

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)

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)

### €10,000,000,000 EURO MEDIUM TERM NOTE PROGRAMME

This Prospectus supersedes the Offering Circular dated 6th August, 2004 and any previous 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 €10,000,000,000 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, 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 34 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 €10,000,000,000 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 (unless otherwise specified in the applicable Final Terms) initially be represented by a temporary global Note which will be deposited on the issue date thereof with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and/or any other agreed clearing system and which will be exchangeable, as specified in the applicable Final Terms, for either a permanent global Note or Notes in definitive form, in each case upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. A permanent global Note will be exchangeable for definitive Notes, upon request (unless otherwise specified 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 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 supplementary 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

BANCO ESPÍRITO SANTO

CALYON CORPORATE AND INVESTMENT BANK

DEUTSCHE BANK

GOLDMAN SACHS INTERNATIONAL

JPMORGAN

MERRILL LYNCH INTERNATIONAL

SOCIETE GENERALE CORPORATE & INVESTMENT BANKING

BARCLAYS CAPITAL

CREDIT SUISSE FIRST BOSTON

DRESDNER KLEINWORT WASSERSTEIN

HSBC

LEHMAN BROTHERS

MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC

UBS INVESTMENT BANK

UNICREDIT BANCA MOBILIARE

The date of this Prospectus is 7th December, 2005.

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.

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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, France, Germany 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”, “U.S.\$”, “\$” and “U.S. cent” refer to United States dollars and cents, those to “Yen” and “JPY” refer to Japanese yen, those to “Sterling”, “GBP” and “£” refer to pounds sterling, those to “HKD” refer to Hong Kong dollars, those to “Swiss Francs” refer to Swiss francs, those to “SEK” refer to Swedish krona, those to “PNL” refer to Polish zloty and those to “euro” 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 OF THE PROGRAMME

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.
- 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:** Banco Espírito Santo S.A.  
Barclays Bank PLC  
CALYON  
Credit Suisse First Boston (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
- 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 111).

**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.

**Size:**

Up to €10,000,000,000 (or its equivalent in other currencies calculated as described herein on page 17) 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 supplementary 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:**

Each Tranche of Notes will initially be represented by a temporary global Note which will be deposited on the relevant Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system and which will be exchangeable, upon request, as described therein for either a permanent global Note or definitive Notes (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 not earlier than 40 days after the Issue Date upon certification of non-U.S. beneficial ownership as required by U.S. Treasury regulations. A permanent global Note will be exchangeable, unless otherwise specified in the applicable Final Terms, upon request as described therein, in whole but not in part for definitive Notes upon not less than 60 days' written notice to the Agent as described in “Form of the Notes” below. 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.

<b>Fixed Rate Notes:</b>	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.
<b>Floating Rate Notes:</b>	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(iii) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer,</li> </ul> <p>in each case as indicated in the applicable Final Terms.</p> <p>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.</p>
<b>Index Linked Notes:</b>	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).
<b>Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:</b>	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>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.</p>
<b>Dual Currency Notes:</b>	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).
<b>Zero Coupon Notes:</b>	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
<b>Redemption:</b>	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:

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- (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.

The Final Terms relating to each Tranche of Notes will state whether or not and, if so, on which stock exchange(s) the Notes are to be listed.

<b>Governing Law:</b>	The 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.	A5.4.2 A12.4.1.3
<b>Selling Restrictions:</b>	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom, France, Germany 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.*

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A5.2.1  
A12.2

*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's 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 the strength and scope of competition in the Portuguese banking sector. These changes principally relate to the privatisation of large 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 faces intense competition in all of its areas of operation (deposits, mortgages, consumer credit, leasing, investment banking and asset management). BES'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. BES's principal competitors in banking (ranking in terms of assets as of 31st December, 2004) are Caixa Geral de Depósitos, Millennium bcp Group, BPI Group and Santander Totta Group in the banking sector. Competition has further increased as a result of the emergence of non-traditional distribution channels, such as internet and telephone banking.

##### **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 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 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 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's ability to collect deposits and forcing it to satisfy its liquidity requirements by resort to the more expensive capital markets as a result.

##### **1.3 Regulation**

BES'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 legal reserves or a decline in the rate accrued on those cash reserves would have an adverse impact on BES's results of operations.

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, 2004, the BES Group's solvency ratio was 12.06 per cent. The capital adequacy requirements applicable to the BES Group limit BES's 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, overdue loans, securities, equity holdings, sovereign risk and other contingencies. Therefore, any change in these requirements could have a material adverse impact on BES's results of operations.

#### **1.4 Financial Risks**

Management and control of financial risk is one of the most important risk factors for financial institutions. Financial risk includes credit, liquidity, operational, interest rate, foreign currency exchange risk and equity price risk. Failure to manage adequately and to control these risks can result in material adverse effects on BES's financial performance and reputation.

#### **1.5 International Financial Reporting Standards**

According to Regulation no. 1606/2002 of the European Council and Parliament, companies having securities admitted to trading on a regulated market of any Member State should adopt the International Financial Reporting Standards (IFRS) as from 1st January, 2005. This obligation must be observed in the preparation and presentation of the consolidated financial statements.

As of the date of approval of the 2004 Annual Report, the group had not yet concluded the quantitative analysis of the effects of the differences described in the paragraphs below. However, the evolution of the consolidated performance and financial position as shown in the consolidated financial statements as at 31st December, 2004, which were prepared in accordance with the PABS, could be different had they been presented in accordance with the IFRS.

### **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 BES. 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;
- (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 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.

A12.2

#### *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 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.

#### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, 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 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) with effect from the same date.

If, following implementation of this Directive, 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.

#### *Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

#### *Trading in the clearing systems*

In relation to any issue of Notes which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

### **3.4 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.

### **3.5 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, or endorsed on, such Notes, as more fully described under “Form of the Notes” below.

This Prospectus and any supplement 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 €10,000,000,000 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, 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 2003, as set out on pages 1 to 12 of BES Finance's 2003 Annual Report, including:
  - (i) profit and loss account (page 3);
  - (ii) balance sheet (page 2);
  - (iii) cashflow statements (page 5);
  - (iv) accounting policies and explanatory notes (pages 6 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, 2003, as set out on pages 118 to 236 of the 2003 Annual Report, including:
  - (i) profit and loss accounts (page 120/121 and 134/135);
  - (ii) balance sheets (page 118/119 and 132/133);
  - (iii) cashflow statements (page 137); and
  - (iv) accounting policies and explanatory notes (pages 138 to 229).
  - (v) auditors' report (page 230 to 236).

Following the publication of this Prospectus a supplement 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 (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

Each Tranche of Notes will be initially represented by a temporary global Note without receipts, interest coupons or talons, which on issue will be delivered to a common depositary 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 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 second sentence of 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 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 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. Global Notes and definitive Notes will be issued pursuant to the Agency Agreement.

The following legend will appear on all 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.

## 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])]**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
[Guaranteed by Banco Espírito Santo S.A.  
[acting through London branch]]<sup>1</sup>  
under the €10,000,000,000  
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] which constitutes 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. 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. The Prospectus is 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 an 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 Offering Circular dated [original 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] which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Offering Circular dated [original date] 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] and the Offering Circular dated [original date]. Copies of the Offering Circular and the Prospectus 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])] <sup>1</sup> |
| [Guarantor:                          | Banco Espírito Santo S.A. (acting through its London branch)] <sup>1</sup>  |
| 2. Series Number:                    | ●   |
| [Tranche Number:                     | ●   |
|                                      | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)]</i>                          |
| 3. Specified Currency or Currencies: | ●   |

<sup>1</sup> Delete as appropriate.

4.	Aggregate Nominal Amount:		
	— Series:	[●]	
	— Tranche:	[●]	A5.5.1.2 A12.5.1.2 A5.5.3.1 A12.5.3
5.	(i) 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.	Specified Denominations:	<i>(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.)</i>	
7.	[(i)] Issue Date [and Interest Commencement Date]:	[●]	A5.4.12 A12.4.1.9
	[(ii) Interest Commencement Date (if different from the Issue Date):	[●]	
8.	Maturity Date:	<i>[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]]</i>	A5.4.8 A12.4.1.11
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]  <i>(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.)</i>	A5.4.8
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]] <sup>1</sup>	
	[(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)	A12.4.1.8 A5.4.11

(1) Delete as appropriate.

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 [●] in nominal amount
  - (iv) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]
  - (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]]
  - (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 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: [●]

A12.5.4.5

(iii)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	<i>[need to include a description of market disruption or settlement disruption events and adjustment provisions]</i> [●]	A12.4.2.3 A12.4.2.4
(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/ <i>specify other</i> ]	
(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] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>	
(i)	Rate of Exchange/method of calculating Rate of Exchange:	<i>[give or annex details]</i>	
(ii)	Calculation Agent, if any, responsible for calculating the interest payable:	[●]	A5.4.7
(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	<i>[need to include a description of market disruption or settlement disruption events and adjustment provisions]</i> [●]	A5.4.7 A.12.4.2.3 A12.4.2.4
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]	

## PROVISIONS RELATING TO REDEMPTION

20.	Issuer Call:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>	
(i)	Optional Redemption Date(s):	[●]	
(ii)	Optional Redemption Amount(s) and method, if any, of calculating of such amount(s):	[●] per Note of [●] Specified Denomination	
(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):	[●]	
		<i>(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)</i>	
21.	Investor Put:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>	

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) and method, if any, of calculating of such amount(s): [●] per Note of [●] Specified Denomination
- (iii) 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)*
22. Final Redemption Amount of each Note: [[●] per Note of [●] Specified Denomination/specify other/see Appendix]
- [For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradeable in minimum nominal amounts of €[●] and integral multiples of €[●] thereafter.
- If Definitive Notes are required to be issued in the circumstances specified in the Permanent Global Note they will only be printed and issued in denominations of €[●].
- Accordingly, if Definitive Notes are required to be issued, a Noteholder holding Notes having an original nominal amount which cannot be fully represented by Definitive Notes in the denomination of €[●] will not be able to receive a Definitive Note in respect of the original nominal amount of the Notes by which the original nominal amount of such holding of Notes exceeds the next lowest integral multiple of €[●], (the “Excess Amount”) and will not be able to receive interest or principal in respect of the Excess Amount. Furthermore, at any meetings of Noteholders while Notes are represented by a Global Note, any vote cast shall only be valid if it is in respect of €[●] (or any integral multiple of €[●] thereafter) in nominal amount and no vote may be cast in respect of any smaller nominal amount.]
- (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. 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.]  
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.]
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 sub-paragraphs 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]

A5.5.4.1  
A5.5.4.3

A5.5.4.4

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\*\* A5.5.4.3
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 €10,000,000,000 Euro Medium Term Note Programme of [ISSUER]]. A12.7.4

## 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

- (i) Listing: [London/Luxembourg/other (specify)/None] A5.6.2
- (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: [●]] A5.7.5
- [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 [name of competent authority in home Member State] [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]

A12.3.1  
A5.3.1

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

- (i) Reasons for the offer [●] A5.3.2  
A12.3.2
- (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 [Telerate].]*

**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)**

A12.4.1.2  
A12.4.1.13  
A12.4.2.1  
A12.4.2.2

*[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: [●]

A12.5.1.1  
A5.5.1.1

The time period, including any possible amendments, during which the offer will be open and description of the application process:	[●]	A12.5.1.3 A5.5.1.3
Details of the minimum and/or maximum amount of application: <sup>1</sup>	[●]	A12.5.1.4 A5.5.1.5
Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:	[●]	A5.5.1.4
Details of method and time limits for paying up and delivering the Notes:	[●]	A12.5.1.5 A5.5.1.6
Manner and date in which results of the offer are to be made public:	[●]	A5.5.1.7 A12.5.1.6
Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	[●]	A5.5.1.8
Categories of potential investors to which the Notes are offered: <sup>2</sup>	[●]	A12.5.2.1
	[For example:	A5.5.2.1
	“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 being before notification is made:	[●]	A12.5.2.2 A5.5.2.2
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

A5.4.1

- (i) ISIN Code: [●]
- (ii) Common Code: [●]
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [●]

A5.5.4.2

### 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.*

## TERMS AND CONDITIONS OF THE NOTES

A5.4.6

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into 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 but, 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. 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.*

A12.4.1.7

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 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 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).

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 the lowest Specified Denomination in the Specified Currency;
- (ii) definitive Notes issued in exchange for a global Note; and
- (iii) any global Note.

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, 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 7th December, 2005 made among the Issuers, 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 (together with the Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents).

A5.5.4.2

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. Global Notes do not 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 or endorsed on 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 or endorsed on 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”).

The Trustee acts for the benefit of the holders of the Notes (the “Noteholders”, which expression shall, in relation to any Notes represented by a global Note, be construed as provided below), the holders of the Receipts (the “Receiptholders”) and the holders of the Coupons (the “Couponholders”, which expression shall, unless the context otherwise requires, include the holders of the Talons), all in accordance with the provisions of the Trust Deed. A5.4.10

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 and the Agency 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 7th December, 2005 at Trinity Tower, 9 Thomas More Street, London E1W 1YT), 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. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. A5.4.10

Words and expressions defined in the Trust Deed or the 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 Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the 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 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 and Title**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination. A5.4.3 A12.4.1.4

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, 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 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.

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A12.4.1.10

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear S.A./N.V. as operator of the Euroclear System ("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 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 and the Agent or specified in the applicable Final Terms.

## 2. Status of the Notes

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(i) The Senior Notes and the 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.

A12.4.1.6

(ii) Dated Subordinated Notes and the 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 the 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 the relative Receipts and Coupons relating thereto (if any) 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), 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 the Trustee shall, in its absolute discretion, deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) 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 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;
- (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,

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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**

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Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) 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.

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, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

“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 on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) 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 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).

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 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 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*

A5.4.7

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 in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

"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*

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, the Trustee 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 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 the Trustee 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 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 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, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

**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 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), 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 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.

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).

Notwithstanding the foregoing, 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).

**(c) 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;
  - (C) 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 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.

**(d) 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 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 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.

A12.4.1.12

**(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 and the Trustee and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that, 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; and
- (ii) 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 Trustee 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 shall be entitled to accept such certificate and opinion 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, 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 the Trustee,

(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 be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). 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. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a global Note shall be equal to the balance of the Redeemed Notes. 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.

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 "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.

**(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 Trust Deed) 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 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 Notes so cancelled and the 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.

**(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 the Trustee and notice to that effect has been given to the Noteholders either in accordance with Condition 14 or individually.

**8. Taxation**

A5.4.14

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:

A12.4.1.14

- (i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with any Relevant Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; and/or
- (ii) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is able to avoid such withholding or deduction by making a declaration of non-residence or other claim for exemption to the relevant tax authority; and/or

- (iii) presented for payment more than 30 days after the Relevant Date (as defined below) 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; and/or
- (iv) presented for payment in the Relevant Tax Jurisdiction; and/or
- (v) where such withholding or deduction is imposed on a payment to 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
- (vi) presented for payment by or on behalf of a holder 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.

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 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

A5.4.7

The 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).

## 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 under the Trust Deed and (except where, in the opinion of the Trustee, 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 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 by the Trustee or by an Extraordinary Resolution of the Noteholders); 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 by the Trustee or by an Extraordinary Resolution of the Noteholders); 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 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.

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 Trust Deed) 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 or by an Extraordinary Resolution of the Noteholders),

then 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).

Notwithstanding the Trustee having given 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 Notes, Receipts, Coupons and Talons**

Should any 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 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) 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) the Issuer undertakes that it will ensure that it maintains 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; and
- (iii) there will at all times be a Paying Agent outside the United Kingdom and Portugal (including Madeira).

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(b). 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 and (ii) if and for so long as the Notes (whether in global or definitive form) are listed on the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Financial Times* or any other daily newspaper in London approved by the Trustee and the *d'Wort* in Luxembourg. In addition, all notices regarding the Notes may be published on the Luxembourg Stock Exchange's web site ([www.bourse.lu](http://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 as 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, together with the relative Note or Notes, with the Agent. 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.

### **15. Meetings of Noteholders, Modification and Waiver**

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 these Terms and Conditions or any of the provisions of the Trust Deed 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.

## **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. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series in certain circumstances where the Trustee so decides.

## **17. Contracts (Rights of Third Parties) Act 1999**

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**

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**

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.

## **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**

### **(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 each Specified Denomination 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;
- (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 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 Dated Subordinated Notes and Undated Subordinated Notes), the Agency Agreement, the 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. Clause 7 of the Trust Deed (insofar as it relates to Dated Subordinated Notes and Undated Subordinated Notes) 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 has in the Trust Deed irrevocably agreed, 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 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 Notes, the Receipts and/or the Coupons may be brought in such courts.

Each of BES Finance and the Bank has in the Trust Deed irrevocably waived 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 has further irrevocably agreed that a judgment in any such Proceedings brought in the English courts 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 has in the Trust Deed appointed the London branch of the Bank at its office in London for the time being (being as at 7th December, 2005 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.

## USE OF PROCEEDS

A5.3.2

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.

A12.3.2

## 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.

A4.5.1.1  
A4.5.1.2  
A4.5.1.3  
A4.5.1.4

The registered office of BES Finance is c/o M&C Corporate Services Limited, P.O. Box 309 GT, Ugland 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:

Name	Function within the Issuer	Function within the Guarantor
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	General Manager

A4.10.1

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.

A4.10.2

### 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".*

A4.14.2.1

### Capitalisation and Indebtedness

A4.7.1

The existing issued ordinary shares 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.

A4.14.1.1

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.

A4.12.1

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, 2004, 30th September, 2004 and 30th September, 2005. 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, 2005.

A4.3.2

A4.13.5.1

	30th September, 2005 (*)	30th September, 2004 (*)	31st December, 2004
(Expressed in thousand EUR)			
<b>Shareholder's Equity</b>			
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 . . . . .	22,608	4,010	4,010
Reserves . . . . .	8,390	8,402	8,390
Dividends distributed. . . . .	(33,480)	(33,480)	(33,480)
Net Income . . . . .	21,495	37,359	52,078
<b>Total Shareholder's Equity . . . . .</b>	<b>619,113</b>	<b>616,391</b>	<b>631,098</b>
<b>Short term debt [par value] . . . . .</b>	<b>1,517,862</b>	<b>457,360</b>	<b>881,096</b>
<b>Long term debt [par value] . . . . .</b>	<b>6,790,716</b>	<b>6,123,211</b>	<b>6,151,925</b>
Long term borrowings [par value] . . . .	6,790,716	6,123,211	6,151,925
Subordinated debt [par value] . . . .	1,741,521	1,240,293	1,736,708
Corporate debt [par value] . . . . .	5,049,195	4,882,918	4,415,217
<b>Total short and long term debt. . . . .</b>	<b>8,308,578</b>	<b>6,580,571</b>	<b>7,033,021</b>

A4.13.5.2

Notes:

- (1) There has been no material change in the capitalisation of the Issuer since 30th September, 2005
- (2) Short and long term debt are included in the Issuer's financial statements, prepared in accordance with International Financial Reporting Standards, at amortized cost except for certain notes containing embedded derivatives which are at estimated market value. These specific captions per the financial statements amount to Euro 1,514,506 thousand and Euro 6,795,471 thousand, respectively
- (\*) Interim unaudited figures.

## Selected Financial Information of BES Finance

A4.3.1  
A4.3.2

The following tables present the balance sheet and statement of income of BES Finance as at 30th September, 2005 and for the years ended 31st December, 2003 and 2004. This information for the years ended 31st December 2003 and 2004 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, 2003 and 2004, together with the notes thereto, all of which are incorporated by reference into this Prospectus. The financial information as at 30th September, 2004 and 30th September, 2005 is unaudited.

A4.13.5.1  
A4.13.5.2

<b>BES Finance Ltd. Balance Sheet (Expressed in EUR)</b>				
	30th September, 2005 (*)	30th September, 2004 (*)	31st December, 2004	31st December, 2003
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents . . . . .	725,176	934,612	2,871,333	1,273,615
Short term deposits with banks . . . . .	1,581,516,739	469,181,565	888,804,314	1,109,891,797
Derivative financial assets . . . . .	50,327,532	—	10,581,520	—
Accrued interest receivable . . . . .	91,213,670	72,607,501	97,518,847	84,649,085
Other current assets . . . . .	—	—	132,471	128,005
	<u>1,723,783,117</u>	<u>542,723,678</u>	<u>999,908,485</u>	<u>1,195,942,502</u>
<b>Non-current assets</b>				
Long term deposits with banks . . . . .	5,544,527,235	4,975,752,290	4,408,886,024	3,175,180,961
Subordinated loans . . . . .	1,831,521,342	1,730,293,335	2,326,708,024	1,629,588,282
	<u>7,376,048,577</u>	<u>6,706,045,625</u>	<u>6,735,594,048</u>	<u>4,804,769,243</u>
<b>Total assets</b> . . . . .	<u>9,099,831,694</u>	<u>7,248,769,303</u>	<u>7,735,502,533</u>	<u>6,000,711,745</u>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Short-term debt . . . . .	1,574,629,126	410,035,933	878,629,550	1,105,356,702
Derivative financial liabilities . . . . .	25,758,512	981,829	1,343,759	18,447,842
Accrued interest payable . . . . .	84,859,622	63,977,195	84,196,102	74,292,840
Other current liabilities . . . . .	—	—	222,746	137,168
	<u>1,688,603,299</u>	<u>474,994,957</u>	<u>964,392,157</u>	<u>1,198,234,552</u>
<b>Non-current liabilities</b>				
Long-term debt . . . . .	6,795,471,155	6,157,383,116	6,140,012,498	4,348,367,093
<b>Total liabilities</b> . . . . .	<u>8,480,718,415</u>	<u>6,632,378,074</u>	<u>7,104,404,655</u>	<u>5,546,601,645</u>
<b>Equity</b>				
Ordinary shares . . . . .	100,000	100,000	100,000	100,000
Preference shares . . . . .	600,000,000	600,000,000	600,000,000	450,000,000
Other reserves and retained earnings . . . . .	19,013,280	16,291,230	30,997,878	4,010,100
<b>Total equity</b> . . . . .	<u>619,113,280</u>	<u>616,391,230</u>	<u>631,097,878</u>	<u>454,110,100</u>
<b>Total liabilities and equity</b> . . . . .	<u>9,099,831,694</u>	<u>7,248,769,303</u>	<u>7,735,502,533</u>	<u>6,000,711,745</u>

(\*) Interim unaudited figures.

**BES Finance Ltd.**  
**Income statement**  
**(Expressed in EUR)**

A4.3.2  
A4.13.5.1  
A4.13.5.2

	30th September, 2005 (*)	30th September, 2004 (*)	31st December, 2004	31st December, 2003
<b>Interest and similar income</b>				
Interest and similar income arising from:				
Cash and cash equivalents . . . . .	10,316	22,936	29,800	22,811
Hedging derivatives . . . . .	(1,284,027)	776,749	1,471,722	1,630,389
Deposits with banks . . . . .	136,024,807	93,481,999	127,671,160	116,918,407
Subordinated loans . . . . .	81,958,509	77,810,442	105,985,092	90,545,591
	<u>216,709,605</u>	<u>172,092,127</u>	<u>235,157,774</u>	<u>209,117,198</u>
<b>Interest expense and similar charges</b>				
Interest expense and similar charges arising from:				
Deposits from banks . . . . .	955,396	15,661	15,661	670,215
Other liabilities evidenced by paper . . . .	197,376,139	146,027,813	187,239,491	193,506,491
	<u>198,331,535</u>	<u>146,043,474</u>	<u>187,255,152</u>	<u>194,176,706</u>
<b>Net interest income</b> . . . . .	<u>18,378,069</u>	<u>26,048,652</u>	<u>47,902,622</u>	<u>14,940,492</u>
<b>Other income</b>				
Gains from financial liabilities at fair value through profit or loss . . . . .	—	—	—	7,891,540
Unrealised gains on derivative instruments .	10,437,786	24,326,607	25,309,077	—
Realised gains on derivative instruments . .	—	—	1,319,810	—
	<u>10,437,786</u>	<u>24,326,607</u>	<u>26,628,887</u>	<u>7,891,540</u>
<b>Other expenses</b>				
Unrealised losses on derivative instruments.	2,116,919	12,994,676	—	18,447,842
Losses from financial liabilities at fair value through profit or loss . . . . .	4,533,355	—	21,358,445	—
Net losses arising from hedging operations.	—	166,468	—	—
General and administrative expenses . . . .	643,373	33,401	912,285	784,797
Foreign currency exchange losses . . . . .	22,710	(16,103)	11,205	33,307
Taxes and licences . . . . .	2,999	3,837	4,220	2,006
Fee and commission expense . . . . .	1,097	410	699	153
	<u>7,320,453</u>	<u>13,016,220</u>	<u>22,453,322</u>	<u>19,268,105</u>
<b>Profit for the year</b> . . . . .	<u><u>21,495,402</u></u>	<u><u>37,359,039</u></u>	<u><u>52,078,187</u></u>	<u><u>3,563,927</u></u>

(\*) Interim unaudited figures

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

	<b>31st December, 2004</b>	<b>31st December, 2003</b>
<b>Operating activities</b>		
Interest received . . . . .	222,288,012	188,918,853
Interest paid . . . . .	(177,351,890)	(184,690,292)
Taxes and licences . . . . .	(4,220)	(2,006)
Foreign currency exchange losses . . . . .	(11,205)	(33,307)
Operating expenses paid . . . . .	(831,872)	(61,466)
	<hr/> 44,088,825	<hr/> 4,131,782
<b>Changes in operating assets and liabilities</b>		
Loans and advances to banks . . . . .	(1,012,617,580)	(204,088,978)
Subordinated loans . . . . .	(697,119,742)	(381,910,204)
Other liabilities evidenced by paper . . . . .	1,041,016,814	140,823,959
Derivatives . . . . .	1,319,810	(6,400)
	<hr/> (623,311,873)	<hr/> (441,049,841)
<b>Cash flows from operating activities . . . . .</b>		
<b>Cash flows from financing activities</b>		
Net (decrease)/increase in subordinated liabilities . . . . .	500,000,000	(8,089,796)
Net proceeds from the issue of preference shares . . . . .	158,389,591	449,927,643
Dividends distributed . . . . .	(33,480,000)	—
	<hr/> 624,909,591	<hr/> 441,837,847
<b>Cash flows from financing activities . . . . .</b>		
Net increase/(decrease) in cash and cash equivalents . . . . .	1,597,718	788,006
Cash and cash equivalents at 1st January . . . . .	1,273,615	485,609
Effect of exchange rate fluctuations . . . . .	—	—
	<hr/> 2,871,333	<hr/> 1,273,615
<b>Cash and cash equivalents at 31st December . . . . .</b>	<hr/> <hr/> 2,871,333	<hr/> <hr/> 1,273,615

## BANCO ESPÍRITO SANTO S.A.

BES was incorporated in Portugal (with registered number 1607) on 26 September 1990 for an unlimited duration and with limited liability under the laws of Portugal. According to the Portuguese Banks Association, the BES Group, with total consolidated net assets at 31st December, 2004 of €45.9 billion, is the third largest full-service financial group operating in Portugal in terms of total net assets. At 31st December, 2004 the BES Group's consolidated gross loan portfolio totalled €28.1 billion and, net of loan loss provisions, represented 60.2% of its total net assets.

A6.3  
A11.4.1.1  
A11.4.1.2  
A11.4.1.3  
A11.5.1.4

### 1. History and Ownership

BES origins date from 1884, when José Maria do Espírito Santo Silva founded a bank in Lisbon, which was BES's predecessor. After the Second World War, BES became one of Portugal's largest commercial 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, and in 1984 established the predecessor of Espírito Santo Financial Group S.A. ("ESFG"), an integrated financial services group.

In 1986, the Portuguese government embarked upon a privatisation programme and, in 1991, began the privatisation of BES.

ESFG and its subsidiaries (the "ESFG Group") hold a 49.2% voting and a 32.8% economic interest in BES. Crédit Agricole is a shareholder investor in BES and is the ESFG's strategic partner in BES's management and operation, particularly in connection with the development of products in the retail sector. The general public owns approximately 36% of BES's ordinary shares. The BES's ordinary shares are listed on the Euronext-Lisbon.

A11.10.1

### 2. Activities – Overview

Through its subsidiaries, BES Group engages in a broad range of banking activities, including commercial banking, investment banking, asset management, stock brokerage and private banking. BES Group conducts its commercial banking activities primarily through BES and its wholly owned subsidiary Banco Internacional de Crédito, S.A. ("BIC"), a commercial bank with special emphasis on mortgage credit and on high net worth individuals. The Group's investment banking business is managed primarily through BES's wholly owned subsidiary Banco Espírito Santo de Investimento, S.A. ("BESI"), which is based in Portugal, while its asset management activities are operated through Espírito Santo Activos Financeiros S.A. ("ESAF") (also based in Portugal), and Espírito Santo Activos Financieros, S.A., which is based in Spain. The Group conducts its stockbrokerage activities through BESI (the merge of ES Dealer with BESI was authorised by the Bank of Portugal in February 2004 and became effective on 3rd January 2005), and Espírito Santo Investment, SAU SV (former Benito y Monjardin), which operates in Spain. The two companies based in Spain coordinate their activities closely with BESI.

A11.5.1.1

The BES Group comprises 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 external Clients, such as research and consultancy services, IT support, real estate management and other related services. This breakdown also forms the basis of the BES Group's segment reporting.

The operational units account for almost all of the assets, income and net income of the BES Group and for financial reporting purposes are divided into the following segments:

- Banking, which includes BES (retail, corporate and private banking), BIC (mortgage lending), BESI (investment banking), BESSA (private and corporate banking in Spain), BES ORIENTE (private and corporate banking in Macao), ES Bank (private and corporate banking in the United States), BEST (on-line bank specialising in asset management), BES Azores (private and corporate banking), BES Angola (private and corporate banking) and ES PLC (non-bank finance company domiciled in Dublin, Ireland). This segment also includes securities issuers (BES Finance, BESIL, ESOL, BESOL and BESNAC);

- Leasing and Factoring<sup>1</sup>, which comprises Besleasing e Factoring;
- Consumer credit, which includes CREDIFLASH (credit cards);
- Asset Management, comprising ESAF SGPS and ESAF, S.A. (Spain);
- Brokerage, represented by BESI (as at 3rd January, 2005, ES Dealer was merged into BESI, a transaction that was authorised by the Bank of Portugal in 20, February 2004), Espírito Santo Investment, S.A.U. (formerly named Benito y Monjardin) in Spain and BES Securities (a subsidiary of BESI Brazil) in Brazil;

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1 In February 2004, Besleasing Mobiliária, Besleasing Imobiliária and Euroges were merged into a single unit renamed Besleasing e Factoring – Instituição Financeira de Crédito, S.A.

### 3. Strategy

Based on the underlying objective of shareholder value creation, BES's principal aims in the area of commercial banking are to increase profitability, market share and productivity, while maintaining strong solvency and liquidity ratios, adequate loan quality and a conservative provisioning policy with respect to non-performing loans. In order to achieve these goals, BES has sought to strengthen its position within the Portuguese commercial banking sector by (i) increasing penetration of its existing Client base through enhanced customer service, (ii) consolidating its existing operations in an effort to control expenses and boost productivity and (iii) implementing a global service approach to individuals, namely in the mortgages business, while maintaining its traditionally strong position with small and medium-sized companies.

Based on internal studies, the BES Group believes that it had an average market share in 2004 of approximately 17.7%, compared with 17.1% in 2003 and 17.0% in 2002. The BES Group calculates its average market share as the non-weighted average of the market shares it holds in deposits, individual pension plans, other financial life insurance, mutual funds, production of mortgage loans, consumer loans, loans to corporations, credit card turnover, leasing, factoring, brokerage and internet banking. In calculating market share data, the BES Group uses relevant available official sources of information, including publications by the Bank of Portugal, the Portuguese Banks Association (APB), the Association of Mutual Funds, Pension Plans and Asset Management Companies (APFIPP), and the Portuguese Association of Insurance Companies (APS). Where no official sources exist, (e.g., internet banking), the BES Group relies on its own estimates.

In order to increase the penetration of its existing Client base, BES has sought to take advantage of synergies among its operations and the other banking and insurance operations of the ESFG Group by distributing insurance, investment and other financial products through its branch network. In doing so, BES has increasingly focused on the retail sector as a means of promoting greater cross-selling of fee-generating financial services. Through its branches, BES now markets, among other things, both life and non-life insurance products underwritten by Tranquilidade, Tranquilidade-Vida and ES Seguros, investment management products developed by ESAF and mortgage loans. As part of its effort to provide enhanced customer service, BES has also engaged in a program of modernising and reconfiguring existing branches using a segment-oriented approach in order to better address the needs of Clients.

In 2003, the BES Group developed a new commercial approach to the affluent segment within its retail business (BES 360), which was launched in February 2004, involving i) the development of a specific product and services offered to these Clients; ii) the revamp of network dedicated account managers, supported by a new pool of financial advice experts and organised in specific geographical units; and iii) the creation of a centralised marketing unit devoted to this Client segment.

Efficiency is a focal point in the strategic development of the BES Group. Since privatisation, management has undertaken an ambitious program for improving productivity levels. BES is developing several reorganisation initiatives, such as centralising back offices, improving employees' competencies and streamlining office operations through continuing investments in IT systems. These measures have had a positive impact on the BES Group's efficiency indicators.

### A11.6.1

### A11.6.1



## 5. Management of Banco Espírito Santo

Banco Espírito Santo has a management structure consisting of a Board of Directors (the “Board”). In light of BES’s statute as a public traded company, its corporate bodies are elected at General Meetings and are located in the Bank’s registered office. According to the Bank’s by-laws the Board of Directors is composed of an odd number of members, which may vary from a minimum of 11 to a maximum of 31 members, who may also be shareholders. The current Board comprises 31 members. The term of office is four years and re-election is permitted. The Board meets at least quarterly and whenever convened by the Chairman or by two board members. A11.9.1

The Board of Directors delegates the day-to-day management of the Company to an Executive Committee, which elects its Chairman and may be composed of eleven, thirteen or fifteen members of the Board of Directors. At present this Committee consists of 13 Directors. It meets once a week and whenever convened by one of its members.

The business address of each Director is Avenida de Liberdade, 195, 1250-195 Lisbon, Portugal. A11.9.1

The composition of the Board of Directors for the 2004-2007 four-year mandate, with an indication of year of birth, membership in the Executive Committee and main directorships outside of the Bank, if any is set out below:

**António Luís Roquette Ricciardi**, born in 1919, has served as the Chairman of the Board of Directors of Banco Espírito Santo since 1992. Currently holds the following responsibilities:

Higher Council of Espírito Santo Group (Chairman)

### Board of Directors:

Banco Espírito Santo et de la Vénétie, S.A. (Honorary President)  
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)  
Compagnie Bancaire Espírito Santo, S.A. (Member)  
E. S. Control Holding, S.A. (Chairman)  
E. S. International, S.A. (Chairman)  
Espírito Santo Financial Group, S.A. (Member)  
Espírito Santo Resources Limited (Chairman)  
Espírito Santo Services, S.A. (Member)  
Espírito Santo Tourism (Europe), S.A. (Chairman)  
Partran – Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)

### General Meeting:

Banco Internacional de Crédito, S.A. (Chairman)  
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)  
Quinta dos Cónegos – Sociedade Imobiliária, S.A. (Chairman)

**Ricardo Espírito Santo Silva Salgado**, born in 1944, has served on the Board since 1991 and is currently the Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of Banco Espírito Santo. He is a member of the board of directors of other ESFG Group companies. Currently holds the following responsibilities:

### Board of Directors

Banco Bradesco, S.A. (Member)  
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)  
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
BEST – Banco Electrónico de Serviço Total, 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)  
 E.S. International, S.A. (Member)  
 ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
 ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
 ESCA Participation Limited (Member)  
 Esfint Holding, S.A. (Member)  
 Espírito Santo Bank (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)  
 Espírito Santo Overseas, Ltd. (Chairman)  
 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)  
 Maes – Administração, Participações e Consultoria, S.A. (Director)  
 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)

#### **Supervisory/Fiscal Board**

Club Méditerranée (Member)  
 Euronext NV – Sociedade Gestora de Mercados Regulamentados, S.A. (Member)  
 IIEB – Institut International d'Études Bancaires (Member)

**Jean Gaston Pierre Marie Victor Laurent**, born in 1944, was appointed to the Board of Directors of Banco Espírito Santo in 1999. Currently holds the following responsibilities:

#### **Board of Directors**

Calyon (Chairman of the Board of Directors)  
 Crédit Agricole, S.A. (General Manager)  
 Crédit Lyonnais (Chairman of the Board of Directors)  
 Banca Intesa (Member)

#### **Supervisory / Fiscal Board**

EURAZEO (Member)  
 M6 (Member)

**Mário Mosqueira do Amaral**, born in 1932, has served on the Board since 1991 and is also a member of the Executive Committee. Currently holds the following responsibilities:

#### **Board of Directors**

Amaral & Pinto – Empreendimentos Imobiliários, S.A. (Chairman)  
 Banco Espírito Santo et de la Vénétie, S.A. (Member)  
 Banco Espírito Santo North American Capital Corporation (Chairman)  
 Banque Marocaine du Commerce Extérieur (Member)  
 Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)  
 Compagnie Bancaire Espírito Santo, S.A. (Member)  
 E.S. Control Holding, S.A. (Vice-Chairman)  
 E.S. International, S.A. (Vice-Chairman)  
 E.S. Services, S.A. (Member)  
 Espírito Santo Financial Group, S.A. (Member)

Espírito Santo Investment Management (Member)  
Espírito Santo Overseas, Ltd. (Member)  
Espírito Santo Resources Limited (Member)  
Gespetro – Sociedade Gestora de Participações Sociais, S.A. (Member)  
Partran – Sociedade Gestora de Participações Sociais, S.A. (Member)  
Espírito Santo Empresa de Prestação de Serviços, ACE (Member)

#### **General Meeting**

Banco Internacional de Crédito, S.A. (Vice-Chairman)  
Gesfimo – Espírito Santo, Irmãos – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A. (Chairman)  
Telepri – Telecomunicações Privadas, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

**José Manuel Pinheiro Espírito Santo Silva**, born 1945, has served on the Board since 1992 and is also a member of the Executive Committee. Currently holds the following responsibilities:

#### **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)  
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)  
Compagnie Bancaire Espírito Santo, S.A. (Chairman)  
E.S. Control Holding, S.A. (Member)  
ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)  
ESFG Overseas Limited (Vice-Chairman)  
Espírito Santo Bank (Member)  
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 (Member)  
Espírito Santo Services, S.A. (Member)  
Europ Assistance – Companhia Portuguesa Seguros Assistência, S.A. (Member)  
Fiduprivate – Sociedade de Serviços, Consultoria, Administração de Empresas, S.A. (Chairman)  
Sociedade Imobiliária e Turística da Quinta do Peru, S.A. (Chairman)

**António José Baptista do Souto**, born in 1950, has served on the Board since 1989, having held various positions in the Bank since 1978. He is also a member of the Executive Committee. Currently holds the following responsibilities:

#### **Board of Directors**

Angra Moura – Sociedade de Administração de Bens, S.A. (Chairman)  
Besleasing & Factoring, IFIC, S.A. (Chairman)  
Companhia de Seguros Tranquilidade, S.A. (Member)  
Companhia de Seguros Tranquilidade-Vida, S.A. (Member)  
Espírito Santo – Companhia de Seguros, S.A. (Member)  
Espírito Santo Empresa de Prestação de Serviços, ACE (Member)  
Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
Espírito Santo Overseas, Ltd. (Member)  
SIBS – Sociedade Interbancária de Serviços, S.A. (Member)

**Jorge Alberto Carvalho Martins**, born in 1957, has served on the Board since 1994 and is also a member of the Executive Committee. Currently holds the following responsibilities:

#### **Board of Directors**

Banco Espírito Santo, S.A. (Spain) (Member)  
Credibom – Sociedade Financeira para Aquisições a Crédito, S.A. (Member)  
Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A. (Chairman)  
Locarent – Companhia Portuguesa de Aluguer de Viaturas, S.A. (Chairman)

#### **General Meeting**

Leica, Aparelhos Ópticos de Precisão, 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)

**Aníbal da Costa Reis de Oliveira**, born in 1935, has served on the Board since 1992. Mr. Oliveira has been a director of several companies in Portugal. Currently holds the following responsibilities:

**Board of Directors**

ACRO, Sociedade Gestora de Participações Sociais, S.A. (Chairman)

Díliva – 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)

**José Manuel Ferreira Neto**, born in 1937, has served on the Board since 1994 and is also a member of the Executive Committee. Currently holds the following responsibilities:

**Board of Directors**

Banco Internacional de Crédito, S.A. (Chairman)

BIC – International Bank, Ltd. (Cayman Islands) (Chairman)

Comprinveste, Sociedade Gestora de Participações Sociais, Lda. (Chairman)

ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)

Espírito Santo Empresa de Prestação de Serviços, ACE (Member)

Sogesis – Gestão de Investimentos e Serviços, S.A. (Member)

**Supervisory / Fiscal Board**

Fundação Cultursintra (Chairman)

**General Meeting**

Santa Casa da Misericórdia de Sintra (Chairman)

**Manuel de Magalhães Villas-Boas**, born in 1945, has served on the Board since 1992. Currently holds the following responsibilities:

**Board of Directors**

Banco Espírito Santo de Investimento, S.A. (Member)

BES Overseas Limited (Member)

ESFG Overseas Limited (Member)

Espírito Santo Financial Group, S.A. (Member)

Espírito Santo Investment Management (Member)

Espírito Santo Overseas Limited (Vice-Chairman)

**Manuel Fernando de Moniz Galvão Espírito Santo Silva**, born in 1958, was appointed to the Board in 1994. From 1984 to 1987, he worked with Morgan Grenfell & Co. in London before joining the family businesses in 1988. He was General Manager of the Bank, London Branch, from 1992 to 1995. Currently holds the following responsibilities:

**Board of Directors**

Academia de Música de Santa Cecília (Chairman)

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)

E.S. International, S.A. (Member)

E.S. Control (BVI), S.A. (Member)

E.S.Control Holding, S.A. (Member)

Espírito Santo Agriculture and Development Ltd (Member)

Espírito Santo Bank (Member)

Espírito Santo Enterprises, 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 Hotéis, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
 Espírito Santo Industrial S.A. (Chairman)  
 Espírito Santo Industrial (B.V.I.), S.A. (Member)  
 Espírito Santo International (BVI) S.A. (Member)  
 Espírito Santo Resources, Limited (Vice-Chairman)  
 Espírito Santo Services, S.A. (Member)  
 Espírito Santo Tourism (Europe) (Vice-Chairman)  
 Espírito Santo Tourism (Portugal) – Consultoria de Gestão Empresarial, S.A. (Vice-Chairman)  
 Espírito Santo Tourism Limited (Member)  
 Espírito Santo Tourism.Com S.A. (Chairman)  
 Espírito Santo.Com S.A. (Chairman)  
 Euroamerican Finance Corporation, Inc. (Chairman)  
 GES Finance Limited (Member)  
 Herdade da Comporta – Actividades Agro-Silvícolas e Turísticas, S.A. (Chairman)  
 Hotéis Tivoli, 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)  
 Spread.Com S.A. (Chairman)  
 Telepri – Telecomunicações Privadas, Sociedade Gestora de Participações Sociais, 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**, born in 1954, was appointed to the Board in 1999 and is also a member of the Executive Committee. Currently holds the following responsibilities:

#### **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)  
 Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)  
 Coporgest – Companhia Portuguesa de Gestão e Desenvolvimento Imobiliário, S.A. (Member)  
 E.S. Investment, Plc. (Chairman)  
 ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Vice-Chairman)  
 Espírito Santo Capital – Sociedade de Capital de Risco, S.A. (Member)  
 Espírito Santo Cobranças, S.A. (Member)  
 Espírito Santo Financial Group S.A. (Member)  
 Espírito Santo Investment S.A.U., S.V. (Chairman)  
 ESSI – Comunicações, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
 ESSI – Investimentos, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
 ESSI, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
 Multiger – Sociedade de Compra, Venda e Administração de Propriedades, S.A. (Chairman)

#### **Supervisory / Fiscal Board**

Sporting Clube de Portugal (Vice-Chairman)

#### **General Meeting**

Espart – Espírito Santo Participações Financeiras, Sociedade Gestora de Participações Sociais, S.A. (Secretary)  
 Controlled Sport (Portugal) Turismo Cinegética e Agricultura, S.A. (Chairman)  
 PT Meios – Serviço de Publicidade e Marketing, S.A. (Chairman)

**Jean-Luc Louis Marie Guinoiseau**, born in 1954, was appointed to the Board in 1999 and is a member of the Executive Committee. Currently holds the following responsibilities:

**Board of Directors**

Besleasing e Factoring, IFIC, S.A. S.A. (Member)  
Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A. (Member)  
Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Member)  
Espírito Santo – Empresa de Prestação de Serviços, ACE (Member)

**General Meeting**

Companhia de Seguros Tranquilidade-Vida, S.A. (Secretary)

**Rui Manuel Duarte Sousa da Silveira**, born in 1954, was appointed to the Board in 2000 and is a member of the Executive Committee. Currently holds the following responsibilities:

**Board of Directors**

Espírito Santo – Unidades de Saúde e de Apoio à Terceira Idade, S.A. (Member)  
Sociedade de Administração de Bens, Casa de Bons Ares, S.A. (Member)

**General Meeting**

Banco Espírito Santo dos Açores, S.A. (Chairman)  
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
BEST – Banco Electrónico de Serviço Total, S.A. (Chairman)  
Capital Mais – Assessoria Financeira, S.A. (Chairman)  
Companhia de Seguros Tranquilidade, S.A. (Vice-Chairman)  
Crediflash – Sociedade Financeira Para Aquisições a Crédito, S.A. (Chairman)  
ES Capital – Sociedade de Capital de Risco, S.A. (Chairman)  
ES Interaction – Sistemas de Informática Interactivos, S.A. (Chairman)  
ES Tech Ventures – Desenvolvimento Empresarial e Serviços de Gestão, S.A. (Chairman)  
ES Tech Ventures – SGPS, S.A. (Chairman)  
ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
ESAF – Espírito Santo Fundos de Investimento Imobiliário, S.A. (Chairman)  
ESAF – Espírito Santo Fundos de Investimento Mobiliário, S.A. (Chairman)  
ESAF – Espírito Santo Fundos de Pensões, S.A. (Chairman)  
ESAF – Espírito Santo Participações Internacionais, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
ESEGUR – Empresa de Segurança, S.A. (Vice-Chairman)  
Espírito Santo – Companhia de Seguros, S.A. (Chairman)  
Espírito Santo – Gestão de Patrimónios, S.A. (Chairman)  
Espírito Santo Cobranças, S.A. (Chairman)  
Espírito Santo Data, Sociedade Gestora de Participações Sociais, 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 Innovation – Tecnologias de Informação, S.A. (Chairman)  
Espírito Santo Prestação de Serviços, ACE (Chairman)  
Espírito Santo Saúde, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
Europ Assistance – Companhia Portuguesa de Seguros de Assistência, S.A. (Vice-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)

**Joaquim Aníbal Brito Freixial de Goes**, born in 1966, was appointed to the Board in 2000 and is a member of the Executive Committee.

**Board of Directors**

BEST – Banco Electrónico de Serviço Total, S.A. (Member)  
Companhia de Seguros Tranquilidade-Vida, S.A. (Member)  
E.S.Interaction – Sistemas de Informação Interactivos, S.A. (Chairman)  
Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Member)

ES Tech Ventures, Sociedade Gestora de Participações Sociais, 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)

**Pedro José de Sousa Fernandes Homem**, born in 1947, was appointed to the Board in 2000 and is a member of the Executive Committee. Currently holds the following responsibilities:

**Board of Directors**

Empresa de Servicios de Inversion Hiscapital, A.V., S.A. (Member)  
ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)  
Espírito Santo Financial Consultants, Gestão de Patrimónios, S.A. (Member)

**Supervisory / Fiscal Board**

Quinta Patino – Sociedade de Investimentos Turísticos e Imobiliários, S.A. (Chairman)

**Ilídio da Costa Leite de Pinho**, born in 1938, was appointed to the Board in 2000. Currently holds the following responsibilities:

**Board of Directors**

Asiainvest, S.A. (Chairman)  
Fomentinvest, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
Fundação Ilídio Pinho (Chairman of the Higher Council and Board of Directors)  
IP Agro – Sociedade Agro Industrial e Cinegética, S.A. (Chairman)  
IP Cinegética – Sociedade Agro Industrial e Cinegética, S.A. (Chairman)  
IP Holding, Sociedade Gestora de Participações Sociais, S.A. (Chairman)  
IP Vale – Gestão Imobiliária, S.A. (Chairman)  
Spiering, Sociedade Gestora de Participações Sociais, S.A.  
Member of the Administrative Committee of Universidade Católica Portuguesa

**Herman Agneessens**, born in 1949, was appointed to the Board in 2000. Currently holds the following responsibilities:

**Board of Directors**

Fin. Force, Brussels (Chairman)  
KBC Bank NV (Director)  
KBC Bankverzekeringsholding Nv (Director)  
VISA Europe (Director)

**Patrick Gérard Daniel Coudène**, born in 1951, became a member of the Board in 2001 and is a member of the Executive Committee. Currently holds the following responsibilities:

**Board of Directors**

Banco Espírito Santo (Spain), S.A. (Member)  
Banco Espírito Santo dos Açores, S.A. (Vice-Chairman)  
Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)  
Companhia de Seguros Tranquilidade-Vida, S.A. (Member)  
Credibom – Sociedade Financeira para Aquisições a Crédito, S.A. (Member)  
Espírito Santo Companhia de Seguros, S.A. (Vice-Chairman)  
ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)  
ES Tech Ventures, Sociedade Gestora de Participações Sociais, S.A.  
Soparcer – Sociedade Gestora de Participações Sociais, S.A. (Chairman)

**Michel Victor François Villatte**, born in 1945, became a member of the Board in 2002. Currently holds the following responsibilities:

**Board of Directors**

Bespar – Sociedade Gestora de Participações Sociais, S.A. (Member)  
CA – ELS, S.A. (Permanent Representative of Predica, Member)  
Domaines Listel. S.A. (Member)  
Emporiki Life Insurance Company (Greece) (Vice-Chairman)  
Ifcam (Member)  
La Medicale de France, S.A. (Chairman)  
Pacifica, S.A. (Member)  
Partran, Sociedade Gestora de Participações Sociais, SA (Member)  
Predi Retraites (General Manager)  
Predica, S.A. (General Manager)  
Predicai-Europe (Luxembourg) (Chairman)  
Sal Bancassurance (Lebanon) (Member)  
Suren, S.A. (Member)  
Unimo, S.A. (Permanent Representative of Predica, Member)

**Supervisory / Fiscal Board**

Unipierre Assurance (Chairman)

**Mário Martins Adegas**, born in 1935, became a member of the Board in 2002. He is also a member of Audit Committee and Chairman of the fiscal board of E Tempus, SGPS – Sociedade Gestora de Participações Sociais.

**Luis António Burnay Pinto de Carvalho Daun e Lorena**, born in 1944, became a member of the Board in 2002. He is also a member of Audit Committee and manager of Campeque Lda.

**Lázaro de Mello Brandão**, born in 1926, became a member of the Board in 2002. Currently holds the following responsibilities:

**Board of Directors**

Banco Bradesco Luxembourg, S.A. (Chairman)  
Banco Bradesco S.A. (Chairman)  
Bradesco Leasing – Arrendamento Mercantil S.A. (Chairman)  
Bradesco Seguros S.A. (Chairman)  
Bradespar S.A. (Chairman)  
Bradesplan Participações S.A. (Chairman)  
Cidade de Deus – Cia. Comercial de Participações (Chairman)  
Elo Participações S.A. (Chairman)  
Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição (Chairman)

**Governing Board**

Fundação Bradesco (Chairman)

**Top Management**

Fundação Bradesco (Director-Chairman)  
NCF Participações S.A. (Director-Chairman)  
Nova Cidade de Deus Participações S.A. (Director-Chairman)  
Top Clube Bradesco, Segurança, Educação e Assistência Social (Director-Chairman)  
UFJ Bradesco Participações Ltda. (Director-Chairman)

**Advisory Board**

VBC Participações S.A. (Member)

**Executive Board**

Caixa Beneficente dos Funcionários do Bradesco (Chairman)

**Ricardo Abecassis Espírito Santo Silva**, born in 1958, became a member of Board in 2002. Currently holds the following responsibilities:

**Board of Directors**

Agribahia, S.A. (Brasil) (Substitute)  
Banco Espírito Santo de Angola (Chairman)  
BES Investimento do Brasil, S.A. (Member)  
Banco Espírito Santo de Investimento, S.A. (Member)  
Banco Espírito Santo, S.A. (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 Bank (Miami) (Vice-Chairman)  
 Espírito Santo Financial (Portugal) (Member)  
 Espírito Santo International Holding (Luxemburg) (Member)  
 Espírito Santo Investimentos, S.A. (Brazil) (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**

Associação Espírito Santo Cultura (Director)  
 BES Investimento do Brasil, S.A. (Chairman)  
 E.S. Holding (Brazil) (Chairman)  
 ESAI – Espírito Santo Ativos Imobiliários Ltda. (Brazil) (Managing Director)  
 ESCAE – Administração e Participações Ltda. (Brazil) (Director)  
 Espírito Santo Investimentos, S.A (Brazil) (Chairman)  
 Europ Assistance (Brazil) (Director)  
 GESPAR S/C Ltda. (Brazil) (Director)  
 InterAtlântico S.A.(Brazil) (Director)  
 Seicor – Comércio Adm. e Part. S.A. (Brazil) (Chairman)

#### **Supervisory/Fiscal Board**

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

#### **Advisory Board**

Portugal Telecom – Brazil (Member)

**Bernard Henri Georges De Witt**, born in 1959, became a member of Board in 2002. Currently holds the following responsibilities:

#### **Board of Directors**

Banco Bisel, S.A. (Argentina) (Administrateur) (Société en Liquidation)  
 Banco del Desarrollo- Chile (Administrateur)  
 Banco Suquia, S.A. (Argentina) (Administrateur) (Société en Liquidation)  
 Bespar, Sociedade Gestora de Participações Sociais, S.A. (Administrateur)  
 Crédit Agricole – NV Landouwkrediet, S.A. (Belgium) (Administrateur)  
 Crédit Uruguay Banco, S.A. (Uruguay) (Administrateur, Vice-Président)  
 Deveurope, S.A. (France) (Membre du Conseil de Gestion)  
 Europabank, S.A. (Belgium) (Administrateur)  
 SICSA (Argentina) (Administrateur Suppléant) (Société en Liquidation)

**José Manuel Ruivo da Pena**, born in 1940, became a member of the Board in 2003. He is also a member of Audit Committee.

**Jean-Frédéric de Leusse**, born in 1957, was elected as a member of the Board in 2004. Currently holds the following responsibilities:

#### **Board of Directors**

Banca Intesa, S.P.A. (Member)  
 Banque Libano Française (Member)  
 Banque Saudi Fransi (Member)  
 CAI Egypt (Member)  
 Crédit Agricole, S.A. (Membre Comex, Director)  
 Crédit Lyonnais Private Equity Holding (Chairman General Manager)  
 IDIA Participations (Chairman)  
 Sofipar (Chairman)  
 Sofiproteol (Member)

Unigrains (Member)  
UI (Chairman, General Manager)  
Unipar (Chairman)

**Supervisory / Fiscal Board**

Crédit Lyonnais Private Equity (Chairman)  
Lukas Bank, S.A. (Wroclaw, Poland), (Chairman)

**Amilcar Carlos Ferreira de Morais Pires**, born in 1961, has served as the Bank's Chief Financial Officer in charge of the Financial Department since 1996 and was elected as a member of the Board in 2004. Currently holds the following responsibilities:

**Board of Directors**

Bank Espírito Santo International Limited (Chairman)  
Banco Espírito Santo do Oriente, S.A. (Member)  
BES Overseas Limited (Member)  
Companhia de Seguros Tranquilidade-Vida (Member)  
ESAF – Espírito Santo Activos Financeiros, Sociedade Gestora de Participações Sociais, S.A. (Member)  
Espírito Santo Data, Sociedade Gestora de Participações Sociais, S.A. (Member)  
Espírito Santo, Plc (Member)  
MTS Portugal – Sociedade Gestora do Mercado Especial de Dívida Pública – SGMR, S.A. (Member)

At the General Meeting of 30 March 2005 the following two new members of the Board of Directors were elected to replace Michel Marin Le Masson and Francisco Luís Murteira Nabo, who renounced their mandates before their term of office:

**Bernard Delas**, born in 1948. Currently holds the following responsibilities:

**Board of Directors**

Crédit Agricole, S.A. (Member)  
Partran, SGPS, S.A. (Member)  
Corelyon (Member)  
Gimar (Member)

**Miguel António Igrejas Horta e Costa**, born in 1948. Currently holds the following responsibilities:

**Board of Directors**

Telefonica (Spain) – (Member)  
Portugália, S.A. (Member)  
Associação Industrial Portuguesa – (Vice-President)  
Fundação Luso-Brasileira (Vice-President)

In March 2005 Mr. Manuel Pinho has renounced his mandate. Therefore currently the Board has 30 members. Article 30 – #5 of the company statutes indicates that if the number of voting members is even, then the Chairman of the Board has two votes.

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.

## **6. Business Sectors**

### **6.1 Retail and Commercial Banking**

The BES Group provides a full range of banking and related financial services in Portugal, as well as in Spain and abroad through its international branches and representative offices in Europe, in other countries with significant Portuguese communities, and since 2000, through ES Bank in Miami, Florida. The Group conducts operations in China through Banco Espírito Santo do Oriente (“BESOR”). The BES Group's diverse customer base is comprised of large Portuguese corporations, subsidiaries of foreign corporations, public sector institutions, small to medium-sized Portuguese businesses and individuals. The financial services offered by the BES Group include wholesale and retail deposit-taking, commercial and consumer lending, funds transfers, credit card facilities, foreign exchange, distribution of mutual funds and trading and investment securities, including corporate and government debt securities and providing

A11.5.1.3

A11.5.1.1  
A4.6.1.1

securities custodial services. In addition to traditional banking services, the BES Group, through its subsidiaries and other related entities, engages in various complementary higher margin activities, such as leasing, factoring, asset management and life and non-life insurance. These complementary activities allow the BES Group to extend its services to a broader Clientele and to enhance its service to its existing Client base.

BES's network in Portugal consisted of 471 branches at 31st December, 2004. Including BIC, Banco BEST and Banco Espírito Santo dos Açores ("BAC"), the BES Group had a network of 607 branches throughout Portugal at 31st December, 2004. Banco Espírito Santo, S.A. ("BESSA") had 26 branches in Spain, and BES Angola had 6 branches at 2004 year-end. The BES Group also had seven other international branches and 12 representative offices.

Within retail banking, three segments were specifically addressed: BES 360°, launched in February 2004, as a new approach to the affluent segment, the small business segment, and the mass market segment.

The services offered by BES 360° to individual Clients with sizeable financial involvement, aim to provide the Client with permanent support from a dedicated account manager, and to offer exclusive products and financial solutions as well as sophisticated financial planning. The services available to the small business segment (including independent professionals) include a large number of products, expanded and tailored to meet their specific needs, supported by the creation of a new marketing unit and a network of marketing professionals, involved in the identification and development of prime Clientele target groups. The approach to the mass market segment includes more focused marketing areas, definition of clear business practices standards, the reinforcement of the assurance programme and the fine-tuning of the commercial approach to specific types of Clientele within this segment.

## **6.2 Private Banking**

In 2004, Private Banking continued to implement the strategic guidelines that steered business development over the last few years. The financial advisory and asset planning services deserved particular care and attention to ensure maximum quality in the service provided to private banking customers.

The firm deployment of this strategy yielded expressive results in 2004, as shown by a 13.5% increase in the financial involvement of the customer base and a rise of 2.5% in the number of customers. These figures clearly indicate that the policies implemented should be pursued.

## **6.3 Corporate Banking**

The area of corporate banking encompasses four segments: medium sized companies (with turnover between €2.5 million and €25 million), large national corporations (national companies with turnover exceeding €25 million), international corporations (multinational companies present in Portugal) and municipalities and institutional Clients.

The strategy for the medium sized companies segment include 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 large national corporation segment is particularly competitive. BES Group focuses on expanding and co-ordinating the various business areas of the BES Group such as investment banking, leasing, factoring and insurance as well as crossing its efforts in this segment with those of the retail sector.

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

Finally, in the segment of municipalities and institutional Clients, BES Group seeks higher penetration of Clients by expanding direct business or cross-selling business opportunities as well as increasing financial flows, such as customer funds.

## **6.4 Investment Banking and Brokerage**

The BES Group conducts investment-banking operations in Portugal through BESI, of which BES is the sole shareholder. BESI's investment banking and advisory activities focus on domestic as well as certain

international markets (Brazil, Spain and the United Kingdom) and are mainly concentrated on project finance, structured finance, M&A, corporate finance and capital markets (including privatisations, primary and secondary market securities trading as well as underwriting of equity and debt issues).

On a Portuguese GAAP basis BESI had total consolidated assets of euro 2,514 million at 31st December, 2004 and net income of euro 53.5 million for the 12 months then ended. BESI accounted for 5.5% of the BES Group's total assets at 31st December, 2004 and 19.4% of the BES Group's net income for 2004.

During 2004, in Spain, the subsidiary ESI (Spain) changed its name from Benito y Monjardin, SV, S.A. to Espirito Santo Investment SAU, SV (ESI) with the purpose of achieving greater identification with the Espirito Santo brand. In Brazil, the BES Group continues to develop the investment banking joint venture with Banco Bradesco S.A. in order to benefit from the significant potential of this business area in Brasil.

The BES Group conducts its stockbrokerage activities through BESI (the merge of ES Dealer with BESI was authorised by the Bank of Portugal in February 2004) in Portugal, Espirito Santo Investment, S.V. in Spain and BES Securities in Brazil.

Since 2000, the BES Group has expanded its stock brokerage activities through the acquisition of Benito y Monjardin, renamed Espirito Santo Investment in 2004, an independent Spanish asset management and brokerage company, referred to above. In 2004, this subsidiary's net income increased to euro 19.2 million, from 3.0 million in 2003.

During 2004, BESI was placed in 1st and 10th position in the ranking of brokerage in Portugal (according to Euronext Lisbon) and Spain (according to Sociedad de Bolsas), respectively. In Brazil, according to Stockmaster, the broker BES Securities moved from 51st (in 2003) to 23rd position in the Bovespa ranking.

## **6.5 Asset Management**

Either in Portugal or internationally, the Asset Management activity developed by ESAF has been giving an increasingly important contribution to the performance and market position of the financial Group of which it is part. Permanent focus on the objectives of the Customers, use of the highest management criteria, a permanent search for optimum risk/return levels for the assets it manages and an innovating offer of added value services, all these factors explain ESAF's positive evolution at all levels.

Through this course of action and also thanks to a close and profitable collaboration with the various networks of BES Group, ESAF has been making good progress in all the activities it develops, in Portugal, but also in the Spanish market where business continued to grow, namely through selective acquisitions of fund managers. During 2000, the BES Group acquired 100% of two Spanish asset management companies – Gescapital and GES-BM – in order to better develop BESSA's private banking activity. During 2001, Gescapital and GES-BM were combined and the new merged entity was renamed Espirito Santo Gestión, which, together with Espirito Santo Pensiones, formed the holding company Espirito Santo Activos Financieros.

In 2004, ESAF pursued its strategy of previous years which puts the focus on innovation by launching new products and expanding the offer in accordance to changing market conditions.

## **6.6 Other Activities**

BES is engaged in the insurance business through the joint-venture partnerships of other ESFG Group affiliates, namely, Tranquilidade, Tranquilidade-Vida and ES Seguros.

Cross-selling opportunities among its subsidiaries and with its affiliates will become increasingly important to BES's development. Tranquilidade-Vida and BES are parties to a marketing agreement that enables BES to sell Tranquilidade-Vida's products, particularly life products, through BES's branch network (bancassurance). The percentage of life products sold through the BES Group network has settled at consistent high levels (over 90%) at least since 1999, reaching 93.5% in 2004 (92.5 in 2003).

The BES Group has also developed a strategic arrangement to sell banking products through Tranquilidade agents (assurfinance). This new initiative aims to attract those Tranquilidade Clients that do not already use the BES Group's banking services. The assurfinance project goals include selling mortgage

loans, consumer loans, investment funds, credit cards and service accounts to Tranquilidade Clients through Tranquilidade's agents. In 2004, the contracts entered into through this channel represented approximately 12% of the BES Group's new mortgage loans and 5% of its total mortgage stock. During 2005, BES and Tranquilidade launched a large scale operation aimed at reinforcing the assurfinance project, based on a credit card star product (T-Card). During the first nine months of the year, 18,000 new clients were captured, 22,000 T-Cards were placed and the weight of new mortgage channelled by assurfinance agents reached 17% of BES Group production (compared with approximately 12% in 2004).

The Group is also involved in the credit card business, through Crediflash, a credit card management company and a member of the BES Group, with assets of euro 139.6 million and loans to customers of euro 130.0 million as of 31st December, 2004 and net income of euro 9.4 million in 2004. The BES Group also provides all types of consumer credit through its network of branches.

In February 2004, BES Group companies engaged in leasing and factoring business – Besleasing Mobiliária (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 2004, Besleasing e Factoring achieved leading performances in the various segments where it operates, gaining market share across the board: property leasing grew by 39%, equipment leasing by 47.1% and factoring by 29%. Based on this performance, the company ranked second in all these products, with a share of 17.4% in the production of leasing operations according to APELEASE (the Portuguese Association of Leasing Companies) and of 20.8% in factoring (credit under management) according to APEF, the Portuguese Association of Factoring Companies.

BES is developing a strategy involving the enhancement of its multi-channel distribution network, particularly internet banking, as a complement to its existing relationships with its customers (both individuals and corporate customers).

As part of its multi-channel distribution policy, the BES Group is intensifying efforts to migrate customers to the web-based channels BESnet and BESnet Negócios (individuals and corporate Clients, respectively). At 30th September, 2005, there were approximately 742 thousand BESnet users (corresponding to a year-on-year increase of 6.4%). In the corporate segment, since launching BESnet Negócios, an innovative Internet banking service directed toward small- and medium-sized enterprises at the end of 1999, the BES Group has been developing an increasing number of features to adapt its banking services to the needs of corporate customers. At 30th September, 2005, the number of companies using the Internet banking service for corporate customers – BESnet Negócios – reached 41 thousand, a year-on-year increase of 14.9%. Logins were up by 23.5% and transactions by 40.2%, proving the growing importance of this channel as a transactional support of the companies' activity.

In April 2000, a strategic partnership agreement was signed with the Portugal Telecom Group and Caixa Geral de Depósitos. The BES Group and its partners recognised the increasing convergence of technology, communications and contents, and considered that it was essential to establish stronger and closer mutual collaboration ties with strategic allies in Portugal.

## **7. Risk Management**

### **7.1 The Function of Risk Control**

Risk management provides an active support to management, being one of the strategic mainstays supporting BES Group's balanced and sustained development.

Risk management is organised into two broad areas – the Global Risk Department and the Company Monitoring and Credit Recovery Department – having the following objectives:

- to identify, quantify and monitor the different types of risk, progressively applying uniform and consistent principles and methodologies to all the Group's entities;
- to help achieve BES Group's value creation objectives by fine-tuning tools to support the structuring of transactions and by developing internal techniques of performance assessment and core capital optimisation;
- to assume a proactive attitude in the management of events of significant delay or definitive non performance of contractual obligations.

## **7.2 The New Capital Accord**

Having established as a target to adopt the IRB Foundation approach for Credit Risk and the Standardised Approach for Operational Risk, BES Group recognised the benefits derived from application of the rules of the new regime, not only for itself but for the financial system as a whole.

The fact that regulatory capital is more sensitive to economic risks promotes greater transparency in the risk incurred, and in the medium term will make the financial system safer and more efficient.

Following the analysis made in 2003 and with the purpose of creating the conditions to achieve the referred objectives, the Group launched the Basel II Project, which has as main action guidelines:

- to consolidate the work done to develop and fine-tune internal risk analysis models, in particular risk rating systems;
- to reinforce the introduction of risk metrics and criteria in the day-to-day decision-taking processes. 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, particularly when concerning the pricing of operations and performance analysis;
- to reinforce information systems, with emphasis on the quality and consistence of information management.

The BES Group conducts activities throughout Portugal and in Spain (through BES's subsidiary BESSA), in London (international branch), in New York (international branch), in Florida (through BES's subsidiary ES Bank), and in Macao (through BES's subsidiary BESOR) and, accordingly, its risk management procedures take into account the specific conditions prevailing in each market in which the BES Group operates. The Global Risk Department is responsible for integrating the various risk management procedures across various entities of the BES Group.

The foundation of the BES Group's risk management practices is the experience and knowledge of BES's senior management. Senior management in the BES Group companies and international branches and the managing directors in each trading department within the BES Group have extensive knowledge of the markets and activities in which they do business. The experience and knowledge of BES's senior management is augmented by risk management policies and procedures intended to monitor and evaluate the BES Group's risk profile.

The credit and market risk management process is controlled and supervised by BES's Credit and Financial Committee. The Credit and Financial Committee meets daily, is composed primarily of the Executive Committee of the Board of Directors and is chaired by the Chairman of the Executive Committee. The Credit and Financial Committee is responsible for establishing the BES Group's risk tolerance parameters through the setting of market and credit risk limits, monitoring current market and credit risk positions and approving all major business decisions which increase the BES Group's market or credit risk.

## **7.3 Nature of Primary Market Risk Exposures**

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest and foreign currency exchange rates and in equity prices as well as changes in the liquidity in the markets. Market risk is inherent to both derivative and non-derivative financial instruments, and, accordingly, the scope of the BES Group's market risk management procedures extends beyond derivatives to include all market risk sensitive financial instruments. The BES Group's exposure to market risk is directly related to its proprietary trading and arbitrage activities and to its role as a financial intermediary in customer-related transactions. The main sources of market risk are its portfolio of long-term fixed rate bonds and its portfolio of equity and fixed income derivatives.

BES seeks to mitigate its market risk exposures using derivative financial instruments that provide a cost effective alternative to traditional on-balance sheet instruments (such as securities, customer credit, and customers' and other deposits). Transactions are conducted mainly through BES's head office in Lisbon, Portugal and in its international branches. Derivative financial instruments used to reduce BES's market risk involve, to varying degrees, credit risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the terms of the contract.

The following is a summary of the BES Group's primary market risk exposures including a discussion of how those exposures are currently managed:

- ***Foreign currency exchange risk***

Foreign currency exchange risk includes transaction exposure (arising from fluctuations in foreign currency exchange rates on the reported value of revenues and expenses and certain assets and liabilities denominated in foreign currencies) and translation exposure (arising from the translation of investments in the net assets of foreign subsidiaries and offices). The BES Group's revenues and expenses can be affected, as reported in euro, by fluctuations in foreign currency exchange rates, primarily relative to the U.S. dollar and the pound sterling. However, the impact of such fluctuations is limited because as of 31st December, 2004 approximately 91.4 per cent of BES's assets and 90.1 per cent of its liabilities were denominated in euro.

The BES Group seeks to manage its exposure from the risk of adverse foreign currency fluctuations by hedging certain of its currency exchange exposures with respect to identifiable assets, liabilities or firm commitments denominated in foreign currency. The BES Group primarily uses forward exchange contracts, currency swaps, and, to a lesser extent, foreign currency options to manage its foreign currency transaction and translation exposure.

- ***Interest rate risk***

Interest rate risk is the potential loss in a position value due to the inherent volatility of interest rates. Interest rate risk is a consequence of a mismatch between the durations of assets and liabilities within the BES Group.

The BES Group uses several types of financial instruments to manage its interest rate risk, including interest rate swaps, cross-currency interest rate swaps, forward rate agreements, futures and options. The extent to which the BES Group uses these instruments is determined by reference to the net exposure of the BES Group's assets and liabilities that are subject to interest rate risk. The BES Group uses such instruments to manage its interest rate risk and protect the interest rate margin between interest-bearing assets and interest-bearing liabilities.

- ***Equity price risk***

The BES Group is exposed to equity price risk as a consequence of its proprietary trading activity in stock markets and in related derivative financial instruments. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities or instruments that derive their value from a particular stock, a basket of stocks or a stock index.

- ***Liquidity risk***

The BES Group is subject to liquidity risk, which is a measure of the BES Group's capacity to meet its short-term financial obligations without incurring losses or resulting in an adverse impact on the fair value of BES's financial assets and liabilities. Liquidity risk is managed by the Executive Committee and by BES's Treasury Department using a daily liquidity gap analysis and liquidity limits for balance sheet assets and liabilities, and by Bank management's careful selection of the types of financial instruments used and markets entered.

- ***Credit Risk Management***

Credit risk arises from the potential inability of counterparties to perform on an obligation in accordance with the terms of the contract. The BES Group is exposed to credit risk in various capacities: primarily as a direct lender, as a holder of securities, and as a counterparty in financial contracts. As a lender and as a holder of debt securities, the BES Group is exposed to the risk of non-payment of interest or principal by the borrower. As a counterparty in financial contracts, the BES Group is exposed to risk of non-performance by a counterparty obligated to perform under the contract.

The identification, quantification, integration, monitoring and control of risk exposures from a multi-dimensional perspective are some of the tasks involved in credit risk management.

The management of credit risk relies on effective coordination between the various teams involved throughout the successive phases of the credit's life cycle, complemented by the ongoing introduction of improvements at both the level of policies, standards and methodologies, and at the level of procedures, decision circuits and tools used in assessing and monitoring risk.

The global project involving the redesign and differentiation of analysis processes, delegation of powers and credit approval has been definitively implemented for the medium-sized companies segment. This methodology, duly set out under a specific regulation, establishes that the risk analysis processes, credit lines approval and price definition are differentiated according to the internal rating, type of product, risk mitigation instruments (i.e., collateral or guarantees received), amount of exposure and maturity. Credit decisions thus rely, on the one hand, on a commercial opinion, and on the other on independent risk assessment.

In light of the rather adverse macroeconomic context, special care was taken in the everyday deployment of credit risk monitoring and control actions involving all the commercial divisions, so as to permit the early definition and implementation of focused risk management measures adjusted to those customers whose risk profile during this period showed signs of deteriorating. The success of this process relied on the combined use of the multiple analysis tools available to and continuously developed by the BES Group. One of the main developments was the implementation of a Web based application to support the detection of warning signals and the monitoring of potentially problematic loans. This function is the responsibility of the Credit Risk Monitoring Committee, which is composed of representatives from the Commercial Divisions, Global Risk Department, Company Monitoring and Credit Recovery Department and Audit and Inspection Department. The daily control of credit risk events in customers/operations is performed by the business units, using online tools and information systems developed by the Global Risk Department for such purpose.

The various risk and scoring models employed in the corporate and retail segments have proven very important tools for quantifying and assessing risk, by permitting improvements in the BES Group's ability to discriminate between the quality of various categories of customers, which, in turn, allows the BES Group to more effectively make differentiated offers of credit based on risk metrics, namely expected losses and economic capital.

- ***Operational Risk***

Operational risk usually represents the possibility of losses resulting from failures in internal procedures due to the behavior of individuals or information systems, or sometimes even from events external to the organisation.

Following certain tests performed in 2002, the BES Group's organisational model and methods for the integrated management of operational risk continued to be gradually implemented during 2003 in designated departments and subsidiaries, according to previously defined guidelines.

The organisational model involves the operational risk area within the Global Risk Department and also the various representatives appointed by each of the departments and subsidiaries considered relevant.

The BES Group has been gradually implementing methods to integrate the management of operational risk, which can basically be divided into:

- Assessment questionnaires

The assessment questionnaires are used to detect the main sources of operational risk in the business and support processes. This instrument of analysis also helps to reinforce communication and raise awareness of this matter.

- Detailed analysis of processes

The processes identified as being more critical are subject to a detailed analysis, based on the supporting documents, as a way to identify and subsequently control the main

operational risks associated with such processes. This analysis also allows possible mitigation measures to eliminate or minimise the risk(s) identified.

- Collection of information on events arising from operational risk

The purpose is to collect quantitative and qualitative information on events arising from operational risk by systematically loading them onto a database.

The conclusions reached through the application of these methods are reported to the relevant area of the business as well as to other areas of the business, particularly, internal audit.

The organisational model, as well as the above-mentioned methods, is documented in detail in the Handbook on the Integrated Management of Operational Risk, issued for the first time in 2003 and updated on an annual basis.

## 8. Funding Structure

In an era of global economy and modern financial management, banks involvement in financial markets, both domestic and international, is increasing. Hence the Group has a sophisticated structure to support the business performed in the various markets – capital, interbank, derivatives and foreign exchange – in order to benefit of overall expectations of economic trends, and interest rate trends, in particular, while pursuing a prudent liquidity risk management.

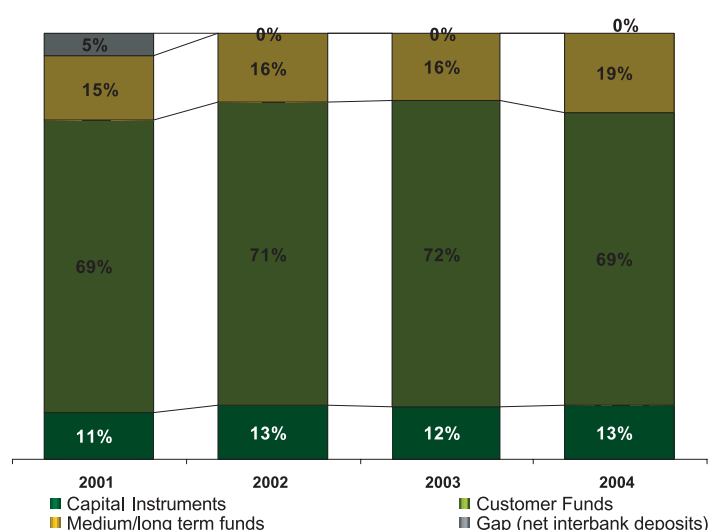
As per financial management, the Group continues to be actively involved in the international markets by issuing hybrid capital, executing asset securitisation transactions and through debt issuance, mainly under the Euro Medium Term Notes programme (EMTN).

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

To implement this policy, the Group uses several short and medium/long term funding mechanisms, namely interbank lines, commercial paper programs (ECP and USCP), the Euro Medium Term Notes programme (issuance of senior and subordinated debt), medium and long-term credit lines and asset securitisation.

On-balance sheet customer funds represented by deposits and capital guaranteed securities, though reducing their relative weight by 3 p.p., remained the Group's most important source of funding, accounting for 69% of the total, followed by medium and long-term funds, which rose from 16% to 19%, and own funds, whose relative weight is 13%.

### Funding Structure



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.

BES Group maintained a high level of funding growth, mainly in customer funds, driven by strong ratings, continued improvement in quality standard, 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		
	2003	2004	Change (%)
<b>On-Balance Sheet Customer Funds</b> . . . . .	<b>26,477</b>	<b>27,515</b>	<b>3.9</b>
Sight Deposits . . . . .	7,594	8,273	8.9
Term Deposits . . . . .	12,543	12,098	-3.5
Debt Securities Placed with Customers. . . . .	6,340	7,144	12.7
<b>Off-Balance Sheet Funds</b> . . . . .	<b>11,924</b>	<b>13,644</b>	<b>14.4</b>
Mutual Funds . . . . .	3,475	4,442	27.8
Real Estate Funds. . . . .	1,505	1,406	-6.6
Pension Funds . . . . .	1,764	1,972	11.8
Bancassurance . . . . .	4,082	4,461	9.3
Other . . . . .	1,098	1,363	24.1
<b>Total Customer Funds</b> . . . . .	<b>38,401</b>	<b>41,159</b>	<b>7.2</b>

The adoption of a commercial strategy based on the offering of funding products – with new integrated products being constantly added – permitted to maintain 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 (“Espírito Santo Activos Financeiros”) 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 (based on new credit risk or absolute return management techniques) and to individual customer whose portfolios are managed by the asset management area.

## 9. Human Resources

BES Group’s policy for Human Resources relies on the continuous qualification and development of its employees. The various measures taken over the last few years to rejuvenate and strengthen the workforce, together with consistent and solid training, contributed decisively to a significant raise in efficiency and productivity.

On 31st December, 2004, BES Group had 8,241 employees, distributed as follows:

	<b>2002</b>	<b>2003</b>	<b>2004</b>
BES Employees . . . . .	4,267	4,146	4,115
Financial Subsidiaries' Employees . . . . .	3,303	3,063	3,183
Non-Financial Subsidiaries' Employees (essentially providing services to customers outside the Group). . . . .	953	905	943
<b>Total Group Employees . . . . .</b>	<b>8,523</b>	<b>8,114</b>	<b>8,241</b>

On 31st December, 2004, the workforce was made up of 40% of women and 60% of men and the percentage of women working for the Group has increased by 1.5 p.p when compared to the previous year.

The employees' average age is 38. Two thirds of employees are under 40 years old. The largest age group is in the bracket of 31 to 35 years old, accounting for 22.6% of the total. Compared to last year there was a reduction of 1.5 p.p in the group of employees over 50 years old, mainly occurred through retirements.

The admissions policy pursued by BES Group has significantly contributed to not only to rejuvenate the staff, but also to considerably increase the level of academic qualifications. In fact, the departures occurred, mainly through retirements (around 40%), were compensated by admissions of better skilled people, mainly for specific positions or directly to commercial functions (87% of the admissions).

#### **10. Financial Statements of BES Group**

According to the Regulation no. 1606/2002 of 19.Jul.02 of the European Council and Parliament, BES consolidated accounts after 1st January, 2005 will have to be prepared in accordance with the International Financial Reporting Standards (IFRS), also known as International Accounting Standards (IAS).

Hence, the financial statements of BES Group for 2005 (prepared in accordance with the 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), BES Group has restated its financial statements of 2004 based on application of the IAS/IFRS 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, 2003 AND 2004**

**(PREPARED IN ACCORDANCE WITH THE PABS)**

	<b>31st December, 2004</b>	<b>31st December, 2003</b>
	<b>(Amounts expressed in thousands of euro)</b>	
<b>Assets</b>		
Cash and deposits at Central Banks . . . . .	999,036	931,567
Loans and advances to credit institutions repayable on demand	602,182	697,176
Other loans and advances to credit institutions . . . . .	5,434,552	6,846,329
Loans and advances to customers . . . . .	27,652,033	25,639,063
Bonds and other fixed income securities . . . . .	5,442,655	4,240,635
a) Issued by Government and Public entities . . . . .	1,705,876	943,987
b) Issued by other entities . . . . .	3,729,535	3,285,852
c) Own securities . . . . .	7,244	10,796
Shares and other variable income securities . . . . .	991,875	489,070
Investments in associated companies . . . . .	50,601	53,221
Investments in subsidiaries excluded from consolidation		
Other investments . . . . .	967,819	891,561
Intangible assets . . . . .	132,989	171,673
Tangible assets . . . . .	352,372	344,695
(Of which: premises). . . . .	(264,317)	(255,310)
Goodwill arising from the equity method of consolidation . . . .	—	—
Goodwill arising from the full consolidation method . . . . .	—	—
Unpaid capital . . . . .	—	—
Treasury stock . . . . .	5	5
Other assets . . . . .	646,843	456,100
Prepayments and accrued income . . . . .	2,628,003	2,522,256
Consolidated loss for the year . . . . .	—	—
Minority interests . . . . .	—	—
<b>Totals . . . . .</b>	<b>45,900,965</b>	<b>43,283,351</b>
	<b>(Amounts expressed in thousands of euro)</b>	
<b>Obligations and Future Commitments</b>		
Guarantees granted and contingent liabilities . . . . .	5,366,487	4,908,387
Of which:		
– Acceptances and endorsements . . . . .		
– Guarantees and sureties . . . . .	4,988,292	4,625,350
– Others . . . . .	378,195	283,037
Commitments . . . . .	4,150,476	3,456,984
Of which:		
– Arising from sales operations with repurchase option . . . .		
<b>Total . . . . .</b>	<b>9,516,963</b>	<b>8,365,371</b>

	31st December, 2004	31st December, 2003
	(Amounts expressed in thousands of euro)	
<b>Liabilities and Shareholder's Equity</b>		
Amounts owed to credit institutions . . . . .	6,212,202	6,468,640
a) Repayable on demand . . . . .	189,233	326,769
b) With agreed maturity date . . . . .	6,022,969	6,141,871
Amounts owed to customers . . . . .	20,371,090	20,136,614
a) Savings accounts . . . . .	2,166,012	2,170,637
b) Repayable on demand . . . . .	8,273,297	7,594,051
c) With agreed maturity date . . . . .	9,931,781	10,371,926
Debt securities . . . . .	12,702,526	10,905,624
a) Outstanding bonds . . . . .	10,613,027	9,359,584
b) Other securities . . . . .	2,089,499	1,546,040
Other liabilities . . . . .	257,990	227,200
Accruals and deferred income . . . . .	884,108	669,547
Capital reserve arising from the equity method of consolidation	—	—
Capital reserve arising from the full consolidation method . . . .	—	—
Provisions for liabilities and charges . . . . .	409,033	383,812
a) Pension plan and equivalent charges . . . . .	8,175	—
b) Other provisions . . . . .	400,858	383,812
Provisions for general banking risks . . . . .	151,646	126,364
Subordinated debt . . . . .	2,013,143	1,651,558
Share Capital . . . . .	1,500,000	1,500,000
Share premium . . . . .	300,000	300,000
Reserves . . . . .	178,643	45,880
Revaluation reserves . . . . .	—	—
Retained earnings . . . . .	—	—
Minority interests . . . . .	645,405	617,867
Consolidated net income for the year . . . . .	275,179	250,245
<b>Totals . . . . .</b>	<b>45,900,965</b>	<b>43,283,351</b>

UNAUDITED CONSOLIDATED BALANCE SHEET AS OF 30TH SEPTEMBER, 2004 AND 2005

A11.11.5.1

(PREPARED IN ACCORDANCE WITH THE IFRS)

A11.11.5.2

	30th September, 2005	30th September, 2004 <sup>(*)</sup>	30th September, 2004
	IFRS	IFRS	PABS
	(Amounts expressed in thousands of euro)		
<b>Assets</b>			
Cash and deposits at Central Banks . . .	672,949	614,055	613,586
Loans and advances to credit institutions . . . . .	471,903	770,456	770,396
Financial Assets held for trading . . . . .	3,606,152	2,161,046	2,161,046
Other financial assets at fair value through the P&L . . . . .	2,047,969	—	—
Financial Assets available for sale . . . . .	3,167,460	4,445,507	5,524,139
Other loans and advances to credit institutions . . . . .	5,389,479	4,797,260	4,764,999
Loans and advances to customers . . . . .	30,773,298	27,892,675	27,781,430
(Provisions) . . . . .	868,541	792,318	438,356
Financial Assets held to maturity . . . . .	597,810	502,584	502,584
Financial Assets with repurchase agreements . . . . .	—	—	—
Fair value of Hedging derivatives . . . . .	59,268	176,704	176,704
Non current assets held for sale . . . . .	—	—	—
Property and equipment . . . . .	—	—	—
Other tangible assets . . . . .	350,774	329,802	339,177
Intangible assets . . . . .	73,893	86,270	141,832
Investments in associated companies . .	58,123	54,783	46,617
Current tax assets . . . . .	20,601	5,224	5,224
Deferred tax assets . . . . .	209,793	94,158	—
Other assets . . . . .	1,533,317	1,267,445	2,332,297
<b>Totals . . . . .</b>	<b>49,032,789</b>	<b>43,197,969</b>	<b>45,160,031</b>

(\*) Restated under IFRS, except for IAS 32 and IAS 39 as allowed by IFRS 1.

	30th September, 2005	30th September, 2004 <sup>(*)</sup>	30th September, 2004
	IFRS	IFRS	PCSB
	(Amounts expressed in thousands of euro)		
<b>Liabilities and Shareholder's Equity</b>			
Amounts owed to central banks . . . . .	387,231	126,748	126,748
Financial liabilities held for trading . . . .	1,622,362	587,918	587,918
Other financial liabilities at fair value through the P&L . . . . .	—	—	—
Amounts owed to other credit institutions . . . . .	7,884,803	6,386,453	6,368,783
Amounts owed to customers . . . . .	18,157,059	19,489,334	19,435,871
Debt securities . . . . .	14,590,537	11,440,116	13,118,338
Financial liabilities associated to transferred assets . . . . .	—	—	—
Fair value of hedging derivatives . . . . .	88,928	151,664	151,664
Non current liabilities held for sale . . . .	—	—	—
Provisions . . . . .	112,111	75,149	558,111
Current tax liabilities . . . . .	23,032	8,624	8,624
Deferred tax liabilities . . . . .	169,784	24,526	—
Capital instruments . . . . .	—	—	—
Other subordinated liabilities . . . . .	2,080,827	1,572,690	1,533,504
Other liabilities . . . . .	972,725	797,765	452,539
Share capital . . . . .	1,500,000	1,500,000	1,500,000
Share premium . . . . .	300,000	300,000	300,000
Preference Shares . . . . .	600,000	—	—
Revaluation reserves . . . . .	313,992	—	—
Other reserves and retained earnings . .	63,304	104,642	197,230
(Treasury stock) . . . . .	(89,039)	(100,174)	—
Net income for the period . . . . .	208,018	77,269	173,530
(Anticipated dividends) . . . . .	(33,480)	—	—
Minority interests . . . . .	80,595	655,245	647,171
<b>Totals . . . . .</b>	<b>49,032,789</b>	<b>43,197,969</b>	<b>45,160,031</b>

(\*) Restated under IFRS, except for IAS 32 and IAS 39 as allowed by IFRS 1.

**CONSOLIDATED STATEMENTS OF INCOME FOR YEARS ENDED  
31ST DECEMBER, 2003 AND 2004**

**(PREPARED IN ACCORDANCE WITH THE PABS)**

	<b>31st December, 2004</b>	<b>31st December, 2003</b>
	<b>(Amounts expressed in thousands of euro)</b>	
<b>Expenses</b>		
Interest expense . . . . .	1,516,811	1,341,494
Commissions . . . . .	52,100	43,083
Losses arising from trading activities . . . . .	2,396,968	2,401,150
General administrative costs . . . . .	619,531	575,784
a) Staff costs . . . . .	330,143	318,509
b) Other administrative costs . . . . .	289,388	257,275
Depreciation . . . . .	130,632	140,808
Other operating expenses . . . . .	14,679	8,302
Provisions for loan losses and other risks . . . . .	563,829	606,365
Provisions for investments . . . . .	1,660	11,766
Extraordinary losses . . . . .	84,667	72,594
Income taxes . . . . .	42,301	54,977
Other taxes . . . . .	12,833	12,758
Losses arising from the equity method of consolidation . . . . .	771	2,263
Minority interests . . . . .	40,002	37,242
Consolidated net income for the year . . . . .	275,179	250,245
<b>Totals . . . . .</b>	<b>5,751,963</b>	<b>5,558,831</b>
	<b>31st December, 2004</b>	<b>31st December, 2003</b>
	<b>(Amounts expressed in thousands of euro)</b>	
<b>Revenues</b>		
Interest income . . . . .	2,217,984	2,090,842
Income from securities . . . . .	17,262	16,522
Commissions . . . . .	450,194	393,052
Profits arising from trading activity . . . . .	2,560,073	2,597,986
Write-back of provisions . . . . .	207,770	236,615
Income arising from the equity method of consolidation . . . . .	5,331	5,975
Other operating income . . . . .	147,710	119,520
Extraordinary gains . . . . .	145,639	98,319
Minority interests . . . . .	—	—
Consolidated loss for the year . . . . .	—	—
<b>Totals . . . . .</b>	<b>5,751,963</b>	<b>5,558,831</b>

**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AS OF  
30TH SEPTEMBER, 2004 AND 2005**

A11.11.5.1  
A11.11.5.2

(PREPARED IN ACCORDANCE WITH THE IFRS/IAS)

	30th September, 2005	30th September, 2004 (*)	30th September, 2004
	IFRS (Amounts expressed in thousands of euro)	IFRS	PCSB
Interest Income . . . . .	1,470,789	1,608,769	1,615,150
Interest expense . . . . .	935,989	1,095,103	1,097,669
<b>Net interest income . . . . .</b>	<b>534,800</b>	<b>513,666</b>	<b>517,481</b>
Dividends on securities . . . . .	31,350	16,215	16,215
Commissions and other similar income	353,319	327,015	327,015
Commissions and other similar expenses . . . . .	48,365	33,091	33,091
Gains and losses in financial assets at fair value . . . . .	(70,778)	9,683	9,683
Gains and losses in financial assets available for sale . . . . .	113,839	46,398	111,915
Gains and losses in foreign exchange revaluation . . . . .	80,100	6,989	6,989
Gains and losses in the sale of other assets . . . . .	33,773	56,906	56,906
Other net income from banking activity	58,898	76,822	38,648
<b>Banking Income . . . . .</b>	<b>1,086,936</b>	<b>1,020,603</b>	<b>1,051,761</b>
Staff expenses . . . . .	310,093	356,779	244,988
Other administrative expenses . . . . .	238,871	223,304	215,209
Depreciation . . . . .	59,929	75,980	98,303
Provisions net of reversals . . . . .	22,149	9,184	33,184
Loan impairment net of reversals and recoveries . . . . .	187,275	203,946	203,946
Other financial assets' impairment net of reversals and recoveries . . . . .	24,622	18,121	18,121
Other assets' impairment net of reversals and recoveries . . . . .	(1,234)	3,622	3,622
Equity in earnings of associated companies . . . . .	4,860	3,571	3,571
<b>Income before taxes . . . . .</b>	<b>250,091</b>	<b>133,238</b>	<b>237,959</b>
Taxes			
Current . . . . .	57,570	33,286	33,286
Deferred . . . . .	(20,595)	2,751	—
<b>Income after taxes . . . . .</b>	<b>213,116</b>	<b>97,201</b>	<b>204,673</b>
Minority interests . . . . .	5,098	19,932	31,143
<b>Net income . . . . .</b>	<b>208,018</b>	<b>77,269</b>	<b>173,530</b>

(\*) Restated under IFRS, except for IAS 32 and IAS 39 as allowed by IFRS 1.

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR YEARS ENDED  
31ST DECEMBER, 2003 AND 2004**

**(PREPARED IN ACCORDANCE WITH THE PABS)**

	31st December, 2004	31st December, 2003
	(Amounts expressed in thousands of euro)	
<i>Cash flows arising from operating activities</i>		
Interest and commission income received . . . . .	2,703,918	2,486,122
Interest and commission expense paid . . . . .	(1,494,300)	(1,410,270)
Recovered loans and interest previously charged-off . . . . .	25,561	12,455
Payments to suppliers and employees . . . . .	(578,828)	(542,233)
Pensions paid and contributions to the pension fund . . . . .	(161,200)	(258,682)
<b>Operating results before changes in operating funds . . . . .</b>	<b>495,151</b>	<b>287,392</b>
(Increase)/decrease in operating assets		
Loans and advances to credit institutions . . . . .	1,391,743	(1,216,964)
Deposits at Central Banks . . . . .	(25,146)	43,316
Loans and advances to customers . . . . .	(2,218,147)	(385,673)
Trading securities . . . . .	(1,280,944)	(22,600)
Other operational assets . . . . .	(25,959)	(9,586)
Increase/(decrease) in operating liabilities		
Amounts owed to credit institutions . . . . .	(256,438)	(1,210,067)
Amounts owed to customers . . . . .	234,476	1,468,958
Debt securities . . . . .	1,796,902	1,634,773
Other operational liabilities . . . . .	115,721	(213,692)
<b>Net cash flow from operating activities before income taxes . . . . .</b>	<b>227,359</b>	<b>375,857</b>
Income taxes paid . . . . .	(50,406)	(37,597)
<b>Net cash flow from operating activities . . . . .</b>	<b>176,953</b>	<b>338,260</b>
<i>Cash flows arising from investing activities</i>		
Acquisitions of shares in subsidiaries and in other investments . . . . .	(141,516)	(10,534)
Proceeds from sale of shares in subsidiaries and in other investments . . . . .	166,278	76,551
Dividends received . . . . .	17,262	16,522
Investment securities purchased . . . . .	(15,102,740)	(21,160,438)
Proceeds from sale of investment securities . . . . .	14,706,249	20,900,037
Acquisition of fixed assets . . . . .	(102,257)	(109,751)
Proceeds from sale of fixed assets . . . . .	8,031	67,989
<b>Net cash flow from investing activities . . . . .</b>	<b>(448,693)</b>	<b>(219,624)</b>
<i>Cash flows arising from financing activities</i>		
Proceeds from issue of subordinated debt . . . . .	387,192	(436,188)
Proceeds from issue of share capital . . . . .	—	—
Treasury shares . . . . .	—	(5)
Dividends paid . . . . .	(99,000)	(86,100)
Bonus to employees . . . . .	(32,529)	(25,176)
Issue and income paid on preference shares . . . . .	112,361	417,036
Redemption of preference shares . . . . .	(123,855)	(333,747)
<b>Net cash flow from financing activities . . . . .</b>	<b>244,169</b>	<b>(464,180)</b>
Exchange differences on cash and equivalents . . . . .	(25,100)	176,860
<b>Net changes in cash and equivalents . . . . .</b>	<b>(52,671)</b>	<b>(168,684)</b>
<b>Cash and equivalents balance at the beginning of the period . . . . .</b>	<b>917,316</b>	<b>1,086,000</b>
<b>Cash and equivalents balance at the end of the period . . . . .</b>	<b>864,645</b>	<b>917,316</b>
	<b>(52,671)</b>	<b>(168,684)</b>

## **11. Transition Adjustments to International Financial Reporting Standards (IFRS)**

The adoption of IFRS from 1st January, 2005 has involved considerable changes to the Portuguese Plan of Accounts for the Banking System (PABS), which establish the GAAP used in the preparation of the financial statements up to 31st December, 2004. These new accounting rules have a significant impact on the accounting practices. Therefore, following the adoption of IFRS, the financial condition and results of operations as of and for the years ended 31st December, 2004 (restated) and 2005 differ from the way in which they are presented in the financial statements of 31st December, 2004.

The following is an extract from the Notes to the accounts of the June 2005 Interim Report, which is subject to a limited review by the Auditors KPMG & Associados, SROC, S.A.:

“An explanation of the key impacts in equity of the transition to IFRS as at 1 January 2004, 31 December 2004 and 1 January 2005, is set out as follows:

# RECONCILIATION OF EQUITY

	1 January 2004				31 December 2004			1 January 2005		
	Bank of Portugal rules	Reclassifications	Effect of transition to IFRS	IFRS	Bank of Portugal rules	Reclassifications	Effect of transition to IFRS	IFRS	Effect of adoption IAS 32 and IAS 39	IFRS
<b>Assets</b>										
Cash and deposits at central banks . . . . .	931,567	550	—	932,117	999,036	463	—	999,499	—	999,499
Deposits with banks . . . . .	697,176	11	—	697,187	602,182	—	—	602,182	—	602,182
Financial assets held for trading . . . . .	442,070	405,094	—	847,164	1,773,996	528,400	—	2,302,396	161,320	2,463,716
Financial assets at fair value through profit or loss . . . . .	—	—	—	—	—	—	—	—	67,261	67,261
Available-for-sale financial assets . . . . .	5,179,196	(332,503)	(1,858,306)	2,988,387	5,628,349	(363,006)	(2,026,243)	3,239,100	(68,619)	3,170,481
Loans and advances to banks . . . . .	6,846,329	12,731	16,585	6,875,645	5,434,552	12,386	16,585	5,463,525	—	5,463,525
Loans and advances to customers . . . . .	25,659,063	(205,593)	—	25,433,470	27,652,033	(218,594)	281,832	27,715,271	(34,229)	27,681,042
Held to maturity investments . . . . .	—	474,202	—	474,202	—	474,202	—	474,202	—	474,202
Hedging derivatives . . . . .	—	138,629	—	138,629	—	249,200	—	249,200	2,179	251,379
Property and equipment . . . . .	344,695	(8,382)	—	336,313	352,372	(10,314)	—	342,058	—	342,058
Intangible assets . . . . .	171,673	(13,236)	(67,203)	91,234	132,989	(14,067)	(49,002)	69,920	—	69,920
Investments in associates . . . . .	53,221	—	8,076	61,297	50,601	—	8,339	58,940	—	58,940
Current income tax assets . . . . .	4,458	—	—	4,458	15,943	—	—	15,943	—	15,943
Deferred income tax assets . . . . .	—	—	102,563	102,563	—	—	94,158	94,158	128,038	222,196
Other assets . . . . .	2,973,903	(369,338)	(1,279,618)	1,324,947	3,258,912	(500,344)	(1,304,061)	1,454,507	—	1,454,507
<b>Total assets . . . . .</b>	<b>43,283,351</b>	<b>102,165</b>	<b>(3,077,903)</b>	<b>40,307,613</b>	<b>45,900,965</b>	<b>160,328</b>	<b>(2,978,392)</b>	<b>43,082,901</b>	<b>255,950</b>	<b>43,338,851</b>
<b>Liabilities</b>										
Deposits from central banks . . . . .	184,805	—	—	184,805	498,953	—	—	498,953	—	498,953
Financial liabilities held for trading . . . . .	—	363,753	—	363,753	—	515,200	—	515,200	214,675	729,875
Deposits from banks . . . . .	6,283,835	18,984	—	6,302,819	5,713,249	24,168	—	5,737,417	—	5,737,417
Due to customers . . . . .	20,136,614	54,139	—	20,190,753	20,371,090	47,700	—	20,418,790	—	20,418,790
Debt securities issued . . . . .	10,905,624	105,583	(2,825,567)	8,185,640	12,702,526	125,886	(2,594,958)	10,233,454	(29,374)	10,204,080
Hedging derivatives . . . . .	—	98,652	—	98,652	—	240,100	—	240,100	33,398	273,498
Provisions . . . . .	510,176	(323,939)	(105,152)	81,085	560,679	(336,537)	(140,028)	84,114	—	84,114
Current income tax liabilities . . . . .	31,191	—	—	31,191	23,086	—	—	23,086	—	23,086
Deferred income tax liabilities . . . . .	—	—	30,263	30,263	—	—	25,578	25,578	90,744	116,322
Subordinated debt . . . . .	1,651,558	54,728	—	1,706,286	2,013,143	55,772	—	2,068,915	1,425	2,070,340
Other liabilities . . . . .	865,556	(269,735)	32,111	627,932	1,119,012	(511,961)	43,248	650,299	(16,233)	634,066
<b>Total liabilities . . . . .</b>	<b>40,569,359</b>	<b>102,165</b>	<b>(2,868,345)</b>	<b>37,803,179</b>	<b>43,001,738</b>	<b>160,328</b>	<b>(2,666,160)</b>	<b>40,495,906</b>	<b>294,635</b>	<b>40,790,541</b>
<b>Equity</b>										
Share capital . . . . .	1,500,000	—	—	1,500,000	1,500,000	—	—	1,500,000	—	1,500,000
Share premium . . . . .	300,000	—	—	300,000	300,000	—	—	300,000	—	300,000
Treasury stock . . . . .	—	—	(102,304)	(102,304)	—	—	(100,174)	(100,174)	—	(100,174)
Preference shares . . . . .	—	—	—	—	—	—	—	—	600,000	600,000
Fair value reserve . . . . .	—	—	—	—	—	—	—	—	27,016	27,016
Other reserves and retained earnings . . . . .	45,880	—	(127,191)	(81,311)	178,643	—	(91,266)	87,377	(91,652)	(4,275)
Profit for the period / year . . . . .	250,245	—	—	250,245	275,179	—	(123,536)	151,643	—	151,643
<b>Total equity attributable to equity holders of the Bank . . . . .</b>	<b>2,096,125</b>	<b>—</b>	<b>(229,495)</b>	<b>1,866,630</b>	<b>2,253,822</b>	<b>—</b>	<b>(314,976)</b>	<b>1,938,846</b>	<b>535,364</b>	<b>2,474,210</b>
Minority interests . . . . .	617,867	—	19,937	637,804	645,405	—	2,744	648,149	(574,049)	74,100
<b>Total equity . . . . .</b>	<b>2,713,992</b>	<b>—</b>	<b>(209,558)</b>	<b>2,504,434</b>	<b>2,899,227</b>	<b>—</b>	<b>(312,232)</b>	<b>2,586,995</b>	<b>(38,685)</b>	<b>2,548,310</b>
<b>Total equity and liabilities . . . . .</b>	<b>43,283,351</b>	<b>102,165</b>	<b>(3,077,903)</b>	<b>40,307,613</b>	<b>45,900,965</b>	<b>160,328</b>	<b>(2,978,392)</b>	<b>43,082,901</b>	<b>255,950</b>	<b>43,338,851</b>

## RECONCILIATION OF PROFIT

	30 June 2004				31 December 2004			
	Bank of Portugal rules	Reclassifications	Effect of transition to IFRS	IFRS	Bank of Portugal rules	Reclassifications	Effect of transition to IFRS	IFRS
Interest and similar income . . . . .	1,060,697	(4,272)	—	1,056,425	2,217,984	(7,755)	—	2,210,229
Interest expense and similar charges . . . . .	708,554	(1,686)	—	706,868	1,516,811	(3,450)	—	1,513,361
<b>Net interest income</b> . . . . .	<b>352,143</b>	<b>(2,586)</b>	<b>—</b>	<b>349,557</b>	<b>701,173</b>	<b>(4,305)</b>	<b>—</b>	<b>696,868</b>
Dividend income . . . . .	13,325	—	—	13,325	17,252	—	—	17,252
Net fee and commission income . . . . .	201,764	—	—	201,764	398,094	—	—	398,094
Net (losses) / gains from financial assets at fair value through profit or loss . . . . .	7,896	—	(47,933)	(40,037)	(8,354)	—	(97,088)	(105,442)
Net gains from available-for-sale financial assets . . . . .	70,738	4,272	—	75,010	161,532	7,755	—	169,287
Net gains from foreign exchange differences . . . . .	4,893	—	—	4,893	9,927	—	—	9,927
Net gains from the sale of other financial assets . . . . .	35,490	—	—	35,490	129,283	—	—	129,283
Other operating profit . . . . .	32,886	25,476	346	58,708	51,857	56,177	692	108,756
<b>Operating profit</b> . . . . .	<b>719,135</b>	<b>27,162</b>	<b>(47,587)</b>	<b>698,710</b>	<b>1,460,804</b>	<b>59,627</b>	<b>(96,396)</b>	<b>1,424,035</b>
Staff costs . . . . .	161,722	27,162	47,629	236,513	330,143	59,627	95,566	485,336
General and administrative expenses . . . . .	136,305	—	6,291	142,596	289,388	—	9,849	299,237
Depreciation and amortisation . . . . .	65,711	—	(15,213)	50,498	130,632	—	(29,537)	101,095
Provisions net of reversals . . . . .	30,858	—	(24,000)	6,858	107,818	—	(35,451)	72,367
Loan impairment net of reversals . . . . .	131,814	—	—	131,814	226,968	—	—	226,968
Impairment on other financial assets net of reversals . . . . .	15,769	—	—	15,769	18,245	—	—	18,245
Impairment on other assets net of reversals . . . . .	1,115	—	—	1,115	4,688	—	—	4,688
<b>Operating expenses</b> . . . . .	<b>543,294</b>	<b>27,162</b>	<b>14,707</b>	<b>585,163</b>	<b>1,107,882</b>	<b>59,627</b>	<b>40,427</b>	<b>1,207,936</b>
Share of profit of associates . . . . .	1,934	—	—	1,934	4,560	—	—	4,560
<b>Profit before income tax</b> . . . . .	<b>177,775</b>	<b>—</b>	<b>(62,294)</b>	<b>115,481</b>	<b>357,482</b>	<b>—</b>	<b>(136,823)</b>	<b>220,659</b>
<b>Income tax</b>								
Current tax . . . . .	24,545	—	—	24,545	42,301	—	—	42,301
Deferred tax . . . . .	—	—	1,679	1,679	—	—	3,866	3,866
<b>Profit for the period</b> . . . . .	<b>153,230</b>	<b>—</b>	<b>(63,973)</b>	<b>89,257</b>	<b>315,181</b>	<b>—</b>	<b>(140,689)</b>	<b>174,492</b>
Minority interests . . . . .	21,465	—	(6,203)	15,262	40,002	—	(17,153)	22,849
<b>Profit attributable to equity holders of the bank</b> . . . . .	<b>131,765</b>	<b>—</b>	<b>(57,770)</b>	<b>73,995</b>	<b>275,179</b>	<b>—</b>	<b>(123,536)</b>	<b>151,643</b>
Basic earning per share (in euro) . . . . .				0.51*				0.52
Diluted earning per share (in euro) . . . . .				0.51*				0.52

\* Profit annualised

It is presented below an explanation of the major adjustments made under the adoption of the IFRS to the equity as at 1st January, 2004, 31st December, 2004 and 1st January, 2005 and to the profit for the period of six month period ended at 30th June 2004 and the year ended at 31st December, 2004.

*Reconciliation of equity*

	01.01.2004	31.12.2004
<b>Equity (Bank of Portugal)</b> . . . . .	<b>2,713,992</b>	<b>2,899,227</b>
<b>IFRS adjustments (excluding IAS 32 and IAS 39)</b>		
Bonus to employees and share based incentive scheme (SIBA) . . . . .	a) (134,415)	(143,421)
Fund for general banking risks . . . . .	b) 105,152	140,602
Pensions and other employee benefits . . . . .	c) (174,167)	(224,472)
Intangible assets . . . . .	d) (67,203)	(49,002)
Consolidation of Special Purpose Entities (SPE) . . . . .	e) (24,041)	(120,539)
Deferred taxes . . . . .	f) 72,300	68,580
Other . . . . .	12,816	16,020
<b>Equity IFRS adjusted (excluding IAS 32 and IAS 39)</b> . .	<b>2,504,434</b>	<b>2,586,995</b>
		<b>01.01.2005</b>
<b>Equity IFRS adjusted (excluding IAS 32 and IAS 39)</b> . . . . .		<b>2,586,995</b>
<b>Adjustments of IAS 32 and IAS 39</b>		
Derivatives financial instruments and hedge accounting . . . . .	g) (67,572)	
Available-for-sale financial assets . . . . .	h) (1,215)	
Loan impairment . . . . .	i) (20,788)	
Amortised cost . . . . .	(3,098)	
Preference shares . . . . .	j) 16,694	
Deferred taxes . . . . .	f) 37,294	
<b>Equity IFRS</b> . . . . .		<b>2,548,310</b>

Additionally, as referred to in Note 38 j), as at 1st January, 2005, 600,000 thousands of euros related to preference shares issued by the Group were reclassified from minority interests to equity attributable to equity holders of the Bank, since, under IAS 32, these preference shares are classified as equity instruments.

*Reconciliation of profit*

	30.06.2004	31.12.2004
<b>Profit (Bank of Portugal)</b> . . . . .	<b>131,765</b>	<b>275,179</b>
<b>IFRS adjustments:</b>		
Bonus to employees and share based incentive scheme (SIBA) . . . . .	a) (22,418)	(45,261)
Fund for general banking risks . . . . .	b) 24,000	35,451
Pensions and other employee benefits . . . . .	c) (25,211)	(50,305)
Intangible assets . . . . .	d) 8,922	19,688
Consolidation of Special Purpose Entities (SPE) . . . . .	e) (42,475)	(81,449)
Other . . . . .	(588)	(1,660)
<b>Profit - IFRs comparable.</b> . . . .	<b>73,995</b>	<b>151,643</b>

## Explanation of the key transition adjustments made as at 1st January, 2004

### a) *Bonus to employees and SIBA*

In accordance with the previous accounting policies of the Group, bonuses were accounted for as a deduction from equity in the year they were paid, as they were considered to be a transfer of the rights to the dividends from the shareholders to the employees. Under IFRS, these bonuses are charged to the income statement in the year to which they relate.

BES and its subsidiaries established a Shares Based Incentive Program (SIBA), which consists of the sale to Group employees of one or more blocks of BES ordinary shares, with deferred settlement between two and four years. The employees have to hold the shares during that period, after which they can sell the shares in the market or they have the option to sell them back to BES at acquisition price at the settlement date.

According to the previous accounting policies of the Group, the shares underlying SIBA plan were accounted for as an asset. Under IFRS, these shares were reclassified as treasury stock, its value being deducted to equity. The options associated to this program are valued at its inception date and the fair value is recognised during the life of the program.

The impact with the IFRS adoption was: (i) the employee bonus led to a decrease in equity of 43,247 thousands of euros as at 31st December, 2004 (1st January, 2004: 32,111 thousands of euros) and a decrease in the profit of the year ended as at 31st December, 2004 of 43,665 thousands of euros (six month period ended 30th June, 2004: 21,832 thousands of euros) and (ii) SIBA led to a decrease in equity of 100,174 thousands of euros as at 31st December, 2004 (1st January, 2004: 102,304 thousands of euros) and a decrease in the profit of the year ended 31st December, 2004 of 1,596 thousands of euros (six month period ended 30th June, 2004: 586 thousands of euros).

### b) *Fund for general banking risks*

According to the previous accounting policies adopted, the Group booked a fund for general banking risks which aimed to face non-specific unidentified banking risks inherent to the Group's activity, based on a prudent criteria established by the Board of Directors.

As at 1 January 2004, under IFRS, this fund was reversed. The impact in equity as at 31 December 2004 amounted to 140,602 thousands of euros (1 January 2004: 105,151 thousands of euros), the impact in profit for the year ended 31 December 2004 amounted to 35,451 thousands of euros (six month period ended 30 June 2004: 24,000 thousands of euros) related with the charges made during 2004.

### c) *Pensions and other employee benefits*

In accordance with the accounting policy described in Note 2.15, under IFRS 1, the Group decided to apply retrospectively IAS 19 at transition date. Therefore it has recalculated retrospectively actuarial gains and losses which will be deferred using the corridor method.

Since the previous accounting policies of the Group, established by the Bank of Portugal under regulation no. 12/2001, already allowed the deferral of actuarial gains and losses in accordance with the corridor method, the adjustments made at transition date reflect mainly the impact of the recognition of (i) the early retirement costs that were previously deferred in the balance sheet, (ii) health care benefits previously accounted for on a cash basis and (iii) unrecognised liabilities with past service costs following the transitional rules of the Bank of Portugal.

In accordance with Bank of Portugal rules, early retirements costs (retirements before 65 years of age) were amortised over a 10 year period. Under IFRS, these costs are fully recognised in the year when the retirements occur.

Additionally, with the adoption of IAS 19, the liabilities with health care benefits attributed to employees upon retirement are recognised based on actuarial valuations made at balance sheet date.

In accordance with Bank of Portugal rules, the shortfall calculated as at 31st December, 1994, regarding employees with estimated retirement date after 31st December, 1997, was charged to the

income statement on a systematic basis during the remaining expected service years of these employees. In accordance with IAS 19 this shortfall was fully recognised on transition date.

On this basis, the adjustment as at 1st January, 2004 and 31st December, 2004 relating to pensions and other employee benefits is analysed as follows:

	01.01.2004	31.12.2004
Early retirements . . . . .	(114,892)	(161,229)
Health care benefits . . . . .	(66,652)	(73,318)
Unrecognised prior service cost (shortfall). . . . .	(54,800)	(42,364)
Adjustment to actuarial gains and losses . . . . .	57,523	51,198
Excess of coverage and other . . . . .	4,654	1,241
	<b>(174,167)</b>	<b>(224,472)</b>

d) *Intangible assets*

In accordance with the previous accounting policies of the Group, internally developed software was capitalised and amortised over a three year period.

Under IAS 38, internally developed software can only be capitalised if it is expectable that it will generate future economic benefits beyond one year and if those benefits can be reliably measured.

As at 31st December, 2004, the impact with the adoption of IAS 38 was a decrease in equity in the amount of 49,002 thousands of euros (1st January, 2004: 67,203 thousands of euros).

e) *Consolidation of Special Purpose Entities (SPEs)*

In accordance with the previous accounting policies, the Group was not required to consolidate Special Purpose Entities. Under IFRS, all SPE with which the Group establishes relations should be analysed in the light of the consolidation rules applicable to such entities (and expressed in SIC 12), namely those which may have been set up within the scope of the securitisation transactions carried out.

On the basis of SIC 12, the scope of consolidation of the Group includes certain SPE that were previously accounted for under the investment securities portfolio. The consolidation of these entities had a negative impact as at 31st December, 2004 in the consolidated equity of the Group amounting to 120,539 thousands of euros (1st January, 2004: 24,041 thousands of euros) and a negative impact in consolidated profit for the year ended 31st December, 2004 of 81,449 thousands of euros (six month period ended 30th June, 2004: 42,475 thousands of euros). Additionally, the consolidation of these entities led to a decrease in assets and liabilities in the amount of 2,010 millions of euros and 1,889 millions of euros, respectively (1st January, 2004: 1,824 millions of euros) due to the elimination of balances and transaction between group companies.

f) *Deferred taxes*

According to the previous accounting policies of the Group, deferred tax assets were not recognised. Following the adoption of IFRS, the Group recognises deferred tax assets (in accordance to IAS 12), when it is probable that future tax profits will be available to absorb deductible temporary differences, including tax losses.

The application of IAS 12 implied the recognition by the Group of the total deferred tax asset calculated on the differences between tax and IFRS balance sheet, resulting in a deferred tax asset as at 31st December, 2004 in the amount of 68,580 thousands of euros (1st January, 2004: 72,300 thousands of euros).

Explanation of the major transition adjustments related to the adoption of IAS 32 and IAS 39 as at 1st January, 2005

g) *Derivative financial instruments and hedge accounting*

Under IAS 39, all derivative instruments are recognised in the balance sheet at fair value, including hedging derivatives. In accordance with the accounting policies previously adopted by the Group, hedging

derivatives were recognised at its notional amount as an off balance sheet item, the interest being accrued in the balance sheet.

Additionally, IAS 39 defines more strict criteria to elect derivative financial instruments as hedging instruments, which implied a reclassification to the trading portfolio of contracts previously classified as hedging instruments.

The adoption of IAS 39 as at 1st January, 2005, led to a decrease in equity in the amount of 67,572 thousands of euros due to the booking of derivative financial instruments. This amount includes (i) 54,425 thousands of euros related to the impact of the reclassification of hedging derivatives to the trading portfolio, (ii) (1,070) thousands of euros relating to the recognition of embedded derivatives and (iii) 14,217 thousands of euros related to the impact of hedging operations.

#### *h) Available-for-sale financial assets*

Under IFRS, the available-for-sale financial assets are recognised at fair value, the unrealised gains and losses being recognised in the fair value reserve, except when an impairment loss exists, in which case it is charged against income. Impairment losses on equity securities cannot be reversed through income, as opposed to the procedure followed for debt securities.

In accordance with the previously accounting policies adopted by the Group, the available-for-sale financial assets were recognised at the lower of cost or market value. The unrealised losses were fully provided for against the income statement and unrealised gains were not recognised. Increases in the market value of securities previously provided for, debt or equity securities, were recognised in income as a write-back of provisions.

Equity holdings that were not consolidated or accounted for under the equity method were recorded at acquisition cost and unrealised losses, determined at balance sheet date, based on the average market price of the last six months, were provided for over a period of five to ten years, as set forth in the Regulation no. 4/2002 of the Bank of Portugal, if the losses exceeded 15% of the acquisition cost and up to the maximum limit of 40% of the excess loss. Unrealised gains were not recognised.

With the adoption of IAS 39, as at 1st January, 2005, the net effect of the recognition of unrealised gains and losses led to a decrease in equity in the amount of 1,215 thousands of euros, being 26,674 euros recognised against fair value reserve and (27,889) thousands of euros against other reserves.

#### *i) Loan impairment*

In accordance with the previous accounting policies adopted by the Group, provisions for loans and advances to customers were set up in accordance with Bank of Portugal Regulations nos. 3/95, 2/99 and 8/2003. The Bank of Portugal rules on the setting up of provisions had therefore, an essentially regulatory nature. At the same time, this supervisory authority has established the obligation of the entities under its supervision to submit, twice a year, a report analysing economic provisions to cover the specific risk in the loans portfolio. In the application of the Bank of Portugal regulations, in the calculation of loan losses provisions, there was an overriding requirement that the provision should be sufficient for economic purposes.

In accordance with IAS 39, the loan portfolio is measured at amortised cost and subject to impairment tests. Impairment losses to be recognised are determined as the difference between the carrying amount of the loan and the present value of future expected cash flows, discounted at the loan's original effective interest rate. This method considers two main aspects: (i) the recoverable amount based on an economic analysis of the portfolio and (ii) the present value of expected future cash flows discounted at the original effective interest rate.

As at 1st January, 2005, the impact of the adoption of IAS 39, which mainly relates to the application of the discounted cash flow method in the calculation of impairment losses on the loans portfolio which was not required by the Bank of Portugal rules, led to a decrease in consolidated equity in the amount of 20,788 thousands of euros.

j) *Preference shares*

In accordance with the previous accounting policies adopted, the preference shares issued by BES FINANCE were classified as minority interests and preferred dividends were accounted for on an accrual basis against income under minority interest.

Preference shares redeemable at the option of the issuer (Group entity) and with discretionary dividends, payable if and when declared by the respective board of directors, are considered as equity instruments. Consequently, dividends are recognised when declared as a deduction from equity. No accrual for the dividends is made as no dividends were declared at the balance sheet date.

As at 1st January, 2005, the adoption of IAS 32 relating to the treatment of preference shares issued by BES FINANCE led to an increase in equity attributable to the equity holders of the bank in the amount of 616,694 thousands of euros."

## **12. Recent Developments**

In January 2005, Banco Espírito Santo, S.A. ("BESSA"), a Spanish subsidiary, concluded the acquisition of Banco Inversión in Spain and initiated the process of integrating its commercial network and assets managers. This operation increased the amount of assets under management in Spain to approximately Euro 1,750 million.

In February 2005, BES sold preferred shares in the Brazilian bank Banco Bradesco S.A. The proceeds from this sale were fully re-invested in voting shares, raising BES's interest in the voting capital of Banco Bradesco S.A. from 3.5% to 6.7%.

In September 2005, BES Group sold the preferred shares (16.8% of capital) held in Bradespar, the holding company of Bradesco Group for the non-financial areas, maintaining the 10.8% voting stake in Bradespar.

On 19th September, 2005, BES Board of Directors approved the merger by incorporation of Banco Internacional de Crédito, S.A. (BIC) into BES, to be completed until year-end. This merger aims at achieving further efficiency and profitability gains.

On 29th September, 2005, BES Group concluded a securitisation of a portfolio of euro 1.2 billion mortgage loans.

BESI submitted a request for authorisation of the merger between BESI and Espírito Santo Investment SV to both the Central Bank of Portugal (Banco de Portugal) and the Spanish Stock Exchange Committee (Comisión Nacional del Mercado de Valores), following the approval by the Shareholders' General Meetings of both companies held on 3rd November, 2005.

The following are extracts from the press release dated 27th October, 2005 relating to the publication of the 30th September, 2005 unaudited financial statements.

### **"Highlights**

- Net income for the first nine months of 2005 (IFRS) reached euro 208.0 million, up by 19.9% year-on-year (PABS – Portuguese plan of accounts for the banking sector), corresponding to a ROE of 13.2%. Banking income increased 6.6%, despite an adverse economic background and strong competitive pressure.
- Net interest income, fuelled by business growth, reached euro 534.8 million, up by 4.1%.
- Commissioning posted a significant recovery in the quarter, reaching euro 394.2 million in the nine months. Excluding the deferral effect resulting from the introduction of IFRS, accumulated fees and commissions grew by 1.8%.
- Operating costs dropped by 7.2%, influenced by a reduction of pension costs and depreciation. Productivity and efficiency (cost to income) continue to reflect a consistent improvement trend.
- The unrealised capital gains increased from euro 143.2 million in June to euro 359.2 million in September, backed by an appreciation on the main equity exposures in the available for sale portfolio.

- Sharp increase in the customer base: the Group acquired 50,000 net new clients in the first nine months of the year. Customer loans, including securitised credit, rose by 12.7% and total customer funds were up by 6.0%, underpinned by off-balance sheet business (+15.3%).
- Coverage of overdue loans over 90 days rose to 189.9% (Sep 04: 165.9%), the outcome of a prudent stance vis-à-vis the provisioning policy. The ratio of overdue loans over 90 days fell to 1.45% (Sep 04: 1.67%).
- Approval, during the third quarter, of a project of merger by integration of Banco Internacional de Crédito (BIC) into Banco Espírito Santo (BES), which will contribute to improve the Group's efficiency and profitability.

## RESULTS

The activity developed by BES Group in the first nine months of the year resulted in a net income of euro 208.0 million, which compares with euro 173.5 million in the same period last year, under the accounting regulations in force at the time (PABS), and euro 77.3 million under IFRS. As referred in the previous quarters, the 2004 year-end results, restated under IFRS, were negatively influenced by disability retirement costs that occurred during that year (euro 60 million).

The table below shows the income statement for the year to September 2005 along with the 2004 comparative data:

### INCOME STATEMENT

					Euro million
30th September,					
	2004 PABS	2004 (*) IFRS	2005 IFRS		Δ% IFRS
Net Interest Income	517.5	513.7	534.8		4.1
(+) Fees and Commissions	400.7	400.7	394.2		-1.6
(=) <b>Banking Income ex-Markets</b>	<b>918.2</b>	<b>914.4</b>	<b>929.0</b>		<b>1.6</b>
(+) Capital Markets and Other	137.1	109.8	162.8	48.2	
(=) <b>Banking Income</b>	<b>1,055.3</b>	<b>1,024.2</b>	<b>1,091.8</b>	<b>6.6</b>	
(-) Operating Costs	558.5	656.1	608.9		-7.2
(=) <b>Gross Results</b>	<b>496.8</b>	<b>368.1</b>	<b>482.9</b>		<b>31.2</b>
(-) Net Provisions	258.9	234.9	232.8		-0.9
Credit	204.0	204.0	187.3		-8.2
Securities	5.8	5.8	27.1		—
Other	49.1	25.1	18.4		-26.7
(=) <b>Income before Taxes and Minorities</b>	<b>237.9</b>	<b>133.2</b>	<b>250.1</b>	<b>87.7</b>	
(-) Taxes	33.3	36.0	37.0		2.8
(=) <b>Income after Taxes</b>	<b>204.6</b>	<b>97.2</b>	<b>213.1</b>	<b>119.2</b>	
(-1) Minority Interest	31.1	19.9	5.1		-74.4
(=) <b>Net Income</b>	<b>173.5</b>	<b>77.3</b>	<b>208.0</b>	<b>169.1</b>	

(\*) Under IFRS 1, IAS 32 and 39 do not apply retroactively.

## ACTIVITY SUMMARY

BES Group's activity continued to focus on the following key commercial factors:

- differentiation through quality;
- focus on higher value Clients and products;
- stepping up the effort to attract new Clients;
- specific value proposition for the Clients of Tranquilidade.

The Group maintained a strong commercial activity, with total assets rising by 14.5% and customer loans by 12.7%. Customer funds show a more modest performance (+6.0%) due to a particularly fierce competitive environment. However, off-balance sheet funds grew 15.3% year-on-year. This performance is strongly influenced by the acquisition of 50,000 net new Clients this year, significantly higher than in 2004.

## MAIN BUSINESS VARIABLES

Euro million				
	30th September,			Δ% IFRS
	2004 PABS	2004 IFRS	2005 IFRS	
<b>Total Assets <sup>(1)</sup></b>	<b>62,499</b>	<b>60,204</b>	<b>68,958</b>	<b>14.5</b>
<b>Assets</b>	<b>45,160</b>	<b>43,198</b>	<b>49,033</b>	<b>13.5</b>
<b>Gross Loans (including securitised)</b>	<b>30,345</b>	<b>30,477</b>	<b>34,335</b>	<b>12.7</b>
Mortgage	10,930	10,930	12,062	10.4
Other Loans to Individuals	1,549	1,549	1,713	10.6
Corporate	17,866	17,998	20,560	14.2
<i>Loans to individuals / Gross Loans (%) <sup>(2)</sup></i>	<i>37.5</i>	<i>37.3</i>	<i>35.0</i>	<i>-2.3<sub>p.p.</sub></i>
<b>Customer Funds</b>				
+ Deposits <sup>(3)</sup>	21,256	21,309	20,830	-2.2
+ Debt Securities placed with Clients	5,733	4,055	4,815	18.7
= <b>On-balance Sheet Customers Funds</b>	<b>26,989</b>	<b>25,364</b>	<b>25,645</b>	<b>1.1</b>
+ Off-Balance Sheet Customer Funds	13,215	13,215	15,241	15.3
= <b>Total Customer Funds</b>	<b>40,204</b>	<b>38,579</b>	<b>40,886</b>	<b>6.0</b>
<i>Transformation Ratio (%) <sup>(2)</sup></i>	<i>102</i>	<i>110</i>	<i>120</i>	<i>10<sub>p.p.</sub></i>

(1) Net Assets + Asset Management + Other Off-Balance Sheet liabilities + Securitised Credit

(2) Assuming On-Balance Sheet Credit

(3) Includes: Customers Deposits and Certificates of Deposits

## 13. Capital Adequacy Requirements

### 13.1 Capital and Solvency Ratios

Portuguese banks are subject to solvency ratio requirements. These requirements conform to the EU directives establishing, respectively, common standards for the measurement of capital and a system for weighting assets according to credit risk (generally referred to as the "Consolidated Banking Directive") with the requirement that, since 31st December, 1992, all credit institutions must maintain capital of at least 8% 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. Banks 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 on, not only BES, but also on its directors and executive officers. The BES Group is in compliance with the solvency ratio requirements and as of 31st December, 2004 maintained capital (as defined by the Bank of Portugal) of 12.06% of its equivalent risk-weighted assets.

In accordance with Bank of Portugal Notice no 2/2005 and 4/2005, IFRS regulatory impacts will be deferred by following transition periods:

- (a) seven years, i.e. until 31st December, 2011, for health liabilities;

- (b) five years, i.e. until 31st December, 2009, for unrecognised past service costs and remaining impact of IAS 19;
- (c) three years, i.e. until 31st December, 2007, for the remaining regulatory impacts.

The regulatory deferral should be made equally throughout the transition period as shown in the following table:

(euro million)					
	TIER	Adjustments			Transition
		Total	Coef.	Regulatory Impact	Period (years)
<hr/>					
Securities					
Unrealised Gains (net of deferred taxes) . . .	T2	72	0,45	33	3
Unrealised Losses . . .	T1	-98	1,0	-98	3
Pensions (Health Benefits)	T1	-94	1,0	-94	7
Pensions (actuarial gains and losses) . . . . .	T1	-81	1,0	-81	5
Consolidation of SPE . . .	T1	-110	1,0	-110	3
Deferred Taxes <sup>(a)</sup> . . . . .	T1	119	1,0	119	3
SIBA . . . . .	T1	-100	1,0	-100	3
Impairment . . . . .	T1	-20	1,0	-20	0
Other . . . . .	T1	-54	1,0	-54	3
<hr/>					
Total					
Tier 1 . . . . .		-438		-438	
Tier 2 . . . . .		72		33	

<sup>(a)</sup> Limited to 10% of TIER I

### 13.2 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 directly applicable to the Group companies based in Portugal. Nonetheless, the Capital Adequacy Directives transposed to the Portuguese financial system regulations are strongly related to the Basel Capital Accord.

Therefore, we expect that the new Basel Capital Accord, which was finalised in June 2004, will have a strong impact on the way capital requirements are established. Namely, apart from the introduction of a capital charge for operational risks, a better alignment between capital charges and the underlying risks will take place. Furthermore, it is our expectation that the new Accord, which will be implemented in the beginning of 2007, will improve risk management practices of the entire financial system.

### 13.3 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 twice the rediscount rate or up to 5 basis points over that market rate.

### 13.4 Depositor’s Guarantee

The Depositor’s Guarantee Fund is a public law person with administrative and financial autonomy. All institutions that accept deposits must participate in this fund (except the branches of credit institutions authorised by other Member States of the European Union, which are, in principle, subject to the system of their home countries, and mutual agricultural credit banks and their Caixa Central, belonging to the Integrated Mutual Agricultural Credit System, which are covered by the Agricultural Guarantee Fund).

The financial resources of the Depositor's Guarantee Fund are mainly composed of initial contributions from the Bank of Portugal and the participating credit institutions and, thereafter, of periodic contributions from the participating credit institutions.

The annual contributions are defined according to the monthly average of the deposits made in the previous year and to the fixed contribution rate, weighted by the solvency ratio of each institution (the lower an institution's ratio, the higher its contribution). The annual contributions rate is defined by the Bank of Portugal annually and the rate for 2005 is 0.0375%.

If the resources are insufficient to comply with its commitments, the Depositor's Guarantee Fund may ask for special contributions or resort to loans.

When a credit institution is unable to comply with its commitments, the Depositor's Guarantee Fund guarantees the total repayment to depositors up to euro 25,000 per deposit (limit determined by the Decree-Law 222/99, June 22, 1999).

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 of credit institutions, financial companies, insurance companies, investment funds, pension funds and central or local administration bodies. Moreover, in order to prevent a conflict of interests, the Depositors' Guarantee 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.

### *13.5 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.

### *13.6 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 EU.

### *13.7 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% or more of the capital or the voting rights, or a 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 reach or exceed 5%, 10%, 20%, 33% or 50%, 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.

With respect to all acquisitions of holdings that result in the holding of a percentage of the voting rights or of the share capital held by such person of 2% or more, the Bank of Portugal must be notified within a period of 15 days after they occur. The Bank of Portugal will then determine if the holding is qualified or not.

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 Código dos Valores Mobiliários, or Portuguese Securities Code, any natural or legal person or persons acting in concert (including companies and their affiliates) who reach or exceed a holding of 10%, 20%, 33%, 50%, 66% or 90% of the voting rights attributable to the share capital of any public company (“sociedade aberta”) or reduce their holding below any of the above referred limits, must notify the Portuguese securities market authority (“CMVM”) and the company within three days from the occurrence of the event. The notice must identify the chain of entities to which, according to law, such holding is attributed. In the event the 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 stock exchange authorities must also be notified.

Under the Portuguese Securities Code, art 13°, the following are considered to be companies open to public investment, “public companies” (sociedades abertas):

- a) A company incorporated through an initial public offering for subscription specifically addressed at individuals or entities resident or established in Portugal;
- b) A company that issues shares or other securities that grant the right to subscribe or acquire shares that have been the object of a public offer for subscription specifically addressed at individuals or entities resident or established in Portugal;
- c) A company that issues shares or other securities that grant the right to their subscription or acquisition and are or have been listed on a regulated market situated or operating in Portugal;
- d) A company that issues shares that have been sold by public offer for sale or exchange in a quantity greater than 10% of the company’s capital directed specifically at individuals or entities resident or established in Portugal;
- e) A company created as a result of the merger of a public company or a company that incorporates, through merger, all or part of its net equity.

In addition, these requirements also apply in the case of a listed company in Portugal if any natural or legal person or persons acting in concert (including companies and their affiliates) reach or exceed a holding of 2% or 5% of the voting rights attributable to the share capital of the company or reduce such holding to an amount below either of these limits.

The Portuguese Securities Code provides that any natural or legal person or persons acting in concert (including companies and their affiliates) whose holding reaches or exceeds 33% or 50% of the voting rights attributable to the share capital of a public company, are required to launch a takeover offer for all the shares and other securities issued by the company that grant the holder the right to subscribe for or acquire shares.

There is no clause in the BES by-laws and, as far as the Group is aware, there is no shareholder agreement bearing on BES or any of the companies in which it has equity holdings and whose shares are listed on the stock exchange regarding the exercise of rights in the company or the transferability of BES shares.

### *13.8 Investment in Non-Banking Companies*

According to the Legal Framework of Credit Institutions and Financial Companies, no credit institution may, in principle, have any direct or indirect qualified holding exceeding 15% 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% of its own funds (qualifying capital and reserves).

The Legal Framework of Credit Institutions and Financial Companies also provides that no credit institution may directly or indirectly own more than 25% of the capital of any single non-financial company for a period longer than three years.

### 13.9 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% 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 or acquiring shares of its parent.

Treasury shares of a company that exceed the 10% 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 spot markets domiciled or operating in Portugal must notify the managing body of that market and the CMVM of any acquisitions or disposals by them of such securities:

- a) within the national territory or abroad, where such transactions, either individually or together with any effected since the last previous notice, amount to or exceed 1% of the equity capital;
- b) in the same trading session of a spot market domiciled or operating in Portugal, where such transactions, either individually or together with any already effected, amount to or exceed 0.05% of the quantity admitted to trading.

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

### 13.10 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.

In the performance of its supervisory functions, it is in particular incumbent on the Bank of Portugal to:

- monitor the activity of credit institutions;
- oversee compliance with the rules governing the activity institutions of credit institutions;
- issue recommendations for eliminating any irregularities detected;
- take extraordinary reorganisation measures; and
- impose penalties on infractions.

As part of the internal market program, 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.

#### 14. Market Position and Competition

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's results and operations. BES's 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.

A11.5.13  
A11.5.1.3

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.

A11.5.1.4

Management believes that competition will continue to intensify as a result of the integration of European markets, the enlargement of the European Union including many Eastern European countries and economic globalisation.

## Taxation in the Cayman Islands

A12.4.1.14

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.

Save for indirect taxation, 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.

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## **Taxation in Portugal (including Madeira)**

Interest paid on Notes issued by the Bank, when acting through and within the legal framework of its Madeira Free Trade Zone branch (*Sucursal Financeira Exterior*), to individuals which are non-resident in Portugal for tax purposes or to non-resident legal entities without a permanent establishment in Portugal to which the relevant income is attributable, will not be subject to withholding tax where such interest arises from operations connected with the funding of balance sheet liabilities of such *Sucursal Financeira Exterior*.

Under current Portuguese law, payments made by the Bank, acting through its London branch under the Guarantee to a Noteholder who is an individual not resident in Portugal for Portuguese tax purposes (or a legal entity non-resident and without a permanent establishment in Portugal, to which the relevant income is attributable) will not be subject to any Portuguese income, capital transfer, wealth, estate, gift, inheritance or other tax or duty.

Pursuant to the recently enacted Decree-Law 193/2005, of November 7, 2005, as from January 1, 2006, income on the Notes issued by the Bank, when acting through its head office in Lisbon, paid to

beneficiaries with no residence, head office, effective management or permanent establishment in Portugal to which the income is attributable and not domiciled in a country, territory or region subject to a tax regime clearly more favourable, included in the blacklist approved by Ordinance issued by the Portuguese Minister of Finance (*Portaria do Ministro das Finanças*) will be exempt from Portuguese withholding tax and the proceeds of sale or disposal of the Notes issued by the Bank received by the mentioned entities will be exempt from Portuguese capital gains. Notes issued by the Bank prior to January 1, 2006 shall only benefit from the mentioned tax regime after the first interest payment date subsequent to January 1, 2006.

### **Taxation in the United Kingdom**

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, from 1st July, 2005, 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 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) with effect from the same date.

### **Luxembourg Taxation**

Under Luxembourg tax law, there is currently no withholding tax on payments of principal, premium or interest, 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. Luxembourg levies withholding tax on interest payments made by a Luxembourg paying agent to individual beneficial owners who are tax resident of (i) another EU Member State, pursuant to EC Council Directive 2003/48/EC on taxation of savings income in the form of interest payments, or (ii) certain non-EU countries and territories which have agreed to adopt similar measures to those provided for under EC Council Directive 2003/48/EC (see “Risk Factors – EU Savings Directive” above). Responsibility for the withholding of such tax will be assumed by the Luxembourg paying agent and not by the Issuer.

## SUBSCRIPTION AND SALE

The Dealers have in an amended and restated programme agreement (the “Programme Agreement”) dated 7th December, 2005, 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.

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 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.

### **France**

Each of the Dealers, the Bank and BES Finance has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in the Republic of France (*appel public à l'épargne*), and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France, this Prospectus or any other offering material relating to Notes, and that such offers, sales and distributions have been and shall only be made in Republic of France to qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in, and in accordance with, Articles L.411-1 and L.411-2 of the French Code *Monétaire et Financier* and their implementing décret.

## **Germany**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the Federal Republic of Germany other than in compliance with the German Securities Selling Prospectus Act (*Wertpapierverkaufsprospektgesetz*) of 13th December, 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

## **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 advertised, offered or sold and will not, directly or indirectly, advertise, offer or sell 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”) or in circumstances which would qualify as an issue or public placement of securities in the Portuguese market; (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 and to qualified investors (“*investidores institucionais*”) or to less than 200 identified people, all in accordance with the CVM; (v) 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 represents and agrees 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 Issuer nor any other Dealer shall have any responsibility therefore.

Neither the Issuer nor any of 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 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 and 30th November, 2005. 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 and 23rd November, 2005.

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### 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 has allocated the number 13247 to the Programme for Banco Espírito Santo S.A. and the number 13246 to the Programme for BES Finance Ltd. for listing purposes. 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.

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A12.5.1.1  
A5.5.1.1

### 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 and Luxembourg:

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- (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, 2003 and 31st December, 2004, 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, 2003 and 31st December, 2004 (with an English translation thereof), in each case together with the audit reports 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 Trust Deed, 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;

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- (viii) any future prospectuses, prospectuses, information memoranda and supplements including 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](http://www.bourse.lu)).

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. 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 accounting principles and practices, established by the Bank of Portugal, as applicable for the financial services sector ("Portuguese GAAP"). The figures in this Prospectus are taken from the BES Group's Form 20-F and hence the financial statements of the BES Group have been reclassified, in all material respects, to comply with the presentation prescribed by Article 9 of Regulation S-X of the US Securities and Exchange Commission. As a result, certain financial information presented in this Prospectus differs from financial information published by the BES Group in Portugal.

### **Material Change**

Save as disclosed in the Prospectus, there has been no material adverse change in the financial or trading position and in the prospects of either Issuer or the Bank and its subsidiaries as a whole since the date of the last audited accounts, 31st December, 2004.

A11.7.1  
A11.11.7

A4.8.1  
A4.13.7

### **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.

A11.11.6  
A4.13.6

### **Auditors**

A11.11.3.1

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, 2003 and 2004 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, 2003 and 2004 prepared in accordance with the generally accepted accounting principals and principles in Portugal for the banking sector.

A4.13.3.1

**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. A12.7.5

## THE ISSUERS

### **Banco Espírito Santo, S.A.**

Avenida da Liberdade, 195  
1250-195 Lisbon  
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Tel. +351 21 350 11 57  
Fax. +351 21 350 11 80

### **BES Cayman Islands Branch**

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British West Indies  
Tel. +351 21 350 86 87  
Fax. +351 21 350 89 32

A11.4.1.4  
A4.5.1.4  
A12.1.1  
A5.1.1  
A4.1.1  
A11.1.1

### **BES Finance Ltd.**

c/o M&C Corporate Services Limited  
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South Church Street  
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British West Indies  
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### **BES Madeira Free Trade Zone Branch**

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Fax. +351 21 350 89 32

## **REGISTERED HEAD OFFICE OF THE GUARANTOR**

### **Banco Espírito Santo S.A.**

Avenida da Liberdade 195  
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Portugal

## **LONDON BRANCH OF THE GUARANTOR**

### **Banco Espírito Santo S.A.**

33 Queen Street  
London EC4 1ES

## **TRUSTEE**

### **J.P. Morgan Trustee & Depositary Company Limited**

Trinity Tower  
9 Thomas More Street  
London E1W 1YT

## **AGENT**

### **JPMorgan Chase Bank, N.A.**

Trinity Tower  
9 Thomas More Street  
London E1W 1YT

## **PAYING AGENT**

### **J.P. Morgan Bank Luxembourg S.A.**

6 route de Trèves  
L-2633 Senningerberg  
Luxembourg

A5.5.4.2  
A12.5.4.2

## **LEGAL ADVISERS**

*To Banco Espírito Santo S.A. both as Issuer  
and Guarantor as to Portuguese law*

### **Vieira de Almeida & Associados**

Mouzinho da Silveira, 10  
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*To the Dealers as to English law*

### **Allen & Overy LLP**

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*To the Issuers as to Cayman Islands law*

### **Maples and Calder**

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*To the Issuer and the Guarantor  
as to English law*

### **Freshfields Bruckhaus Deringer**

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## AUDITORS

*To BES Finance Ltd.*  
**KPMG & Associados, SROC, S.A.**  
Edifício Monumental  
Avenida Praia da Vitória, 71A, 11°  
1069 – 006 Lisboa  
Portugal

*To Banco Espírito Santo S.A.*  
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1069 – 006 Lisboa  
Portugal

A11.2.1  
A4.2.1

## DEALERS

**Banco Espírito Santo S.A.**  
Avenida da Liberdade 195  
1250 – 142 Lisboa  
Portugal

**CALYON**  
9 Quai du Président Paul Doumer  
92920 – Paris La Defense Cedex  
France

**Deutsche Bank AG, London Branch**  
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1 Great Winchester Street  
London EC2N 2DB

**Goldman Sachs International**  
Peterborough Court  
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London EC4A 2BB

**J.P. Morgan Securities Ltd.**  
125 London Wall  
London EC2Y 5AJ

**Merrill Lynch International**  
Merrill Lynch Financial Centre  
2 King Edward Street  
London EC1A 1HQ

**Société Générale**  
29 boulevard Haussmann  
75009 Paris  
France

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

**Credit Suisse First Boston  
(Europe) Limited**  
One Cabot Square  
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**Dresdner Bank Aktiengesellschaft**  
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**HSBC Bank plc**  
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**Lehman Brothers International (Europe)**  
25 Bank Street  
London E14 5LE

**Mitsubishi UFJ Securities International plc**  
6 Broadgate  
London EC2M 2AA

**UBS Limited**  
1 Finsbury Avenue  
London EC2M 2PP

**UniCredit Banca Mobiliare S.p.A.**  
Via Tommaso Grossi 10  
20121 Milan  
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**LUXEMBOURG LISTING AGENT**  
**Kredietbank S.A. Luxembourgeoise**  
43A Boulevard Royal  
L-2955 Luxembourg

