meet the losses of the Bank.

Furthermore, in order to allow the Bank to continue its business activities (in accordance with the Bank of Portugal Regulation 12/92), any amounts which, under these Conditions, would be payable as principal or interest under the Guarantee in respect of Undated Subordinated Notes issued by BES Finance, will be available to meet the losses of the Bank, provided: (a) that there has been (i) consumption of the whole of the reserves and retained earnings; (ii) writing down of the ordinary share capital of the Bank and (iii) writing down of the Bank's preference shares (including any preference share capital guaranteed by the Bank); and (b) that therefore the Bank's total shareholders' equity and the preference shares interests of the Bank have been reduced to zero.

In the above circumstances where unpaid principal and interest may be used to meet the losses of the Bank, the unpaid amounts of interest first and then principal will be cancelled and utilised to the extent that may be necessary to meet the losses of the Bank. The cancelled amounts will only be reinstated as subordinated credits of the corresponding holders as if such amounts had never been written down or cancelled in the event of (i) the winding-up, liquidation or bankruptcy of the Bank, in which event such reinstatement will be deemed to take effect at the moment which immediately precedes the commencement of the winding-up, liquidation or bankruptcy proceedings; or of (ii) a decision being taken by the shareholders of the Issuer or of the Bank to allow a dividend to be paid or to reinstate the cancelled or written down amounts, in each case subject to the approval of the Bank of Portugal. In both the above cases and at all times, cancelled or written down amounts will revert to being treated as subordinated credits of the corresponding holders, without prejudice to the subordination regime applying thereto.

During any period of cancellation or writing down such cancelled or written down amounts shall not bear interest.

In the event of liquidation, bankruptcy or analogous proceedings of the Bank, no Noteholder (having a debt or a liability towards the Bank) may exercise any set-off or other similar rights against any amounts held by the Bank.

5. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date. For so long as any of the Fixed Rate Notes is represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Fixed Rate Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up). Interest on Fixed Rate Notes which are Interbolsa Notes will be calculated on the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to the Affiliate Members of Interbolsa for distribution by them to the accounts of entitled Noteholders in accordance with Interbolsa's usual rules and operating procedures.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, "Fixed Interest Period" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period or if, in the case of Notes in definitive form, no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are either Interbolsa Notes or are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

“Determination Period” means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls on the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). For so long as any of the Floating Rate Notes or Index Linked Interest Notes is represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Floating Rate Note or Index Linked Interest Note, interest will be calculated on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up). Interest on Floating Rate Notes or Index Linked Interest Notes which are Interbolsa Notes will be calculated on the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up) and will be paid to the Affiliate Members of Interbolsa for distribution by them to the accounts of entitled Noteholders in accordance with Interbolsa’s usual rules and operating procedures.

If a Business Day Convention is specified in the applicable Final Terms and (x) there is no numerically corresponding day in the calendar month on which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B), the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London in the case of bearer Notes, Lisbon in the case of Interbolsa Notes and any Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively), or (2) in relation to

any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the "TARGET System") is open.

Interest will be paid subject to and in accordance with the provisions of Condition 6.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and amended and updated as at the Issue Date of the first Tranche of Notes and as published by the International Swaps and Derivatives Association, Inc. (the "ISDA Definitions")) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("LIBOR") or on the Euro-zone inter-bank offered rate ("EURIBOR") for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "Euro-zone", "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

When this sub-paragraph (A) applies, in respect of each relevant Interest Period the Agent will be deemed to have discharged its obligations under Condition 5(b)(ii) in respect of the determination of the Interest Rate if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (A).

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Principal Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation

appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and Calculation of Interest Amounts

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are either Interbolsa Notes or are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the relevant Notes (or, if they are Partly Paid Notes, the full amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if "Actual/365" or "Actual/Actual (ISDA)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the other Paying Agents and any stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 14. “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) *Determination or calculation by Trustee or by a designated bank*

If for any reason the Agent at any time after the Issue Date defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with sub-paragraph (ii) above, then (A) (except in respect of Interbolsa Notes), the Trustee or (B) (in respect of Interbolsa Notes), any bank designated by the Common Representative for such purpose or, if no such bank is designated, a meeting of the Noteholders by Extraordinary Resolution, shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition but subject always to any Minimum Rate of Interest and/or Maximum Rate of Interest specified in the applicable Final Terms) it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee, designated bank or meeting of holders of Interbolsa Notes, as the case may be, shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent.

(vii) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Agent or (except in respect of Interbolsa Notes) the Trustee, or (in the case of Interbolsa Notes), by or on behalf of the Common Representative or, if applicable, the Calculation Agent, shall (in the absence of negligence, wilful default, bad faith or manifest error) be binding on the Issuer, the Bank (where the Issuer is BES Finance), the Agent, the Trustee, the Common Representative the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Bank (where the Issuer is BES Finance), the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Trustee or the Common Representative or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) Interest on Dual Currency Interest Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) Undated Subordinated Notes

Interest on Undated Subordinated Notes shall accrue from day to day and shall be payable on each Compulsory Interest Payment Date (as defined below) in respect of the interest accrued in the Interest Period ending on (but excluding) such Compulsory Interest Payment Date. On any Optional Interest Payment Date (as defined below) there may be paid (if the Issuer so elects and gives not less than 30 days' notice of such election to the holders of Undated Subordinated Notes in accordance with Condition 14) the interest accrued in the Interest Period ending on (but excluding) such Optional Interest Payment Date (an "Accrual Period") but the Issuer shall not have any obligation to make such payment and any failure to pay shall not constitute a default by the Issuer for any purpose; and any interest not so paid shall, so long as the same remains unpaid, constitute "Arrears of Interest". The Issuer may at its option, after giving notice to the holders of Undated Subordinated Notes in accordance with Condition 14 at any time pay all or part of the Arrears of Interest (being, if part only, the whole of the interest accrued on all the Undated Subordinated Notes during any one or more accrual Period(s)) but so that, in the case of any such partial payment, the interest accrued during any Accrual Period shall not be paid prior to that accrued during any earlier Accrual Period. All Arrears of Interest shall become due in full on whichever is the earliest of (i) the date on which any dividend or other distribution is next declared, paid or made on any class of stock or share capital of the Issuer or (where the Issuer is BES Finance) the Bank, (ii) the date set for any repayment permitted under Condition 7(b) or (c) and (iii) the commencement of winding up of the Issuer or (where the Issuer is BES Finance) the Bank. If notice is given by the Issuer of its intention to pay all or part of the Arrears of Interest, the Issuer shall be obliged to do so upon the expiry of such notice. Neither Arrears of Interest nor any Interest due but unpaid shall bear interest. Payment of Arrears of Interest is subject to the approval of the Bank of Portugal.

For the purposes of this paragraph (e):

"Compulsory Interest Payment Date" means any Interest Payment Date in relation to which any dividend or other distribution has been declared, paid or made on any class of the stock or share capital of the Issuer or (where the Issuer is BES Finance) the Bank in the immediately preceding interest period; and

"Optional Interest Payment Date" means any Interest Payment Date other than a Compulsory Interest Payment Date.

(f) Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof to the extent presentation is required, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue, in the case of Notes other than Interbolsa Notes, as provided in the Trust Deed or, in the case of Interbolsa Notes, until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Interbolsa Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Interbolsa Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. Payments

(a) Method of Payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(b) Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against surrender of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against surrender of the relevant Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Index Linked Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) Payments in respect of global Notes

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant global Note against presentation or surrender, as the case may be, of such global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of such global Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Note by such Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of a global Note (or, as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer or, as the case may be, the Bank (where the Issuer is BES Finance) will be discharged by payment to, or to the order of, the holder of such global Note (or, as provided in the Trust Deed, the Trustee) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Bank (where the Issuer is BES Finance) to, or to the order of, the holder of such global Note (or, as provided in the Trust Deed, the Trustee).

(d) Payments in respect of Interbolsa Notes

Payment of principal and interest in respect of Interbolsa Notes will be (i) credited by the Issuer in the payment current account held with the Bank of Portugal by the Portuguese Paying Agent, (ii) transferred, on the payment date and according to the applicable procedures and regulations of Interbolsa, from the payment current account held with the Bank of Portugal by the Portuguese Paying Agent to the payment current accounts held with the Bank of Portugal by the Affiliate Members of Interbolsa, and thereafter (iii) transferred by such Affiliate Members of Interbolsa from the respective payment current accounts held with the Bank of Portugal to the accounts of the Noteholders or of Euroclear or Clearstream, Luxembourg with said Affiliate Members of Interbolsa, as the case may be.

The holders of Interbolsa Notes are reliant upon the procedures of Interbolsa to receive payment in respect of Interbolsa Notes.

(e) Amounts payable in U.S. dollars

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of this Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of this Note will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer or the Bank (where the Issuer is BES Finance).

(f) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London in the case of bearer Notes;
 - (C) in respect of Interbolsa Notes only, Lisbon;
 - (D) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London, Lisbon (in the case of Interbolsa Notes only) and any Additional Financial Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(g) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or, except in the case of Interbolsa Notes, pursuant to any undertakings given in addition thereto or in substitution therefore pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount; and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or, except in the case of Interbolsa Notes, pursuant to any undertakings given in addition thereto or in substitution therefore pursuant to the Trust Deed.

7. Redemption and Purchase

(a) At Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer (after obtaining the consent of the Bank of Portugal wherever it is required in the case of Dated Subordinated Notes and Undated Subordinated Notes) in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent, the Trustee (except in respect of Interbolsa Notes), the Common Representative (in respect of Interbolsa Notes) and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 or the Bank (where the Issuer is BES Finance) would be unable for reasons outside its control to procure payment by BES Finance and in making payment itself would be required to pay such additional amounts, in either case as a result of any change in, or amendment to, the laws or regulations of any Relevant Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes;
- (ii) the Issuer satisfies the Trustee (except in the case of Interbolsa Notes) or the Common Representative and the Portuguese Paying Agent (in the case of Interbolsa Notes) immediately prior to the giving of such notice as to (i) above; and
- (iii) such obligation cannot be avoided by the Issuer or the Bank (where the Issuer is BES Finance) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Bank (where the Issuer is BES Finance) would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition 7(b), the Issuer shall deliver to the Agent and the Common Representative (in respect of Interbolsa Notes) or to the Trustee (in respect of any Note other than an Interbolsa Note) a certificate signed by two Directors of the Issuer or two Directors of the Bank (where the Issuer is BES Finance) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or the Bank (where the Issuer is BES Finance) has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee or, as the case may be, the Agent and the Common Representative, shall be entitled to accept any such certificate and opinion delivered to it as sufficient evidence of the satisfaction of such conditions precedent in which event they shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

“Relevant Tax Jurisdiction” means (i), in respect of payments made by BES Finance, the Cayman Islands, (ii) in respect of payments where the Bank is specified in the applicable Final Terms as Issuer and as acting through its head office or its Madeira Free Trade Zone branch, Portugal (including Madeira); (iii) in respect of payments where the Bank is specified in the applicable Final Terms as Issuer and as acting through its Cayman Islands branch, the Cayman Islands; and (iv) in respect of payments made by the Bank, acting through its London branch, either as Issuer or as Guarantor where the Issuer is BES Finance, the United Kingdom.

(c) Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer shall (after obtaining the consent of the Bank of Portugal whenever it is required in the case of Dated Subordinated Notes and Undated Subordinated Notes), having given:

- (i) not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent and (except in respect of Interbolsa Notes) to the Trustee and (in respect of Interbolsa Notes) to the Common Representative,

(which notices shall be irrevocable), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the

Minimum Redemption Amount or not more than a Higher Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”), be selected (i) individually by lot, in the case of Redeemed Notes represented by definitive Notes, (ii) in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a global Note and (iii) in accordance with the rules of Interbolsa, in the case of Redeemed Notes that are Interbolsa Notes. In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

(d) Redemption at the Option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms (provided that Investor Put may not be specified if this is a Dated Subordinated Note or an Undated Subordinated Note), upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 30 nor more than 60 days’ notice (which notice shall be irrevocable) or such other period of notice as is specified in the applicable Final Terms the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “Eurobond Put Notice”) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is an Interbolsa Note, to exercise the right to require redemption of this Note the holder of this Note must, during normal business hours on a day falling within the notice period, deliver to the Portuguese Paying Agent a Certificate and a duly completed and signed notice of exercise in the form obtainable from the specified office of the Portuguese Paying Agent (an “Interbolsa Notes Put Notice”, each Interbolsa Notes Put Notice or Eurobond Put Notice being a “Put Notice”) and in which the holder of the Notes must specify a bank account or, if payment is required to be made by cheque, an address to which payment is to be made under this Condition.

(e) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their nominal amount; or

- (iii) in the case of a Zero Coupon Note, at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“**RP**” means the Reference Price;

“**AY**” means the Accrual Yield expressed as a decimal; and

“**y**” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

(f) Instalments

If the Notes are repayable in instalments, they will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) Partly Paid Notes

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(h) Purchases

The Issuer, the Bank (where the Issuer is BES Finance) or any of its Subsidiaries (as defined in the Principal Agency Agreement) may (after obtaining the consent of the Bank of Portugal whenever it is required in the case of Dated Subordinated Guaranteed Notes and Undated Subordinated Guaranteed Notes) at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Bank (where the Issuer is BES Finance), surrendered to any Paying Agent for cancellation.

(i) Cancellation

All global Notes and definitive Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All global Notes and definitive Notes so cancelled and the global Notes and definitive Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

All Interbolsa Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or the Bank (where the Issuer is BES Finance) or any of its Subsidiaries will forthwith be cancelled, by Interbolsa following receipt by Interbolsa of notice thereof by the Portuguese Paying Agent, and accordingly such Interbolsa Notes may not be held, reissued or resold and shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 15 or the Principal Agency Agreement, as amended by the Interbolsa Notes Agency Agreement.

(j) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) the fifth day after the date on which the full amount of the moneys payable has been received by the Agent or (except in the case of Interbolsa Notes) the Trustee or (in the case of Interbolsa Notes) the Portuguese Paying Agent and notice to that effect has been given to the Noteholders either in accordance with Condition 14 or individually.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by BES Finance or the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Relevant Tax Jurisdiction as defined in Condition 7 (b) or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, BES Finance or the Bank will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) to, or to a third party on behalf of, a Noteholder, Receiptholder or Couponholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of its having some connection with the Relevant Jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note, Receipt or Coupon; and/or
- (ii) where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and/or
- (iii) in the case of bearer Notes, presented for payment to or to a third party on behalf of a Noteholder, Receiptholder or Couponholder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; and/or
- (iv) to, or to a third party on behalf of, a Noteholder, Receiptholder or Couponholder in respect of whom the information and documentation required in order to comply with Madeira Free Trade Zone tax regime, and any implementing legislation, is not received before the Income Payment Date (as defined below); and/or
- (v) in the case of Interbolsa Notes, to, or to a third party on behalf of, a Noteholder, Receiptholder or Couponholder in respect of whom the information and documentation (which may include certificates) required in order to comply with Portuguese Decree-Law 193/2005 of 7th November, 2005, and any implementing legislation, is not received before the Income Payment Date; and/or
- (vi) in the case of Interbolsa Notes, to, or to a third party on behalf of, a Noteholder, Receiptholder or Couponholder resident for tax purposes in the Republic of Portugal or any political subdivision or any authority thereof or therein having power to tax or a resident in a tax haven jurisdiction as defined in Order 150/2004, of 13th February, 2004 (*Portaria do Ministro das Finanças e da Administração Pública n.º 150/2004*) as amended from time to time, issued by the Portuguese Minister of Finance and Public Administration, with the exception of central banks and governmental agencies of those blacklisted jurisdictions, or a non-resident legal entity held, directly or indirectly, in more than 20 per cent. by entities resident in the Republic of Portugal; and/or
- (vii) in the case of Interbolsa Notes, to, or to a third party on behalf of, a Noteholder in respect of whom the relevant information required to comply with Decree-Law 193/2005 of 7th November, 2005 is not received before the Income Payment Date and who is otherwise eligible for the withholding tax exemption provided for in such legislation by claiming a refund of the relevant amounts withheld on such payment date using models 19 or 20 *Relações Fiscais*

Internacionais (RFI), or, having been eligible to claim such refund, does not do so within the applicable time period established by Portuguese law, and/or

- (viii) in the case of bearer Notes, presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day.

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or (other than in the case of Interbolsa Notes) the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. Prescription

The global Notes, definitive Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefore.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 9 or Condition 6(b) or any Talon which itself would be void pursuant to Condition 6(b).

Claims for principal and interest in respect of the Interbolsa Notes shall become void unless the relevant Certificates are surrendered within 20 years and five years respectively of the Relevant Date.

10. Events of Default

(A) This Condition 10(A) applies only to Senior Notes and in this Condition 10(A) references to “Notes” shall be construed accordingly.

If any one or more of the following events (each an “Event of Default”) shall occur and be continuing:

- (i) default is made in the payment of any principal or interest due in respect of the Notes or any of them and such default continues, in the case of principal, for a period of five Portuguese Business Days or, in the case of interest, for a period of 10 Portuguese Business Days; or
- (ii) the Issuer or the Bank (where the Issuer is BES Finance) fails to perform or observe any of its other obligations in respect of the Notes or, in respect of Notes other than Interbolsa Notes, under the Trust Deed and (except where, (a) for Notes other than Interbolsa Notes, in the opinion of the Trustee, or (b) for Interbolsa Notes, in the opinion of the Common Representative, such default is not capable of remedy where no such continuation or notice as is hereinafter referred to will be required) such failure continues for the period of 30 days (or such longer period as the Trustee (in respect of Notes other than Interbolsa Notes) or the Common Representative (in respect of Interbolsa Notes), may permit) after notice has been given to the Issuer or, as the case may be, the Bank requiring the same to be remedied; or
- (iii) the repayment of any indebtedness owing by the Issuer or by the Bank (where the Issuer is BES Finance) is accelerated by reason of default and such acceleration has not been rescinded or annulled, or the Issuer or the Bank (where the Issuer is BES Finance) defaults (after whichever is the longer of any originally applicable period of grace and 14 days after the due date) in any payment of any indebtedness or in the honouring of any guarantee or indemnity in respect of any indebtedness provided that no such event shall constitute an Event of Default unless the indebtedness whether alone or when aggregated with other indebtedness relating to all (if any) other such events which shall have occurred shall exceed U.S.\$10,000,000 (or its equivalent in any other currency or currencies) or, if greater, an amount equal to one per cent. of the Bank’s Shareholders’ Funds; or
- (iv) any order shall be made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Bank (where the Issuer is BES Finance) (other than for the purpose of an amalgamation, merger or reconstruction approved (i) by the Trustee or by an Extraordinary Resolution of the Noteholders in the case of bearer Notes or (ii) by an Extraordinary Resolution of the Noteholders in the case of Interbolsa Notes); or

- (v) the Issuer or the Bank (where the Issuer is BES Finance) shall cease to carry on the whole or substantially the whole of its business (other than for the purpose of an amalgamation, merger or reconstruction approved (i) by the Trustee or by an Extraordinary Resolution of the Noteholders in the case of bearer Notes or (ii) by an Extraordinary Resolution (as described in Condition 15(b)) of the Noteholders in the case of Interbolsa Notes); or
- (vi) the Issuer or the Bank (where the Issuer is BES Finance) shall stop payment or shall be unable to, or shall admit inability to, pay its debts as they fall due, or shall be adjudicated or found bankrupt or insolvent by a court of competent jurisdiction or shall make a conveyance or assignment for the benefit of, or shall enter into any composition or other arrangement with, its creditors generally; or
- (vii) a receiver, trustee or other similar official shall be appointed in relation to the Issuer or the Bank (where the Issuer is BES Finance) or in relation to the whole or a substantial part of the assets of either of them or a temporary manager of the Bank is appointed by the Bank of Portugal or an encumbrancer shall take possession of the whole or a substantial part of the assets of the Issuer or the Bank (where the Issuer is BES Finance), or a distress or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part of the assets of either of them and in any of the foregoing cases it or he shall not be discharged within 60 days; or
- (viii) the Bank sells, transfers, lends or otherwise disposes of the whole or a major part of its undertaking or assets (including shareholdings in its Subsidiaries or associated companies) and such disposal is substantial in relation to the assets of the Bank and its Subsidiaries as a whole, other than selling, transferring, lending or otherwise disposing on an arm's length basis; or
- (ix) except where the Issuer has been substituted as principal debtor pursuant to Condition 18, the Issuer (where the Issuer is BES Finance) ceases to be a Subsidiary wholly owned and controlled, directly or indirectly, by the Bank; or
- (x) (where the Issuer is BES Finance) the Guarantee is terminated or shall cease to be in full force and effect,

then:

- (a) in respect of Notes other than Interbolsa Notes, the Trustee at its discretion may, and if so requested in writing by the holders of not less than 20 per cent. of the nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount (as described in Condition 7(e)) together with accrued interest (as provided in the Trust Deed) provided that, in the case of any such Events of Default other than those described in sub-paragraphs (i) and (iv) above, the Trustee shall have certified to the Issuer that such Event of Default is in its opinion materially prejudicial to the interests of the Noteholders; or
- (b) in respect of any Interbolsa Notes, the Common Representative shall, if so requested in writing through a request addressed to it and to the Bank by the holders of not less than 20 per cent. of the nominal amount of the Notes then outstanding, or if so directed by an Extraordinary Resolution of the Noteholders, give notice to the Issuer (the "Acceleration Notice") and to the Portuguese Paying Agent at the respective specified office, effective upon the date of receipt thereof by the Portuguese Paying Agent, that the Interbolsa Notes are, and they shall accordingly thereby forthwith become, immediately due and payable at the Early Redemption Amount (as described in Condition 7(e)) together with accrued interest (if any) to the date of repayment, without demand, protest or other notice of any kind.

As used above:

"Bank's Shareholders' Funds" means, at any relevant time, a sum equal to the aggregate of the Bank's shareholders' equity as certified by the Auditors (as defined in the Paying Agency Agreement) of the Bank by reference to the latest audited consolidated financial statements of the Bank; and

“Portuguese Business Day” means a day on which commercial banks are open for business in Lisbon.

(B) This Condition 10(B) applies only to Dated Subordinated Notes and Undated Subordinated Notes and in this Condition 10(B) references to “Notes” shall be construed accordingly.

If any one or more of the following events (each an “Event of Default”) shall occur:

- (i) default is made in the payment of any principal or interest due in respect of the Notes or any of them and such default continues, in the case of principal, for a period of five Portuguese Business Days (as defined in Condition 10(A)) or, in the case of interest, for a period of 10 Portuguese Business Days; or
- (ii) any order shall be made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Bank (where the Issuer is BES Finance) (other than for the purpose of an amalgamation, merger or reconstruction approved by the Trustee (except in the case of Interbolsa Notes) or by an Extraordinary Resolution of the Noteholders),

then:

- (a) in respect of Notes other than Interbolsa Notes the Trustee at its discretion may, and if so requested in writing by the holders of not less than 20 percent. of the nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount (as described in Condition 7(e)) together with accrued interest (as provided in the Trust Deed); or
- (b) in respect of any Interbolsa Notes, the Common Representative shall, if so requested in writing through a request addressed to it and to the Bank by the holders of not less than 20 per cent. of the nominal amount of the Notes then outstanding, or if so directed by an Extraordinary Resolution of the Noteholders, give notice to the Issuer (the “Acceleration Notice”) and to the Portuguese Paying Agent at the respective specified office, effective upon the date of receipt thereof by the Portuguese Paying Agent, that the Interbolsa Notes are, and they shall accordingly thereby forthwith become, immediately due and payable at the Early Redemption Amount (as described in Condition 7(e)) together with accrued interest (if any) to the date of repayment, without demand, protest or other notice of any kind.

Notwithstanding the giving of any such notice that the Dated Subordinated Notes or, as the case may be, the Undated Subordinated Notes are immediately due and repayable, the Issuer may only redeem such Notes with the prior approval of the Bank of Portugal.

There can be no assurance that the Bank of Portugal will give its approval to any such redemption. Noteholders should be aware of the fact that the Bank of Portugal’s approval will depend on the capital adequacy of the Bank.

11. Replacement of global Notes, definitive Notes, Receipts, Coupons and Talons

Should any global Note, definitive Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced global Notes, definitive Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. Agent and Paying Agents

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below.

The Issuer and the Bank (where the Issuer is BES Finance) are entitled (with the prior written consent of the Trustee, save that such consent will not be required in respect of the Portuguese Paying Agent) to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange or admitted to listing by any relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be

required by the rules and regulations of the relevant stock exchange or such other relevant authority;

- (ii) there will at all times be maintained a paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iii) there will at all times be a Paying Agent outside the United Kingdom and Portugal (including Madeira); and
- (iv) there will at all times be a Paying Agent in Portugal capable of making payment in respect of the Interbolsa Notes as contemplated by these terms and conditions, the Principal Agency Agreement, as amended by the Interbolsa Notes Agency Agreement and applicable Portuguese law and regulation.

In addition, the Issuer and the Bank (where the Issuer is BES Finance) shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 6(e). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

13. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. Notices

All notices regarding the Notes shall be published (i) in a leading English language daily newspaper of general circulation in London, (ii) if and for so long as the Notes are listed on the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg and (iii) if the Notes are Interbolsa Notes, by registered mail, by publication in a leading newspaper having general circulation in Portugal (which is expected to be *Diário de Notícias*) or by any other way which complies with the Portuguese Securities Code and Interbolsa's rules on notices to investors, including the disclosure of information through the CMVM official website (www.cmvm.pt). It is expected that publication under (i) and (ii) above will be made in the *Financial Times* or any other daily newspaper in London (which, unless such Notice is given in respect of Interbolsa Notes only, shall be approved by the Trustee) and the *d'Wort* in Luxembourg, respectively. In addition, all notices regarding the Notes may be published on the Luxembourg Stock Exchange's web site (www.bourse.lu). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or any other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all the required newspapers.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange or admitted to listing by another relevant authority, the rules of such stock exchange or other relevant authority permits), so long any the global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg. However, all notices regarding Notes which are listed on the Luxembourg Stock Exchange must be published in a daily newspaper of general circulation in Luxembourg.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same with the Portuguese Paying Agent in the case of Interbolsa Notes and by lodging the same, together with the relative Note or Notes, with the Agent in the case of bearer Notes. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

Any holder of an Interbolsa Note may give notice to the Portuguese Paying Agent and the Agent through Interbolsa in such manner as the Portuguese Paying Agent, the Agent and Interbolsa may approve for this purpose.

15. Meetings of Noteholders, Modification and Waiver

(a) Meetings in respect of Notes other than Interbolsa Notes

This Condition 15(a) does not apply to Interbolsa Notes. The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the terms and conditions of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal on maturity or otherwise, modification of any Minimum Rate of Interest or Maximum Rate of Interest or altering the currency of payment of the Notes, Receipts or Coupons, modification of the majority required to pass an Extraordinary Resolution or modification of the Trust Deed concerning this exception), the quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting one or more persons holding or representing not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

The Trustee may also waive or authorise any breach or proposed breach of any of the provisions of the Trust Deed or any of these Terms and Conditions which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders.

In connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class and shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or

Couponholder be entitled to claim, from the Issuer, the Bank (where the Issuer is BES Finance) or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

Nothing in these Terms and Conditions or the Trust Deed shall require the Trustee to have regard to the interests of Noteholders insofar as those interests arise by virtue of a holding of Interbolsa Notes. For the avoidance of doubt, without prejudice to any rights assumed under Notes which are not Interbolsa Notes, a holder of Interbolsa Notes shall neither, by virtue of such holding of Interbolsa Notes, count towards a quorum, nor be entitled to vote, in respect of a resolution to amend the Trust Deed.

(b) Meetings in respect of Interbolsa Notes

The remainder of this Condition 15 applies only to Interbolsa Notes.

Meetings

Meetings of the holders of Interbolsa Notes may be convened to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the terms and conditions of the Notes and the appointment or dismissal of the Common Representative and are governed by the Portuguese Commercial Companies Code enacted by Decree-Law 262/86 of 2nd September, as amended, and by the Common Representative Appointment Agreement.

Such meetings may be convened by the Common Representative (if any) or, if no Common Representative has been appointed, or an appointed Common Representative fails to convene a meeting, by the chairman of the general meeting of shareholders of the Issuer, and shall be convened if requested by Noteholders holding not less than 5 per cent. in principal amount of the Notes for the time being outstanding.

The quorum required for a meeting convened to pass a resolution other than an Extraordinary Resolution will be any person or persons holding or representing Notes then outstanding, regardless of the principal amount thereof. The quorum required for a meeting convened to pass an Extraordinary Resolution will be a person or persons holding or representing at least 50 per cent. of the Notes then outstanding or, at any adjourned meeting, any person or persons holding or representing any of the Notes then outstanding, regardless of the principal amount thereof.

The number of votes required to pass a resolution other than an Extraordinary Resolution is a majority of the votes cast at the relevant meeting. The majority required to pass an Extraordinary Resolution is at least 50 per cent. of the principal amount of the Notes then outstanding or, at any adjourned meeting, two-thirds of the votes cast at the relevant meeting.

Resolutions passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting or have voted against the approved resolutions.

Dismissal and substitution of the Common Representative

The Noteholders may dismiss and substitute the Common Representative by means of an Extraordinary Resolution passed for such purpose upon the terms and conditions of the Common Representative Appointment Agreement.

Notification

Any modification, abrogation, waiver or authorisation in accordance with this Condition 15 shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (Notices).

Matters required to be approved by Extraordinary Resolution

An Extraordinary Resolution will be required to effect any of the following:

- (i) to change any date fixed for payment of principal or interest in respect of the Notes, reduction of the amount of principal or interest due on any date in respect of the Notes or variation of the method of calculating the amount of any payment in respect of the Notes on redemption or maturity;

- (ii) to approve the modification or abrogation of any of the provisions of these Conditions;
- (iii) to approve any amendment of this definition;
- (iv) to waive or authorise and breach or proposed breach of any of these Terms and Conditions; and
- (v) to approve any other matter in respect of which these Conditions require an Extraordinary Resolution to be passed.

Matters in the discretion of the Agent and the Issuer

Except for those matters required to be approved by Extraordinary Resolution, the Agent, the Common Representative and the Issuer may agree, without the consent of the Noteholders, to:

- (i) any modification of the Notes which is not materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders and shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

In the case of bearer Notes, the Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series of bearer Notes in certain circumstances where the Trustee so decides.

17. Contracts (Rights of Third Parties) Act 1999

This Condition applies if the Notes are governed by English law. No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. Substitution

In the case of Notes other than Interbolsa Notes, the Trustee may, without the consent of the Noteholders, the Receiptholders or the Couponholders but (in the case of Dated Subordinated Notes and Undated Subordinated Notes) only with the prior consent of the Bank of Portugal, agree with the Issuer and the Bank (where the Issuer is BES Finance) to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor in respect of the Notes of either the Bank or another wholly-owned Subsidiary of the Bank, subject to:

- (a) where the new principal debtor is a wholly-owned Subsidiary of the Bank, the Notes being unconditionally and irrevocably guaranteed by the Bank on the same basis as that on which they were guaranteed prior to the substitution (where, immediately prior to the substitution, the Issuer is BES Finance or (being a previous substitute under this Condition) another wholly-owned subsidiary of the Bank) or on an equivalent basis to that on which they would have been guaranteed immediately prior to the substitution had the Issuer been BES Finance (where immediately prior to the substitution, the Issuer is the Bank);
- (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and
- (c) certain other conditions set out in the Trust Deed being complied with.

Any such substitution shall be notified, if the Notes are listed on the Luxembourg Stock Exchange or any other stock exchange, to such stock exchange and to the Noteholders in accordance with Condition 14.

19. Enforcement

In the case of Notes other than Interbolsa Notes, the Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Bank (where the Issuer is BES Finance) as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless:

- (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 20 per cent. in nominal amount of the Notes then outstanding; and
- (b) it shall have been indemnified to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to take proceedings directly against the Issuer or the Bank (where the Issuer is BES Finance) unless the Trustee, having become bound to proceed in accordance with the terms of the Trust Deed fails to do so within a reasonable time and such failure is continuing.

In the case of Interbolsa Notes, the Common Representative may at any time, or, if so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 20 per cent. in nominal amount of the Notes then outstanding, shall, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Notes.

20. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from any obligation to take proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or the Bank (where the Issuer is BES Finance) without accounting for any profit resulting therefrom and to act as trustee for the holders of any other securities issued by the Issuer or the Bank (where the Issuer is BES Finance).

21. Redenomination and Exchange

This Condition 21 does not apply to Interbolsa Notes.

(a) Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, the Trustee, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, after consultation with the Agent and with the approval of the Trustee, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified in this Condition 21, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed, the Paying Agents and the Trustee of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which

Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and/or such other denominations as the Agent shall determine and notify to the Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the "Exchange Notice") that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to:
 - (A) in the case of Fixed Rate Notes which are either Interbolsa Notes or are represented by a global Note held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the Fixed Rate Notes (or, if they are Partly Paid Notes, the full amount paid up); or
 - (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding;
- (vii) if the Notes are Floating Rate Notes the applicable Final Terms specifies any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to these Terms and Conditions and/or the Trust Deed and/or the Principal Agency Agreement as the Issuer and the Bank (where the Issuer is BES Finance) may decide, after consultation with the Agent and with the approval of the Trustee; and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro or to enable the Notes to be consolidated with one or more issues of other notes, whether or not originally denominated in the Specified Currency or euro. Any such other changes will not take effect until after they have been notified to the Noteholders in accordance with Condition 14.

(b) Exchange

Where exchange is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, the Trustee, Euroclear and Clearstream, Luxembourg and not less than 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be exchangeable for Notes expressed to be denominated in euro in accordance with such arrangements as the Issuer may decide, after consultation with the Agent and with the approval of the Trustee and as may be specified in the notice, including arrangements under which Receipts and Coupons unmatured at the date so specified become void.

(c) Definitions

In these Terms and Conditions, the following expressions have the following meanings:

"Established Rate" means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 109l(4) of the Treaty;

"Euro" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

"Redenomination Date" means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified as such by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) or, as the case may be, (b) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

"Treaty" means the Treaty establishing the European Community, as amended by the Treaty on European Union, as amended by the Treaty of Amsterdam.

22. Governing law and submission to jurisdiction

(a) The Trust Deed (except Clause 7 insofar as it relates to bearer Notes which are Dated Subordinated Notes and bearer Notes which are Undated Subordinated Notes), the Principal Agency Agreement except, in respect of Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement, bearer Notes (except Conditions 2(ii) and 2(iii) in relation to the Bank only (whether in its capacity as issuer or guarantor), and Conditions 4(ii) and 4(iii)), the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law. Interbolsa Notes, clause 7 of the Trust Deed (insofar as it relates to Dated Subordinated Notes and Undated Subordinated Notes) the Principal Agency Agreement, in respect of the Interbolsa Notes, to the extent amended by the Interbolsa Notes Agency Agreement the Common Representative Appointment Agreement and Conditions 2(ii), 2(iii) in relation to the Bank only (whether in its capacity as issuer or guarantor), 4(ii) and 4(iii) are governed by, and shall be construed in accordance with, Portuguese law. In each case, the application of such governing law shall be without prejudice to the applicability, under the conflicts of rules applicable in the relevant forum, in the light of such submission, of Cayman Islands law (in relation to matters concerning BES Finance) or Portuguese law (in relation to matters concerning the Bank as an Issuer or as a guarantor, as the case may be).

(b) Each of BES Finance and the Bank agrees, for the exclusive benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the bearer Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Trust Deed, the bearer Notes, the Receipts and/or the Coupons may be brought in such courts.

The Bank agrees for the exclusive benefit of the Noteholders that the courts of Portugal are to have jurisdiction to settle any disputes which may arise out of or in connection with the Common Representative Appointment Agreement and/or the Interbolsa Notes and that accordingly any suit action or proceedings (together referred to as "Proceedings in Respect of Interbolsa Notes") arising out of or in connection with the Common Representative Appointment Agreement and/or the Interbolsa Notes may be brought in such courts.

Each of BES Finance and the Bank hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a judgment in any such Proceedings brought in the English courts or in the Portuguese courts, as the case may be, shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against BES Finance or the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

Each of the Issuers appoints the London branch of the Bank at its office in London for the time being (being as at 23 February, 2007 at 33 Queen Street, London EC4 1ES) as its agent for service of process, and undertakes that, in the event of the London branch of the Bank ceasing so to act, it will appoint another person as its agent for service of process in England in respect of any Proceedings.

Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

23. Common Representative

In the case of Interbolsa Notes, the holders of the Notes shall at all times be entitled to appoint and dismiss a Common Representative by means of an Extraordinary Resolution and pursuant to the Common Representative Appointment Agreement. Upon the appointment of a new Common Representative by the holders of the Notes pursuant to this Condition, any previously appointed and dismissed Common Representative will immediately cease its engagement and will be under the obligation immediately to transfer to the new Common Representative appointed by the holders of the Notes all documents and information then held by such Common Representative pertaining to the Notes.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the relevant Issuer for general financing requirements in the relevant Issuer's general corporate purposes, which include making a profit. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

BES FINANCE LTD

History

BES Finance was incorporated in the Cayman Islands (with registered number 69526) on 15th November, 1996 for an unlimited duration and with limited liability as an Exempted Company under the laws of the Cayman Islands.

The registered office of BES Finance is c/o M&C Corporate Services Limited, P.O. Box 309 GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands. BES Finance has no place of business in the United Kingdom.

Directors

The Directors of BES Finance are:

<u>Name</u>	<u>Function within the Issuer</u>	<u>Function within the Guarantor</u>
Ricardo Espírito Santo Silva Salgado	Director	Director
Mário Mosqueira do Amaral	Director	Director
Manuel de Magalhães Villas-Boas	Director	Director
Ricardo Abecassis Espírito Santo Silva	Director	Director
Amílcar Carlos Ferreira de Morais Pires	Director	Director
Isabel Maria Carvalho de Almeida	Director	Advisor to the Board of Directors

The business address for all the above Directors is Avenida da Liberdade, 195, 1250-142 Lisbon, Portugal.

BES Finance has no employees or non-executive Directors.

BES Finance is not aware of any potential conflicts of interest between the duties to BES Finance of the persons listed above and their private interests or other duties.

Business

BES Finance is a wholly-owned subsidiary of Banco Espírito Santo, S.A. ("BES"). BES Finance has no subsidiaries. The objects for which BES Finance was established are unrestricted and include, pursuant to clause 3(a) of its Memorandum of Association, without limitation, "to carry on the business of a finance and investment company", "to receive monies on deposit or loan and to borrow or raise money in any currency with or without security", "to advance, deposit or lend money, securities and/or property", "to buy, sell and deal in foreign exchange, bullion, specie, precious metal and minerals, and all other commodities", "to enter into currency and/or interest rate and any other type of swap agreements", "to act as promoters and entrepreneurs", "to exercise and enforce all rights and powers conferred by or incidental to the ownership of any shares, stock, obligations or other securities", "to purchase or otherwise acquire, to sell, exchange, surrender, lease, mortgage, charge, convert, turn to account, dispose of and deal with real and personal property and rights of all kinds", "to stand surety for or to guarantee, support or secure the performance of all or any of the obligations of any person, firm or company whether or not related or affiliated to the company in any manner", "to engage in or carry on any other lawful trade, business or enterprise".

Capitalisation and Indebtedness

The existing issued ordinary shares of BES Finance are not listed on the Luxembourg Stock Exchange or on any other stock exchange and are not dealt on any other recognised market.

Two Ordinary Shares were issued and fully paid when BES Finance was incorporated on 15th November, 1996. A further 24,998 Ordinary Shares were issued on 21st January, 1997. The share capital of BES Finance was subsequently redenominated in Euro and its authorised share capital increased by various special resolutions to its current level of €600,100,000 consisting of 100,000 Ordinary Shares of par value €1.00 each and €600,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A of a par value of €1,000 each.

All issued Ordinary Shares are credited as fully paid and are held by BES as at the date of this Prospectus. Through its shareholding BES directly controls BES Finance. There are no other measures in place concerning such control.

No capital of BES Finance is under option or is agreed conditionally or unconditionally to be put under option.

The following table sets forth the capitalisation of BES Finance as at 31st December, 2005, 30th September, 2005 and 30th September, 2006. This table should be read in conjunction with the financial statements and notes thereto of BES Finance which are incorporated by reference into this Prospectus. Save as disclosed below there has been no material change in the capitalisation of BES Finance since 30th September, 2006.

	30th September, 2006 (*)	30th September, 2005 (*)	31st December, 2005
(Expressed in thousand EUR)			
Shareholder's Equity			
100,000 shares of EUR 1 par value each, fully authorised, subscribed and paid up	100	100	100
600,000 pref shares of EUR 1.000 par value each, fully authorised, subscribed and paid up	600,000	600,000	600,000
Retained earnings – prior	7,704	22,608	22,608
Reserves	8,390	8,390	8,390
Dividends distributed.	(33,480)	(33,480)	(33,480)
Net Income	30,584	21,495	18,576
Total Shareholder's Equity	613,298	619,113	616,194
Short term debt par value	1,188,000	1,517,862	1,019,131
Long term debt par value	7,842,328	6,790,716	7,291,901
Long term borrowings par value	7,842,328	6,790,716	7,291,901
Subordinated debt par value	1,739,494	1,741,521	1,742,384
Corporate debt par value	6,102,834	5,049,195	5,549,517
Total short and Long term debt	9,030,328	8,308,578	8,311,032

Notes:

- (1) 1 Euro 750,000,000 Floating Rate Notes due 2011 were issued on 8th February 2006.
 - 2 British Pound 51,000,000 Floating Rate Notes due 2011 were issued on 8th February 2006.
 - 3 Euro 300,000,000 Floating Rate Notes due 2009 were issued on 13th April 2006.
 - 4 Czech Koruna 500,000,000 Fixed Rate Notes due 2011 were issued on 31st May 2006.
 - 5 Euro 88,000,000 Zero coupon Notes due 2007 were issued on 6th July 2006.
 - 6 Euro 500,000,000 Floating Rate Notes due 2011 were issued on 18th July 2006.
- (2) Save as set out in footnote (1), there has been no material change in the capitalisation of the Issuer since 31st December, 2005.
- (*) Interim unaudited figures.

Selected Financial Information of BES Finance

The following tables present the balance sheet and statement of income of BES Finance as at 30th September, 2006 and 30th September, 2005 and for the years ended 31st December, 2004 and 2005. The information for the years ended 31st December, 2004 and 2005 has been extracted without material adjustments from, and should be read in conjunction with, the audited financial statements of BES Finance for the years ended 31st December, 2004 and 2005, together with the notes thereto, all of which are incorporated by reference into this Prospectus. The financial information as at 30th September, 2005 and 30th September, 2006 is unaudited.

BES Finance Ltd.				
Balance Sheet				
(Expressed in EUR)				
	30th September, 2006	30th September, 2005	31st December, 2005	31st December, 2004
Assets				
Current assets				
Cash and cash equivalents	787,668	725,176	683,995	2,871,333
Short term deposits with banks	1,187,788,165	1,581,516,739	1,026,839,240	892,197,273
Derivative financial assets	39,161,269	56,100,287	49,032,328	14,978,165
Other current assets	628,560	—	115,670	132,471
	1,228,365,662	1,638,342,202	1,076,671,233	910,179,242
Long-term assets				
Long term deposits with banks	6,177,990,358	5,585,696,510	6,086,861,760	4,427,214,563
Subordinated loans	2,392,619,185	1,875,792,982	1,899,462,911	2,394,140,040
	8,570,609,543	7,461,489,493	7,986,324,671	6,821,354,603
Total assets	9,798,975,205	9,099,831,694	9,062,995,904	7,731,533,845
Liabilities and shareholder's equity				
Current liabilities				
Short-term debt	1,221,215,519	60,405,815	1,021,434,423	881,904,619
Derivative financial liabilities	29,440,754	30,312,899	23,727,540	262,792
Other current liabilities	330,835	132,797	199,054	222,746
	1,250,987,108	90,851,512	1,045,361,017	882,390,157
Non-current liabilities				
Long-term debt	7,934,690,448	8,389,866,903	7,401,441,256	6,218,045,810
Total liabilities	9,185,677,556	8,480,718,415	8,446,802,273	7,100,435,967
Shareholder's equity				
Ordinary shares	100,000	100,000	100,000	100,000
Preference shares	600,000,000	600,000,000	600,000,000	600,000,000
Other reserves and retained earnings	13,197,649	19,013,280	16,093,631	30,997,878
Total shareholder's equity	613,297,649	619,113,280	616,193,631	631,097,878
Total liabilities and shareholder's equity.	9,798,975,205	9,099,831,694	9,062,995,904	7,731,533,845

BES Finance Ltd.
Income statement
(Expressed in EUR)

	30th September, 2006	30th September, 2005	31st December, 2005	31st December, 2004
Interest and similar income				
Interest and similar income arise from:				
Cash and cash equivalents	49,610	10,316	13,206	29,800
Hedging derivatives	210,897	—	—	1,471,722
Deposits with banks	183,758,028	136,024,807	183,647,185	127,671,160
Subordinated loans	91,055,400	81,958,509	109,933,377	105,985,092
	<u>275,073,935</u>	<u>217,993,631</u>	<u>293,593,768</u>	<u>235,157,774</u>
Interest expense and similar charges				
Interest expense and similar charges arise from:				
Deposits from banks	5,452,966	955,396	1,266,878	15,661
Hedging derivatives	—	1,284,027	1,207,947	—
Other liabilities evidenced by paper	241,934,794	197,376,139	269,812,558	187,239,491
	<u>247,387,760</u>	<u>199,615,562</u>	<u>272,287,383</u>	<u>187,255,152</u>
Net interest income	<u>27,686,175</u>	<u>18,378,069</u>	<u>21,306,385</u>	<u>47,902,622</u>
Other income				
Unrealised gains on derivative instruments	—	104,312,571	10,814,131	25,309,077
Realised gains on derivative instruments	11,962,524	—	—	1,319,810
Gains from financial liabilities at fair value through profit or loss	4,629,862	—	—	—
Foreign currency exchange gains	248,876	—	26,615	—
	<u>16,841,261</u>	<u>104,312,571</u>	<u>10,840,746</u>	<u>26,628,887</u>
Other expenses				
Unrealised losses on derivative instruments	13,285,593	95,991,704	—	—
Realised losses on derivative instruments	—	—	4,808,244	—
Losses from financial liabilities at fair value through profit or loss	—	4,533,355	7,883,375	21,524,913
General and administrative expenses	644,759	643,373	874,830	912,285
Foreign currency exchange losses	—	22,710	—	11,205
Taxes and licences	10,139	2,999	3,395	4,220
Fee and commission expense	2,927	1,097	1,534	699
	<u>13,943,417</u>	<u>101,195,238</u>	<u>13,571,378</u>	<u>22,453,322</u>
Net income for the year	<u><u>30,584,018</u></u>	<u><u>21,495,402</u></u>	<u><u>18,575,753</u></u>	<u><u>52,078,187</u></u>

BES Finance Ltd.
Statement of cash flows
(Expressed in EUR)

	31st December, 2005	31st December, 2004
Operating activities		
Interest received	272,546,833	222,288,012
Interest paid	(249,789,404)	(177,351,890)
Taxes and licences	(3,395)	(4,220)
Foreign currency exchange gains (losses)	26,615	(11,205)
Operating expenses paid	(883,255)	(831,872)
	<u>21,897,394</u>	<u>44,088,825</u>
Changes in operating assets and liabilities		
Loans and advances to banks	(1,771,512,640)	(1,012,617,580)
Other liabilities evidenced by paper	1,284,711,901	1,041,016,814
Derivatives	(4,808,244)	1,319,810
	<u>(469,711,589)</u>	<u>73,807,869</u>
Cash flows from operating activities	(469,711,589)	73,807,869
Cash flows from investment activities		
Subordinated loans	494,324,367	(697,119,742)
	<u>494,324,367</u>	<u>(697,119,742)</u>
Cash flows from investment activities	494,324,367	(697,119,742)
Cash flows from financing activities		
Net (decrease)/increase in subordinated liabilities	6,679,884	500,000,000
Net proceeds from the issue of preference shares	—	158,389,591
Dividends distributed	(33,480,000)	(33,480,000)
	<u>(26,800,116)</u>	<u>624,909,591</u>
Cash flows from financing activities	(26,800,116)	624,909,591
Net increase/(decrease) in cash and cash equivalents	(2,187,338)	1,597,718
Cash and cash equivalents at 1st January	2,871,333	1,273,615
	<u>683,995</u>	<u>2,871,333</u>
Cash and cash equivalents at 31st December	683,995	2,871,333

BANCO ESPÍRITO SANTO S.A.

Banco Espírito Santo, S.A. ("BES") is a bank incorporated in Portugal (with registered number 500852367) on 26th September, 1990 for an unlimited duration and with limited liability (*sociedade anónima*). According to the Portuguese Banks association, BES, together with its consolidated subsidiaries (the "BES Group"), with total consolidated assets as of 31st December, 2005 of €50.2 billion, is the third largest full-service financial group operating in Portugal in terms of total assets. As of 31st December, 2005, the BES Group's consolidated gross loan portfolio totalled €31.7 billion and, net of loan impairment provisions, represented 61.4 per cent. of its total assets. The BES Group offers a full range of banking and financial services, including taking deposits, lending, asset management, leasing and factoring, investment banking and brokerage services. As of 31st December, 2005, the BES Group operated 639 branches and 53 private and corporate banking centres and employed 8,524 people worldwide. The BES Group has a particular focus on its home market in Portugal. It also serves clients in Spain, Brazil, Angola, France, the United Kingdom, the United States and Macao.

1. History and Ownership

BES' origins date from 1884, when José Maria do Espírito Santo e Silva, among others, founded its predecessor bank in Lisbon. After the Second World War, BES became one of Portugal's largest precommercial banks under the direction and leadership of the Espírito Santo family. In 1975, virtually all institutions in the banking and insurance industries, including BES, were nationalised by the Portuguese government. The Espírito Santo family, deprived of its Portuguese base, began operations outside of Portugal, primarily in the financial services market.

In 1986, the Portuguese government embarked upon a privatisation programme, creating the conditions for the return of the Espírito Santo Group to Portugal. After banking activities were again opened to private initiative, the Espírito Santo Group, under a joint venture with Crédit Agricole and supported by a core of Portuguese shareholders, set up Banco Internacional de Crédito ("BIC"), thus marking the Espírito Santo Group's return to Portugal. That same year, the Espírito Santo Group acquired Espírito Santo Sociedade de Investimento (the precursor of BES Investimento), with the participation of Union de Banques Suisses and Kredietbank (Luxembourg), among other financial institutions.

In 1991, BES (formerly incorporated in Portugal as BESCL) was re-privatised and Espírito Santo Financial Group ("ESFG") and Crédit Agricole acquired stakes in its share capital. Following the share capital increase in May 2006, ESFG and its subsidiaries currently hold 40 per cent. of the voting rights in BES and consolidates BES in its financial statements. Crédit Agricole is a shareholder investor in BES and is the ESFG's strategic partner in BES' management and operation, particularly in connection with the development of products in the retail sector. The general public, including institutional investors, owns approximately 42 per cent. of BES' ordinary shares. BES' ordinary shares are listed on Eurolist by Euronext Lisbon.

2. Strategy

The BES Group develops its banking activity of providing a universal range of financial services with the fundamental goal of creating value for its shareholders while simultaneously meeting the needs of clients and employees, all framed by its overall duty of social responsibility.

The BES Group has adopted as the main pillar for development and strategic differentiation to provide a service characterized by excellence and permanent focus on the needs of each client, acting as a universal financial group serving all segments of individual, corporate and institutional clients and offering a full range of financial products and services.

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

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

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

The BES Group also aimed to reach top efficiency levels, rationalising its structure and creating shared services units serving group-wide purposes, while embracing technological innovation at the service of higher efficiency, improved service quality and the capacity to respond to the clients' increasingly demanding needs and convenience requirements.

Throughout its history, the BES Group and its solid and stable core shareholders have successfully withstood different economic contexts, always steered by the standards of high consistency and prudence that should guide banking activities.

Faced with the increasing globalisation of financial markets, the need to obtain economies of scale and operating efficiency gains led to an international expansion to countries having affinities with Portugal, with a special focus on Spain, Brazil and Angola. In these regions, the BES Group's strategy is to serve local customers in target segments but also those who do business on a transnational scale.

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

3. Core Business Activities

The financial services offered by the BES Group include wholesale and retail deposit-taking, commercial, mortgage and consumer lending, funds transfers, credit and debit card facilities, foreign exchange, distribution of mutual funds and the trading and investment of securities and providing securities custody services. In addition to traditional banking services, the BES Group, through its subsidiaries and other related entities, also engages in various complementary activities, such as leasing, factoring, asset management and the sale of life and non-life insurance products.

The BES Group is made up of two categories of companies: (i) operational units – companies providing financial services; and (ii) outsourcing and other units – companies providing support services to other BES Group companies and the BES Group's external clients. This breakdown also forms the basis of the BES Group's segment reporting.

BES Main Business Segments

- **Corporate and retail banking** – consists of the BES Group's banking business with retail, corporate and private banking customers including its mortgage lending business;
- **Investment banking** – consists of the BES Group's investment banking business, primarily related to providing advice in relation to mergers and acquisitions and equity capital markets transactions, fixed income, project finance and structured finance matters and venture capital projects;
- **Asset management** – includes the BES Group's investment fund management and asset management activities;
- **Specialised credit** – includes the BES Group's leasing and factoring operations and the issuance and management of credit cards; and
- **Others** – includes the remaining units, which individually represent less than 10 per cent. of consolidated assets or consolidated net profits, and together represent less than 25 per cent., of those items.

Corporate and Retail Banking

The BES Group is one of the leading banking groups in Portugal, offering individual and corporate customers a wide range of banking and financial services. The BES Group is the third largest provider of financial services in Portugal (in terms of assets) and has a diversified distribution network made up of branches, corporate centres and private banking centres to serve customers in various countries, with a strategic focus on the countries of the Atlantic basin (Portugal, Spain and Brazil).

Based on publicly available data, the BES Group believes that, in 2005, it had an average market share in the Portuguese banking market of approximately 18.0 per cent. (compared to 17.7 per cent. in 2004 and 17.1 per cent. in 2003).

The BES Group's customer base is diversified and is comprised of individuals, small- to medium-sized businesses, public sector institutions, Portuguese subsidiaries of foreign corporations, and large corporations.

Reflecting this diverse client base, the corporate and retail banking segment comprised the following business lines as of 31st December, 2005:

- Retail Banking-the retail banking business line is subdivided into:
 - Affluent Individual Clients (BES 360°) – individual clients with amounts in excess of €50,000 in BES Group accounts plus clients that potentially may qualify (e.g., doctors, engineers);
 - Small Business Clients – small enterprises with fewer than 10 employees and turnover of less than €2.5 million per year; and
 - Mass Market Clients — individual clients with less than €50,000 in BES Group accounts.
 - Private Banking – individuals clients with assets under management above €350,000;
- Corporate Banking-the corporate banking business line is subdivided into:
 - Middle Market corporate Clients – enterprises with turnover between €2.5 million and €25 million per year:
 - Large Corporate Clients – local enterprises with consolidated annual turnover in excess of €25 million;
 - International Corporate Clients – foreign multinational enterprises with consolidated annual turnover in excess of €25 million; and
 - Municipalities and Institutional Clients – private companies owned by municipalities, public and privately held foundations and professional associations.

Strategic Focus

The BES Group's principal aims are to increase its profitability, market share and productivity, while maintaining strong solvency and liquidity ratios, adequate loan quality and a conservative provisioning policy in respect of overdue loans. In order to achieve these goals, the BES Group has sought to strengthen its position within the Portuguese banking sector by: (i) differentiating the BES Group from its competitors by offering segment distinctive value propositions and business models; (ii) increasing client acquisition levels through initiatives such as *assurfinance*; and (iii) increasing the penetration of its existing client base, while reducing product churn, through enhanced customer service and product innovation.

In order to increase the penetration of its existing client base, the BES Group has sought to take advantage of potential synergies among its banking and the insurance operations of ESFG's and Crédit Agricole's Portuguese insurance subsidiaries by distributing insurance, investment and other financial products through BES Group branches. In doing so, the BES Group has increasingly focused on the retail sector as a means of promoting greater cross-selling of fee-generating financial services. Through its network, the BES Group now markets, among other products, both life and non-life insurance products, underwritten by BES Vida and BES Seguros, and investment funds and pension funds, developed in the BES Group's asset management business, with the purpose of providing enhanced customer service. The BES Group has also engaged in a programme of modernising and re-configuring existing branches using a segment-oriented approach and in training its sales force to better address the needs of clients.

The strategy implemented by the BES Group in recent years is designed to address the specifically identified needs of the various sectors of its clientele, namely retail banking and corporate banking, providing distinct value propositions for each of the referred sectors. The BES Group seeks to consolidate its position as a leading provider of banking and financial services to affluent individual clients by providing them with specialised advice from dedicated account managers and offering them exclusive products and financial solutions as well as financial planning. The services available to the small business segment (including independent professionals) are tailored to meet their specific needs, supported by the creation of a specialised marketing unit and a network of prospectors focused on prime client acquisition. The

approach to the mass market segment includes a focused marketing unit in sales' leads, definition of clear business practices standards, the reinforcement of the *assurfinance* programme and fine-tuning of the commercial approach to specific types of clientele within this segment.

In the area of private banking, the BES Group pays particular attention to the financial advisory and planning activities. The strategy includes the progressive extension to international private banking business, aiming at offering the community of Portuguese expatriates services of the same quality and efficiency as those directed at the domestic clientele. BES Group is the market leader in private banking in Portugal. In addition, the BES Group is pursuing development in international private banking in order to reach the Portuguese communities abroad as well as the markets with affinities with Portugal. In particular, the BES Group offers its private banking services overseas through its Madeira offshore branch, Banco Espírito Santo (Spain) and Espírito Santo Bank (Florida, USA).

The strategy for the medium-sized companies segment includes improving the quality of human resources services, expanding the internet banking platform, speeding up the decision making process and expanding the offer of products.

The wholesale banking corporation segment is particularly competitive. The BES Group focuses on expanding and coordinating its various business areas such as investment banking, leasing, factoring and insurance products as well as enhancing cross-segment opportunities with the retail sector.

In the segment of international corporations, identified as the branches and subsidiaries of multinational corporations established in Portugal, the BES Group seeks to attract new customers by assisting start-up enterprises and promoting cross-segment and cross-selling transactions.

Finally, in the segment of municipalities and institutional clients, the BES Group seeks higher penetration of clients by expanding direct business, namely by funds raising, and by enhancing cross-selling and cross-segment opportunities.

Distribution Channels

In Portugal, the BES Group offers a "multi-channel" approach to its clients with different degrees of personal service: (i) physical access points to BES via a single brand network of 600 branches, focused mainly on retail clients, 30 private banking specialised centres and 26 corporate centres; (ii) 1,200 "assurfinance" agents who are focused primarily on client acquisition; and (iii) direct channels, such as the internet, 3G mobile phones, telephone, and SMS (24 hour access). The BES Group provides a full range of banking and related financial services, in Spain (25 branches and five specialised corporate centres) and abroad through its international branches and representative offices in Europe and in other countries with significant Portuguese communities, (such as Brazil) and since 2000, through ES Bank in Miami, Florida. The BES Group conducts operations in China through its subsidiary in Macao, Banco Espírito Santo do Oriente. The BES Group also offers a range of banking services to Clients in Angola through its subsidiary Banco Espírito Santo Angola, SARL (8 branches).

Investment Banking

BES Group is one of the leading providers of investment banking services in Portugal. The overall performance of the investment banking segment was positive in 2005, despite the slow takeoff of the economic recovery until late in 2005. On the international front, the BES Group is actively pursuing investment banking opportunities, taking advantage of its existing branch and private banking network, and has had success notwithstanding the relatively modest growth of the Euro zone economy. For example, in October 2005, the BES Group's primary investment banking subsidiary, BES Investimento, together with Concordia, a company based in Warsaw, Poland that specialises in financial advisory services, established a joint venture with the goal of providing investment banking services, such as mergers and acquisition and project finance advice, to clients in the Polish market.

BES Investimento consistently ranks at the top of the league tables in Portugal and also holds relevant positions in Spain and Brazil. In 2005, BES Investimento ranked 1st in Portugal for three consecutive years (according to Euronext Lisbon), 11th in Spain (according to *Sociedad de Bolsas*) and 21st in Brazil (according to Stockmaster web) in the provision of brokerage services. BES Investimento was also recognised as "the best equities house in Portugal" by Euromoney magazine in 2005.

As at 31st December, 2005, BES Investimento had total consolidated assets of €3,635 million and net income of approximately €50.0 million. BES Investimento accounted for 7.2 per cent. of the BES Group's total assets in 31st December, 2005 and 17.8 per cent. of the BES Group's net income in 2005.

Strategic Focus

In line with its geographical focus, the strategy of the BES Group's investment banking segment is twofold. It seeks to (i) maintain its leading market position and strengthen its profitability in Portugal, and (ii) expand its customer base in Spain, Brazil, the United Kingdom, Angola and Poland. In Portugal, the BES Group seeks to maintain its leading market position in investment banking and strengthen its profitability. Specifically, the investment banking segment aims to increase revenues by enhancing its cross-selling efforts and strengthening its distribution network, particularly through better integration of its marketing functions with its corporate operations and through the adoption of a more customer-oriented sales approach. It also aims to optimise its internal processes and organisation. The emphasis in the investment banking area is on the continuous improvement of risk-adjusted pricing and policies, in line with the BES Group's overall approach, with the goal of further containing risk-weighted asset growth. The BES Group seeks to leverage its investment banking business overseas to drive growth in cross-border transactions.

The BES Group's approach to business development outside Portugal differs from country to country, taking into account differences in the size of the countries, the maturity levels of their economies and business practices and client expectations. In Angola, for example, where the BES Group sees considerable potential for economic expansion, the focus of the strategy of the investment banking segment is achieving profitable growth by broadening and expanding the BES Group's region wide integrated network of banking operations and on leveraging the BES Group's product expertise gained in Portugal and elsewhere.

Distribution Channels

In line with its previously defined strategy of diversifying economic risk, the BES Group distributes its investment banking products and services to customers around the world. On the international front, the BES Group provides investment banking products and services in Spain, Brazil and the United Kingdom, and is expanding its capabilities in Angola and Poland, two countries with high growth potential and market interest. In the area of mergers and acquisitions the BES Group focused on the Iberian and Brazilian market. In the fixed income area, the BES Group has been particularly active in the Portuguese and Brazilian markets. The leverage and acquisition finance side of the structured finance area consolidated its position of supremacy in Portugal, while significantly expanding its business in Spain.

The BES Group develops its private equity activities in Portugal through its subsidiary Espírito Santo Capital. In 2005, through the creation of the SES Iberian I Fund, in partnership with the French venture capital firm SIPAREX, the BES Group began the internationalisation of its private equity activities.

Structural Rationalisation

On the structural level, the BES Group has been taking steps to consolidate and rationalise its investment banking segment. At the beginning of 2005, BES Investimento merged with its subsidiary Espírito Santo Dealer, which offers brokerage services in Portugal, and by the end of 2005 purchased the entire share capital of the venture capital firm Espírito Santo Capital. BES Investimento finalised the transformation of its former Spanish subsidiary, Espírito Santo Investimento, S.A.U., S.V., into a branch as of 1st June, 2006.

Asset Management

The BES Group is one of the leading providers of asset management services in Portugal. The overall volume of assets under management of Espírito Santo Activos Financeiros, S.G.P.S. S.A. ("ESAF") totalled €15.9 billion in 2005, a year-on-year rise of 14 per cent., largely driven by the increase in the mutual funds business. Total mutual funds of the BES Group posted a strong increase in 2005, surpassing €3.5 billion on 31st December, 2005, which corresponds to a year-on-year increase of 14.3 per cent. The asset management activities of the BES Group are developed in conjunction with its investment banking business and target high net worth individuals seeking individual wealth management solutions.

In addition to financial success, the BES Group's asset management subsidiary, ESAF, was named in 2005 by Standard & Poor's as "Best Global Fund Manager – Domestic Funds" and "Best Fund Manager – Fixed Income – Domestic Funds".

In real estate funds, the Gespatrimónio Rendimento Fund maintained leadership in terms of market share, with volume under management exceeding €1,410 million at the end of 2005, in accordance with public information. In pension funds, assets under management reached €2,319 million, which corresponds to a year-on-year increase of 17 per cent. In line with the strategy initiated last year, the focus was maintained on attracting new collective subscriptions to open-end pension funds.

In line with last year, the discretionary management business for individual clients maintained strong growth in assets under management. Overall, business grew 8 per cent., with individual clients' assets under management rising by 41 per cent.

In Spain, the volume of assets under management of mutual funds increased by approximately 30 per cent., and the discretionary business grew by 84 per cent., with total volume of assets under management reaching €1,908 million. In Luxembourg, the ES Active Allocation fund, launched at the end of 2004, had assets under management of €51.9 million at the end of the year.

Strategic Focus

The three main strategic focuses of ESAF are:

- to increase the market share of mutual funds and improve the asset mix of funds distributed, *i.e.*, by offering more sophisticated products with higher margins as opposed to very conservative products with low margins, through the consolidation of the existing relationship with the BES Group;
- to grow the size of assets under management, through the creation of new products targeted to institutional investor, based on ESAF's expertise as manager of structured credit products, *e.g.*, synthetic CDOs and ABS portfolios; and
- to position ESAF as a top manager for pension funds, in order to take advantage of the reform of the Portuguese Social Security System that will bring new opportunities to the pension funds market, through the implementation of the second and third pillars.

Distribution Channels

ESAF activities are closely coordinated with other member companies in the BES Group to access other jurisdictions in which the BES Group operates. ESAF itself is expanding its presence abroad, specifically in Spain, where ESAF has engaged in selective acquisition of fund managers.

The assets under management of the BES Group are geographically concentrated, primarily, in three jurisdictions, Portugal (81 per cent.), Spain (12 per cent.) and Luxembourg (7 per cent.).

Specialised Credit

The BES Group is one of the leading providers of specialised credit services in Portugal. The specialised credit segment includes the BES Group's credit and debit card business and leasing and factoring activities. In February 2004, the BES Group companies engaged in leasing and factoring businesses, Besleasing Mobilíaria (equipment leasing), Besleasing Imobiliária (property leasing) and Euroges (factoring), were merged into a single unit subsequently renamed Besleasing e Factoring – Instituição Financeira de Crédito, S.A.. Despite the adverse conditions of the economy during 2005, Besleasing e Factoring performed strongly in the various markets in which it operates, gaining market share across the board: production of property leasing grew by 27.3 per cent., equipment leasing by 10.3 per cent. and factoring and confirming by 9.5 per cent. Based on this performance, the company ranked second in all these products, with a share of 18.1 per cent. in the production of leasing operations, according to the Portuguese Association of Leasing Companies ("APELEASE"), and of 21.2 per cent. in factoring (credit under management) according to the Portuguese Association of Factoring Companies ("APEF"). Leasing and factoring products are distributed mainly via the BES Group's corporate centres.

The BES Group now conducts directly its credit card business after the conclusion, in May 2006, of the merger by incorporation of Crediflash Sociedade Financeira para Aquisições a Crédito, S.A., (Crediflash), a credit card management company, into BES. This merger is expected to yield annual cost savings of €3 million and revenue synergies of €1.3 million. The BES Group also provides all types of consumer credit through its network of branches.

4. BES Group Structure

As well as being an operating entity in its own right, BES is the holding company of a financial group (BES Group), and thus has investments in subsidiary and associated companies.

The following tables provide information on the organisational structure of the BES Group as of 30th September, 2006:

Fully Consolidated Subsidiaries⁽¹⁾

<u>Corporate Name</u>	<u>Field of activity</u>	<u>Country of incorporation</u>	<u>Ownership interest⁽²⁾ %</u>
Banco Espírito Santo de Investimento, SA . . .	Investment banking	Portugal	100.00
Banco Espírito Santo, SA (Espanha)	Commercial banking	Spain	100.00
Banco Espírito Santo dos Açores, SA	Commercial banking	Portugal	57.53
Banco Electrónico de Serviço Total, SA	Internet banking	Portugal	66.00
Banco Espírito Santo Angola, SARL	Commercial banking	Angola	79.96
Banco Espírito Santo do Oriente, SA.	Commercial banking	Macao	99.75
Espírito Santo Bank	Commercial banking	United States	98.45
Bank Espírito Santo International, Ltd.	Commercial banking	Cayman Islands	100.00
BIC International Bank Ltd.	Commercial banking	Cayman Islands	100.00
Parsuni – Sociedade Unipessoal, SGPS	Holding company	Portugal	100.00
Espírito Santo, plc	Investment Banking	Ireland	99.98
Besleasing e Factoring – Instituição Financeira de Crédito, SA	Leasing and factoring	Portugal	89.35
ESAF – Espírito Santo Activos Financeiros, S.G.P.S., SA	Holding Company	Portugal	85.00
ES TECH Ventures, S.G.P.S., SA	Holding Company	Portugal	100.00
Banco Espírito Santo North America Capital Corporation	Financing Vehicle	United States	100.00
BES Finance, Ltd.	Financing Vehicle	Cayman Islands	100.00
BES Overseas, Ltd.	Financing Vehicle	Cayman Islands	100.00
Espírito Santo Overseas, Ltd.	Financing Vehicle	Cayman Islands	100.00
ES, Recuperação de Crédito, ACE.	Debt collection	Portugal	100.00
Espírito Santo Financial Consultants, SA ⁽³⁾ . . .	Asset management	Portugal	100.00
Espírito Santo Concessões, SGPS, SA	Holding company	Portugal	60.00
Espírito Santo Contact Center, Gestão de Call Centers, SA	Call centre services	Portugal	76.67
Espírito Santo Data, SGPS, SA	Holding company for IT systems	Portugal	49.00 ⁽⁴⁾
ES Research – Estudos Financeiros e de Mercados, SA	Advisory services	Portugal	100.00
Espírito Santo Prestação de Serviços, ACE. . .	Shared services company	Portugal	100.00
Espírito Santo – Empresa de Prestação de Serviços 2, ACE.	Shared services company	Portugal	100.00
Espírito Santo Informática, ACE	Shared services company	Portugal	84.90
ESGEST – Espírito Santo Gestão de Instalações, Aproveitamento e Comunicações, SA	Technical services	Portugal	100.00
Cêntimo – Sociedade de Serviços, Lda.	Custodian company	Portugal	100.00
Espírito Santo e Comercial de Lisboa, Inc. . . .	Representative office	United States	100
Espírito Santo Representações, Ltda.	Representative office	Brazil	99.99
Quinta dos Cónegos – Sociedade Imobiliária, SA	Real estate	Portugal	79.26
Spainvest, S.A.	Holding company	Luxembourg	100.00
Fundo FCR PME/BES	Venture capital fund	Portugal	57.09

(1) Subsidiaries are companies where the BES Groups' investment represents direct more than 50 per cent. of the company's share capital or, if below that level, where BES has control and the company can be considered, jointly with BES, as one decision-making unit. The subsidiaries not owned directly by BES are not included in this table since the book value of the participating interest in each of these subsidiaries does not represent 10 per cent. of the consolidated net assets of BES, nor do the subsidiaries generate more than 10 per cent. of the consolidated net profit of BES. Special purpose vehicles consolidated by BES are not included.

(2) Portion of ownership interest equals voting power held.

(3) ESFC is currently dormant.

(4) Although the Group's economic interest is less than 50%, the company was fully consolidated, as the Group exercised control over it.

Affiliated Companies⁽¹⁾

Corporate Name	Field of activity	Country of incorporation	Ownership interest %
Europ Assistance – Comp. Portuguesa Seguros Assistência, SA	Private assistance	Portugal	23.00
BES Companhia de Seguros, SA.	Insurance	Portugal	24.99
Fiduprivate – Soc de Serviços, Consult, Adm, de Empresas, SA	Consulting	Portugal	24.76
Esumedica – Prestação de Cuidados Médicos, SA.	Health care	Portugal	24.90
Société Civile Immobilière du 45 Avenue Georges Mandel	Real estate	France	22.50
ESEGUR – Espírito Santo Segurança, SA	Private security services	Portugal	34.00
Locarent – Companhia Portuguesa de Aluguer de Viaturas, SA	Renting	Portugal	45.00
BES VIDA – Companhia de Seguros, SA	Insurance	Portugal	50.00

(1) Investments in affiliated companies are those in which BES' share is between 20 per cent. and 50 per cent. of their share capital, and where BES does not exercise control, but either their activities are closely related to BES or where the BES Group exercises significant influence. Affiliated companies not owned directly by BES are not included in this table since the book value of the participating interest in each of these affiliated companies does not represent 10 per cent. of the consolidated net assets of BES nor do the affiliated companies generate more than 10 per cent. of the consolidated net profit of BES.

5. Management of Banco Espírito Santo

Pursuant to Portuguese law, BES has a management structure consisting of a Board of Directors (the “Board”) which is elected by the General Meeting. According to BES' Articles of Association, the Board is composed of a minimum of 11 to a maximum of 31 members (“Directors”), who may or may not be shareholders. The current Board is made up of 31 Directors. The term of office of a Director is four years and re-election is permitted without any term or age limits. The General Meeting appoints the Chairman of the Board. In the Chairman's absence or in case an impediment arises, he is replaced by the Chairman of the Executive Committee. The General Meeting may also elect one or more Vice-Chairmen of the Board. The Board is free to replace the Chairman and Vice-Chairmen at any time. 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. The Board meets at least quarterly and whenever convened by the Chairman or by two Board members.

The day-to-day management of BES is delegated by the Board to an Executive Committee (the “Executive Committee”), which elects its Chairman. At present the Executive Committee consists of 13 Directors. It meets at least once a week, also ensuring day-to-day monitoring that on occasion requires extraordinary meetings.

The following table sets out the members of the Board for the 2004-2007 four-year mandate, such members being capable of being contacted through the BES' head office and contact details. The business address of each Director is Avenida de Liberdade, 195, 1250-195 Lisbon, Portugal. There are no potential conflicts of interest between the duties to BES of the members of the Board and their private interests and/or other duties.

Board Member	Birth Date	Nationality	First Designation	End of Mandate	Executive Committee
António Ricciardi	06/04/1919	Portuguese	Apr-92	2007	No
Ricardo Salgado	25/06/1944	Portuguese	Sep-91	2007	Yes
Jean Laurent	31/07/1944	French	Sep-99	2007	No
Mário Amaral	14/11/1932	Portuguese	Sep-91	2007	Yes
José Manuel Espírito Santo . .	02/05/1945	Portuguese	Apr-92	2007	Yes
António Souto	17/04/1950	Portuguese	Nov-90	2007	Yes
Jorge Martins	17/07/1957	Portuguese	Jul-93	2007	Yes
Aníbal Oliveira	24/09/1935	Portuguese	Apr-92	2007	No
José Neto	08/01/1937	Portuguese	Apr-94	2007	Yes
Manuel Villas-Boas	29/05/1945	Portuguese	Apr-92	2007	No
Manuel Fernando Espírito Santo	20/07/1958	Portuguese	Apr-94	2007	No
José Maria Ricciardi	27/10/1954	Portuguese	Mar-99	2007	Yes
Jean-Luc Guinoiseau	20/12/1954	French	Sep-99	2007	Yes
Rui Silveira	11/12/1954	Portuguese	Mar-00	2007	Yes
Joaquim Goes	09/09/1966	Portuguese	Mar-00	2007	Yes
Pedro Homem	19/07/1947	Portuguese	Jun-00	2007	Yes
Patrick Coudène	24/09/1951	French	Feb-01	2007	No
Michel Villatte	30/10/1945	French	Mar-02	2007	No
Mário Adegas ^(a)	25/10/1935	Portuguese	Nov-90	2007	No
Luís Daun e Lorena	11/10/1944	Portuguese	Mar-02	2007	No
Lázaro Brandão	15/06/1926	Brazilian	Mar-02	2007	No
Ricardo Abecassis Espírito Santo	04/11/1958	Portuguese	Mar-02	2007	No
Bernard De Wit	17/06/1959	Belgian	May-02	2007	No
José Pena	05/11/1940	Portuguese	May-03	2007	No
Jean-Frédéric de Leusse	29/10/1957	French	Mar-04	2007	No
Amílcar Morais Pires	30/05/1961	Portuguese	Mar-04	2007	Yes
Bernard Delas	01/08/1948	French	Mar-05	2007	No
Miguel Horta e Costa ^(b)	28/07/1948	Portuguese	Nov-90	2007	No
Nuno Godinho de Matos	31/10/1949	Portuguese	Apr-06	2007	No
Alberto de Oliveira Pinto	26/06/1932	Portuguese	Apr-06	2007	No
João Freixa	24/06/1956	Portuguese	Sep-06	2007	Yes

(a) Mandates: November 1990 – March 2000; since March 2002

(b) Mandates: November 1990 – 1992; since March 2005

The following is List of Corporate Positions of the Members of the Board of Directors.

Corporate Positions Held by Members of the Board of Directors of Banco Espírito Santo

António Luís Roquette Ricciardi (non executive member)

Corporate positions held in companies of BES Group

Board of Directors

Banco Espírito Santo et de la Vénétie, S.A.
(Honorary President)

General Meeting

Quinta dos Cónegos – Sociedade Imobiliária, S.A.
(Chairman)

Corporate positions held in companies outside BES Group

Board of Directors

Higher Council of Espírito Santo Group (Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A.
(Vice-Chairman)
Compagnie Bancaire Espírito Santo, S.A. (Member)
E. S. Control Holding, S.A. (Chairman)
Espírito Santo International, S.A. (Chairman)
Espírito Santo Financial Group, S.A. (Member)
Espírito Santo Resources Limited (Chairman)
Espírito Santo Resources (Portugal), S.A. (Chairman)
Espírito Santo Services, S.A. (Member)
Espírito Santo Tourism (Portugal) – Consultoria de Gestão
Empresarial, S.A. (Chairman)
Partran – Sociedade Gestora de Participações Sociais, S.A.
(Vice-Chairman)

General Meeting

Espírito Santo Golfes, S.A. (Chairman)
Espírito Santo Property Holding (Portugal), S.A. (Chairman)
Espírito Santo Resources (Portugal), S.A. (Chairman)
Espírito Santo Tourism (Portugal) – Consultoria de Gestão
Empresarial, S.A. (Chairman)
Espírito Santo Viagens – Sociedade Gestora de Participações
Sociais, S.A. (Chairman)
Gestres – Gestão Estratégica Espírito Santo, S.A. (Chairman)

Ricardo Espírito Santo Silva Salgado (executive member)

Corporate positions held in companies of BES Group

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Chairman)
Banco Espírito Santo, S.A. (Spain) (Member)
Banque Espírito Santo et de la Vénétie (Member)
BES Finance, Ltd. (Member)
BES Overseas, Ltd. (Member)
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)
ES Tech Ventures – Sociedade Gestora de Participações
Sociais, S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros – Sociedade
Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Bank (Vice- Chairman)
Espírito Santo Empresa de Prestação de Serviços, ACE
(Chairman)
Espírito Santo Overseas, Ltd. (Chairman)
Espírito Santo – Empresa de Prestação de Serviços 2, A.C.E.
(Chairman)
ES Tech Ventures – Sociedade de Capital de Risco, S.A.
(Chairman)

Corporate positions held in companies outside BES Group

Board of Directors

Banco Bradesco, S.A. (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A.
(Chairman)
Cariges, S.A. (Member)
Casa dos Pórticos – Sociedade de Administração de Bens, S.A.
(Chairman)
Compagnie Bancaire Espírito Santo, S.A. (Member)
E.S. Control (BVI), S.A. (Member)
E.S. Control Holding, S.A. (Member)
E.S. Holding Administração e Participações, S.A. (Vice- Chairman)
Espírito Santo BP Invest, S.A. (Member)
Espírito Santo BVI Participation Limited (Member)
Espírito Santo Financial (BVI), S.A. (Chairman)
Espírito Santo Financial (Portugal) – Sociedade Gestora de
Participações Sociais, S.A. (Chairman)
Espírito Santo Financial Group, S.A. (Chairman)
Espírito Santo Financial Services, Inc (Director)
Espírito Santo Industrial (BVI), S.A. (Member)
Espírito Santo International (BVI), S.A. (Member)
E.S. International, S.A. (Member)
Espírito Santo Property (BVI), S.A. (Member)
Espírito Santo Resources Limited (Member)
Espírito Santo Saúde – Sociedade Gestora de Participações Sociais,
S.A. (Chairman)
Gespetro – Sociedade Gestora de Participações Sociais, S.A.
(Member)
Novagest Assets Management, Ltd. (Member)
Partran – Sociedade Gestora de Participações Sociais, S.A.
(Chairman)
Sociedade de Administração de Bens Pedra da Nau, S.A.
(Chairman)

Fiscal Board

Club Méditerranée (Member of the Supervisory Board)
Euronext NV – (Member of the Supervisory Board)
IIEB – Institut International d'Études Bancaires (Chairman)

Jean Gaston Pierre Marie Victor Laurent (non executive member)**Corporate positions held in companies of BES Group****Corporate positions held in companies outside BES Group****Board of Directors**

Calyon (Chairman)
 Danone Group (Member; Member of the Appointments and Remuneration Committee)
 Institut Europlace de Finance (Chairman)

Supervisory/Fiscal Board

Eurazeo (Member of the Supervisory Council and Member of the Financial Committee)
 M6 Television (Member of the Supervisory Council)

Mário Mosqueira do Amaral (executive member)**Corporate positions held in companies of BES Group****Corporate positions held in companies outside BES Group****Board of Directors**

Banco Espírito Santo, S.A. (Spain) (Member)
 Banco Espírito Santo et de la Vénétie, S.A. (Member)
 BES Finance, Limited (Member)
 Espírito Santo Overseas, Ltd. (Member)
 Espírito Santo Empresa de Prestação de Serviços, ACE (Member)

Board of Directors

Amaral & Pinto – Empreendimentos Imobiliários, S.A. (Chairman)
 Banque Marocaine du Commerce Extérieur (Member)
 E.S. International, S.A. (Vice-Chairman)
 Banco Espírito Santo North American Capital Corporation (Chairman)
 Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
 Compagnie Bancaire Espírito Santo, S.A. (Member)
 E.S. Control Holding, S.A. (Vice-Chairman)
 Espírito Santo Financial Group, S.A. (Member)
 Espírito Santo Investment Management (Member)
 Espírito Santo Resources Limited (Member)
 E.S. Services, S.A. (Member)
 Gespetro – Sociedade Gestora de Participações Sociais, S.A. (Member)
 Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)
General Meeting
 Gesfimo – Espírito Santo, Irmãos – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A. (Chairman)

José Manuel Pinheiro Espírito Santo Silva (executive member)**Corporate positions held in companies of BES Group****Corporate positions held in companies outside BES Group****Board of Directors**

Banco Espírito Santo de Investimento, S.A. (Member)
 Banco Espírito Santo et de la Vénétie, S.A. (Member)
 Banco Espírito Santo, S.A. (Spain) (Chairman)
 ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)
 Espírito Santo Bank (Member)
 Europ Assistance – Companhia Portuguesa Seguros Assistência, S.A. (Member)
 Fiduprivate – Sociedade de Serviços, Consultoria, Administração de Empresas, S.A. (Chairman)
 Espírito Santo Financial Consultants, Gestão de Patrimónios, S.A. (Chairman)

Board of Directors

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
 Compagnie Bancaire Espírito Santo, S.A. (Chairman)
 E.S. Control Holding, S.A. (Member)
 ESFG Overseas Limited (Vice-Chairman)
 Espírito Santo Financial (Portugal) – Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)
 Espírito Santo Financial Group, S.A. (Vice-Chairman)
 Espírito Santo International, S.A. (Member)
 Espírito Santo Resources Limited, S.A. (Member)
 Espírito Santo Services, S.A. (Member)
 Sociedade Imobiliária e Turística da Quinta do Peru, S.A. (Chairman)

António José Baptista do Souto (executive member)**Corporate positions held in companies of BES Group****Corporate positions held in companies outside BES Group****Board of Directors**

Besleasing & Factoring, IFIC, S.A. (Chairman)
 Espírito Santo Data – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
 Espírito Santo Empresa de Prestação de Serviços, ACE (Member)
 Espírito Santo Overseas, Ltd. (Member)

Board of Directors

Angra Moura – Sociedade de Administração de Bens, S.A. (Chairman)
 Companhia de Seguros Tranquilidade, S.A. (Member)
 SIBS – Sociedade Interbancária de Serviços, S.A. (Member)

Jorge Alberto Carvalho Martins (executive member)
Corporate positions held in companies of BES Group

Board of Directors

Banco Espírito Santo, S.A. (Spain) (Member)
Locarent – Companhia Portuguesa de Aluguer de Viaturas,
S.A. (Chairman)

Anibal da Costa Reis de Oliveira (non executive member)
Corporate positions held in companies of BES Group

José Manuel Ferreira Neto (executive member)
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 Empresa de Prestação de Serviços, ACE (Member)
Espírito Santo Recuperação de Crédito, ACE (Chairman)
Parsuni, SGPS, Sociedade Unipessoal, Lda. (Zona Franca da Madeira) (Manager)

Manuel de Magalhães Villas-Boas (non executive member)
Corporate positions held in companies of BES Group

Board of Directors

Banco Espírito Santo de Investimento, S.A. (Member)
BES Finance Limited (Member)
BES Overseas Limited (Member)
Espírito Santo Overseas Limited (Vice-Chairman)

Corporate positions held in companies outside BES Group

Board of Directors

Credibom – IFIC, S.A. (Member)
Hospor, Hospitais Portugueses, S.A. (Chairman)
Ropsoh, Unidades de Saúde, S.A. (Chairman)
Supervisory/Fiscal Board
Agência de Desenvolvimento Regional de Entre-o-Douro e Tâmega (Chairman)
Higher Council
Primus, Promoção e Desenvolvimento Regional, S.A. (Member)

Corporate positions held in companies outside BES Group

Board of Directors

ACRO, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Diliva – Sociedade de Investimentos Imobiliários, S.A. (Chairman)
Espírito Santo Financial (Portugal), Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo International, S.A. (Member)
Olinveste, Sociedade Gestora de Participações Sociais, Lda. (Manager)
Saramagos – Sociedade Produtora de Energia, S.A. (Chairman)
Texarte Têxteis, S.A. (Chairman)
General Meeting
Olifil Têxteis, S.A. (Chairman)

Corporate positions held in companies outside BES Group

Board of Directors

Sogesis – Gestão de Investimentos e Serviços, S.A. (Member)
Supervisory/Fiscal Board
Fundação Cultursintra (Chairman)
General Meeting
Santa Casa da Misericórdia de Sintra (Chairman)

Corporate positions held in companies outside BES Group

Board of Directors

ESFG Overseas Limited (Member)
Espírito Santo Financial Group, S.A. (Member)
Espírito Santo Investment Management (Member)

Manuel Fernando Moniz Galvão Espírito Santo Silva (non executive member)
Corporate positions held in companies of BES Group **Corporate positions held in companies outside BES Group**

Board of Directors

Espírito Santo Bank (Member)

Board of Directors

Academia de Música de Santa Cecília (Chairman)
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
E.S.Control Holding, S.A. (Member)
Espírito Santo Financial Group, S.A. (Member)
Espírito Santo Golfes, S.A. (Chairman)
Espírito Santo Health & SPA, S.A. (Chairman)
Espírito Santo Hoteis, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Industrial S.A. (Chairman)
Espírito Santo Resources, Limited (Chairman of the Executive Committee)
Espírito Santo Services, S.A. (Member)
Espírito Santo Tourism (Europe) (Chairman)
Espírito Santo Tourism (Portugal) – Consultoria de Gestão Empresarial, S.A. (Vice-Chairman)
Euroamerican Finance Corporation, Inc. (Chairman)
Herdade da Comporta – Actividades Agro Silvícolas e Turísticas, S.A. (Chairman)
Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)
PT Multimédia, Serviços de Telecomunicações e Multimédia, Sociedade Gestora de Participações Sociais, S.A. (Member)
Santogal – Sociedade Gestora de Participações Sociais, S.A. (Member)
Sociedade de Investimentos Imobiliários Sodim, S.A. (Member)
General Meeting
Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Quinta Patino – Sociedade de Investimentos Turísticos e Imobiliários, S.A. (Chairman)
Sociedade Imobiliária e Turística da Quinta do Peru, S.A. (Chairman)

José Maria Espírito Santo Silva Ricciardi (executive member)

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)

General Meeting

ESAF – Espírito Santo Gestão de Patrimónios, S.A

Corporate positions held in companies outside BES Group

Board of Directors

Espírito Santo Financial Group S.A. (Member)
General Supervisory Council
EDP – Energias de Portugal, S.A (Member)
Supervisory/Fiscal Board
Sporting Clube de Portugal (Vice- Chairman)
General Meeting
Controlled Sport (Portugal) Turismo Cinegética e Agricultura, S.A. (Chairman)
Espart – Espírito Santo Participações Financeiras – Sociedade Gestora de Participações Sociais, S.A. (Secretary)
PT Meios – Serviço de Publicidade e Marketing, S.A. (Chairman)

Jean-Luc Louis Marie Guinoiseau (executive member)

Corporate positions held in companies of BES Group

Board of Directors

Besleasing e Factoring, IFIC, S.A. (Member)
Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo Empresa de Prestação de Serviços, ACE (Member)

Corporate positions held in companies outside BES Group

Rui Manuel Duarte Sousa da Silveira (executive member)
Corporate positions held in companies of BES Group

Board of Directors

ES Recuperação de Crédito, ACE (Member)

General Meeting

Banco Espírito Santo dos Açores, S.A. (Chairman)
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)
ES Capital – Sociedade de Capital de Risco, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Investimento Imobiliário, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Investimento Mobiliário, S.A. (Chairman)
ESAF – Espírito Santo Fundos de Pensões, S.A. (Chairman)
ESAF – Espírito Santo Participações Internacionais, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
ES Tech Ventures – SGPS, S.A. (Chairman)
ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Chairman)
ESEGUR – Empresa de Segurança, S.A. (Vice-Chairman)
Espírito Santo Data – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Espírito Santo Empresa de Prestação de Serviços, ACE (Chairman)
Europ Assistance – Companhia Portuguesa de Seguros de Assistência, S.A. (Vice-Chairman)
ESAF – Espírito Santo Gestão de Patrimónios, S.A.
Esumédica – Prestação de Serviços Médicos, S.A. (Chairman)
SGPICE – Sociedade de Serviços de Gestão de Portais na Internet e de Consultoria de Empresas (Secretary)
ES Tech Ventures – Sociedade de Capital de Risco, S.A. (Chairman)

Joaquim Aníbal Brito Freixial de Goes (executive member)
Cargos sociais exercidos em empresas do Grupo BES

Board of Directors

BEST – Banco Electrónico de Serviço Total, S.A. (Member)
E.S. Informática A.C.E. (Chairman)
Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Member)
ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A. (Member)
Espírito Santo – Empresa de Prestação de Serviços 2, A.C.E. (Member)
ES Tech Ventures – Sociedade de Capital de Risco, S.A. (Member)

Pedro José de Sousa Fernandes Homem (executive member)
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 Financial Consultants, Gestão de Patrimónios, S.A. (Member)

Patrick Gérard Daniel Coudène (non executive member)
Corporate positions held in companies of BES Group

Board of Directors

Banco Espírito Santo (Spain), S.A. (Member)
ESAF – Espírito Santo Activos Financeiros – Sociedade Gestora de Participações Sociais, S.A. (Member)
ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A. (Member)
ES Tech Ventures – Sociedade de Capital de Risco, S.A. (Member)

Corporate positions held in companies outside BES Group

Board of Directors

Espírito Santo – Unidades de Sa^ode e de Apoio à Terceira Idade, S.A. (Member)
Sociedade de Administração de Bens, Casa de Bons Ares, S.A. (Member)
Cimianto – Gestão de Participações, S.A. (Member)
General Meeting
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Capital Mais – Assessoria Financeira, S.A. (Chairman)
Casa dos Pórticos – Sociedade de Administração de Bens, S.A. (Secretary)
Companhia de Seguros Tranquilidade, S.A. (Vice-Chairman)
Espírito Santo Gestão de Patrimónios, S.A. (Chairman)
Espírito Santo Equipamentos de Segurança, S.A. (Chairman)
Espírito Santo Financial (Portugal) – Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)
Espírito Santo Saúde – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Fundo de Turismo – Capital de Risco, S.A. (Chairman)
Fundo de Turismo – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A. (Chairman)
Oblog Consulting, S.A. (Chairman)
Partran – Sociedade Gestora de Participações Sociais, S.A. (Chairman)
Supervisory/Fiscal Board
Instituto Português de Direito Bancário

Corporate positions held in companies outside BES Group

Board of Directors

BES – Companhia de Seguros, S.A. (Member)
Portugal Telecom, Sociedade Gestora de Participações Sociais, S.A. (Member)
PT Multimédia, Serviços de Telecomunicações e Multimédia, Sociedade Gestora de Participações Sociais, S.A. (Member)
Supervisory/Fiscal Board
Centro Social e Paroquial de Nossa Senhora da Ajuda (Chairman)
Fundação da Universidade Católica Portuguesa (Chairman)

Corporate positions held in companies outside BES Group

Supervisory/Fiscal Board

Spinnaker Global Opportunity Fund Ltd. (Board Member)

Corporate positions held in companies outside BES Group

Board of Directors

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)
BES- Vida, Companhia de Seguros, S.A. (Member and Chairman of the Executive Committee)
Credibom, IFIC, S.A. (Member)
BES, Companhia de Seguros, S.A., (Member and Chairman of the Executive Committee)
Soparcer – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Michel Victor François Villatte (non executive member)
Corporate positions held in companies of BES Group

Corporate positions held in companies outside BES Group

Board of Directors

BES – Vida, Companhia de Seguros, S.A (Member)
Bespar – Sociedade Gestora de Participações Sociais, S.A.
(Member)
École Nationale d'Assurances (ENASS) (Chairman)
Emporiki Life Insurance Company (Greece) (Vice- Chairman)
FFSA (Member)
FFSAM (Vice-Chairman)
Fondation du Crédit Agricole (Member)
Gecina S.A. (Member)
Groupement Français de Bancassureurs (Chairman)
Ifcam (Member)
La Medicale de France, S.A. (Chairman)
Pacifica, S.A. (Member)
Predi Retraites (General Manager)
Predica, S.A. (General Manager)
Predicai-Europe (Luxembourg) (Chairman)
Sal Bancassurance (Liban) (Member)
Siparex (Permanent Representative of Prédica)
Suren, S.A. (Member)
Unimo, S.A. (Permanent Representative of Predica, Member)

Supervisory/Fiscal Board

Unipierre Assurance (Chairman)
CA Grands Crus SAS (Permanent Representative of Predica,
Membre of the Supervisory Council)

Mário Martins Adegas (non executive member and member of the audit committee)

Corporate positions held in companies of BES Group

Corporate positions held in companies outside BES Group

Supervisory/Fiscal Board

E Tempus, SGPS – Sociedade Gestora de Participações Sociais,
S.A. (Chairman)

Luís António Burnay Pinto de Carvalho Daun e Lorena (non executive member and member of the audit committee)

Corporate positions held in companies of BES Group

Corporate positions held in companies outside BES Group

Board of Directors

Campeque, Lda (Manager)

Lázaro de Mello Brandão (non executive member)

Corporate positions held in companies of BES Group

Corporate positions held in companies outside BES Group

Board of Directors

Banco Bradesco S.A. (Chairman)
Banco Bradesco Luxembourg, S.A. (Chairman)
Bradesco Leasing – Arrendamento Mercantil S.A. (Chairman)
Bradespar S.A. (Chairman)
Bradesplan Participações S.A. (Chairman)
Bradport – Sociedade Gestora de Participações Sociais, Sociedade
Unipessoal, Lda. (Manager)
Cidade de Deus – Companhia Comercial de Participações
(Chairman and CEO)
Elo Participações S.A. (Chairman and CEO)
Fundação Instituto de Moléstias do Aparelho Digestivo e da
Nutrição (Chairman and CEO)

Governing Board

Fundação Bradesco (Chairman and CEO)

Top Management

NCF Participações S.A. (Chairman and CEO)
Nova Cidade de Deus Participações S.A. (Chairman and CEO)
Top Clube Bradesco, Segurança, Educação e Assistência Social
(Chairman and CEO)

Advisory Board

VBC Participações S.A. (Member)

Executive Board

Caixa Beneficente dos Funcionários do Bradesco (Chairman)

Ricardo Abecassis Espírito Santo Silva (non executive member)**Corporate positions held in companies of BES Group****Board of Directors**

Banco Espírito Santo de Angola (Chairman)
 Banco Espírito Santo de Investimento, S.A. (Member)
 BES Finance, Limited (Member)
 BES Investimento do Brasil, S.A. (Member)
 Espírito Santo Investimentos, S.A (Brazil) (Member)
 Espírito Santo Bank (Vice-Chairman)

Supervisory/Fiscal Board

Banco Espírito Santo do Oriente, S.A. (Chairman)

Top Management ("Directoria")

BES Investimento do Brasil, S.A. (Chairman)
 Espírito Santo Investimentos, S.A (Brazil) (Chairman)
 Europ Assistance (Brazil) (Director)
 GESPAR S/C Ltda. (Brazil) (Director)

Corporate positions held in companies outside BES Group**Board of Directors**

Agribahia, S.A. (Brazil) (Substitute Member)
 Bradespar, S.A. (Brazil) (Member)
 E.S. Control Holding, S.A. (Member)
 E.S. Holding (Brazil) (Member)
 ESPART – Administração e Participações, S.A. (Member)
 Espírito Santo Financeira (Portugal) (Member)
 Espírito Santo International (Member)
 Espírito Santo Resources Limited (Bahamas) (Member)
 Euroamerican Finance Corporation, Inc. (Member)
 Monteiro Aranha, S.A. (Brazil) (Member)
 Novagest Assets Management, Ltd. (Member)
 Seicor – Comércio Administração e Participações S.A. (Brazil) (Member)
 USHUAIA – Gestão e Trading International, Ltd. (Member)

Top Management ("Directoria")

Associação Espírito Santo Cultura (Director)
 E.S. Holding (Brasil) (Chairman)
 ESAI – Espírito Santo Ativos Imobiliários Ltda. (Brazil) (Managing Director)
 ESCAE – Administração e Participações Ltda. (Brazil) (Director)
 InterAtlântico S.A. (Brazil) (Chairman)
 Seicor – Comércio Adm. e Part. S.A. (Brazil) (Chairman)
 Câmara Portuguesa de Comércio no Brazil (Director)
 Joá Imobiliária Ltda. (Member)
 ESAP Brasil Agro-Pecuária (Member)
 ES Consultoria (Member)

Supervisory/Fiscal Board

Banco Bradesco, S.A. (Member)

Advisory Board

Portugal Telecom – Brazil (Member)

Bernard Henri Georges De Wit (non executive member)**Corporate positions held in companies of BES Group****Corporate positions held in companies outside BES Group****Board of Directors**

Banco Bisel, S.A. (Argentina) (Board Member)
 Banco del Desarrollo (Chile) (Board Member)
 Banco Suquia, S.A. (Argentina) (Board Member)
 Belgium CA S.A.S. (Member of Managing Committee)
 Bespar – Sociedade Gestora de Participações Sociais, S.A. (Board Member)
 Crédit Agricole (Belgique), S.A. (Board Member)
 Crédit Uruguay Banco, S.A. (Uruguai) (Vice-President of the Board)
 Deveurope, S.A. (França) (Member of Managing Committee)
 Emporiki Bank (Board Member)
 Europabank, N.V. (Board Member)
 Inversora del Dusuia, S.A. (Board Member)
 Keytrade Bank, S.A. (Board Member)
 SICSA (Argentina) (Board Member)

José Manuel Ruivo da Pena (non executive member and member of the audit committee)**Corporate positions held in companies of BES Group****Corporate positions held in companies outside BES Group**

BES, Companhia de Seguros, S.A. (Chairman of the Supervisory Board)
 BES – Vida, Companhia de Seguros, S.A. (Chairman of the Supervisory Board)

Jean-Frédéric de Leusse (non executive member)
Corporate positions held in companies of BES Group

Corporate positions held in companies outside BES Group

Board of Directors

Banca Intesa, S.P.A. (Board Member)
Banque Libano Française (Board Member)
Banque Saudi Fransi (Board Member)
Crédit Agricole, S.A. (Member Comex, Manager)
Crédit Lyonnais Private Equity Holding (Chairman and CEO)
IDIA Participations (Chairman)
Unigrains (Board Member)
UI (Chairman and CEO)
Unipar (Chairman)
Calyon Bank (Egypte) SAE (Vice-Chairman)
Credit Agricole Capital Investissement (Chairman of the Board of Directors)
Idia Agri Capital (President du Conseil d'Administration)
Supervisory/Fiscal Board
Crédit Lyonnais Private Equity – (Chairman)
Lukas Bank, S.A. (Wroclaw, Polónia) – (Chairman)

Amílcar Carlos Ferreira de Morais Pires (executive member)
Corporate positions held in companies of BES Group

Corporate positions held in companies outside BES Group

Board of Directors

Bank Espírito Santo International Limited (Chairman)
Banco Espírito Santo de Investimento, S.A. (Member)
Banco Espírito Santo do Oriente, S.A. (Member)
BES Finance Limited (Member)
BES Overseas Limited (Member)
ESAF – Espírito Santo Activos Financeiros – Sociedade Gestora de Participações Sociais, S.A. (Member)
BIC – International Bank, Limited (Chairman of the Board of Directors)

Board of Directors

BES-Vida, Companhia de Seguros, S.A (Member)
MTS Portugal – Sociedade Gestora do Mercado Especial de Dívida Pública – SGMR, S.A. (Member)
Portugal Telecom, SGPS, S.A. (Member)

Other Positions

Member of the Disciplinary Committee of the International Securities Markets Association

Bernard Delas (non executive member)
Corporate positions held in companies of BES Group

Corporate positions held in companies outside BES Group

Board of Directors

BES – Vida, Companhia de Seguros, S.A (Member)
Corelyon (Non-Executive Director)
Crédit Agricole, S.A. (Executive Director)
Gimar (Executive Director)

Miguel António Igrejas Horta e Costa (non executive member)
Corporate positions held in companies of BES Group

Corporate positions held in companies outside BES Group

Board of Directors

Fundação Luso-Brasileira (Vice-Chairman)
PGA Portugal Airlines, S.A. (Non-Executive Member)
Boston Communications Group Inc. (BCGI)/EUA (Non-Executive Member)
Carbon Assets Fund (Non-Executive Member)
Sociedade de Administração de Bens Casa da Holanda, S.A (Member)
Confederação Internacional dos Empresários Portugueses (CIEP) (Chairman of the Board of Directors)
Associação Portuguesa da Soberana e Militar Ordem de Malta (Vice-Chairman)
Prémio Infante D. Henrique (Chairman)
Fundação Batalha de Aljubarrota (Member)
Associação Portuguesa para o Desenvolvimento das Comunicações (APDC) (Member of the Advisory Committee)
Comodoro do Clube Naval de Cascais
Presidente Honorário do Club de Golf do Campo Real
Companhia Imobiliária do Fez, S.A. (Chairman of the Advisory Committee)

Board Members of Banco Espírito Santo, S.A. designated in 2006

Alberto Alves de Oliveira Pinto (non executive member)

A. Corporate positions held in companies of BES Group

B. Corporate positions held in companies outside BES Group

Galp Energia, SGPS, S.A. (Member)

Nuno Maria Monteiro Godinho de Matos (non executive member)

A. Corporate positions held in companies of BES Group

B. Corporate positions held in companies outside BES Group

General Meeting

EDM – Empresa de Desenvolvimento Mineiro, S.A. (Chairman)

Actel – Actividades Hoteleiras, S.A. (Chairman)

João Eduardo Moura da Silva Freixa (executive member)

A. Corporate positions held in companies of BES Group

B. Corporate positions held in companies outside BES Group

Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)

6. Risk Management

Efficient risk management and control has played a fundamental role in the balanced and sustained growth of the BES Group. The BES Group seeks to achieve the optimal balance of risks and returns with a goal of achieving sustained high return on equity. The BES Group's risk management strategy is consistent with the regulatory and economic vision implicit in the new regulatory framework proposed by the Basel Committee. Pursuant to this strategy, the BES Group monitors and evaluates risk on a group-wide basis, which enables management to actively control the impact of the identified and measured risks on the results of the BES Group.

The Executive Committee of the Board of Directors of BES is responsible for establishing the general principles of risk management and control, defining the objective risk profile for the BES Group, including establishing both global and specific risk limits and ensuring that the BES Group has the necessary competences and resources for the purpose.

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

The management of risk on the BES Group level, both in Portugal and in the various jurisdictions in which the BES Group operates, is centralised in the Global Risk Department. The Global Risk Department is responsible for:

- identifying, assessing and controlling the different types of risk faced by the BES Group, thus ensuring the management of the BES Group's overall exposure;
- implementing the risk policies outlined by the Executive Committee, whilst harmonising principles, concepts and methodologies across all the BES Group's entities; and
- contributing to the achievement of the BES Group's value creation objectives, by fine-tuning tools to support the structuring and pricing of operations, as well as the respective decision-taking process, and by developing internal techniques of performance assessment and core capital optimisation.

In addition to the risk management structure implemented by the BES Group, the BES Group relies on its senior management to help monitor risk. The senior management of the BES Group companies and international branches and the managing directors in each business department within the BES Group have extensive knowledge of the markets and activities in which they operate. BES' senior management assists BES in monitoring and evaluating risk as well as augmenting and implementing the active risk management policies and procedures implemented by the official risk management entities.

Risk Types

Credit Risk

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

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

Internal Risk Rating Systems

In line with the BES Group's credit risk management goals and with the guidelines of the New Capital Accord (Basel II) (as discussed below), the BES Group has developed internal rating systems that are continuously finetuned. During 2005, all the rating and scoring models developed in previous years were already fully used, while specific rating models were created for the Brazilian market, viewing coverage of all the BES Group's portfolios. These models now play a key role, not only in the technical analysis of risk, but also in the credit risk approval and monitoring processes. Internal rating systems fall into the following two large categories, according to their specific characteristics in terms of development and use:

1. 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 medium-sized companies, the BES Group uses statistical rating models, which combine financial information with qualitative data. The disclosure of risk ratings requires a previous validation by a team of risk analysts, who also take into account behavioural factors and express their opinion on the proposed operations. In the small businesses segment, ratings are determined not only based on financial and qualitative analysis, but also based on the track record of behaviour of the company and partners.

For large companies, institutional clients, financial institutions and municipalities, and for specialised finance projects, namely project and leveraged finance, credit ratings are assigned by a rating board. This unit is organised by industry sectors and is composed of highly specialised credit analysts. To assign internal risk ratings, this team uses models that include quantitative and qualitative variables that are strongly dependent on the clients' industry sectors, with benchmarks aligned to those used by one of the main international rating agencies.

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

2. Internal Scoring for Retail Clients' Credit Portfolios

The BES Group uses origination and behavioural scoring models for the main products of 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 regular monitoring.

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

Loan Granting

In accordance with the objectives established for 2005, and continuing the initiatives taken in previous years, the global project of revision and adaptation of the credit granting processes of the various commercial segments was pursued, viewing the increasing integration of internal ratings and risk-adjusted return metrics in the credit decision process.

In 2005, and after a trial period, scoring classifications were incorporated into the definition of credit powers at the various decision-taking levels (in terms of both amount and pricing) of the Small Businesses segment and for mortgage lending. This was a significant step forward, only made possible by the full redesign of the credit process in 2004, which established the respective methodologies for credit analysis, evaluation and approval.

Credit Risk Monitoring

The monitoring and control activities aim to quantify and control credit risk, in order to allow early definition and implementation of specific measures to deal with specific situations pointing to a deterioration of risk, as well as to outline global strategies concerning credit portfolio management. The credit risk monitoring function focuses basically on the following processes:

- Detecting warning signals and monitoring clients – The monitoring system tracks specified warning signals and permits the cataloguing of the frequency, severity and correlation of these signals. By monitoring its exposure to clients whose risk profiles indicate possible deterioration, the BES Group is able to identify, analyse and quantify risks and take strategic options with regard to the maintenance of a commercial relationship with such clients, namely “demobilise”, “reinforce guarantees”, or “reduce exposure”. The above powers and attributions are the responsibility of the Committee for Credit Risk Analysis.
- Controlling credit limits – The limits approved by the Executive Committee for the Bank’s various portfolios are monitored at central level by the Global Risk Department.
- Analysing the global risk profile of credit portfolios – The risk profile of the BES Group’s credit portfolios is analysed on a monthly basis by the Risk Committee. In these monthly meetings the Committee monitors and analyses the risk profile of the BES Group and respective business units under four major angles: evolution of credit exposures, monitoring of credit losses, capital allocation and consumption and control of risk adjusted return.

Recovery Process

The recovery process follows different circuits depending on whether it applies to loans to individuals or to corporate clients.

- Loans to individuals – The default is detected directly when an amount is charged to a client’s account: failure to charge that amount immediately triggers the necessary steps for recovery, including legal action.
- Loans to corporate clients – In corporate credit, defaults are detected through on-line information systems. During the first ninety days of default, the branches monitor the contract and take action for recovery; after that period, the responsibility for recovery is transferred to the BES Group’s Monitoring and Credit Recovery Department. Legal procedures are in the charge of the Legal Department.

Market Risk

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

Market risk management is integrated with balance sheet management through the Assets and Liabilities Committee (the “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. The BES Group’ VaR model uses the Monte Carlo simulation, based on a confidence level of 99 per cent. and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

To improve on VaR assessment, other initiatives have been developed, namely back testing, which consists of comparing the losses foreseen by VaR with actual losses. These exercises permit fine-tuning of the model and improving its predictive capabilities.

As a complement to the VaR model, stress testing has also been developed, which permits to assessment of the impact of higher potential losses than those considered using VaR valuation.

Interest Rate Risk

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

Management Practices

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

In accordance with the recommendations of Basel II (Pillar 2) and Bank of Portugal's Instruction no. 19/2005, as amended, the BES Group's exposure to interest rate risk is calculated based on Bank of International Settlements ("BIS") methodology, classifying all assets, liabilities and off balance sheet items, excluding those from trading sources, by repricing schedules.

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

Interest rate risk measurement basically consists of determining the effect of that change in interest rates on the institution's shareholders' equity and annualised net interest income.

Liquidity Risk

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

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs.

The overall exposure to liquidity risk is assessed through reports that, by identifying negative mismatches, allow for their hedging on a permanent and dynamic basis.

Liquidity risk is analysed under a two-fold perspective, *i.e.*, it considers both the internal perspective and the regulatory perspective.

Internally, the existing procedures are considered adequate to monitor, on the one hand, the evolution of liquidity on a daily basis (under the responsibility of the Treasury area of the Financial Department), and on the other the evolution of liquidity in the medium/long term (which is analysed in the meetings of the ALCO).

From the regulatory standpoint, the liquidity ratio calculated in accordance with Bank of Portugal rules was 107 per cent. at the end of 2005, which compares with 109 per cent. at the end of 2004.

Operational Risk

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

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

To manage operational risk, the BES Group implemented a system that standardises, systematises and regulates the frequency of actions viewing the identification, monitoring, control and mitigation of risk, thus ensuring compliance with the recommendations of Bank of Portugal's Instruction no. 72/96, as amended (last updated in June 2005), which follows the recommendations of the Basel Committee on Banking Supervision.

Risk sources are identified through self-assessment exercises, the discussion of processes in working meetings, and also through the qualitative and quantitative analysis of actual or potential events. Other

available data, such as detected failures in audits or customer complaints, are also used as sources of information. Knowledge about the main weaknesses of an area of responsibility or process is used to define mitigation actions, which should be essentially of a preventive nature.

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

The New Capital Accord (Basel II)

The BES Group thoroughly recognises the challenges and opportunities linked to the future application of the New Capital Accord (Basel II) in Portugal, not only for itself but for the financial system as a whole. The harmonisation of the regulatory vision with the economic perspective implicit in the new regulatory framework proposed by the Basel Committee, whose principles corroborate the BES Group's reasoning and practices, creates new opportunities and constitutes a stimulus to the effort developed over the last years in the area of Risk Management.

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

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

7. Funding

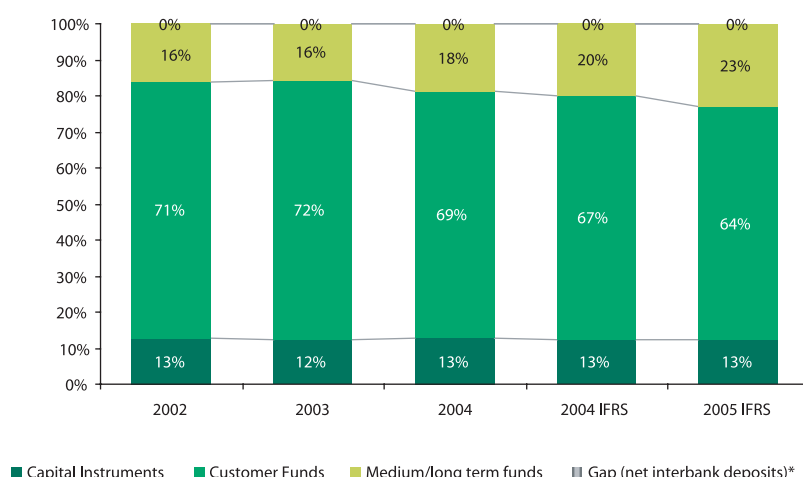
Within the scope of the BES Group's activity and different business areas, attracting customer funds and granting loans are of particularly high importance. On the other hand, in an era of increasing globalisation of the economies and sophistication of the banking sectors, the capacity to access the financial markets, both domestic and international, has become increasingly important for the BES Group's financial management.

The BES Group is actively involved in the international markets, issuing hybrid capital, debt (mainly under the Euro Medium Term Note Programme ("EMTN")), and executing asset securitisation transactions.

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

To implement this policy, the BES Group uses several funding mechanisms, such as interbank lines and commercial paper programs (ECP and USCP) for short term funding, and the Euro Medium Term Note Programme (for issuing senior and subordinated debt), credit lines and asset securitisation, for medium and long term funding.

The chart presented below illustrates the current funding structure



(*) Treasury Gap – current deposits and interbank short term loans less interbank debits until one year. Current situation reflects that there is a liquidity surplus.

BES customer funding relies on an integrated action at the following levels:

- Obtaining on-balance sheet funds through traditional products;
- Issuance of bonds and medium-term capital guaranteed structured products for placing with customers;
- Asset management;
- Distribution of banc assurance products.

The BES Group maintained a high level of funding growth, mainly in customer funds, driven by strong ratings, continued improvement in quality standards, renewed offering of products, reinforcement of cross-selling and the benefits derived from a multi-channel organisation. This allowed for the indispensable balance between growth in lending and funds.

Customer Funds

	euro million		
	2005	2004	Change (%)
On-Balance Sheet Customer Funds	27,873	25,110	11.0
Deposits ⁽¹⁾	24,283	22,414	8.3
Debt Securitized Placed with Clients	3,590	2,696	33.2
Off-Balance Sheet Customer Funds	15,685	13,644	15.0
Mutual Funds	5,392	4,442	21.4
Real Estate Funds	1,463	1,406	4.1
Pension Funds	2,338	1,972	18.6
Bancassurance	4,930	4,461	10.5
Other	1,562	1,363	14.6
Total Customer Funds	43,558	38,754	12.4

The adoption of a commercial strategy based on the offering of funding products – with new integrated products being constantly added – permitted the maintenance of the vigour of funding growth against a recessive economic background.

The increase in the market share in asset management was based on the growth in mutual funds. ESAF continued to play an active role in this business area, rationalising the offer of domestic funds, better adjusting to the customers' needs and consolidating the offering of alternative products to institutional customers (based on new credit risk or absolute return management techniques) and to individual customer whose portfolios are managed by the asset management area.

8. Human Resources

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

Over the last few years several measures were taken to ensure the continuous training of the employees and consequently their mobility within the BES Group, as well as the rejuvenation and strengthening of the workforce.

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

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

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

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

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

In 2005, the BES Group's personnel comprised 41 per cent. women and 59 per cent. men. Through a consistent effort to rejuvenate the workforce and the right balance between a rigorous admissions policy emphasising the recruitment of younger and better qualified professionals and a reduction through retirements, the BES Group has increased the share of staff in the 30-34 years old age group to 24 per cent. of the total. The workforce's average age was 38 years, with 63 per cent. of the employees under 40.

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

9. Financial Statements of the BES Group

According to Regulation no. 1606/2002 of 19.Jul.02 of the European Council and Parliament, BES' consolidated accounts after 1st January, 2005 are being prepared in accordance with the International Financial Reporting Standards as adopted for use in the European Union ("IFRS"), also known as International Accounting Standards ("IAS").

Hence, the financial statements of the BES Group for 2005 (prepared in accordance with IFRS/IAS) are not directly comparable with the financial statements disclosed in 2004, which had been prepared based on the regulations of the Portuguese Plan of Accounts for the Banking System ("PABS").

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

**CONSOLIDATED BALANCE SHEET
AS OF 31ST DECEMBER, 2004 AND 2005
AND UNAUDITED CONSOLIDATED BALANCE SHEET
AS OF 30TH SEPTEMBER, 2005 AND 2006**

	September 2006	September 2005	December 2005	December 2004
	(Amounts expressed in thousands of euro)			
Assets				
Cash and deposits at central banks	840,719	672,949	1,005,008	999,499
Deposits with banks	417,457	471,903	655,180	602,182
Financial assets held for trading	3,772,406	3,606,152	2,995,743	2,355,899
Financial assets at fair value through profit or loss . .	1,647,061	2,047,969	1,746,898	—
Financial assets available for sale	4,869,164	3,167,460	3,808,554	3,231,055
Loans and advances to banks	4,645,101	5,389,479	6,164,044	5,463,525
Loans and advances to customers	33,211,669	30,773,298	30,832,124	27,715,271
(Provisions)	(860,364)	(868,541)	(829,874)	(772,437)
Held to maturity investments	646,215	597,810	596,840	476,202
Financial Assets with repurchase agreements	—	—	—	—
Hedging derivatives	247,640	59,268	124,505	249,200
Non current assets held for sale	—	—	157,536	—
Investment property	—	—	—	—
Other tangible assets	367,828	350,774	363,092	342,058
Intangible assets	63,802	73,893	71,940	72,378
Investments in associated companies	562,002	58,123	62,374	58,940
Current income tax assets	14,436	20,601	13,089	4,228
Deferred income tax assets	66,535	209,793	42,210	92,799
Other assets	2,284,968	1,533,317	1,582,704	1,388,563
Total Assets	53,657,003	49,032,789	50,221,841	43,051,799
Liabilities				
Amounts owed to central banks	744,159	387,231	654,316	498,953
Financial liabilities held for trading	1,233,708	1,622,362	1,271,732	634,863
Financial assets at fair value through profit or loss . .	—	—	—	—
Deposits from banks	7,027,166	7,884,803	6,264,892	5,737,417
Due to customers	18,549,002	18,157,059	20,753,083	20,418,790
Debt securities	17,127,203	14,590,537	14,402,291	10,236,302
Financial liabilities associated to transferred assets . .	—	—	—	—
Hedging derivatives	279,817	88,928	111,098	240,100
Non current liabilities held for sale	—	—	112,428	—
Provisions	138,944	112,111	155,356	84,156
Current income tax liabilities	34,329	23,032	48,945	23,086
Deferred income tax liabilities	104,927	169,784	46,411	944
Instruments representing capital	—	—	—	—
Other subordinated loans	2,229,086	2,080,827	2,367,597	2,065,924
Other liabilities	1,578,185	972,725	1,004,080	554,997
Total Liabilities	49,046,526	46,089,399	47,192,229	40,495,532
Shareholders' Equity				
Share capital	3,100,000	2,100,000	2,100,000	1,500,000
Share premium	669,724	300,000	300,000	300,000
Other capital interests	—	—	—	—
Treasury stock	(65,156)	(89,039)	(96,247)	(100,174)
Fair value reserve	385,816	313,992	365,691	—
Other reserves and retained earnings	115,288	63,304	(26,065)	58,963
Profit for the period / year	304,715	208,018	280,481	151,643
Anticipated dividends	—	(33,480)	—	—
Minority interests	100,090	80,595	105,752	645,835
Total Shareholders' Equity	4,610,477	2,943,390	3,029,612	2,556,267
Total Liabilities and Shareholders' Equity	53,657,003	49,032,789	50,221,841	43,051,799

**CONSOLIDATED STATEMENTS OF INCOME
FOR YEARS ENDED 31ST DECEMBER, 2004 AND 2005
AND UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
AS OF 30TH SEPTEMBER, 2005 AND 2006**

	September 2006	September 2005	December 2005	December 2004
	(Amounts expressed in thousands of euro)			
Interest income	1,914,215	1,470,789	2,027,285	2,210,318
Interest expense	1,299,914	935,989	1,286,658	1,513,361
Net interest income	614,301	534,800	740,627	696,957
Dividends from securities	26,856	31,350	38,868	17,262
Commissions and other similar income . . .	395,622	353,319	486,048	454,024
Commissions and other similar expenses . .	60,789	48,365	62,491	52,100
Gains and losses in financial assets at fair value	(24,447)	(70,778)	10,551	43,137
Gains and losses in financial assets available for sale	147,489	113,839	92,321	60,167
Gains and losses from foreign exchange revaluation	44,147	80,100	92,007	9,927
Gains and losses from sale of other assets .	13,580	33,773	34,843	8,257
Other income from banking activity	70,145	58,898	97,255	107,193
Banking Income	1,226,904	1,086,936	1,530,029	1,344,824
Staff expenses	351,644	310,093	453,727	486,357
Other administrative expenses	253,199	238,871	327,168	300,006
Depreciation	52,384	59,929	80,279	101,128
Provisions net of reversals	37,598	22,149	75,005	73,034
Loan impairment net of reversals and recoveries	130,441	187,275	219,916	226,301
Other financial assets' impairment net of reversals and recoveries	(729)	24,622	25,252	18,245
Other assets' impairment net of reversals and recoveries	(1,247)	(1,234)	429	4,688
Sale of financial investments	—	—	—	81,567
Negative difference from consolidation . . .	—	—	—	—
Equity in earnings of associated companies	6,164	4,860	7,695	4,560
Income before tax	409,778	250,091	355,948	221,192
Tax				
Current tax	61,437	57,570	76,791	42,834
Deferred tax	34,177	(20,595)	(10,920)	3,866
Income after tax and before minority interests	314,164	213,116	290,077	174,492
o.w. after tax income from discontinued operations	—	—	—	—
Minority interests	9,449	5,098	9,596	22,849
Net income	304,715	208,018	280,481	151,643

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED 31ST DECEMBER, 2004 AND 2005**

	December 2005	December 2004
	(Amounts expressed in thousands of euro)	
<i>Cash flows arising from operating activities</i>		
Interest and similar income received	2,040,141	2,213,547
Interest expense and similar charges paid	(1,239,725)	(1,494,672)
Fee and commission income paid	597,436	572,343
Fee and commission expense received	(62,491)	(52,100)
Recoveries on loans previously written off	20,187	25,561
Cash payments to employees and suppliers	(954,893)	(857,754)
	400,655	406,925
Changes in operational assets and liabilities:		
Cash and deposits at central banks	(36,499)	(25,137)
Financial assets at fair value through profit or loss	(1,725,907)	(664,076)
Deposits with banks	(696,171)	1,402,000
Deposits from banks	671,582	(256,438)
Loans and advances to customers	(3,312,363)	2,408,451
Due to customers	305,409	234,476
Hedging derivatives	(35,627)	30,877
Other operational assets and liabilities	687,369	(435,333)
	(3,741,552)	(1,715,157)
Income taxes paid	(59,793)	(50,406)
Net cash flow from operating activities before income taxes	(3,741,552)	(1,715,157)
Net cash flow from operating activities	(3,801,345)	(1,765,563)
<i>Cash flows arising from investing activities</i>		
Acquisition of subsidiaries and associates	(3,859)	(4,013)
Disposal of subsidiaries and associates	5,645	92,362
Dividends received	38,868	17,262
Acquisition of available-for-sale financial assets	(8,531,907)	(15,675,557)
Sale of available-for-sale financial assets	8,001,646	14,681,010
Held to maturity investments	(87,143)	(427)
Acquisition of tangible and intangible assets	(95,686)	(90,721)
Sale of tangible and intangible assets	6,376	2,645
Net cash flow from investing activities	(666,060)	(977,439)
<i>Cash flows arising from financing activities</i>		
Proceeds from issue of cash bonds	5,756,842	3,261,301
Reimbursement of cash bonds	(1,460,326)	(1,590,255)
Proceeds from issue of subordinated debt	290,983	1,100,000
Reimbursement of subordinated debt	(44,892)	(161,640)
Treasury stock	3,927	2,130
Dividends paid from ordinary shares	(108,044)	(99,000)
Dividends paid from preference shares	(33,480)	—
Net cash flow from financing activities	4,405,010	2,512,566
Effect of exchange rate changes on cash and cash equivalents	84,418	177,754
Net changes in cash and cash equivalents	22,023	(52,682)
Cash and cash equivalents at the beginning of the year	864,645	917,327
Cash and cash equivalents at the end of the year	886,668	864,645
	22,023	(52,682)
Cash and cash equivalents include:		
Cash	231,488	262,463
Deposits with banks	655,180	602,182
Total	886,668	864,645

10. Recent Developments

At the beginning of January 2006, BES acquired a 2.18 per cent. stake in the Portuguese electricity utility – EDP – becoming this company's fourth largest private shareholder and reinforcing its core Portuguese shareholders.

In February 2006, the last phase of the merger process of BIC into BES (the migration of all information systems data) was successfully concluded. This merger had been announced on 19th September, 2005 and was carried out in several stages: the legal and accounting merger was concluded on 30th December, 2005, and the conversion to the new corporate identity and image was completed on 31st January, 2006.

The General Shareholders' Meeting of 17th April, 2006 approved the share capital increase of BES from €1,500 million to up to €2,500 million, through the issuance of up to 200 million new shares, with nominal value of €5 each, as follows:

- 50,000,000 shares (€250 million) issued through the incorporation of share premiums, in the proportion of 1 new share for each 6 shares held;
- up to 150,000,000 shares with subscription reserved for existing shareholders (which could assign respective subscription rights), in the proportion of 1 new share for each 2 shares held, at a subscription price of €9.20 per share.

Through notarial deed executed on 30th May, 2006, BES' share capital is now represented by 500 million shares, with nominal value of €5.00 each. This operation was registered with the Commercial Registry of Lisbon and, after an application was filed for the listing of the 200 million new shares on the Eurolist by Euronext Lisbon, the listing took place on 1st June, 2006.

The proceeds from the capital increase were used to purchase a 50 per cent. stake in Companhia de Seguros Tranquilidade Vida (renamed BES Vida) and to support domestic and international business expansion, also reinforcing core capital ratios.

The merger by incorporation of Crediflash (operational unit for credit and debit cards) into BES was concluded in May 2006.

On 1st June, 2006 the transformation of ES Investment SAU, SV in Spain into a branch was finalised.

In June 2006, BES purchased 50 per cent. of Companhia de Seguros Tranquilidade-Vida and sold 15 per cent. of Espírito Santo, Companhia de Seguros, S.A., in which it maintained a stake of 25 per cent.. These insurance companies changed their names to BES-Vida, Companhia de Seguros, S.A. (BES Vida), and BES, Companhia de Seguros, S.A. (BES-Seguros), respectively.

In June 2006, Companhia de Seguros Tranquilidade-Vida, which held 6.46 per cent. of BES' share capital before the aforementioned share capital increase, disclosed that it no longer holds any share capital of BES.

As announced on 19th July, 2006, the BES Group decided to transform Banco Espírito Santo (Spain) into a subsidiary of Banco Espírito Santo (Portugal). The objective of this reorganisation is to promote the corporate segment activity in Spain and to achieve greater operating efficiency, namely through the use of common structures.

On November 2006, further to enquiries by the Spanish authorities to Banco Espírito Santo, S.A. (Spain) on certain transactions, BES has publicly confirmed its full cooperation with such authorities and that all the due and relevant procedures and rules in relation to this subsidiary's activities have been duly complied with.

On 18 December 2006 the Extraordinary General Shareholders' Meeting of BES approved a new version of the BES by-laws that adopts a management and supervision structure based on the Board of Directors, including an Audit Committee and a Certified Auditor, in accordance with Article 278 (1) (b) of the Portuguese Companies Code. This change of corporate governance model was previously approved by the Bank of Portugal. In line with the above mentioned, the General Meeting also resolved the following: (i) to elect Mr. Mário Martins Adegas (Chairman), Mr. José Manuel Ruivo da Pena and Mr. Luís António

Burnay Pinto de Carvalho Daun e Lorena as the members of the Audit Committee; (ii) to elect as Certified Auditor the firm KPMG & Associados, Sociedade de Revisores Oficiais de Contas, represented by Mrs. Inês Maria Bastos Viegas Clare Neves Girão de Almeida (Official Accounts Auditor) and as Substitute Certified Auditor Mr. Jean-Éric Gaign. Finally, at the same meeting the new Officers of the General Meeting were also elected: (i) Prof. Paulo Pitta e Cunha (Chairman); (ii) Mr. Fernão de Carvalho Fernandes Thomaz (Vice-chairman); (iii) Mr. Nuno Miguel Matos Silva Pires Pombo (Secretary). The members of the Audit Committee and the new Officers of the General Meeting will serve until the end of the current mandate of the Corporate Bodies (2004-2007).

The following are extracts from the press release dated 1st February, 2007 relating to the publication of the 31st December, 2006 consolidated results (unaudited):

“HIGHLIGHTS

- Net income increased 50% in 2006, to EUR 420.7 million, corresponding to a return on equity (ROE) of 14.7%.
- Strong commercial performance: customer funds were up 13.9% with customer loans, including securitisations, rising 14.4%. New clients acquired: 150,000 individual clients and 700 corporate clients.
- Banking income increased 10.9% to EUR 1.7 bn, fuelled by the international banking business that grew 28.2%; net interest income rose 12.0%, while fees and commissions were 10.0% higher.
- Operating costs increased 3.5%, leading to further efficiency gains: the cost to income decreased to 52.3% from 56.0% in 2005. Domestic costs increased 1.8% while international grew 12.9%.
- Strict credit risk management had a positive impact on cost of risk: provision charge reached EUR 181.6 million, representing 0.51% of total credit (0.69% in 2005).
- Improved asset quality ratios: the overdue loans ratio (>90 days) reduced to 1.1% (1.3% in 2005), while the respective provisions coverage rose to 218% (197% in 2005).
- Significant reinforcement of solvency levels, as a result of the recent share capital increase: Core Tier I ratio increased to 7.0% (Dec 05: 4.7%) and the Tier I ratio to 8.3% (Dec. 05: 6.2%).
- The Board of Directors will propose at the AGM a dividend of EUR 0.400 per share (a 29% growth on a comparable basis) for all shares outstanding at reporting year end.

RESULTS

BES Group's consolidated net income reached EUR 420.7 million in 2006, a year-on-year increase of 50%.

INCOME STATEMENT

Euro million

	December		Change %
	2005	2006	
Net Interest Income	740.6	829.5	12.0
+ Fees and Commissions	555.1	610.5	10.0
= Banking Income ex-Markets	1,295.7	1,440.0	11.1
+ Capital Markets and Other	242.0	264.8	9.5
= Banking Income	1,537.7	1,704.8	10.9
– Operating Costs	861.2	891.3	3.5
= Gross Results	676.5	813.5	20.2
– Net Provisions	320.6	241.9	–24.6
Credit	219.9	181.6	–17.4
Securities	30.2	6.9	–77.0
Other	70.5	53.4	–24.5
= Income before Taxes and Minorities	355.9	571.6	60.6
– Income Tax	65.8	135.4	105.8
= Income before Minorities	290.1	436.2	50.4
– Minority Interests	9.6	15.5	60.9
= Net Income	280.5	420.7	50.0

In addition to the positive impacts of the recovery of the Portuguese Economy and the improvement of the main confidence indices at corporate and private consumption levels, the following factors contributed to the BES Group results:

- the strong growth in all areas of activity, especially in customer loans (+14.4%) and customer funds (+13.9%);
- the good performance of banking income, which grew 10.9%, underpinned by the increase in net interest income (+12%) and the increase in commissions (+10%);
- the international banking business, with banking income rising by 28%, underpinned by fees and commissions that reached EUR 124 million (+57%) and trading that increased 50%;
- the operating costs control through the implementation of rationalisation measures: costs increased only by 3.5% and due to international activity expansion where costs rose 12.9%;
- the reduction in the credit provisioning charge, as a result of a consistent loan policy focused on lower risk clients;
- the reduction in the other risks provisioning charge compared to 2005, when a provision of EUR 57.6 million for BIC restructuring/integration was made.

ACTIVITY SUMMARY

The Group's commercial activity in 2006 continued strong: customer loans increased EUR 5.1 billion, including securitisation transactions, or 14.4% year-on-year, while total customer funds were up by EUR 6.1 billion or 13.9%.

The above mentioned growth resulted from further implementation of the commercial strategy based on multi-specialist approach, international activity growth, cross-selling consolidation – mainly through *assurfinance* – and from specialised approach to new business opportunities.

MAIN INDICATORS

Euro million

	December		Change %
	2005	2006	
Total Assets⁽¹⁾	71,687	84,628	18.1
Assets	50,222	59,139	17.8
Gross Loans (including securitised)	35,451	40,546	14.4
(o.w. international area).	(4,095)	(5,497)	(34.2)
Loans to Individuals.	14,072	15,603	10.9
– Mortgage.	12,270	13,294	8.3
– Other Loans to Individuals	1,802	2,309	28.1
Corporate Loans.	21,379	24,943	16.7
Customer Funds			
+ Deposits ⁽²⁾	24,283	26,732	10.1
+ Debt Securities placed with Clients ⁽³⁾	3,590	5,263	46.6
= On-Balance Sheet Customer Funds	27,873	31,995	14.8
+ Off-Balance Sheet Funds	15,685	17,637	12.4
= Total Customer Funds	43,558	49,632	13.9
(o.w. international area).	(9,881)	(12,477)	(26.3)
<i>Transformation Ratio (%)⁽⁴⁾</i>	<i>111</i>	<i>109</i>	<i>-2 p.p.</i>

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

(2) Includes: "Customer deposits and Certificates of Deposits

(3) Includes: funds associated to securitizations and bonds at Fair Value

(4) Assuming on-balance sheet credit/(Total customer funds- Off-balance sheet funds)

On-balance sheet funds increased 14.8%, while Off-balance sheet funds increased 12.4%, as a result of a wide range of life *bancassurance* products offer, investment funds and portfolio management.

As for customer loans, there was a strong growth in corporate loans (+16.7), allowing the bank to reinforce its competitive position in this important business area. Loans to individuals: mortgage loans grew by 8.3%, while other loans to individuals increased 28.1%, as a result of several programs associated to consumer credit, credit cards and BES 95 Plan.

During the year the BES group performed two securitization transactions: (i) one in the mortgages (fifth so far) totalling EUR 1.4 billion; (ii) another transaction in the SME area totalling EUR 863 million. This first SME loans securitization was very successful, as reflected by the demand for Class A Notes (with AAA rating) that was two time the offer.

The overall impact of these factors allowed a slight improvement in the transformation ratio from 111% (Dec. 05) to 109% (Dec. 06).

BES Vida registered a total production of EUR 1,291 million, representing a 16% increase versus the 8.2% market decrease. BES Vida has a 15% market share in the life insurance premiums and a 26.5% share in the Retirement Savings Plans. The firm maintained the leadership position in the latter product for the tenth consecutive year: Retirement plan is the most important product for long term Client loyalty, given the limitations of the current social security system. Furthermore, the unit linked products – that are more favourable for capital and financial management compared to the fixed rate products – increased 57% in 2006.

ESAF, Espírito Santo Activos Financeiros made a major contribution on the customer fund increase: assets under management surpassed EUR 19.6 million, reflecting a 24% growth. This is due to the attractive product offer strategy, launch of three new investment funds, eighteen closed-end real estate funds as well as new management mandates in CDO (collateralized debt obligation)."

11. Supervision and Regulation

The Bank of Portugal

The Bank of Portugal is a part of the European System of Central Banks (“ESCB”), which was created in connection with the European Economic and Monetary Union (“EMU”). The EMU implies a single monetary policy, the main features of which are a single currency – the Euro – and the creation of a European Central Bank (“ECB”) and the ESCB. According to the European Union (“EU”) treaty, the primary objective of the ESCB shall be to maintain price stability, such goal pursued through monetary policy.

The Bank of Portugal is directed to “provide for the stability of the domestic financial system, performing for this purpose the function of lender of last resort”. This goal is achieved through the supervision of credit institutions, financial companies and other entities subject to the supervision of the Bank of Portugal.

According to the *Regime Geral das Instituições de Crédito e Sociedades Financeiras*, or Legal Framework of Credit Institutions and Financial Companies (Decree-Law NR 298/92 of 31st December, 1992, as amended), the Bank of Portugal authorises the setting up of credit institutions and financial companies based solely on technical criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches, should they occur, and takes extraordinary measures of reorganisation.

The Bank of Portugal has established rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. It monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

The Bank of Portugal is also charged with the duty to “regulate, oversee and promote the smooth operation of payment systems, namely within the scope of its participation in the ESCB”.

Membership in the EU subjects Portugal to compliance with European legislation. The Portuguese authorities have introduced EU directives and recommendations into legislation to adapt Portuguese laws to European regulatory standards.

Additional Supervision

Credit institutions incorporated in Portugal are also subject to the supervision of the CMVM with respect to the performance of investment services/ancillary services, as defined in Annex X of European Council Directive 93/22/CEE, dated 10th May, 1993. Therefore, CMVM supervises BES in relation to its performance of the activities foreseen in Articles 290 and 291 of the *Código dos Valores Mobiliários*, or Portuguese Securities Code, such as asset management on behalf of third parties, securities custody, assistance and placement of public offer of securities, investment consultancy, brokerage.

Furthermore, BES is also subject to the supervision of CMVM as an issuer with securities admitted to trading on a Portuguese regulated market, which qualifies it as a public company (*sociedade aberta*) that is required to comply with the applicable provisions of the Portuguese Securities Code, in particular with regard to qualifying holdings and disclosure requirements (such as inside information and financial information).

Capital Adequacy Requirements

Capital and Solvency Ratios

Portuguese credit institutions are subject to solvency ratio requirements. These requirements conform to the EU legal framework establishing common standards for the measurement of capital and a system for weighting assets according to credit risk (currently contained largely in the “Banking Consolidation Directive”) with the requirement that, since 31st December, 1992, all credit institutions must maintain capital of at least 8 per cent. of risk-weighted assets. In particular cases, the Bank of Portugal may impose a higher solvency ratio to ensure weighting assets according to credit risk. Credit institutions that fail to comply with these requirements are subject to various measures that may be imposed by the Bank of Portugal, including possible restrictions on dividends and imposition of fines and other sanctions, not only the bank, but also on its directors and executive officers. The BES Group is in compliance with the solvency

ratio requirements and as of 31st December, 2005 maintained capital (as defined by the Bank of Portugal) of 12.3 per cent. of its equivalent risk-weighted assets.

The capital instruments used to calculate the solvency ratio are the Tier I and Tier II instruments. Under the terms established by the Bank of Portugal, the preference shares issued by BES Finance, amounting to €600 million, are considered to be Tier I for the purposes of the calculation. However, this amount is not deemed as core capital and, therefore, it is not included in the core Tier I.

**RISK WEIGHTED ASSETS AND SOLVENCY
(Bank of Portugal)**

	September 2006*			Euro million
	September 2005	December 2005		
Risk Weighted Assets	42,393	37,485	38,046	
Regulatory Capital	5,696	4,424	4,689	
Tier I	3,554	2,357	2,373	
Tier II	2,225	2,129	2,372	
Deductions	(83)	(62)	(56)	
Preference Shares	600	600	600	
Core Tier I	7.0%	4.7%	4.7%	
Tier I	8.4%	6.3%	6.2%	
Total	13.4%	11.8%	12.3%	

* estimate

The BES Group's capital ratios as of 30th September, 2006 already reflect the effects of the capital increase, successfully concluded in May. The BES Group's solvency ratios are now at comfortable levels for further business development and growth. The share capital increase allowed strengthening the core capital by €1,367 million, increasing the Core Tier I capital from 4.7 per cent. in December 2005 to 7.0 per cent. at the end of September.

The Basel II Capital Accord

Because Portugal is not a party to the 1988 capital accord of the Basel Committee on Banking Supervision (the "Basel Committee"), the capital adequacy requirements established by that accord are not applicable to BES or other BES Group companies based in Portugal. Nonetheless, the BES Group discloses certain capital adequacy ratios provided by that accord on a voluntary basis. The Banking Consolidation Directive provisions that have been implemented into the Portuguese legal framework are strongly related to the Basel Capital Accord of 1988, as amended in 1996. The Basel Committee is composed of central banks and bank supervisors/regulators from the major industrialised countries. It develops broad policy guidelines that each country's supervisors may use to determine the supervisory policies they apply. The new Basel Capital Accord, finalised in June 2004 (the **Basel II Capital Accord**), will have a strong impact on the way capital requirements are established. For instance, for the purpose of the Minimum Capital Requirements it will introduce a capital charge for operational risk (in addition to the credit and market risks already covered) and it will allow a better alignment between capital charges and the underlying risks. Upon implementation of the Basel II Capital Accord, which is expected to occur in 2007, and despite the fact that the new accord is expected to be more risk sensitive, BES might need to maintain higher levels of capital for bank regulatory purposes, which could increase its financing costs.

As of December 2005, under BIS regulations, the solvency ratio was 12.7 per cent. (13.9 per cent. in 2004), compared to the Basel requirement of 8.0 per cent., whereas the Tier I ratio was 6.4 per cent. which compares with the minimum recommended level of 4 per cent.

Own Funds and Large Exposures

Credit institutions are required under Portuguese law to maintain an adequate level of own funds, which shall be at least equal to the minimum share capital. The relevant criteria to determine the level of own funds are determined by the Bank of Portugal.

Under Portuguese law, credit institutions may not incur an exposure to a client or group of connected clients exceeding 25 per cent. of own funds. Institutions may also not incur large exposures (exposures to a client or group of connected clients with a value equal to or exceeding 10 per cent. of own funds) which in total exceed 800 per cent. of its own funds. As permitted by the Banking Consolidation Directive, the Bank of Portugal has exempted from this requirement the exposure to certain assets, including assets constituting claims on Zone A central governments or central banks.

Minimum Cash Requirements

The minimum cash requirement is set by the ECB, and the rate of interest is the rediscount rate at which the ECB lends to the other European central banks. The failure of a bank to maintain adequate liquidity may result in (i) an increase in the cash amount required (of up to three times the original amount); or (ii) an additional payment of up to double the rediscount rate or (iii) up to 5 basis points over that market rate.

Depositors' Guarantee

The Deposit Guarantee Fund was established in December 1994 and has administrative and financial autonomy. Credit Institutions with head offices in Portugal that accept deposits must participate in this fund. The financial resources of the Deposit Guarantee Fund are mainly composed of initial contributions from the Bank of Portugal and the participating credit institutions and, thereafter, periodic contributions from the participating credit institutions.

The annual contributions are defined according to the monthly average of the deposits balance accepted in the previous year and to the fixed contribution rate, weighted by the average solvency ratio of each institution in the previous year (the lower an institution's ratio, the higher its contribution). The annual contributions rate is determined yearly by the Bank of Portugal up to a limit of 0.2 per cent. and was set at 0.03 per cent. for 2006.

The Bank of Portugal may determine that the payment of up to 75 per cent. of the annual contributions may be partly replaced by an irrevocable contract, guaranteed where necessary by securities having a low credit risk and high liquidity. The Bank of Portugal determined that this limit would be 15 per cent. for the 2006 annual contribution. If the resources are insufficient to comply with its commitments, the Deposit Guarantee Fund may ask for additional contributions or resort to loans.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the total repayment to depositors up to €25,000 per depositor.

The deposits made in Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the guarantee scheme – such as those made by credit institutions, financial companies, insurance companies, investment funds, pension funds and central or local administration bodies on their own name and for their own account. Moreover, in order to prevent a conflict of interests, the Fund does not cover deposits made by an institution's managing bodies, qualifying shareholders, external auditors and non-financial companies under the control of the credit institution at issue, or which together with the latter belong to the same group.

Unlike the systems existing in other countries, the Deposit Guarantee Fund is not responsible for any procedures aimed at the reorganisation and recovery of the participating credit institutions.

Borrowing from the Bank of Portugal

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of liquidity shortfalls in the banking system. The basic method of lending employed is advances and overdrafts against collateral. For this purpose the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is now set by the ECB.

International Capital Flows

The Portuguese authorities have established a programme of liberalisation of international capital flows in furtherance of the country's integration into the single market of the European Union.

Restrictions on Acquisition of Capital Stock of a Bank

According to the Legal Framework of Credit Institutions and Financial Companies, any legal or natural person who proposes either to acquire directly or indirectly a qualified direct or indirect holding (5 per cent. or more of the capital or the voting rights, or an inferior holding which makes it possible to exercise significant influence over management) in a credit institution is required to give the Bank of Portugal prior notice of such intention.

Prior notice must also be given to the Bank of Portugal by any such person intending to increase an existing qualified holding as a result of which the percentage of the voting rights or of the share capital held by such person would directly or indirectly (through persons acting in concert pursuant to the provisions governing the attribution of voting rights, that include companies and their affiliates) reach or exceed 5 per cent., 10 per cent., 20 per cent., 33 per cent. or 50 per cent., or when such credit institution would become a subsidiary of such person.

The Bank of Portugal may oppose any such acquisition or increase, in the event it does not consider the concerned person to meet certain conditions designed to ensure sound and prudent management of the credit institution.

All acquisitions of holdings as a result of which the percentage of the voting rights or of the share capital held by such person would reach or exceed 2 per cent. must be notified to the Bank of Portugal within a period of 15 days after they occur. The Bank of Portugal will then determine if the holding is qualified or not. Should the Bank of Portugal not consider such holding as a qualifying holding, it may require the participant to disclose the increase of its holding to 3 per cent. or 4 per cent. of the shareholding or voting rights.

Similarly, any legal or natural person who proposes either to dispose of a qualified holding in a credit institution or to reduce the percentage of the voting rights and/or of the share capital directly or indirectly held in a credit institution as a result of which: (i) such person's holding in the credit institution would fall below any of the percentages referred to above, (ii) such person would no longer be able to exercise a significant influence over the credit institution, or (iii) such credit institution would cease to be a subsidiary of such person, is also required to give the Bank of Portugal notice prior to proceeding with the proposed transaction. The notification must include information on the new amount of the holding.

Under the Portuguese Securities Code, any natural or legal person who directly or indirectly (through persons acting in concert pursuant to the provisions governing the attribution of voting rights, that include companies and their affiliates) reaches or exceeds a holding of 10 per cent., 20 per cent., 33 per cent., 50 per cent., 66 per cent. or 90 per cent. of the voting rights attributable to the share capital of any public company (*sociedade aberta*) or reduces its holding below any of the above referred limits, must notify the CMVM and the company within three days from the occurrence of the event. The notice must identify, *inter alia*, the chain of entities to which, according to law, such holding is attributed. In the event the target company is the issuer of shares or of other securities that grant the holder the right to subscribe or acquire shares listed on regulated markets located or operating in Portugal, the respective managing entities must also be notified.

In addition, these requirements also apply in the case of a listed company in Portugal if any natural or legal person directly or indirectly (through persons acting in concert pursuant to the provisions governing the attribution of voting rights, that include companies and their affiliates) reaches or exceeds a holding of 2 per cent. or 5 per cent. of the voting rights attributable to the share capital of the company or reduce such holding to an amount below either of these limits.

Investment in Non-Banking Companies

According to the Legal Framework of Credit Institutions and Financial Companies, no credit institutions may, in principle, have any direct or indirect qualified holding exceeding 15 per cent. of its own funds. In addition, the total amount of qualified holdings by a credit institution in such non-banking companies may not exceed 60 per cent. of its own funds.

The Legal Framework of Credit Institutions and Financial Companies also provides that no credit institution may directly or indirectly own more than 25 per cent. of the capital of any single non-financial company for a period longer than three years (five years for shareholdings held through venture capital companies). These limitations are not applicable to auxiliary services companies. BES is currently in compliance with these laws.

Treasury Shares

Portuguese law prohibits a company from subscribing for its own shares and generally from issuing guarantees or lending money to any third party in connection with the subscription for or acquisition of such shares, except for loans made in the ordinary course of business by banks and other financial institutions. In the event the by-laws of a company do not prohibit the acquisition of its own shares, the company may only acquire or sell its own shares on terms and conditions determined at a general meeting of shareholders and, with certain exceptions, such shares, together with shares held by the company as collateral, may not exceed 10 per cent. of its capital. During the period the company owns such shares, all rights attendant on the ownership of such shares are suspended except for the right to receive additional, free or bonus shares. With certain exceptions, a Portuguese subsidiary is prohibited from subscribing for shares of its parent and the acquisition of shares is subject to the conditions described above.

Treasury shares of a company that exceed the 10 per cent. limit must be sold within one year (if unlawfully acquired) or within three years (if lawfully acquired). Failure to sell shares in accordance with these provisions will subject such shares to cancellation and the directors of the company to potential personal liability for damages to the company, to the creditors of the company or to third parties.

Issuers subject to Portuguese or foreign personal law with shares or other securities that confer rights of subscription, acquisition or disposal and that are admitted to trading in regulated markets located or operating in Portugal must notify the managing entity of that market and the CMVM of any acquisitions or disposals by them of such treasury shares or securities conferring rights over treasury shares: (i) within the national territory or abroad, where such transactions, either individually or together with any effected since the last previous notice under this paragraph, amount to or exceed 1 per cent. and subsequent multiples of the equity capital; or (ii) in the same trading session of a spot market located or operating in Portugal, where such transactions, either individually or together with any already effected, amount to or exceed 0.05 per cent. of the quantity admitted to trading.

Controlling companies must give notice, in accordance with the terms of the preceding paragraph, of all acquisitions and disposals of securities issued by the controlling company itself and executed by a company controlled by it.

Other Controls

The Bank of Portugal imposes a number of other controls covering various aspects of a bank's business. It administers these controls through reporting requirements and ongoing supervision, including periodic examinations of the operations and asset portfolios of individual banks and consolidated banking groups.

As part of the internal market programme, the European Commission and the European Council have proposed and adopted a number of regulations, directives and recommendations with respect to banking and financial services, including enacted and proposed legislation regarding capital movements, depositors' guarantees, payment systems, collective investment companies, investment firms, public disclosure of acquisitions and dispositions of holdings in listed companies, prospectuses for the public issuance of securities, consumer credit, insider trading, mortgage credit, insurance, publication of annual accounting documents and taxation. The legislation is promoting greater competition in financial services, including areas such as securities brokerage, dealing and underwriting and providing investment advice and management in which BES competes.

12. Market Position and Competition

Structural changes in the Portuguese economy over the past several years have significantly increased competition in the Portuguese banking sector. These changes principally related to the privatisation of several sectors of the economy, including banking and insurance, as well as to the integration of the Portuguese economy into the EU and the introduction of the Euro.

The BES Group faces intense competition in each of its main areas of operation; however, competition in the Portuguese banking markets has the most significant effect on BES' results and operations. BES' competitors in the Portuguese banking markets are Portuguese commercial banks, savings and investment banks, foreign banks (many of which have recently entered the Portuguese market) and non-deposit-taking financial institutions (investment companies). The Portuguese banking industry has been characterised by increasing consolidation through mergers and acquisitions among the major Portuguese banks and by foreign financial institutions. Currently, the five principal financial groups in the banking sector are: Caixa Geral de Depósitos, the Millennium BCP Group, the BES Group, the Santander/Totta Group and BPI Group, which represent approximately 88 per cent. of total funds and credit in the Portuguese banking system.

Under current law, Portuguese banks are permitted to provide all types of financial services. In addition, EU banking directives allow cross-border reciprocity within EU countries for any bank formed within the EU. In the major corporate markets and in international markets generally, therefore, BES faces competition from other commercial investment banks and financial institutions, particularly those with ties to Portugal.

Management believes that competition will continue to intensify as a result of the increased consolidation in the banking industry in Portugal, the integration of European markets, the enlargement of the EU including many Eastern European countries and economic globalisation.

TAXATION

Taxation in the Cayman Islands

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Note under the laws of their country of citizenship, residence or domicile.

Cayman Islands Taxation

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands Laws:

- Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax.
- The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
- No stamp duty is payable in respect of the issue or transfer of the Notes although duty may be payable if Notes are executed in or brought into the Cayman Islands; and
- Certificates evidencing the Notes, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, any instrument transferring title to any Note, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. Banco Espírito Santo, S.A. was registered under the Companies Law of the Cayman Islands as a foreign company incorporated in Lisbon, Portugal on 20th October, 1937, which registration was given on 22nd February, 2000. Banco Espírito Santo, S.A. holds a category "B" Banking Licence issued on 15th March, 2000 under The Banks and Trust Companies Law (1995 Revision) of the Cayman Islands. BES Finance has obtained an undertaking from the Governor in Council of the Cayman Islands pursuant to the Tax Concessions Law of the Cayman Islands that, for a period of 20 years from 14th January, 1997, no law enacted in the Cayman Islands imposing any tax to be levied on profits, income or gains or appreciation shall apply to BES Finance or its operations and no such tax or any tax in the nature of the estate duty or inheritance tax shall be payable by BES Finance on or in respect of the shares, debentures, or other obligations of BES Finance or by way of withholding in whole or in part of any payment of dividend or other distribution of income or capital by the Issuer to its members or any payment of interest or principal or other sums due under a debenture or other obligation of BES Finance.

Taxation in Portugal (including Madeira)

The following is a summary of the material Portuguese tax consequences with respect to the Notes. The summary does not purport to be a comprehensive description of all the tax consequences that may be relevant to any particular Noteholder, including tax considerations that arise from rules of general application or that are generally assumed to be known to Noteholders. This discussion is based on Portuguese law as it stands at the date of this Prospectus and is subject to any change in law that may take effect after such date. Prospective investors in the Notes should consult their professional advisers with respect to particular circumstances and the effects of state, local or foreign laws to which they may be subject. Noteholders who are in doubt as to their tax position should consult their professional advisers.

Notes issued by Bank acting through Cayman Islands or London branches are subject to the following specific tax considerations:

Payments to be made by the Bank acting through Cayman Islands or London branches of investment income (including interest) arising from Notes issued by them and payable to an individual or legal person who is a non-resident in Portuguese territory for tax purposes are not subject to Portuguese

withholding tax provided those payments correspond to costs or charges concerning the activities of that branch. It should be taken into account that according with the legal provision dealing with this matter the Secretary of State for Fiscal Affairs (currently *Secretário de Estado dos Assuntos Fiscais*) has issued the governmental order no. 1132/2006-XVII, of 12th September, which has only entered into force in respect of Notes issued after 1st January, 2007, stating that, if the proceeds of the Notes issued by foreign financial branches of Portuguese credit institutions are transferred to the respective headquarters or to another branch of such Portuguese credit institutions, the investment income (including interest) arising from such Notes and payable to Noteholders with no residence, effective management or permanent establishment in Portugal will be considered subject to Portuguese withholding tax at a general rate of 20%, which may be reduced in accordance with any applicable double taxation treaty signed by Portugal. In order to benefit from such reduction Noteholders shall comply with certain procedures and certification requirements of the Portuguese tax authorities, aimed at verifying the non-resident status and eligibility for the respective tax treaty benefits (currently the form 7 RFI).

Notes issued by the Bank acting through its Madeira Free Trade Zone branch are subject to the following specific tax considerations:

The Madeira Free Trade Zone is a Free Trade Zone, established as part of the taxation system in the Portuguese Republic. Investment income paid by the Bank through its Madeira Free Trade Zone branch benefits from a tax exemption provided that the Bank acting through its Madeira Free Trade Zone is financing its balance sheet liabilities and the Noteholders and Couponholders, as beneficiaries of the income, are individuals or corporate entities resident, or with registered offices, outside, and without permanent establishments located in, the Portuguese Republic (with the exception of the Madeira Free Trade Zone or the Free Trade Zone of the Island of Santa Maria). This exemption is not applicable when the beneficiaries of the income are credit or financial institutions or financial branches located in the Madeira Free Trade Zone or the Free Trade Zone of the Island of Santa Maria, which carry out their activity with residents in the Portuguese Republic's mainland or with permanent establishments of non resident entities therein.

Therefore, under current Portuguese law, investment income on the Notes paid by the Bank acting through its Madeira Free Trade Zone Branch is exempt from taxation and consequently from withholding tax where the beneficiaries of the income are:

- (i) individuals or entities operating within the Madeira Free Trade Zone which are not credit institutions or financial companies or financial branches which carry out operations in the scope of their activities with residents in mainland Portuguese Republic or with permanent establishments of non-resident entities in mainland Portuguese Republic; or
- (ii) individuals not resident for tax purposes in the Portuguese Republic pursuant to section 16 of the Income Tax Code ("*Código do Imposto sobre o Rendimento de Pessoas Singulares*") or incorporated entities with registered offices outside the Portuguese Republic and without permanent establishments located in the Portuguese Republic, or other incorporated entities whose registered office or effective management is not located in the Portuguese Republic.

It should be noted that permanent establishments in the Portuguese Republic of incorporated entities with registered offices outside the Portuguese Republic and companies and other incorporated entities with a registered office or effective management located in the Portuguese Republic, are considered residents in the Portuguese Republic and therefore do not benefit from tax exemption contained in section 33.6 of the Tax Benefits Statute (approved by Decree-Law 215/89, of 1989). Under domestic law, a permanent establishment is defined as a fixed installation through which an activity (other than an activity of a preparatory or auxiliary character) of a commercial, industrial or agricultural nature is carried on. A permanent establishment is also deemed to exist when a person other than an independent agent acts within the territory of Portugal on behalf of a foreign enterprise and has, and habitually exercises, the authority to negotiate and conclude contracts related to the activities of the enterprise. In this situation a permanent establishment is not deemed to exist if a company operates in Portugal through a commission agent, or any other type of independent agent, provided that such persons are acting in the ordinary course of their business and bear the risk of the activity.

The aforementioned tax exemption, and the consequent withholding tax exemption, will apply to the specified category of Noteholders and/or Couponholders, as the case may be, so long as they are able to provide to the Issuer (i) the Residency Information (as defined below); and (ii) a statement of non-Portuguese beneficial ownership substantially as set out in Annex 1 to this “Taxation” section (the “Statement of non-Portuguese Beneficial Ownership”) prior to the Income Payment Date.

“Residency Information” means appropriate evidence that the relevant Noteholder and/or Couponholder, as the case may be, is not resident in the Portuguese Republic and does not have any registered or deemed permanent establishment in the Portuguese Republic in accordance with the following provisions as set forth in article 33.14 of the Tax Benefit Statute (*Estatuto dos Benefícios Fiscais*), as amended from time to time, applicable to the residency certification of payees of interest that are exempt from Portuguese withholding taxation:

- (i) if a Noteholder or Couponholder, as the case may be, is a central bank, public institution, international body, credit institution, financial company, property investment fund, collective investment scheme, pension fund or insurance company with its head office in any OECD country or in a country with which the Portuguese Republic has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the Noteholder and Couponholder and their head office; or (C) a declaration of tax residence issued by the Noteholder and/or Couponholder itself, duly signed and authenticated, if a central bank, public law entity taking part of the public administration (either central, regional or peripheral, indirect or autonomous of the country of the relevant Noteholder and/or Couponholder) or an international body; or (D) proof of non-residence, pursuant to the terms of paragraph (iii) below, so long as the Noteholder and/or Couponholder provides a form of confirmation referred to in said paragraph (iii);
- (ii) if a Noteholder and/or Couponholder, as the case may be, is a working emigrant it must prove its status by way of the documents approved by decision (*despacho*) of the Minister of Finance regulating the emigrant savings system;
- (iii) in any other case, information provided in accordance with the following rules: confirmation must be made by the relevant Noteholder and/or Couponholder, as the case may be, by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities, (B) a document issued by the relevant Portuguese Consulate certifying residence abroad, or (C) a document specifically issued by an official entity taking part in the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country. For these purposes, an identification document such as a passport or an identification card (*bilhete de identidade*) or document by means of which it is indirectly possible to presume the relevant tax residence (such as a work or permanent residency permit) are not acceptable;

There are specific rules relating to the originality and validity of the document, notably that the Noteholder and/or Couponholder must provide an original or a certified copy of the residency certificate or document and, as a rule, (i) if such document does not refer to a specific residency year and has not expired, it must have been issued within the three year period prior to the relevant payment date or the relevant Maturity Date; or (ii) such document must have been issued in the year of the relevant payment date or the relevant Maturity Date and refer to the residency status in that year or in the previous one.

“Tax Identification” means a document provided by the relevant tax authority which evidences the status of the Noteholder and/or Couponholder, as the case may be, as a tax payer in the applicable jurisdiction, which may be a copy of a pre-existing tax identification or other document or similar effect.

Notes issued by the Bank acting through its head office in Lisbon are subject to the following specific tax considerations:

Economic benefits derived from interest, amortisation, reimbursement premiums and other types of remuneration arising from the Notes are designated as investment income for Portuguese tax purposes.

Investment income on the Notes paid to a holder of Notes (who is the effective beneficiary thereof (the “Beneficiary”)) considered to be resident for tax purposes in the Portuguese territory or to a non-Portuguese resident having a permanent establishment in the Portuguese territory to which income is imputable, is subject to withholding tax at a rate of 20 per cent., except where the Beneficiary is either a Portuguese resident financial institution (or a non-resident financial institution having a permanent establishment in the Portuguese territory to which income is imputable) or benefits from a reduction or a withholding tax exemption as specified by current Portuguese tax law. In relation to Beneficiaries that are corporate entities resident in the Portuguese territory (or non-residents having a permanent establishment therein to which income is imputable), withholding tax is treated as a payment in advance and, therefore, such Beneficiaries are entitled to claim appropriate credit against their final corporate income tax liability. In relation to Beneficiaries that are individuals resident in the Portuguese territory, withholding tax shall be considered as final.

Investment income on the Notes paid to Beneficiaries considered as non-residents in the Portuguese territory (and having no permanent establishment therein to which income is imputable) is also subject to withholding tax at a flat rate of 20 per cent. This withholding tax rate may be reduced in accordance with any applicable double taxation treaty signed by Portugal, subject to compliance with certain procedures and certification requirements of the Portuguese tax authorities, aimed at verifying the non-resident status and eligibility for the respective tax treaty benefits.

Pursuant to Decree-Law 193/2005, of 7th November, 2005 (“Decree-Law 193/2005”), as amended from time to time, investment income paid to Noteholders in respect of debt securities registered with a clearing system recognised by the Portuguese Securities’ Code, as well as capital gains derived from a sale or other disposition of such Notes, will be exempt from Portuguese income tax, provided the following requirements are met.

Regarding the investment income derived on the Notes, for the withholding tax exemption to apply, Decree-Law 193/2005 requires that the Noteholders are: (i) neither residents in the Portuguese territory (or having any registered or deemed permanent establishment therein to which interest is imputable); (ii) nor residents in the countries and territories included in the Portuguese “blacklist” (countries and territories currently listed in *Portaria* 150/2004, of 13th February, 2004), with the exception of central banks and governmental agencies of those blacklisted jurisdictions and (iii) in the case of being legal entities, provided that not more than 20 per cent. of its share capital is held, whether directly or indirectly, by Portuguese residents.

Regarding capital gains, such exemption will apply provided that: (i) those gains are realised by non-Portuguese resident entities having no permanent establishment located in the Portuguese territory to which such gains are imputable; (ii) the non-resident entities are not residents in the countries and territories included in the Portuguese “blacklist” (those countries and territories listed in *Portaria* 150/2004, of 13th February, 2004); (iii) in the case of legal entities, such non-residents are not held, directly or indirectly, more than 25 per cent. by Portuguese residents, as required by Article 26^o of the Portuguese Tax Benefits Statute.

For purposes of application at source of this tax exemption regime, Decree-Law 193/2005 requires completion of certain procedures and certifications. Under these procedures (which are aimed at verifying the non-resident status of the Noteholder), the Noteholder is required to hold the Notes through an account with one of the following entities: (i) a direct register entity, which is an entity affiliated with the clearing system recognised by the Portuguese Securities’ Code; (ii) an indirect register entity, which, although not assuming the role of the “direct register entities”, is a client of the latter; or (iii) entities managing an international clearing system, which are entities operating with the international market to clear and settle securities’ transactions. For the purposes of the exemption granted under Decree-Law 193/2005, the Portuguese Government has recognised each of Euroclear and Clearstream, Luxembourg as entities managing an international clearing system.

1. Domestic Cleared Notes — held through a direct register entity

Direct register entities are required, for the purposes of Decree-Law 193/2005, to register the Noteholders in one of two accounts: (i) an exempt account or (ii) a non-exempt account.

Registration of the Notes in the exempt account is crucial for the exemption to apply. For this purpose, the registration of the non-resident Noteholders in an exempt account, allowing application of the

exemption upfront, requires evidence of the non-resident status, to be provided by the Noteholder to the direct register entity before or at the Income Payment Date (as defined below), as follows:

- (i) if the Noteholder is a central bank, public institution, international body, credit or financial institution, a pension fund or an insurance company, with its head office in any OECD country or in a country with which the Portuguese Republic has entered into a double tax treaty, the Noteholder will be required to prove its non-resident status by providing: (a) its tax identification; or (b) a certificate issued by the entity responsible for its supervision or registration, confirming the legal existence of the Noteholder and its head office; or (c) a declaration of tax residence issued by the Noteholder itself, duly signed and authenticated, if the Noteholder is a central bank, a public law entity taking part in the public administration (either central, regional or peripheral, indirect or autonomous of the relevant country), or an international body; or (d) proof of non-residence pursuant to the terms of paragraph (iii) below;
- (ii) if the Noteholder is an investment fund or other collective investment scheme domiciled in any OECD country or in a country with which the Portuguese Republic has entered into a double tax treaty, it shall make proof of its non-resident status by providing any of the following documents: (a) a declaration issued by the entity responsible for its supervision or registration or by the relevant tax authority, confirming its legal existence, domicile and law of incorporation; or (b) proof of non-residence pursuant to the terms of paragraph (iii) below;
- (iii) other investors will be required to make proof of their non-resident status by way of: (a) a certificate of residence or equivalent document issued by the relevant tax authorities; (b) a document issued by the relevant Portuguese Consulate certifying residence abroad; or (c) a document specifically issued by an official entity which forms part of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country. The Noteholder must provide an original or a certified copy of such documents and, as a rule, if such documents do not refer to a specific year and do not expire, they must have been issued within the three years prior to the relevant payment or maturity dates or, if issued after the relevant payment or maturity dates, within the following three months.

“Income Payment Date” means any date on which the Noteholders are entitled to receive interest or other investment income, either in the form of accrued interest or coupon.

2. Internationally Cleared Notes — held through an entity managing an international clearing system

If the Notes are registered in an account with an international clearing system (either with Euroclear or Clearstream, Luxembourg) and the management entity of such international clearing system undertakes not to provide registration services in respect of the Notes to (i) Portuguese tax residents that do not benefit from either an exemption or waiver of Portuguese withholding tax, and (ii) to non-resident entities for tax purposes which do not benefit from the above Portuguese income tax exemption, the proof required to benefit from the exemption will be made before or at the Income Payment Date as follows:

- (i) through the presentation of a certificate, on a yearly basis, with the name of each beneficial owner, address, tax payer number (if applicable), the identity of the securities, the quantity held and also the reference to the legislation supporting the exemption or the waiver of Portuguese withholding tax. The form of the notice is set out in Annex 2 to this “Taxation” section (which corresponds to the wording and contents of the form of certificate for exemption from Portuguese withholding tax on income from debt securities, as contained in Order (*Despacho*) n° 4980/2006, published in the Portuguese official diary, second series, n° 45, of 3rd March 2006, issued by the Portuguese Minister of Finance and Public Administration (currently, *Ministro das Finanças e da Administração Pública*)); or
- (ii) alternatively, through a yearly declaration that states that the beneficial owners are exempt or not subject to withholding tax. This declaration is complemented with a disclosure list, on each coupon payment date, of each beneficial owner’s identification, with the name of each beneficial owner, address, tax payer number (if applicable), the identity of the securities, the quantity held and also the reference to the legislation supporting the exemption or the waiver of Portuguese withholding tax. The form of the declaration is set out in Annex 3 to this “Taxation” section (which corresponds to the wording and contents of the form of statement for exemption

from Portuguese withholding tax on income from debt securities, as contained in Regulatory Notice (*Aviso*) n° 3714/2006, published in the Portuguese official diary, second series, n° 59, of 23rd March, 2006, issued by the Portuguese Secretary of State for Fiscal Affairs (currently, *Secretário de Estado dos Assuntos Fiscais*).

The two documents referred to in (i) or (ii) above, which are reproduced in Annexes 2 and 3, shall be provided by the participants (i.e. the entities that operate in the international clearing system) to the direct registering entities, through the international clearing system managing entity, and must take into account the total accounts under their management relating to each Noteholder that is tax exempt or benefits from the waiver of Portuguese withholding tax.

The delivery of the documents referred to in (i) or (ii) above, which are reproduced in Annexes 2 and 3, by the participants to the respective international clearing system managing entities shall follow the procedures that are from time to time applicable for this purpose by said international clearing system managing entities.

The international clearing system managing entities shall inform the direct registering entity of the income paid to each participant for each security payment.

No Portuguese withholding tax exemption shall be granted under Decree-Law 193/2005 if the requirements set forth therein are not complied with and, consequently, the general Portuguese tax provisions shall apply as described above. This will be the case whenever the Notes are not integrated in/cleared through Interbolsa or in any other centralised depository system for securities recognized under the Portuguese Securities Code and complementary legislation.

Taxation in the United Kingdom

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers) to whom special rules may apply. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Payment of interest on the Notes issued by the Bank, acting through its London branch

Provided that it continues to be a bank within the meaning of section 840A of the Income and Corporation Taxes Act 1988 (the "Act"), and provided that the interest on the Notes issued by the Bank, acting through its London branch, is paid in the ordinary course of its business within the meaning of section 349 of the Act, the Bank, acting through its London branch, will be entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax.

Payments of interest on the Notes issued by the Bank, acting through its London branch, may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes issued by the Bank, acting through its London branch, are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Act. The Luxembourg Stock Exchange is a recognised stock exchange. Under a United Kingdom HM Revenue and Customs' ("HMRC") interpretation, the Notes issued by the Bank, acting through its London branch, will satisfy this requirement if they are listed by the competent authority in Luxembourg and are admitted to trading by the Luxembourg Stock Exchange. Provided, therefore, that the Notes issued by the Bank, acting through its London branch, are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax whether or not the Bank, acting through its London branch, carries on a banking business in the United Kingdom and whether or not the interest is paid in the ordinary course of its business.

In addition, interest on the Notes issued by the Bank, acting through its London branch, may be paid without withholding or deduction on account of United Kingdom tax where interest on these Notes is paid to a person who belongs in the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Bank, acting through its London branch, reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption

is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on the Notes issued by the Bank, acting through its London branch, may also be paid without withholding or deduction on account of United Kingdom tax where the maturity of the Notes is less than 365 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes issued by the Bank, acting through its London branch, on account of United Kingdom income tax at the lower rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, the Noteholder may apply to HMRC for the issue of a notice to the Bank, acting through its London branch, to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Payment of interest on the Notes issued by BES Finance or by the Bank (otherwise than through its London branch)

Provided that payments of interest on these Notes have a source outside the United Kingdom, they may be made without withholding on account of United Kingdom income tax.

HMRC's Power to Obtain Information

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. HMRC also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of another person, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of amounts payable on the redemption of deeply discounted securities where such amounts are paid on or before 5th April, 2007. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

Payment by the Bank, acting through its London branch, under the Guarantee

Under current United Kingdom law, the Issuers understand that it is not clear whether payments made by the Bank, acting through its London branch, under the Guarantee to a Noteholder will be subject to any deduction or withholding on account of United Kingdom income tax. In any event, if there were to be any deduction or withholding on account of United Kingdom income tax, the Bank, acting through its London branch, would be obliged under Condition 8 to gross up for any UK tax deduction or withholding (subject to the exceptions contained in that Condition).

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, including payments on redemption of the Notes representing any discount on the issue of the Notes or any premium payable on redemption) paid by a person within its jurisdiction to or for an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg (as to which, see below) and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own

professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21st June, 2005 (the “Laws”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3rd June, 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the “Territories”), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1st July, 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23rd December, 2005 (the Law) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

Annex 1

STATEMENT OF NON-PORTUGUESE BENEFICIAL OWNERSHIP

The undersigned beneficiary:

Name:

Address:

Tax identification number:

holding via the following financial intermediary:

Name of the financial intermediary:

Account number:

the following securities:

Common/ISIN code:

Security name:

Payment date:

Nominal amount:

1. Hereby declares that he/she/it is the beneficial owner of the above-mentioned securities and nominal amount at the payment date/...../.....; and
2. Hereby declares that he/she/it is not subject to withholding tax, in accordance with the applicable legislation, indicated hereinafter.

Article 33 of the Tax Benefits Statute (*Estatuto dos Benefícios Fiscais*) — Zona Franca da Madeira e Zona Franca da ilha de Santa Maria.

This document is to be provided to the Portuguese tax authorities, if requested by the latter, as foreseen in section b), n° 2 and section b), n° 7, both of article 119 of CIRS

Authorised signatory:

Name:

Title:

Signature:

Annex 2

CERTIFICATE FOR EXEMPTION FROM PORTUGUESE WITHHOLDING TAX ON INCOME ARISING FROM DEBT SECURITIES (PARAGRAPH 1 OF ARTICLE 17 OF THE SPECIAL TAX REGIME APPROVED BY THE DECREE-LAW 193/2005, OF 7 NOVEMBER)

The undersigned Participant hereby declares that he holds debt securities covered by the special tax regime approved by Decree-Law 193/2005, of 7 November (the **Securities**), in the following securities account number (the **Account**) with (name and complete address of the international clearing system managing entity).

We will hold these Securities in our capacity of beneficial owner or in our capacity of intermediary, holding Securities on behalf of one or more beneficial owners, including ourselves, if applicable, all of whom are eligible for exemption at source from Portuguese withholding tax according to Portuguese legislation.

3. We are:

Name:

Residence for tax purposes (full address):.....

Tax ID Number:

4. We hereby certify that, from the date hereof until the expiry date of this certificate:

A. We are the Beneficial Owner of the following Securities:

<u>Security ISIN or Common Code</u>	<u>Security description</u>	<u>Nominal position</u>
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And we hereby declare that we are not liable to Portuguese withholding tax, in accordance with the applicable legislation, indicated hereafter:

- Special Tax Regime approved by the Decree-Law 193/2005, of 7 November
- Art. 90 of CIRC (Corporate Income Tax Code) — Exemption from withholding tax

2. We are intermediaries of the following Securities:

<u>Security ISIN or Common Code</u>	<u>Security description</u>	<u>Nominal position</u>
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5. We hereby undertake to provide the (name of the international clearing system managing entity) with a document proving the exemption of personal or corporate income tax referred in the attached statement of beneficial ownership, whenever the beneficial owner is not a central bank, public institution, international body, credit institution, financing company, pension fund and insurance company resident in any OECD country or in a country with which Portugal has concluded a Convention for the Avoidance of International Double Taxation, on behalf of which we hold Portuguese debt securities in the Account.

6. We hereby undertake to notify the (name of the international clearing system managing entity) promptly in the event that any information contained in this certificate becomes untrue or incomplete.

7. We acknowledge that certification is required in connection with Portuguese law and we irrevocably authorise (name of the international clearing system managing entity) and its Depositary to collect and forward this certificate or a copy hereof, any attachments and any information relating to it, to the Portuguese authorities, including tax authorities.

8. This certificate is valid for a period of twelve months as from the date of signature:

Place: _____

Date: _____

Authorised Signatory

Name

Title/Position

Authorised Signatory

Name

Title/Position

**APPENDIX
STATEMENT OF BENEFICIAL OWNERSHIP**

The undersigned beneficiary:

Name:

Address:

Tax identification number:

Holding via the following financial intermediary:

Name of the financial intermediary:

Account number:

The following securities:

Common/ISIN code:

Security name:

Payment date:

Nominal position:

1. Hereby declares that he/she/it is the beneficial owner of the above-mentioned securities and nominal position at the payment date _____ / _____ / _____ ; and

2. Hereby declares that he/she/it is not liable to withholding tax, in accordance with the applicable legislation, indicated hereinafter (tick where applicable):

- Special Tax Regime approved by the Decree-Law 193/2005, of 7 November.....
- Art. 90 of CIRC (Corporate Income Tax Code) — Exemption from withholding tax
- Art. 9 of CIRC — State, Autonomous Regions, local authorities, their associations governed by public law and social security federations and institutions
- Art. 10 of CIRC — General Public Interest Companies, Charities and other non-governmental social entities; exemption by the Ministerial Regulation n^o, published in Diário da República.....
- Art. 14 of EBF (Tax Incentives Statute) — Pension Funds and assimilated funds
- Art. 21 of EBF — Retirement Savings Funds (FPR), Education Savings Funds (FPE), Retirement and Education Savings Funds (FPR/E)
- Art. 22-A of EBF — Venture Capital Investment Funds
- Art. 24 of EBF — Stock Savings Funds (FPA)Other legislation (indicate which)

This document is to be provided to the Portuguese tax authorities, if requested by the latter, as foreseen in the Article 17 of the Special Tax Regime approved by the Decree-Law 193/2005, of 7 November.

Authorised signatory:

Name:

.....

Function:

Signature:

.....

Annex 3

STATEMENT FOR EXEMPTION FROM PORTUGUESE WITHHOLDING TAX ON INCOME ARISING FROM DEBT SECURITIES (PARAGRAPH 2 OF ARTICLE 17 OF THE SPECIAL TAX REGIME APPROVED BY THE DECREE-LAW 193/2005, OF 7 NOVEMBER)

The undersigned Participant hereby declares that he holds or will hold debt securities covered by the special tax regime approved by Decree-Law 193/2005, of 7 November (the **Securities**), in the following securities account number (the **Account**) with (name and complete address of the international clearing system managing entity).

We hold or will hold these Securities in our capacity of beneficial owner or in our capacity of intermediary, holding Securities on behalf of one or more beneficial owners, including ourselves, if applicable, all of whom are eligible for exemption at source from Portuguese withholding tax according to Portuguese legislation.

1. We are:

Name:
Residence for tax purposes (full address):
Tax ID Number:

2. We hereby undertake to provide the (name of the international clearing system managing entity) with a list of Beneficial Owners at each relevant record date containing the name, residence for tax purposes, Tax Identification Number and nominal position of Portuguese debt Securities for each Beneficial Owner, including ourselves if relevant, on behalf of which we hold or will hold Portuguese debt securities in the Account.

3. We hereby undertake to notify the (name of the international clearing system managing entity) promptly in the event that any information contained in this certificate becomes untrue or incomplete.

4. We acknowledge that certification is required in connection with Portuguese law and we irrevocably authorise (name of the international clearing system managing entity) and its Depositary to collect and forward this certificate or a copy hereof, any attachments and any information relating to it, to the Portuguese authorities, including tax authorities.

5. This certificate is valid for a period of twelve months as from the date of signature:

Place: _____ Date: _____

_____ Authorised Signatory	_____ Name	_____ Title/Position
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_____ Authorised Signatory	_____ Name	_____ Title/Position
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**APPENDIX
LIST OF BENEFICIAL OWNERS**

For:
Interest due ___/___/___
Security code (ISIN or Common Code): _____
Security description: _____
Securities Clearance Account Number: _____

We certify that the above Portuguese debt securities are held on behalf of the following Beneficial Owners:

Name	Tax identification number	Residence for tax purposes	Quantity of Securities	Legal basis of the exemption from withholding tax	
				Code (*)	Legislation (**)
_____	_____	_____	_____	_____	_____

(*) Indicate the legal basis of the exemption from withholding tax in accordance with the following table:

Code	Legal basis of the exemption
1	Special tax Regime approved by the Decree-Law 193/2005, 7 of November
2	Art. 90 of CIRC (Corporate Income Tax Code) — Exemption from withholding tax
3	Art. 9 of CIRC — State, Autonomous Regions, local authorities, their associations governed by public law and social security federations and institutions
4	Art. 10 of CIRC — General Public Interest Companies, Charities and other non-governmental social entities
5	Art. 14 of EBF (Tax Incentives Statute) — Pension Funds and assimilated funds
6	Art. 21 of EBF — Retirement Savings Funds (FPR), Education Savings Funds (FPE), Retirement and Education Savings Funds (FPR/E)
7	Art. 22 — A of EBF — Venture Capital Investments Funds
8	Art. 24 of EBF — Stock Savings Funds (FPA)
9	Other legislation

(**) The fulfilment of this column is mandatory when the code “9” is indicated in the previous column.

SUBSCRIPTION AND SALE

The Dealers have in an amended and restated programme agreement (the “Programme Agreement”) dated 23 February, 2007, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes” above. In the Programme Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer, sell or deliver Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer, or in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes and Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer or Dealers shall agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:—

- (i) in relation to any Notes issued by BES Finance which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer; and
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, where the Issuer is BES Finance, apply to the Issuers or the Bank, if the Issuer or the Bank was not an authorised person; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations and ministerial guidelines of Japan.

The Cayman Islands

Each Dealer has represented and agreed that no invitation will be made to the public in the Cayman Islands to subscribe for or purchase any Notes, whether directly or indirectly.

Portugal (including Madeira)

Each Dealer has represented and agreed that: (i) no document, circular, advertisement or any offering material in relation to the Notes has been or will be subject to approval by the Portuguese Securities Market Commission (“Comissão do Mercado de Valores Mobiliários”, the “CMVM”); (ii) it has not directly or indirectly advertised, offered, submitted to an investment gathering procedure or sold and will not, directly or indirectly, advertise, offer, submit to an investment gathering procedure, sell, re-sell or re-offer the Notes in circumstances which could qualify as a public offer of securities pursuant to the Portuguese Securities Code (“Código dos Valores Mobiliários”, the “CVM”); (iii) it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in Portugal the Prospectus or any other offering material relating to the Notes; (iv) all offers, sales and distributions of the Notes have been and will only be made in Portugal in circumstances that, pursuant to the CVM, qualify as a private placement of Notes (“*oferta particular*”), all in accordance with the CVM namely the offer of the Notes is intended for Qualified Investors not resident in Portugal. “Qualified Investors” within the meaning of Article 30 of the CVM includes credit institutions, investment firms, insurance companies, collective investment institutions and their respective managing companies, pension funds and their respective pension fund-managing companies, other authorised or regulated financial institutions, notably securitisation funds and their respective management companies, all other financial companies, securitisation companies, venture capital companies, venture capital funds and their respective management companies, financial institutions incorporated in a state that is not a member state of the European Union that carry out activities similar to those previously mentioned, entities trading in financial instruments related to commodities and regional and national governments, central banks and public bodies that manage debt, supranational or international institutions, namely the European Central Bank, the European Investment Bank, the International Monetary Fund and the World Bank; (v) pursuant to the CVM, a private placement of Notes in Portugal or to Portuguese residents by public companies (“*sociedades abertas*”) or by companies that are issuers of securities listed on a market needs to be notified to the CMVM for statistical purposes; (vi) all applicable provisions of the CVM and any applicable CMVM Regulations and all relevant laws and regulations have been complied with regarding the Notes, in any matters involving Portugal and the private placement or distribution of Notes in the Portuguese market. Each Dealer has represented and agreed that it shall comply with all applicable laws and regulations in force in Portugal and with the Directive 2003/71/EC of the European Parliament and of the Council of 4th November, 2003, regarding the placement of any Notes in the Portuguese jurisdiction or to any entities which are resident in Portugal, including the publication of a Prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuers, the Bank (where the Issuer is BES Finance) nor any of the other Dealers shall have any responsibility therefor.

None of the Issuers, the Bank (where the Issuer is BES France) and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the relevant Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment and update of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of BES Finance dated 21st January, 1997, 2nd February, 1998, 12th May, 1999, 16th August, 1999, by a Unanimous Written Resolution of the Board of Directors of BES Finance dated 3rd September, 1999 by resolutions of the Board of Directors of BES Finance dated 14th August, 2000, 24th July, 2001, 23rd July, 2003, 5th August, 2004, 30th November, 2005 and 16th February, 2007. The giving of the guarantee in respect of any Notes issued by BES Finance and the update of the Programme has been authorised by resolutions of the Board of Directors of the Bank dated 23rd January, 1997, 17th September, 1998, 9th August, 1999, 28th July, 2000, 23rd July, 2001, 17th July, 2002, 21st July, 2003, 30th July, 2004, 23rd November, 2005 and 7th February, 2007.

Listing of Notes on the Luxembourg Stock Exchange

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC) and, after its implementation in Luxembourg law, for the purposes of Directive 2004/39/EC.

Trustee's reliance on Certificates

The Trust Deed provides that any certificate or report of the auditors or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

Documents Available

So long as Notes are outstanding under the Programme, copies of the following documents will, when published, be available from the registered office of each of the Issuers and from the specified offices of the Paying Agents for the time being in London, Lisbon and Luxembourg:

- (i) the constitutional documents of each Issuer (in each case in English);
- (ii) the audited unconsolidated financial statements of BES Finance in respect of the financial years ended 31st December, 2004 and 31st December, 2005, in each case together with the audit reports prepared in connection therewith;
- (iii) the audited consolidated financial statements of the Bank in respect of the financial years ended 31st December, 2004 and 31st December, 2005 (with an English translation thereof), in each case together with the audit reports prepared in connection therewith and the interim Financial Statements of the Bank for the six months ended 30th June, 2006 (with an English translation thereof) together with the auditors' limited review report prepared in connection therewith;
- (iv) the most recently published audited annual financial statements of BES Finance and the most recently published audited annual consolidated financial statements of the Bank and the most recently published unaudited interim (semi-annual) consolidated financial statements of the Bank (with an English translation thereof) in each case together with any audit or review reports prepared in connection therewith;
- (v) the most recently published audited annual unconsolidated financial statements and the most recently published unaudited interim (semi-annual) unconsolidated financial statements of the Bank in each case together with any audit or review reports prepared in connection therewith;

- (vi) the Programme Agreement, the Agency Agreement, the Interbolsa Notes Agency Agreement, the Trust Deed, any agreement appointing a Common Representative, the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Notes, the Receipts, the Coupons and the Talons;
- (vii) a copy of this Prospectus;
- (viii) any future prospectuses, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent as to the identity of such holder) to this Prospectus and any other documents incorporated herein or therein by reference; and
- (ix) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

In addition, copies of this Prospectus, each Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website (www.bourse.lu).

Clearing Systems

The Notes (other than Interbolsa Notes) have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records in respect of such Notes). The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. The Interbolsa Notes will be cleared through LCH Clearnet, S.A., the clearing system operated at Interbolsa; the appropriate identification reference for a Tranche of Interbolsa Notes will be specified in the applicable Final Terms. At the date hereof Interbolsa only accepts to clear notes denominated in euros. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Financial Statements

The financial statements of the BES Group are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

Significant or Material Change

Save as disclosed in this Prospectus, there has been no significant change in the financial or trading position of BES Finance since 31st December, 2005 or of the Bank and the Group since 30th September, 2006.

There has been no material adverse change in the financial position or prospects of BES Finance or the Bank or the Group since 31st December, 2005.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer is aware) which may have or have had in the past 12 months a significant effect on the financial position or profitability of either Issuer or the Bank and its subsidiaries as a whole nor is either Issuer aware of any such proceedings being threatened.

Auditors

KPMG & Associados, SROC, S.A. Edificio Monumental, Avenida Praia da Vitória, 71A, 11° 1069 – 006, Lisbon, Portugal, chartered accountants and registered auditors, a member of orden dos Revisores Oficiais de Contas, are the appointed auditors of BES Finance and have audited the respective financial statements for the year ending 31st December, 2004 and 2005 prepared in accordance with International Financial Reporting Standards.

KPMG & Associados, SROC, S.A. Edificio Monumental, Avenida Praia da Vitória, 71A, 11° 1069 – 006, Lisbon, Portugal, chartered accountants and registered auditors, a member of orden dos Revisores Oficiais de Contas, are the appointed auditors of the Bank and have audited the respective financial statements for the year ending 31st December, 2004 prepared in accordance with the generally accepted accounting principals and principles in Portugal for the banking sector and for the year ending 31st December, 2005 prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

Bank of Portugal requirements

No Dated Subordinated Note or Undated Subordinated Notes shall be redeemed unless in compliance with the applicable capital adequacy regulations of the Bank of Portugal from time to time in force. At the date hereof such redemption may not occur within five years and one day from the Issue Date of the relevant Notes and may only occur with the prior consent of the Bank of Portugal.

Post-issuance information

The Issuers do not intend to provide any post-issuance information in relation to any underlying assets.

THE ISSUERS

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AGENT

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