

2007 Report and Accounts  
Consolidated Accounts

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# MACRO ECONOMIC ENVIRONMENT

## GLOBAL ENVIRONMENT IN 2007 AND FORECAST

The global economy continued to grow in 2007, although at a level slightly inferior to the previous year's (5.2% vs. 5.4%). The slowdown in developed countries, in particular in the US, reflected the crisis that hit the subprime housing market in the US, which in turn affected the credit markets worldwide. This slowdown was largely mitigated by sustained strong economic growth in emerging economies led by China, India, Russia and Brazil. According to the IMF, in 2008 the global economy is expected to continue to decelerate, emerging economies included.

In the US, the 2007 GDP growth is forecasted at only 2.2%, down from 2.9% in 2006, principally due to the strong decrease in home sales. According to the OECD, the US economy is expected to grow at levels similar to 2007 in 2008 (2.0%) and in 2009 (2.2%).

The expected 2.6% Euro Zone GDP growth in 2007 is also below the 2.9% of 2006. The OECD forecasts a fall to below 2% in the coming years.

In the CIS countries, Russia is expected to continue its leading position with growth forecasted at 7.3% in 2007 vs. the 6.7% of 2006. This positive performance is expected to continue in the near future, though at slower rates, with OECD indicating levels of 6.5% for 2008 and 6% for 2009.

Turkish 2007 GDP growth is expected at 5.1%, below the 6.1% of 2006. This is mainly due to the volatile conditions of the international markets and the tightening monetary policies of 2006. The OECD believes a return to faster growth levels of 5.8% in 2008 and 6.3% in 2009 is likely.

With vigorous investment and strong private consumption, fuelled by rising income levels, the Brazilian economy experienced robust growth in 2007, with an expected GDP expansion of 4.8%, up from the 3.7% in the previous year. The economy is likely to slow marginally over the next few years, with OECD forecasting growth at 4.5% for the next two years.

## THE ECONOMIC ENVIRONMENT IN THE IBERIAN PENINSULA

Portugal was able to avoid the slowdown seen in the Euro Zone but continued to grow below the zone's average, with GDP up by 1.8% in 2007 (1.3% in 2006). While exports still boosted growth, their slowdown (from 8.9% to 6.2%) was offset by the recovery in investment, from -1.6% in 2006 to 2.5% in 2007. In contrast, the 7.9% unemployment rate that constrained wage increases resulted in only a marginal rise in private consumption. The OECD expects the country to grow slightly above the Euro Zone average, with 2% in 2008 and 2.2% in 2009. This growth is expected to be fuelled by exports and investment. With the Government giving priority to the public deficit, growth in private consumption is expected to be minor with a trivial decrease in unemployment levels.

Bucking the trend of the Euro Zone, Spain grew strongly at levels similar to 2006 (estimated at 3.8% vs. 3.9% in 2006). A significant fall in imports was offset by an increase in production whilst domestic demand and exports grew slower than in 2006. Going forward, the slowing investment rates, mainly in construction on account of the subprime crisis and the decline in private consumption, should constrain GDP growth even though exports are expected to remain strong and unemployment levels steady. The OECD forecasts point to a GDP growth of 2.5% in 2008 and 2.4% in 2009, both of which are above the Euro Zone average.

# OPERATIONAL ACTIVITIES

Despite the crisis that affected the international markets in 2007, Banco Finantia successfully expanded its activities closing the year with total assets of EUR 5.7 billion, an 12% increase over last year. Of relevance is the 19% year-on-year growth in Consumer Finance which ended 2007 with a portfolio of EUR 1.3 billion. The Private Banking area kept the steady growth of previous years whilst Investment Banking, the area most affected by the market crisis of the second half of 2007, maintained the levels of 2006.

## CONSUMER FINANCE

In 2007 the Group's Consumer Finance activities in the Iberian Peninsula undertaken by its subsidiaries Sofinloc (Portugal) and Banco Finantia Sofinloc (BFS – Spain) continued to focus on financing the acquisition of passenger and light commercial vehicles. The targeted segment has continued to be individuals, self-employed professionals and small and medium sized companies through the well established products of instalment credit, hire-purchase and leasing. These products are primarily sold via auto dealers and traders assisted by the Bank's commercial teams based in 41 agencies, of which 23 are in Portugal and 18 in Spain.

The Iberian market for new light vehicles declined by 0.3% year-on-year in 2007 with 2,158 thousand units sold versus 2,166 thousand in 2006. This slight negative variation, an improvement to the fall registered in 2006, was on the back of a 1% decline of sales in the Spanish market mitigated to some extent by a 4.3% increase in the Portuguese market.

The auto financing activity of the Group increased by 11% with the total amount financed (disbursed) in new business reaching EUR 643 million.

The increase was more pronounced in Spain with + 22% year-on-year and EUR 243 million disbursed in 2007. The Portuguese market's contribution to the Group's new business was also positive with growth of 6% year-on-year (EUR 400 million). On the back of this performance, at the end of the third quarter of 2007<sup>(1)</sup>, ASFAC ranked Sofinloc as number one in the Consumer Finance Credit segment with a market share of 14.6%.

New business in Spain, which represented 38% of the total in 2007, is approaching the objective of a balanced distribution between the two Iberian countries. The Group's coverage in Spain was

enhanced with the opening of 7 new branches taking the total to 18. The new branches were opened at San Sebastian de los Reys (Madrid), El Prat (Barcelona), Córdoba, Gerona, Málaga, Toledo and Valladolid. Portugal also saw the opening of branches at Almada and Bragança taking the total number in the country to 23.

The gross Consumer Finance portfolio of the Group reached EUR 1.3 billion at year-end and an increase of EUR 214 million (+19%) over the previous year. Portugal represented 2/3 of the total or EUR 877 million (an increase of 13%) and Spain the remaining or EUR 457 million (+ 31%).

The Consumer Finance area also sells insurance (as broker) related and unrelated to vehicle finance operations. The commissions earned via this activity in 2007 amounted to EUR 4.5 million in Portugal and EUR 1.1 million in Spain, corresponding to growth rates of 5% and 38% vis-à-vis 2006, respectively.

<sup>(1)</sup> Latest available records.

# OPERATIONAL ACTIVITIES

## INVESTMENT BANKING

During 2007, the Investment Banking area went through two distinct periods:

- the first semester saw the Bank growing in all its activities i.e. Capital Markets Fixed Income, Trade Finance and Financial Advisory in Corporate Finance and Structured Products. The Bank's cross border activities that are centred on the Iberian Peninsula/Brazil corridor as well as the activities in the Turkish, Russian, Ukrainian and Kazak markets were consolidated. New countries of the CIS, namely Belarus were added.
- the effects of the subprime crisis in the United States that was felt in the second half of the year led to a reduction in liquidity and a fall of investor confidence in the debt markets. Faced with such a situation, the Bank took advantage of its flexible structure by redirecting its investment banking focus to Corporate Finance Advisory Services obtaining several important mandates currently under execution, primarily in the Iberian/CIS and the Iberian/Brazil corridors.

Despite the difficult environment that conditioned the activities in the second semester, Banco Finantia continued to venture into new markets of the CIS whilst simultaneously strengthening its presence in the Brazilian market. This dynamism and capacity for innovation have been strong characteristics of the Bank over time.

In the area of Capital Markets, market conditions were stable in the first semester of 2007 but deteriorated from July onwards as a consequence of the subprime crisis in the US. The subsequent global liquidity crisis and credit tightening affected the markets where Banco Finantia is most active.

Between January and July, Banco Finantia stood out in the countries of the CIS, having led issues for Belarus' Belarusbank amounting to USD 125 million and for Russia's International Industrial Bank (EUR 200 million). Banco Finantia participated in several bond syndicates, for issuers such as the Alliance Bank (Kazakhstan, EUR 750 million), VTB (Russia, EUR 1 billion) and Priorbank (Belarus, USD 100 million). The Bank also participated in Bank TuranAlem's pioneer securitization operation which has been chosen as the best securitization operation for the year 2007 by the prestigious magazine IFR. In Turkey, Banco Finantia participated in the loan syndicates of Bank Pozitif and Global Yatirim Holding.

In November, taking advantage of a window of opportunity in the market, Banco Finantia participated in Brazil's Banco Mercantil's USD 175 million issue.

In the secondary market, the Bank has continued to strengthen its distribution capacity through its offices in Lisbon, Madrid, London, New York and Sao Paulo expanding its client base.

In line with the previous years, to complement the Bank's origination and distribution activities, Banco Finantia has organised road shows for several issuers introducing them to its client base.

In the area of Trade Finance, operations were centred in the regions of the CIS, Latin America and Turkey. The activities involved bilateral and syndicated loans, forfaiting and structured export finance loans.

Similarly to the debt capital markets, the Trade Finance area was also negatively affected by the happenings of the second half of 2007. Margins increased and liquidity fell although not to levels seen in other more volatile markets. Backed by the strong growth of the first semester that mitigated to a large extent the negative effects of the second, volumes transacted and portfolio size were similar to the previous year.

Amongst the various operations in 2007, special mention is made to Banco Finantia's participation in approximately 40 primary market syndicated loans to the CIS region. For the first time, Banco Finantia entered into transactions with banks in Georgia and Azerbaijan. Simultaneously, a strong effort was made to increase transactions with corporates, lowering the weight of financial institutions.

The Bank was the Mandated Lead Arranger in several loan syndicates. These include loans to Belarusbank, Russia's Bank Centre-Invest, Ukraine's Tas-Kommerzbank and Bank Finance and Credit and the Russian subsidiary of the International Bank of Azerbaijan.

In Brazil, the structuring of a club loan to Avipal and the participation as Mandated Lead Arranger in the B Loan for Bicbanco are highlighted.

# OPERATIONAL ACTIVITIES

(cont.)

The Corporate Finance area includes the activities of Financial Advisory Services and Structured Finance Transactions.

Financial Advisory Services saw a significant increase in its activities during 2007, and is projecting a successful 2008.

This increase is the result of the diversification efforts initiated by the Bank in the previous years, namely those pertaining to Russia and the CIS countries.

During 2007, Banco Finantia actively worked in various financial advisory assignments such as the sale of Multiterminal to MotaEngil, the sale of Amorim Turismo's stake in the joint-venture with Accor and the valuation of the natural gas assets purchased by REN from Galp. The Bank also assisted the Portuguese Government during the renegotiation of the concession contracts and the distribution licences involving low pressure natural gas. Total assets involved in these transactions exceeded EUR 2.5 billion placing Banco Finantia in a prominent position as a financial advisor in Portugal.

In cross-border transactions, Banco Finantia continued to assist various Portuguese groups in their internationalization efforts through acquisitions in the Spanish, Russian/CIS and Brazilian markets. Additionally, taking advantage of its positioning as the principal independent investment bank operating in the Portuguese market as well as its well-known high standards of quality that differentiate it from its peers, the Bank assisted several international groups in analysing acquisition opportunities in Portugal.

The Bank also gave continuity to its vast experience in Structured Finance via the structuring and placement of an operation involving Iberian assets originated from the Group's Consumer Credit operations. The operation was placed in the first quarter of 2007. Called the LTR Warehouse 6 it has a maximum financing amount of EUR 400 million and is the eighth securitization operation of assets originated by the Group.

Through its subsidiary Finantia SGFTC, the Bank maintained its activity in the Asset Backed Securities market in Portugal with a global volume of portfolios under management of approximately EUR 2.1 billion at year-end 2007.

Also in this field, the Bank undertook a series of securitization projects in 2007 involving assets originated by several financial institutions established in countries of the CIS region. The conclusion of these projects has been postponed given the deterioration of the financial markets since July 2007.

## PRIVATE BANKING

The Private Banking division of Banco Finantia (Finantia Private) continued expanding its activities during 2007. Similar to the past years, 2007 also saw the growth of the client base that led to a subsequent increase in the volume of the assets under management.

Finantia Private has modelled its investment products to face continuous market uncertainty and to present an independent and integrated range of financial solutions. During the year, adjustments made to the portfolios were possible thanks to Banco Finantia's close relationship with its clients, as well as the rigorous and independent analysis of the products available. The advice was directed towards reducing exposure to the stock market and increase the allocation towards less volatile financial products, resulting in greater diversification and optimization of the risk/return metrics.

For 2008, this business area will continue to pursue the goal of expanding its activity through a selective search for new clients and by increasing its degree of involvement with existing ones. The strategy will focus on improving the quality of the service offered, in innovating and in diversifying the range of financial products on offer. The solutions to be offered will continue to be the most suited as per the individual risk profile of each client, within the framework of maximum discretion, confidentiality and independence.

Private Banking services are offered from the offices in Lisbon, Oporto, Madrid, Barcelona, and Valencia.

# OPERATIONAL ACTIVITIES

## TREASURY

The Treasury Department is responsible for the liquidity management of the Banco Finantia Group and for the implementation of financial risk management strategies including the hedging of interest rate and foreign currency exposures.

In a year when multiple exceptional events affected the liquidity of the financial markets, Banco Finantia successfully strengthened its liquidity position by increasing the sources of funding both in terms of the number of counterparties and financial instruments used.

The most relevant medium to long-term funding operations in 2007 were: a syndicated loan in the amount of EUR 190 million; a EUR 60 million issue of subordinated debt; and a new securitization operation of assets originated by the Group which reached EUR 400 million.

# SUPPORT AREAS

## INFORMATION SYSTEMS AND OPERATIONS

In 2007, investments were made to improve the infrastructure, productivity and robustness of the various systems of the Group. We have concluded the construction of a data centre that houses the HQ communication servers and hardware abiding by the most stringent requirements regarding security, cabling and power failures.

A new application which will permit increased productivity and more flexibility in client servicing was installed in the Private Banking area. New software versions designed to enhance the efficient management of stock market orders and the management and analysis of risk were also installed in the Private Banking area. These packages are expected to facilitate a better, coordinated approach to the various types of operations and to increase the range of financial products and instruments covered.

Improvements were made in the information systems of the Consumer Credit area which included extending the Front Office application to Spain. A program that enables the automatic analysis of financial data and ratios has been installed.

The system of registration, management of dealing orders and counterparty details was improved in order to guarantee the proper application of the rules laid down by MiFID (Markets in Financial Instruments Directive).

The Operations Department saw a substantial increase in the volume of operations processed. Further automatization of processes was achieved by the research and follow-up of new developments in connection with the new payment system at the European level. Substantial advances were also made in the implementation of the recent norms related to the identification of clients and the necessary reports to the supervisory authorities.

In the period under review it was possible to improve the internal efficiency of the Group with minimal cost increases. Safety was strengthened despite the growth in all the Bank's activities, increasing the level of security and reducing operational risk.

These aspects were complemented by a strong emphasis in staff training and increase in synergies among various departments of the bank with the objective of streamlining and rationalizing operations.

The operational aspects related to MiFID have been successfully implemented, including the new reporting requirements of regulators (CMVM and FSA). The Bank has been following the developments related to the introduction of SEPA (Single Euro Payments Area), the first phase of which is expected to occur in the beginning of 2008

## HUMAN RESOURCES

The Banco Finantia Group strongly believes that its main assets are its employees. Only with competent, motivated and objective driven employees can the Group face the future with confidence and determination.

Continuing the trend of the past two years, 2007 has been characterized by the alignment of the human resources policies with the needs and growth objectives of the Group. Measures to attract the best talent were redesigned and improved upon. Existing employees were induced to better their educational and professional qualifications and employee appraisals were made more effective and efficient.

The year 2007 was marked by a strong investment in the development of the competence and abilities of the employees. In Portugal, the number of training hours increased by about 20% year-on-year, reaching a total of 8,000 hours (about 20 hours per employee). An executive development program for senior managers has been implemented involving the best management schools in Portugal and abroad.

The strategy of encouraging the internal mobility of employees in Portugal and abroad was maintained. This is important as it is considered a valuable form of increasing the professional competence of the employee and helping to disseminate the Group's culture. A number of employees from Portugal covering Systems and Control, Operations, Consumer Credit and Accounts spent considerable time in Spain with a few being on a permanent assignment and others having joint management responsibilities for Portugal and Spain.

## SUPPORT AREAS

An extensive study was conducted that included identifying the most relevant functions of the Group's activities and laying down the general and the specific competencies for each function. This process evolved towards the introduction of a new system of appraising employees taking into consideration the culture and objectives of the Group.

In 2007 the Group's employees increased by about 18% in relation to 2006. Spain was responsible for most of this increase where the number of employees reached 215 at year-end (624 in total).

# SOCIAL RESPONSIBILITY AND CULTURAL PATRONAGE

In recent years, Banco Finantia has been increasing its commitment to support various Portuguese institutions devoted to charity, culture and education.

Banco Finantia continued to partner with the “Serralves Foundation”, of which the Bank is a founding member. In 2007, Banco Finantia sponsored the program “Serralves para Todos!”. The program intends to strengthen the ties between disabled children and youth with the institutions that assist them.

The Bank assisted the “Liga Portuguesa Contra o Cancro” (a Portuguese association dedicated to fight cancer) by sponsoring one of the Bank’s employees based in Oporto, who himself successfully won the battle against the disease. The employee decided to unite his personal experience and his passion for automobiles by publicising both and raising funds for the Portuguese Cancer Association. This was accomplished by participating in the national tourism championship and the WTCC (World Touring Car Championship) circuit at Boavista (Oporto).

Last Christmas, the Bank decided to donate the amount it would have otherwise spent on gifts to several charitable institutions supporting needy children and youth. In Portugal, this amount was given to: “Liga Portuguesa Contra o Cancro”; “Banco do Bebé” (an association that helps poor families who have babies at the Maternity Alfredo da Costa in Lisbon); “CADIN – Centro de Apoio ao Desenvolvimento Infantil” (an institution that assists mentally disturbed children and youth to integrate in society); and to “Raríssimas” and its project “Casa dos Marcos”, a medical, therapeutic and residential centre for mentally impaired youth.

In Brazil, Banco Finantia sponsored “Horizontes – Projetos Sociais”, an organization that assists the children and youth of the city of Ibiúna, a city in the State of Sao Paulo.

In Spain, BFS assisted “Asociación Valenciana de Caridad”, a centenary association dedicated to improving the life and conditions of the poor in the city of Valencia.

In 2007, Banco Finantia also contributed to the “Liga dos Amigos do Hospital de São João” in Oporto, an association that helps sick children and elderly people who are in need of financial and moral support.

Continuing its long association of more than ten years with “Palácio Nacional da Ajuda”, the Bank has helped finance the restoration of several of the Palace’s artworks. The Palace also continues to host Group’s events, including the 20th anniversary celebrations of Banco Finantia in November.

Given its special relations with Russia, in March the Bank sponsored a Seminar entitled “Russia – Portugal’s role in the building of Europe”.

The Bank continues to pay special attention to teaching and education through its association with Portuguese universities. In 2007, the Bank strengthened its collaboration with “ISEG – Instituto Superior de Economia e Gestão” of the Technical University of Lisbon participating in its program “Fundação Económicas – Fundação para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais”. The Bank also continued to award its annual prize for the best post-graduate student in European Studies.

## FUTURE PROSPECTS

The Consumer Credit area of the Bank will maintain its expansion strategy although the 2008 Iberian economic growth is expected to be slower than that seen in the past few years. In Portugal, the Group intends to maintain its leading market position in this area of activity and benefit from the projected improvement in the economy in relation to 2007. In Spain, despite the expected economic slowdown, an increase in the market share of BFS is expected.

In Private Banking a plan has been set in motion to further expand the activity both in Portugal and Spain. Strong emphasis will be put on increasing the client base and improving the availability of various savings instruments.

The Investment Banking area will continue to focus on its three principal areas: Capital Markets, Trade Finance and Corporate Finance. Given the recent developments in the financial markets, there will be a major focus on Corporate Finance and Financial Advisory services. In the Capital Markets area, the Bank's involvement in the primary fixed income market will be conditional on the improvement of the financial markets. The Bank intends to strengthen its distribution and secondary market activities with further diversification of products on offer and increase in the number of clients.

## CONSOLIDATED RESULTS

The net consolidated profit in 2007 amounted to EUR 63.9 million, a 5.5% increase over the EUR 60.6 million of the previous year.

Return on Equity (ROE) stood at 16.0%, compared with 21.6% in the previous year, and Earnings per Share (EPS) stood at EUR 0.58 (EUR 0.70 in 2006). These two indicators have been strongly influenced by the November 2006 capital increase, which enlarged the equity amount for only the last two months of that year. The Return on Risk Weighted Assets (RORWA) stood at 1.7%, with the risk weighted assets having increased by 32.5%, or an additional EUR 1,020.0 million.

Net interest income reached EUR 134.2 million, an increase of 21.9% relative to 2006 (EUR 110.1 million), while commissions and other operating income showed strong growth, reaching EUR 29.0 million (EUR 20.2 million in 2006). Net results from financial operations were negative EUR 11.2 million,

compared to positive EUR 15.6 million in the previous year. These results were affected by the negative impact on interest rate hedging, which utilises the short selling of AAA rated public debt (UST/Bunds), of the flight to quality. In this way, operating income grew by 4% from the EUR 146.0 million of the previous year, amounting to EUR 151.9 million.

As a result of the outlined growth strategy, with its main focus on Spain, general operating costs grew by 10.6%, amounting to EUR 54.1 million, which represents an efficiency ratio of 35.6% (operating costs over operating income, i.e. the fraction that is spent to generate each Euro of income).

Total consolidated assets amounted to EUR 5,700.8 million, showing growth of 11.6% over the previous year. Excluding the reverse repos associated with short positions in the interest rate hedging operations mentioned above, assets amounted to EUR 4,152.8 million and EUR 3,537.0 million, for 2007 and 2006 respectively. Only EUR 189.4 million of these short positions were alive at the end of the year. The Consumer Finance net portfolio reached EUR 1,285.3 million, growing by 18.9% in relation to 2006, and the Investment Banking portfolio reached EUR 2,074.0 million, growing by 16.3% over 2006.

Credit quality remained adequate, with the non-performing loans ratio (amounts overdue over 90 days over total credit) standing at 2.1% and non-performing loans being covered by provisions of 134%.

Liquidity, solvability and capitalization were maintained at conservative levels, appropriate to the operational activities undertaken. Several medium and long term funding transactions were completed, including subordinated debt, in order to support forecasted growth. At the end of the year, the Capital Adequacy Ratio (CAD) stood at 13.6% (9% Tier I), according to Basel I rules, and was estimated to be 13.3% (8.8% Tier I), according to Basel II rules.

# TREASURY STOCK | APPROPRIATION OF RESULTS | CONCLUDING REMARKS

## TREASURY STOCK

At the start of 2007, the Group held 3,823,310 treasury shares of the Bank. Purchases and sales of treasury stock during the year were effected pursuant to resolutions passed at the Bank's General Meeting held on the 27th of April 2007, which included an authorisation for the purchase and sale of shares as part of the share incentive programme for Banco Finantia Group employees.

During the year, the Group acquired 5,148,829 shares for a total amount of EUR 22,770 thousand (including 113,472 shares at a cost of EUR 413 thousand as part of the share incentive program) and sold 6,876,041 shares for a total amount of EUR 30,339 thousand (including 1,125,941 shares for a price of EUR 4,464 thousand as part of the share incentive program).

As of 31st December 2007, the Group held 2,096,098 treasury shares of the Bank (less than 2% of share capital).

## APPROPRIATION OF RESULTS

It is proposed that with reference to the 2007 fiscal year, a dividend of EUR 0.26 per share be distributed to Banco Finantia's shareholders, same as last year's. The balance of Net Income for the year is to be transferred to Free Reserves and Retained Earnings, after the legal and statutory appropriation to Legal Reserves.

## CONCLUDING REMARKS

In a year when Banco Finantia celebrated its 20th anniversary, the Board Members thank all those who have supported the Bank's activities.

To its clients, shareholders and corporate bodies a special word of thanks for their trust. We equally thank our Supervision and other Government Authorities for their cooperation.

To all our employees, who over twenty years have helped build an institution that is recognised by all as being highly competent, globalised and competitive, a very special thanks for the dedication, loyalty and professionalism.

To conclude a special word of recognition to Manuel Raposo, our colleague in the Board of Directors, who completes his mandate in the Board and is retiring after many years of dedicated work to our institution.

Lisbon, 11 of March 2008

Board of Directors

António Manuel Afonso Guerreiro (Chairman)

Alfredo Lafita Torres

António Vila Cova

Eduardo de Almeida Catroga

Eduardo José de Belém Garcia e Costa

Heinz Herbert Jackel

Jose María Iceta Berecibar

Manuel Eduardo Ferreira Raposo

Maria Luisa Falcão Líbano Monteiro Antas

Peter Gibbs Birch

Stephen Clark

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# CONSOLIDATED INCOME STATEMENT

for the years ended 31 December 2007 and 2006

Amounts expressed in thousands of Euros, except per share data

	Note	2007	2006
Interest and similar income	5	405 866	277 640
Interest expense and similar charges	5	(271 716)	(167 506)
<b>Net interest income</b>		<b>134 150</b>	<b>110 134</b>
Dividend income		594	1 107
Fee and commission income	6	30 302	24 898
Fee and commission expense	6	(9 423)	(7 821)
Net results from financial operations	7	(11 207)	15 624
Other operating income		7 524	2 020
<b>Operating income</b>		<b>151 940</b>	<b>145 962</b>
Staff costs	8	(26 622)	(24 973)
General and administrative expenses	9	(24 984)	(21 492)
Depreciation and amortisation	20, 21	(2 461)	(2 388)
<b>Operating expenses</b>		<b>(54 067)</b>	<b>(48 853)</b>
Impairment and provisions	10	(25 982)	(21 416)
<b>Profit before income tax</b>		<b>71 891</b>	<b>75 693</b>
Current income tax	23	(10 230)	(16 279)
Deferred income tax	23	2 264	1 184
<b>Net profit</b>		<b>63 925</b>	<b>60 598</b>
Attributable to:			
Equity holders of the Bank		63 922	60 585
Minority interest		3	13
Weighted average number of ordinary shares outstanding (thousands)	11	109 600	86 866
<b>Earnings per share</b>			
<b>for profit attributable to the equity holders of the Bank</b>			
Basic (in Euros)	11	0.58	0.70
Diluted (in Euros)	11	0.58	0.70

The following notes form an integral part of these financial statements

# CONSOLIDATED BALANCE SHEET

as at 31 December 2007 and 2006

Amounts expressed in thousands of Euros

	Note	2007	2006
<b>Assets</b>			
Cash and banks	12	31 953	37 871
Financial assets at fair value through profit or loss	13	1 632 315	1 073 752
Available-for-sale financial assets	14	135 342	400 444
Held-to-maturity financial assets	15	33 176	–
Due from banks	16	646 253	649 181
Loans and advances to customers	17	1 549 689	1 277 175
Reverse repos (UST/Bunds)	18	1 547 983	1 569 657
Hedging derivatives	19	11 395	6 458
Investment property		615	625
Property and equipment	20	19 985	18 446
Intangible assets	21	611	615
Current income tax assets		3 276	1 384
Deferred income tax assets	23	3 540	1 046
Other assets	22	84 633	69 988
<b>Total assets</b>		<b>5 700 766</b>	<b>5 106 642</b>
<b>Liabilities</b>			
Financial derivatives	24	38 247	7 618
Due to banks	25	1 999 105	1 466 281
Due to customers	26	784 950	701 793
Operations with UST/Bunds	18	1 530 611	1 555 136
Debt securities issued	27	706 127	779 136
Current income tax liabilities		4 654	14 506
Deferred income tax liabilities	23	2 842	5 152
Subordinated debt	28	187 822	135 476
Other liabilities	29	35 337	40 130
<b>Total liabilities</b>		<b>5 289 695</b>	<b>4 705 228</b>
<b>Equity</b>			
Share capital	30	115 000	115 000
Share premium	30	60 000	60 000
Treasury stock	30	(2 096)	(3 823)
Reserves and retained earnings	31	174 020	169 413
Net profit attributable to the equity holders of the Bank		63 922	60 585
<b>Total equity attributable to the equity holders of the Bank</b>		<b>410 846</b>	<b>401 175</b>
Minority interest		225	239
<b>Total equity</b>		<b>411 071</b>	<b>401 414</b>
<b>Total liabilities and equity</b>		<b>5 700 766</b>	<b>5 106 642</b>

The following notes form an integral part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2007 and 2006

Amounts expressed in thousands of Euros

	Share capital	Share premium	Treasury stock	Reserves and retained earnings	Net profit	Total Equity Attributed to the share-holders of the Bank	Minority interest	Total equity
<b>Balance as at 1 January 2006</b>	<b>75 000</b>	<b>-</b>	<b>(2 574)</b>	<b>123 353</b>	<b>42 507</b>	<b>238 286</b>	<b>273</b>	<b>238 559</b>
Dividends paid <sup>(a)</sup>	-	-	-	-	(18 811)	(18 811)	-	(18 811)
Transfer to reserves	-	-	-	23 696	(23 696)	-	-	-
Changes in treasury stock	-	-	(1 249)	(2 038)	-	(3 287)	(46)	(3 333)
Changes in AFS reserve <sup>(b)</sup>	-	-	-	14 253	-	14 253	(1)	14 252
Changes in cash flow hedge reserve <sup>(b)</sup>	-	-	-	10 710	-	10 710	-	10 710
Issue of 40,000,000 ordinary shares (Note 30)	40 000	60 000	-	(160)	-	99 840	-	99 840
Currency translation differences	-	-	-	(401)	-	(401)	-	(401)
Net profit	-	-	-	-	60 585	60 585	13	60 598
<b>Balance as at 31 December 2006</b>	<b>115 000</b>	<b>60 000</b>	<b>(3 823)</b>	<b>169 413</b>	<b>60 585</b>	<b>401 175</b>	<b>239</b>	<b>401 414</b>
Dividends paid <sup>(a)</sup>	-	-	-	-	(28 880)	(28 880)	-	(28 880)
Transfer to reserves	-	-	-	31 705	(31 705)	-	-	-
Changes in treasury stock	-	-	1 727	5 842	-	7 569	(17)	7 552
Changes in AFS reserve <sup>(b)</sup>	-	-	-	(20 207)	-	(20 207)	-	(20 207)
Changes in cash flow hedge reserve <sup>(b)</sup>	-	-	-	(4 692)	-	(4 692)	-	(4 692)
Currency translation differences	-	-	-	(8 041)	-	(8 041)	-	(8 041)
Net profit	-	-	-	-	63 922	63 922	3	63 925
<b>Balance as at 31 December 2007</b>	<b>115 000</b>	<b>60 000</b>	<b>(2 096)</b>	<b>174 020</b>	<b>63 922</b>	<b>410 846</b>	<b>225</b>	<b>411 071</b>

(a) Corresponds to a dividend per share of €0.26 paid in 2007 to the shares outstanding (2006: €0.26)

(b) Amounts net of taxes

The following notes form an integral part of these financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended 31 December 2007 and 2006

Amounts expressed in thousands of Euros

	Note	2007	2006
<b>Cash flows arising from operating activities</b>			
Interest and similar income received		426 615	287 715
Interest and similar charges paid		(339 967)	(169 964)
Fee and commission received		30 302	24 898
Fee and commission paid		(9 423)	(7 821)
Recoveries on loans previously written-off		838	550
Cash payments to employees and suppliers		(51 606)	(46 465)
		<b>56 759</b>	<b>88 913</b>
<b>Changes in operating assets:</b>			
Deposits with central banks		(2 880)	(1 396)
Financial assets at fair value through profit or loss		(515 281)	(446 513)
Available-for-sale financial assets		207 797	(101 463)
Due from banks		302 327	(836 906)
Loans and advances to customers		(548 550)	(381 911)
Other operating assets		(14 539)	(16 912)
<b>Changes in operating liabilities:</b>			
Financial liabilities held for trading		(1 307 537)	766 238
Due to banks		1 530 292	421 564
Due to customers		376 147	236 585
Other operating liabilities		(4 796)	4 481
		<b>79 739</b>	<b>(267 320)</b>
<b>Net cash flow from operating activities before income taxes</b>		<b>79 739</b>	<b>(267 320)</b>
Income taxes paid		(19 252)	(4 987)
		<b>60 487</b>	<b>(272 307)</b>
<b>Cash flows arising from investing activities</b>			
Dividends received		594	1 107
Purchase of property, equipment and intangible assets	20 e 21	(4 291)	(3 302)
Proceeds from sale of property, equipment and intangible assets	20 e 21	349	264
		<b>(3 348)</b>	<b>(1 931)</b>
<b>Cash flows arising from financing activities</b>			
Issue of ordinary shares	30	–	100 000
Treasury shares	30	1 041	(3 287)
Proceeds from issue of bonds		–	450 000
Reimbursement of bonds		(73 510)	(327 630)
Proceeds from issue of subordinated debt		60 000	50 000
Dividends paid from ordinary shares		(28 880)	(18 811)
		<b>(41 349)</b>	<b>250 272</b>
Effect of exchange rate changes on cash and cash equivalents		557	(618)
		<b>16 347</b>	<b>(24 584)</b>
<b>Net changes in cash and cash equivalents</b>		<b>16 347</b>	<b>(24 584)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	33	474 859	499 443
<b>Cash and cash equivalents at the end of the year</b>	33	491 206	474 859
		<b>16 347</b>	<b>(24 584)</b>

The following notes form an integral part of these financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

Amounts expressed in thousands of Euros

## 1 Basis of presentation

Banco Finantia, S.A. (the "Bank") and subsidiaries (the "Group" or "Banco Finantia Group") provide a broad range of financial services focused on capital markets, money markets, advisory services, mergers and acquisitions, structured finance and credit operations and, indirectly, through its subsidiaries, leasing operations, management of equity interests, asset management, asset and funds management, forfeiting and financing of consumer credit.

The Bank is a privately-owned company headquartered in Lisbon, Portugal, resulting from the transformation in October 1992 of Finantia – Sociedade de Investimentos, S.A., which in turn had commenced its activity in July 1987. The Bank is authorised by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches and subsidiaries are located.

The Bank has a branch in Madeira and its subsidiaries have branches and offices in Portugal, Spain, United Kingdom, Brazil, United States of America, Ireland, Cayman Islands, Jersey, Malta and Netherlands.

The consolidated financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), as adopted for use in the European Union ("EU"), and are consolidated by Finantipar – SGPS, S.A., a company headquartered in Lisbon, Portugal.

The Group chose not to early adopt the new standards and interpretations that have been issued, which are not effective in 2007, as described in Note 3. The Group is evaluating the impact of implementing these recently issued pronouncements and has not yet completed the analysis.

These consolidated financial statements are expressed in thousands of euros ("t€") and have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss, available-for-sale financial assets, and recognised assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

The preparation of financial statements in accordance with IFRS requires the use of accounting estimates and assumptions. The most significant estimates are disclosed in Note 4.

These consolidated financial statements have been approved for issue by the Board of Directors on 11 March 2008.

## 2 Significant accounting policies

### 2.1 Basis of consolidation

These consolidated financial statements comprise the financial statements of Banco Finantia, S.A. and its subsidiaries ("the Group" or "Banco Finantia Group").

The accounting policies have been consistently applied by all Group companies.

### Subsidiaries

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

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

### Associates

Associates are entities over which the Group has significant influence but no control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors.

Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that such influence ceases.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

## Special purpose entities ("SPE")

The Group consolidates certain special purpose entities ("SPE"), specifically created to accomplish a well defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, independently of the percentage of the equity held, in accordance with SIC 12 – Consolidation – Special Purpose Entities.

## Goodwill

Goodwill represents the difference between the cost of an acquisition over the fair value of the Group's share of identifiable net assets of the acquired entity at the date of acquisition.

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

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

## Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates or as the currency in which funds/receipts from its activities are generated/retained. The consolidated financial statements are prepared in euros, which is the Bank's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euros as follows: (i) assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date; (ii) income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions; and (iii) all resulting exchange differences are recognised in equity. When the entity is sold, such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

## Balances and transactions eliminated in consolidation

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

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

## 2.2 Interest income and expense

Interest income and expense are recognised in the income statement under interest and similar income or interest expense and similar charges for all non-derivative financial instruments measured at amortised cost and for the available-for-sale investments, using the effective interest method.

Interest income arising from non-derivative financial assets at fair value through profit or loss is also included under interest and similar income.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

Once a financial asset or a group of similar financial assets has been written off as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component of the changes in their fair value is not separated out and is classified under financial assets and liabilities at fair value through profit or loss. For hedging derivatives of interest rate risk, the interest component of the changes in their fair value is recognised under interest and similar income or interest expense and similar charges.

## 2.3 Dividend income

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

## 2.4 Fee and commission income

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

## 2.5 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined.

## 2.6 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the equity holders of the bank by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

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

## 2.7 Loans and advances to customers

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

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

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

## Impairment

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

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

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

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

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

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

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

Additionally, the Group estimates the losses that have occurred but have not been identified specifically (incurred but not reported), through the collective impairment analysis above mentioned.

When a loan is considered by the Group as uncollectible after all recovery diligencies in accordance with the Group policies have been made and an impairment loss of 100% has been recognised, it is written-off against the related allowance for loan impairment.

Subsequent recoveries of amounts previously written-off decrease the amount of the loan impairment loss recognised in the income statement.

## **2.8 Financial assets at fair value through profit or loss**

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

They are recognised on a trade-date basis – which is the date the Group commits to purchase or sell the asset.

These financial assets are initially recognised at fair value and transaction costs are directly recognised in the income statement. Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

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

In accordance with IAS 39, the Group does not reclassify, after initial recognition, a financial instrument into or out of the fair value through profit or loss category.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

## 2.9 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time; (ii) designated as available-for-sale at initial recognition; or (iii) that are not classified as held for trading, designated at fair value through profit or loss, held-to-maturity, or loans and receivables.

They are recognised on a trade-date basis – which is the date the Group commits to purchase or sell the asset.

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

Available-for-sale financial assets are subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is transferred to the income statement.

Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement.

For the available-for-sale portfolio the Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

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

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

## 2.10 Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

These investments are carried at amortised cost using the effective interest method and are assessed at each balance sheet date whether there is objective evidence that they are impaired, as described in Note 2.9. If there is objective evidence that a held-to-maturity investment is impaired, the corresponding loss is recognised in the income statement, through the use of an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

## 2.11 Fair value of financial instruments

Fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. Fair value price is obtained from quoted market prices or broker/dealer prices in active markets, if available, or are based on the established price of recent market transactions or in its absence on the usage of valuation techniques. Valuation techniques include net present value calculation procedures using direct observable market inputs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

## 2.12 Offsetting financial instruments

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

## 2.13 Sale and repurchase agreements

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

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

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.8. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if the Group has the right to resell or repledge them, as well as securities that the Group has actually resold or repledged.

## 2.14 Financial guarantee contracts and irrevocable commitments

Financial guarantee contracts and irrevocable commitments are initially recognised in the financial statements at fair value on the date the contract was issued.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement. Any liability remaining is recognised in the income statement when the guarantee is discharged, cancelled or expires.

## 2.15 Derivatives and hedge accounting

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

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

### Hedge accounting

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

- (i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedge item and of the hedging instrument and the evaluation of the effectiveness of the hedge;
- (ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
- (iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
- (iv) For cash flows hedges, their occurrence must be highly probable;
- (v) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting period for which the hedge was designated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

- **Fair value hedge**

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged. If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and fair value hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

- **Cash flow hedge**

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

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

## **Embedded derivatives**

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

## **2.16 Non-current assets held for sale**

Non-current assets held for sale are measured at the lower of their carrying amount or the corresponding fair value and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

These assets, classified as held for sale, are evaluated by external experts.

## **2.17 Property and equipment**

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any.

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

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line method over their estimated useful lives, as follows:

	<b>Number of years</b>
Buildings	up to 50 years
Equipment	from 5 to 10 years
Computer equipment	from 3 to 4 years
Furniture	up to 10 years
Motor vehicles	from 3 to 4 years
Other equipment	from 4 to 10 years

Land is not depreciated.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

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

Buildings classified as investment property relate to rented buildings held by the Group which are measured similarly to property and equipment.

## 2.18 Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives.

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

Maintenance costs associated with software are recognised as an expense as incurred.

## 2.19 Leases

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

### Operating leases

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

### Finance leases

- **As lessee**

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

- **As lessor**

Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, while amortisation of principal, also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

## 2.20 Financial liabilities

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

Derivative financial liabilities and short-sales are classified as held for trading in accordance with IAS 39 and therefore are recognised at fair value in the balance sheet, being the gains or losses arising from the changes in their fair value recognised in the income statement.

Except for financial liabilities designated at fair value through profit or loss, other non-derivative financial liabilities, including repos (see Note 2.12), loans and advances from banks, deposits from customers and debt issued, are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest method.

Financial liabilities are classified as at fair value through profit or loss when their designation eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring or recognising gains and losses on them, on different basis, and when are so designated by management.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the income statement. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the income statement. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

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

## 2.21 Provisions

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

## 2.22 Equity instruments

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

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

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

## 2.23 Treasury stock

Where the Bank or any subsidiary purchases the Bank's share capital, the consideration paid is deducted from total equity as treasury stock until they are cancelled, and are not revaluated. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

## 2.24 Employee benefits

The Group is subject to the General Regime of the Social Security System in Portugal or to the equivalent system in the subsidiaries abroad and, therefore, has no obligations for the payment of pensions or pension complements to its employees.

## 2.25 Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

Deferred tax assets and liabilities correspond to the amount of payable/recoverable tax in future periods resulting from temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are not recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, to the extent that, it is not probable that the temporary differences will reverse in the foreseeable future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## **2.26 Cash and cash equivalents**

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

## **3 IFRSs and Interpretations to be adopted in 2008 and later**

The Group chose not to early adopt the following new standards and interpretations that have been issued:

### **IFRS 8 Operating Segments – Effective 1 January 2009**

IFRS 8 Operating Segments, comes into force on 1 January 2009, replacing IAS 14 Segment Reporting. It sets out requirements for disclosure of information about a firm's operating segments, its products and services, the geographical areas in which it operates, and its major customers. The new standard introduces changes to previous requirements for identification of segments, measurement of segment information and disclosures.

### **IAS 23 (Revised) Borrowing Costs – Effective 1 January 2009**

The amendments to IAS 23 eliminate the option available under the previous version of the Standard to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred.

### **IAS 1 (Revised) Presentation of Financial Statements – Effective 1 January 2009**

Many textual changes have been made in IAS 1 (Revised), including changes to the titles of individual financial statements (e.g. a "balance sheet" will in future be referred to as a "statement of financial position"). The majority of the changes made are not substantive.

### **IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions – Effective 1 January 2008**

IFRIC 11 clarifies the application of IFRS 2 Share-based Payment to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent.

### **IFRIC 12 – Service Concession Arrangements – Effective 1 January 2008**

IFRIC 12 addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as schools and roads.

### **IFRIC 13 – Customer Loyalty Programmes – Effective 1 July 2008**

This Interpretation addresses the accounting by entities that provide their customers with incentives to buy goods or services by providing awards (called "award credits" in the Interpretation) as part of a sales transaction.

### **IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Effective 1 January 2008**

IFRIC 14 addresses three issues:

- when refunds or reductions in future contributions should be regarded as "available" in the context of paragraph 58 of IAS 19 Employee Benefits;
- how a minimum funding requirement might affect the availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## **4 Use of estimates in the preparation of financial statements**

IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Group's reported results and related disclosure.

Because in many cases there are other alternatives to the accounting treatment made by management, the Group's reported results would differ if a different treatment was chosen.

Management believes that their choices are appropriate and that the financial statements present the Group's financial position and results fairly in all material respects.

The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

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

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in the securities prices.

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

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

### **Fair value of financial instruments**

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

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could produce different financial results for a particular period.

### **Impairment losses on loans and advances to customers**

The Group reviews its loans portfolio to assess impairment on a regular basis, as described in Note 2.7.

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

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

### **Income taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Securitisations and special purpose entities

The Group sponsors the formation of special purpose entities (SPE) primarily for asset securitisation transactions and for liquidity purposes.

The Group does not consolidate SPE that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

The determination of the SPE that needs to be consolidated by the Group requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual benefits and risks. Different estimates and assumptions could lead the Group to a different scope of consolidation with a direct impact in net income.

## 5 Net interest income

	2007	2006
<b>Interest and similar income</b>		
Loans and advances to customers	154 041	112 213
Due from banks	107 359	66 279
Financial assets at fair value through profit or loss	110 543	62 521
Available-for-sale financial assets	21 632	17 959
Hedging derivatives (see Note 19)	3 908	11 938
Origination commissions from consumer finance	7 508	6 284
Other interest and similar income	875	446
	<b>405 866</b>	<b>277 640</b>
<b>Interest and similar expense</b>		
Due to banks	(99 192)	(47 364)
Financial liabilities held for trading	(69 107)	(45 235)
Debt securities issued	(32 159)	(22 383)
Due to customers	(38 471)	(17 381)
Hedging derivatives (see Note 19)	(3 784)	(14 053)
Subordinated debt	(8 890)	(4 676)
Origination commissions from consumer finance	(19 509)	(15 548)
Other interest and similar expense	(604)	(866)
	<b>(271 716)</b>	<b>(167 506)</b>
	<b>134 150</b>	<b>110 134</b>

As at 31 December 2007, interest expense accrued on financial liabilities designated as at fair value through profit or loss is t€ 12,450 (2006: t€ 0 ).

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## 6 Net fee and commission income

	2007	2006
<b>Fee and commission income</b>		
From consumer finance business	20 189	16 291
From corporate finance business	6 217	2 115
From specialised banking services	2 501	2 235
Other commissions	1 395	4 257
	<b>30 302</b>	<b>24 898</b>
<b>Fee and commission expense</b>		
From consumer finance business	(7 388)	(6 393)
On third-party banking services	(1 536)	(1 030)
Other commissions	(499)	(398)
	<b>(9 423)</b>	<b>(7 821)</b>
	<b>20 879</b>	<b>17 077</b>

## 7 Net results from financial operations

	2007	2006
<b>Financial assets at fair value through profit or loss</b>		
Securities	(10 242)	8 420
Derivatives	(2 820)	(1 181)
Foreign exchange	434	(8 432)
Other	256	1 067
	(12 372)	(126)
<b>Financial liabilities at fair value through profit or loss</b>		
Held for trading (short-sales)	(23 453)	15 750
Designated at fair value	24 618	–
	1 165	15 750
	<b>(11 207)</b>	<b>15 624</b>

Securities includes the effect of buying and selling and changes in the fair value of debt securities and equities. The results of trading interest rate swaps and credit default swaps are recorded under Derivatives. Included in Foreign exchange are gains and losses from spot and forward contracts and currency swaps.

## 8 Staff costs

	2007	2006
Remuneration	22 115	20 622
Social security	3 920	3 001
Other	587	1 350
	<b>26 622</b>	<b>24 973</b>

At 31 December 2007 and 2006 the remunerations paid to the Bank and subsidiaries' Board of Directors and supervisory bodies amounted to t€ 3,920 and t€ 2,129, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The average number of employees in 2007 and 2006, by category, is as follows:

	2007	2006
Senior management	191	178
Management	221	186
Professional staff	212	167
	<b>624</b>	<b>531</b>

## 9 General and administrative expenses

	2007	2006
Specialised services	7 329	6 907
Advertising costs	3 112	2 355
Travelling and entertainment expenses	2 978	3 068
Communication costs	2 380	1 930
External credits recovery services	2 141	2 058
Maintenance and related services	2 113	2 567
Rental costs	1 347	1 038
Staff training costs	557	243
Consumable office materials	459	390
Insurance related services	177	103
Other expenses	2 391	833
	<b>24 984</b>	<b>21 492</b>

## 10 Impairment and provisions

	2007	2006
Loan impairment, net of reversals (see Note 17)	(24 258)	(20 175)
Impairment on available-for-sale financial assets, net of reversals (see Note 14)	(1 827)	(714)
Impairment on other assets, net of reversals (see Note 22)	106	(434)
Provisions, net of reversals (see Note 29)	(3)	(93)
	<b>(25 982)</b>	<b>(21 416)</b>

Once a financial asset has been recognised as impaired, interest income accrued is also subject to impairment calculation and therefore included in the respective impairment allowance. As at 31 December 2007, interest income accrued on impaired financial assets amounted to t€ 3,683 (2006: t€ 1,332).

## 11 Earnings per share

### Basic earnings per share

	2007	2006
Profit attributable to the equity holders of the Bank	63 922	60 585
Weighted average number of ordinary shares outstanding (thousands)	109 600	86 866
Basic earnings per share (in Euros)	<b>0.58</b>	<b>0.70</b>
Number of ordinary shares outstanding at the end of the year (thousands)	112 904	111 177

### Diluted earnings per share

At 31 December 2007 and 2006, the diluted earnings per share is not different from the basic earnings per share, since the Group does not have any potential ordinary shares with dilutive effects.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 12 Cash and banks

	2007	2006
<b>Cash</b>	143	163
<b>Deposits at central banks</b>		
Bank of Portugal	8 555	5 660
Bank of Spain	996	1 011
	<b>9 551</b>	<b>6 671</b>
<b>Deposits with banks in Portugal</b>		
Deposits repayable on demand	6 398	1 800
Cheques clearing	1 163	3 854
Other deposits	151	–
	<b>7 712</b>	<b>5 654</b>
<b>Deposits with banks abroad</b>		
Deposits repayable on demand	14 547	25 383
	<b>31 953</b>	<b>37 871</b>

The balance deposits at central banks is intended to satisfy the legal requirements to maintain minimum cash reserves.

These deposits earn interest at the average rates for the main refinancing operations of the European System of Central Banks prevailing during the deposit period. In 2007, the rates ranged between 3.30% and 4.27% (2006: between 2.30% and 3.30%).

## 13 Financial assets at fair value through profit or loss

	2007	2006
<b>Fixed income securities designated at fair value</b>		
Listed securities		
Issued by Portuguese governments and other public entities	2 082	–
Issued by foreign governments and other public entities	268 760	291 537
Issued by other foreign entities	1 274 220	738 066
	<b>1 545 062</b>	<b>1 029 603</b>
Unlisted securities		
Issued by Portuguese entities	–	7 706
Issued by foreign entities	27 015	17 372
	<b>27 015</b>	<b>25 078</b>
<b>Derivative financial instruments – positive fair value</b>		
Currency swaps	32 537	11 546
Credit default swaps	18 763	6 409
Interest rate swaps	8 206	902
Currency forwards	479	214
Total return swaps	253	–
	<b>60 238</b>	<b>19 071</b>
	<b>1 632 315</b>	<b>1 073 752</b>

The Group enters in operations with derivative financial instruments with the objective of hedging and managing the financial risks inherent to its activity, managing its own positions based on the perspective of market evolution, satisfying its clients' needs or hedging structural positions (see Note 19).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The Group mainly uses the following derivative financial instruments:

**Currency forward**, which represents a contract between two parties for the exchange of currencies, at a determined exchange rate established at the moment of the accomplishment of the contract (forward) for a determined future date.

These operations have the purpose of hedging and managing currency risk, through the elimination of the uncertainty of the future value of certain exchange rate, which is immediately fixed by the forward operation.

**Currency swap**, which represents a contract between two parties and consists in the swap of currencies at a determined forward exchange rate. It is an agreement for cash flow exchange, in which one of the parts agrees to pay interest on the principal in one currency, in exchange of receiving interest on the principal in another currency. In the end of the operation, the principal in foreign currency is paid and the principal in domestic currency is received.

The purposes of these operations are the hedging and management of the currency risk inherent to future receivements and payments in foreign currency, through the elimination of the uncertainty of the future value of certain exchange rate.

**Interest rate swap**, which in conceptual terms can be perceived as an agreement between two parties who compromise to exchange (swap) between them, for a specified amount and period of time, periodic payments of fixed rate for floating rate payments.

Involving only one currency, this kind of instrument is mainly directed for the hedging and management of the interest rate risk, related with a loan or advance's income or cost that one part is indented to take in a determined future moment.

**Credit default swap** that consists in an agreement through which it is possible to invest or hedge a certain issuer's credit risk. The Group undertakes the selling position of credit hedging, receiving an interest income in exchange of a payment conditioned to a credit event.

Once the credit event occurs, the seller of the credit hedging pays the buyer the amount contractually defined to cover the credit default.

**Total return swap** that is a bilateral financial transaction where the counterparties swap the total return of a single asset or basket of assets in exchange for periodic cash flows. A total return swap is similar to a plain vanilla swap except the deal is structured such that the total return (cash flows plus capital appreciation/depreciation) is exchanged, rather than just the cash flows.

The detail of the trading derivatives portfolio may be analysed as follows:

31 December 2007	Notional amount	Fair value	
		Asset	Liability
Currency forwards	40 764	479	453
Currency swaps	519 666	32 537	251
Interest rate swaps	2 314 231	8 206	15 159
Credit default swaps	493 776	18 763	22 131
Total return swaps	100 000	253	253
		<b>60 238</b>	<b>38 247</b>

31 December 2006	Notional Amount	Fair value	
		Asset	Liability
Currency forwards	4 373	214	206
Currency swaps	417 616	11 546	–
Interest rate swaps	1 206 232	902	6 884
Credit default swaps	185 977	6 409	528
		<b>19 071</b>	<b>7 618</b>

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## 14 Available-for-sale financial assets

	2007	2006
<b>Fixed income securities, listed</b>		
Issued by Portuguese government and other public entities	–	2 100
Issued by foreign governments and other public entities	62 244	176 593
Issued by other foreign entities	73 096	188 642
	<b>135 340</b>	<b>367 335</b>
<b>Fixed income securities, unlisted</b>		
Issued by other foreign entities	–	7 305
	<b>–</b>	<b>7 305</b>
<b>Equity securities, listed</b>		
Shares	<b>2</b>	25 804
	<b>2</b>	<b>25 804</b>
	<b>135 342</b>	<b>400 444</b>

The Group charged through the income statement the amount of t€ 1,827 in 2007 (2006: charge of t€ 714), related with impairment losses on debt instruments issued by other foreign issuers (see Note 10).

During 2007, the Group reclassified as held-to-maturity the amount of t€ 33,176 related with fixed income securities (see Note 15). The cumulative gain of t€ 1,488 in equity as at the date of the reclassification is amortised to income during the remaining maturity of the bonds (see Note 31).

## 15 Held-to-maturity financial assets

	2007	2006
<b>Fixed income securities, listed</b>		
Issued by foreign governments and other public entities	17 898	–
Issued by other foreign entities	15 278	–
	<b>33 176</b>	<b>–</b>

## 16 Due from banks

	2007	2006
Deposits	318 176	333 965
Forfaiting loans	128 445	194 508
Interbank money market	32 000	68 000
Other loans and advances to banks	166 554	51 872
Accrued interest	1 078	836
	<b>646 253</b>	<b>649 181</b>

The analysis of this balance by period to maturity is presented in Note 35.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 17 Loans and advances to customers

	2007	2006
<b>Consumer finance loans</b>		
Credit	1 081 623	893 726
Leasing and hire purchase	252 715	226 661
	1 334 338	1 120 387
Allowance for impaired loans	(49 065)	(45 128)
<b>Consumer finance loans, net</b>	<b>1 285 273</b>	<b>1 075 259</b>
<b>Other loans</b>		
Forfaiting	86 860	39 831
Loans to corporates	177 561	162 607
	264 421	202 438
Allowance for impaired loans	(5)	(522)
<b>Other loans, net</b>	<b>264 416</b>	<b>201 916</b>
	<b>1 549 689</b>	<b>1 277 175</b>

Loans and advances to customers include securitised loans held by SPEs sponsored by the Group. In accordance with SIC 12 – Consolidation – Special Purpose Entities, these SPEs are within the Group's consolidation scope, as described in the accounting policy disclosed in Note 2.1.

The gross amounts of securitised loans can be analysed as follows:

	2007	2006
Credit	773 149	594 193
Leasing and hire purchase	188 475	148 008
	<b>961 624</b>	<b>742 201</b>

Loans and advances to customers are summarised as follows:

	2007	2006
Neither past due nor impaired	1 413 057	1 146 935
Past due but not impaired	127 231	117 882
Impaired	58 471	58 008
<b>Gross</b>	<b>1 598 759</b>	<b>1 322 825</b>
Less: allowance for impaired loans	(49 070)	(45 650)
	<b>1 549 689</b>	<b>1 277 175</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Consumer finance loans less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of the consumer finance portfolio that were past due but not impaired were as follows:

	2007	2006
Past due up to 30 days	93 712	82 079
Past due 30-60 days	23 488	26 186
Past due 60-90 days	10 031	9 617
<b>Total</b>	<b>127 231</b>	<b>117 882</b>
<b>Fair value of collateral</b>	<b>138 863</b>	<b>127 290</b>

The fair value of collateral is determined based on valuation techniques commonly used for the corresponding assets (mainly autos). In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

The breakdown of the gross amount of individually impaired loans and advances to customers along with the fair value of related collateral held by the Group as security are as follows:

	2007	2006
Individually impaired loans	787	1 968
Fair value of collateral	1 093	2 832

The changes occurred in the allowance for impaired loans can be analysed as follows:

	2007	2006
Balance as at 1 January	45 650	34 504
Net charge for the year (see Note 10)	24 258	20 175
Loans written off during the year	(20 838)	(9 029)
<b>Balance as at 31 December</b>	<b>49 070</b>	<b>45 650</b>

During 2007, the Group recovered t€ 839 (2006: t€ 550) related to loans previously written off, in accordance with the accounting policy described in Note 2.7.

Renegotiated loans that would otherwise be past due or impaired totalled €440 thousand at 31 December 2007 (31 December 2006: €351 thousand).

The allowance for impaired loans, by type of loan, can be analysed as follows:

	2007	2006
Credit	45 687	40 264
Leasing and hire purchase	3 378	4 864
Other loans to customers	5	522
	<b>49 070</b>	<b>45 650</b>

The analysis of this balance by period to maturity is disclosed in Note 35.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

Loans and advances to customers include finance lease receivables as follows:

	2007	2006
<b>Gross investment in finance leases, receivable</b>		
Up to one year	10 535	36 367
From one to five years	191 897	167 058
More than five years	93 851	58 796
<b>Unearned future income on finance leases</b>		
Up to one year	(367)	(1 493)
From one to five years	(24 472)	(22 733)
More than five years	(18 728)	(11 333)
<b>Net investment in finance leases</b>		
Up to one year	10 167	34 873
From one to five years	167 425	144 325
More than five years	75 123	47 463
	<b>252 715</b>	<b>226 661</b>

## 18 Operations with UST/Bunds

	2007	2006
<b>Reverse repos (UST/Bunds)</b>		
Reverse repurchase agreements ("reverse repos")	1 547 983	1 569 657
	<b>1 547 983</b>	<b>1 569 657</b>
<b>Operations with UST/Bunds</b>		
Securities sold under repurchase agreements ("repos")	1 341 167	58 155
Short sales	189 444	1 496 981
	<b>1 530 611</b>	<b>1 555 136</b>

UST – United States Treasury bonds/Bunds – German Federal Government Bundesobligations.

Reverse repurchase agreements ("reverse repos") relates to operations for interest rate risk economic hedging by borrowing fixed income securities issued by foreign governments and public entities, with AAA rating in USD or EUR, depending on the currency of the asset to be covered.

Short sales relates to transactions for interest rate risk economic hedging namely with the sale of the above referred fixed securities. These instruments are measured at fair value with changes recognised in the income statement (see Note 2.20).

During 2007, the Group unwound several short sales positions (UST/Bunds securities) through the purchase of similar securities and entering into corresponding repo transactions.

## 19 Hedging derivatives

In order to eliminate the interest rate risk associated to the quarterly cash-flow floating payments of debt securities issued by the SPEs, the Group enters into interest rate swap contracts in order to receive floating and pay fixed interest thus converting floating rate debt securities issued into fixed rate liabilities with an underlying hedge cost (see Note 27).

The effectiveness of this hedging relationship is documented and assessed on a semi-annual basis. The cash-flow hedging accounting policies are described in Note 2.15.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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As at 31 December 2007, the hedging derivatives fair value are as follows:

Hedged instrument	Notional	Derivative fair value	Changes in the derivative fair value in the year <sup>(a)</sup>	Hedged item fair value	Changes in the hedged item fair value in the year <sup>(a)</sup>
Debt securities LTR 4	34 560	244	4	(244)	(4)
Debt securities LTR 5	165 605	2 339	(276)	(2 339)	276
Debt securities LTR 6	317 700	8 812	(2 548)	(8 812)	2 548
	<b>517 865</b>	<b>11 395</b>	<b>(2 820)</b>	<b>(11 395)</b>	<b>2 820</b>

(a) Excludes accrued interest recognised in net interest income (see Note 5).

As at 31 December 2006, the hedging derivatives fair value are as follows:

Hedged instrument	Notional	Derivative fair value	Changes in the derivative fair value in the year <sup>(a)</sup>	Hedged item fair value	Changes in the hedged item fair value in the year <sup>(a)</sup>
Debt securities LTR 3	–	–	260	–	(260)
Debt securities LTR 4	70 832	66	1 955	(66)	(1 955)
Debt securities LTR 5	162 417	1 628	4 184	(1 628)	(4 184)
Debt securities LTR WH	–	–	(470)	–	470
Debt securities LTR 6	300 736	4 764	4 781	(4 764)	(4 781)
	<b>533 984</b>	<b>6 458</b>	<b>10 710</b>	<b>(6 458)</b>	<b>(10 710)</b>

(a) Excludes accrued interest recognised in net interest income (see Note 5).

During 2007, the Group recognised in the cash-flow hedge reserve (see Note 31) an amount of t€ (4,692), that includes t€ (1,872) from the amortisation of the reserve as of 31 December 2006 and the amount of t€ (2,820), related to the changes in fair value of the interest rate swaps during 2007, as described in Note 2.15 (2006: t€10,710).

## 20 Property and equipment

	Buildings	Office equipment	IT equipment	Motor vehicles	Other assets	Work in progress	2007	2006
<b>Cost</b>								
At the beginning of the year	17 936	10 908	3 751	3 466	1 742	–	37 803	37 310
Additions	1 839	1 052	310	398	234	245	4 078	3 058
Disposals/write-offs	–	(324)	(182)	(1 463)	(90)	–	(2 060)	(1 768)
Fx translation/transfers	1 088	(7)	(10)	(18)	(825)	(245)	(17)	(797)
<b>At the end of the year</b>	<b>20 863</b>	<b>11 629</b>	<b>3 868</b>	<b>2 382</b>	<b>1 061</b>	<b>–</b>	<b>39 803</b>	<b>37 803</b>
<b>Accumulated depreciation</b>								
At the beginning of the year	4 363	8 386	3 316	2 314	978	–	19 357	18 818
Depreciation expense	526	772	355	545	36	–	2 234	2 167
Disposals/write-offs	–	(309)	(182)	(1 154)	(66)	–	(1 711)	(1 504)
Fx translation/transfers	188	(5)	(26)	(15)	(203)	–	(61)	(124)
<b>At the end of the year</b>	<b>5 077</b>	<b>8 843</b>	<b>3 463</b>	<b>1 690</b>	<b>745</b>	<b>–</b>	<b>19 818</b>	<b>19 357</b>
<b>Net book value</b>	<b>15 786</b>	<b>2 786</b>	<b>405</b>	<b>693</b>	<b>316</b>	<b>–</b>	<b>19 985</b>	<b>18 446</b>

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## 21 Intangible assets

	Software	Other assets	Work in progress	2007	2006
<b>Cost</b>					
At the beginning of the year	1 492	391	362	2 245	4 790
Additions	174	2	37	213	244
Disposals/write-offs	–	–	–	–	(2 782)
Fx translation/transfers	6	–	(6)	–	(7)
<b>At the end of the year</b>	<b>1 672</b>	<b>393</b>	<b>393</b>	<b>2 458</b>	<b>2 245</b>
<b>Accumulated amortisation</b>					
At the beginning of the year	1 244	386	–	1 630	4 202
Amortisation expense	214	3	–	217	211
Disposals/write-offs	–	–	–	–	(2 782)
Fx translation/transfers	–	–	–	–	(1)
<b>At the end of the year</b>	<b>1 458</b>	<b>389</b>	<b>–</b>	<b>1 847</b>	<b>1 630</b>
<b>Net book value</b>	<b>214</b>	<b>4</b>	<b>393</b>	<b>611</b>	<b>615</b>

At 31 December 2007 and 2006, other assets and work in progress include software licenses and software implementation expenses, respectively.

## 22 Other assets

	2007	2006
Non-current assets held for sale	811	876
Debtors and other applications	3 706	2 134
Accrued income	1 876	1 330
Stock exchange transactions pending settlement (see Note 29)	11 920	9 337
Other transactions pending settlement	66 320	56 311
	<b>84 633</b>	<b>69 988</b>

The balance debtors and other applications is net of impairment allowances. Changes in the impairment allowances for debtors are analysed as follows:

	2007	2006
<b>Balance as at 1 January</b>	296	795
Net charges for the year (see Note 10)	(106)	434
Write-offs	–	(933)
<b>Balance as at 31 December</b>	<b>190</b>	<b>296</b>

At 31 December 2007, the balance other transactions pending settlement includes the amount of €64,676 thousand (2006: €54,353 thousand) related to amounts that are settled on a quarterly basis related with the Group's securitisation transactions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

## 23 Income taxes

The income taxes recognised in the income statement for the years 2007 and 2006 can be analysed as follows:

	2007	2006
<b>Current income tax</b>		
Current year	(11 562)	(16 775)
Related to prior years	1 332	496
	<b>(10 230)</b>	<b>(16 279)</b>
<b>Deferred income tax</b>		
Origination and reversal of temporary differences	2 264	1 190
Recognition of previously unrecognised tax credits	–	(143)
Reduction in tax rate	–	137
	<b>2 264</b>	<b>1 184</b>
<b>Total income tax recognised in the income statement</b>	<b>(7 966)</b>	<b>(15 095)</b>

The income taxes recognised in reserves for the years 2007 and 2006 refers only to deferred taxes and can be analysed as follows:

	2007	2006
<b>Deferred income tax</b>		
Changes in fair value reserve (see Note 31)	2 488	(2 035)
Changes in other revaluation reserves (see Note 31)	52	–
<b>Total income tax recognised in reserves</b>	<b>2 540</b>	<b>(2 035)</b>

The deferred taxes assets and liabilities recognised in balance sheet in the years 2007 and 2006 can be analysed as follows:

	2007			2006		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Derivative financial instruments	–	–	–	3 107	(1 750)	1 357
Available-for-sale financial assets	–	(90)	(90)	–	(2 578)	(2 578)
Loans and advances to customers	6 182	(3 035)	3 147	6 033	(3 697)	2 336
Provisions	–	(525)	(525)	–	(3 937)	(3 937)
Other	403	(2 237)	(1 834)	–	(1 284)	(1 284)
<b>Deferred tax asset/(liability)</b>	<b>6 585</b>	<b>(5 887)</b>	<b>698</b>	<b>9 140</b>	<b>(13 246)</b>	<b>(4 106)</b>
Set off of tax	(3 045)	3 045	–	(8 094)	8 094	–
<b>Net tax asset/(liability)</b>	<b>3 540</b>	<b>(2 842)</b>	<b>698</b>	<b>1 046</b>	<b>(5 152)</b>	<b>(4 106)</b>

The deferred tax movements for the years 2007 and 2006 can be analysed as follows:

	2007		2006	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Derivative financial instruments	(1 357)	–	1 589	–
Available-for-sale financial assets (see Note 31)	–	2 488	–	(2 035)
Loans and advances to customers	811	–	3 015	–
Provisions	3 412	–	(2 128)	–
Others	(602)	52	(1 292)	–
	<b>2 264</b>	<b>2 540</b>	<b>1 184</b>	<b>(2 035)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The reconciliation of the effective income tax rate is shown in the following table:

	2007		2006	
	%	Amount	%	Amount
<b>Profit before income tax</b>		71 891		75 693
Statutory income tax rate	26.5%		27.5%	
Income tax calculated based on the statutory tax rate		(19 051)		(20 815)
<b>Income taxes recognised in the income statement</b>				
Current taxes (effective tax rate)	14.2%	(10 230)	21.5%	(16 279)
Deferred taxes		2 264		1 184
<b>Tax to reconcile</b>		<b>(11 085)</b>		<b>(5 720)</b>
<b>Reconciliation</b>				
Dividends not subject to tax		(4 565)		(4 634)
Income tax credits		(3 702)		(2 110)
Tax related to prior years		(991)		859
Provisions and impairment		1 090		(121)
Tax benefits		(1 150)		(2 253)
Other		(1 767)		2 540
		<b>(11 085)</b>		<b>(5 720)</b>

## 24 Financial derivatives

	2007	2006
Derivative financial instruments – negative fair value		
Currency swaps	251	–
Credit default swaps	22 131	528
Interest rate swaps	15 159	6 884
Currency forwards	453	206
Total return swaps	253	–
	<b>38 247</b>	<b>7 618</b>

## 25 Due to banks

	2007	2006
Securities sold under repurchase agreements (“repos”)	910 945	823 554
Medium and long-term loans	495 052	385 000
Credit facility	244 654	–
Deposits from banks	171 676	203 826
Due to central banks	165 478	–
Interbank money market	8 000	47 000
Accrued interest	3 300	6 901
	<b>1 999 105</b>	<b>1 466 281</b>

The main features of the medium and long-term loans in the Group’s balance sheet can be analysed as follows:

	Interest rate (%)	2007	2006
€190m syndicated loan due 2010	Euribor 6m + 0.28	185 052	–
€160m syndicated loan due 2008	Euribor 6m + 0.30	160 000	160 000
€150m syndicated loan due 2011	Euribor 6m + 0.33	150 000	150 000
€75m syndicated loan due 2007	Euribor 6m + 0.375	–	75 000
		<b>495 052</b>	<b>385 000</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Interest calculated by applying the effective interest rate for the year ended 31 December 2007 amounted to t€ 14,289 (2006: t€ 9,838).

The €190 million syndicated loan due 2010 was designated upon its initial recognition as of 4 June 2007 as at fair value through profit or loss, in accordance with the accounting policy described in Note 2.20.

The credit facility relates to a Senior Revolving Credit Facility (Aaa) which pays interest on a monthly basis in arrears equal to the one-month Euribor plus a spread of 0.26% (0.50% from 22 March 2009) and to a Mezzanine Revolving Credit Facility (Aa2) which pays interest on a monthly basis in arrears equal to the one-month Euribor plus a spread of 0.55% (1.08% from 22 March 2009). This credit facility was designated upon its initial recognition as of 30 March 2007 as at fair value through profit or loss, in accordance with the accounting policy described in Note 2.20. The maximum amount of this credit facility is €400 million and as at 31 December 2007 the amount outstanding is €255.5 million.

The balance due to central banks relates to collateralised liquidity facilities following the collateral framework of the Eurosystem as established by the European Central Bank.

## 26 Due to customers

	2007	2006
Securities sold under repurchase agreements ("repos")	311 556	237 231
Time deposits	434 399	429 769
Demand deposits	33 387	31 240
Cheques clearing	2 374	824
Accrued interest	3 234	2 729
	<b>784 950</b>	<b>701 793</b>

## 27 Debt securities issued

Debt securities issued relates to the Group's securitisation programme (see also Note 17). Following the implemented strategy for the Consumer Finance business, funding is done primarily through medium-term securitisation programs.

At 31 December 2007, this balance comprises:

Denomination	Issue date	Maturity date		Effective interest rate	Nominal amount	Interest	Carrying amount
<b>LTR Finance No 4 plc</b>							
Class A	2/Dec/02	25/Nov/12	Euribor 3m + 30bp	3.88%	24 810	123	24 933
Class B	2/Dec/02	25/Nov/12	Euribor 3m + 50bp	3.88%	9 600	50	9 650
Class C	2/Dec/02	25/Nov/12	Euribor 3m + 75bp	3.88%	10 500	57	10 557
<b>LTR Finance No 5 plc</b>							
Class A	1/Jul/04	1/Jul/15	Euribor 3m + 20bp	3.59%	174 700	1 594	176 294
Class B	1/Jul/04	1/Jul/15	Euribor 3m + 37bp	3.59%	15 600	147	15 747
Class C	1/Jul/04	1/Jul/15	Euribor 3m + 55bp	3.59%	16 600	162	16 762
<b>LTR Finance No 6 plc</b>							
Class A	25/Sep/06	24/Nov/18	Euribor 3m + 14bp	3.67%	371 250	1 789	373 039
Class B	25/Sep/06	24/Nov/18	Euribor 3m + 23bp	3.67%	35 000	172	35 172
Class C	25/Sep/06	24/Nov/18	Euribor 3m + 30bp	3.67%	30 600	152	30 752
Class D	25/Sep/06	24/Nov/18	Euribor 3m + 65bp	3.67%	13 150	70	13 220
					<b>701 810</b>	<b>4 317</b>	<b>706 127</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

At 31 December 2006, this balance comprises:

Denomination	Issue date	Maturity date	Interest rate	Effective interest rate	Nominal amount	Interest	Carrying amount	
<b>LTR Finance No 3 plc</b>								
Class A	20/Nov/01	20/Jan/10	Euribor 3m + 75bp	3.95%	12 142	98	12 240	
Class B	20/Nov/01	20/Jan/10	4.94%	4.94%	6 500	61	6 561	
<b>LTR Finance No 4 plc</b>								
Class A	2/Dec/02	25/Nov/12	Euribor 3m + 30bp	3.88%	79 678	304	79 982	
Class B	2/Dec/02	25/Nov/12	Euribor 3m + 50bp	3.88%	9 600	38	9 638	
Class C	2/Dec/02	25/Nov/12	Euribor 3m + 75bp	3.88%	10 500	45	10 545	
<b>LTR Finance No 5 plc</b>								
Class A	1/Jul/04	1/Jul/15	Euribor 3m + 20bp	3.59%	174 700	1 230	175 930	
Class B	1/Jul/04	1/Jul/15	Euribor 3m + 37bp	3.59%	15 600	115	15 715	
Class C	1/Jul/04	1/Jul/15	Euribor 3m + 55bp	3.59%	16 600	128	16 728	
<b>LTR Finance No 6 plc</b>								
Class A	25/Sep/06	24/Nov/18	Euribor 3m + 14bp	3.67%	371 250	1 471	372 721	
Class B	25/Sep/06	24/Nov/18	Euribor 3m + 23bp	3.67%	35 000	142	35 142	
Class C	25/Sep/06	24/Nov/18	Euribor 3m + 30bp	3.67%	30 600	126	30 726	
Class D	25/Sep/06	24/Nov/18	Euribor 3m + 65bp	3.67%	13 150	58	13 208	
						<b>775 320</b>	<b>3 816</b>	<b>779 136</b>

## 28 Subordinated debt

	Interest rate (%)	2007	2006
€10m subordinated bonds due 2012	Euribor 6m + 1.00	10 000	10 000
€75m subordinated bonds due 2015	Euribor 3m + 1.35	75 000	75 000
€50m subordinated bonds due 2016	Euribor 3m + 1.35	50 000	50 000
€60m subordinated bonds due 2017	Euribor 3m + 1.25	51 209	–
Accrued interest		1 613	476
		<b>187 822</b>	<b>135 476</b>

Interest calculated by applying the effective interest rate for the year ended 31 December 2007 amounted to t€ 7,393 (2006: t€ 4,676).

The €60 million subordinated bonds due 2017 issue was designated upon its initial recognition as of 26 July 2007 as at fair value through profit or loss, in accordance with the accounting policy described in Note 2.20. These subordinated bonds are redeemable at par value on its maturity date, although they may be repaid earlier at the Group's option, subject to the prior approval from the Bank of Portugal.

## 29 Other liabilities

	2007	2006	
Provisions	919	916	
Amounts owed to the public sector	1 542	1 536	
Creditors from consumer finance business	1 181	1 348	
Other creditors	1 366	1 419	
Accrued expenses	15 154	16 569	
Other sundry liabilities	15 175	18 342	
		<b>35 337</b>	<b>40 130</b>

Provisions are intended to cover certain contingencies related to the Group's activity. During the year 2007, the Group charged through the income statement the amount of t€ 3 (2006: t€ 93).

Other sundry liabilities include the amount of €11,814 thousand (2006: €15,810 thousand) related to stock exchange transactions pending settlement, following transactions made in the normal course of business of the Group (see Note 22).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 30 Share capital, share premium and treasury stock

### Share capital and share premium

At 31 December 2007, the Bank's share capital in the amount of €115,000,000 is represented by 115 million ordinary shares with a par value of €1 each. All issued shares are fully paid.

In November 2006, following its business plan the Group's share based capital increased €100 million due to the issuance of 40 million new ordinary shares, which were fully subscribed by the shareholders, and a share premium in the amount of €60 million.

### Treasury stock

During the years ended 2007 and 2006 the following changes occurred in treasury stock:

	2007		2006	
	Number of shares	Acquisition cost	Number of shares	Acquisition cost
Balance as at 1 January	3 823 310	8 301	2 573 646	5 014
Acquisitions	5 148 829	22 770	1 355 948	3 496
Disposals	(6 876 041)	(23 811)	(106 284)	(209)
<b>Balance as at 31 December</b>	<b>2 096 098</b>	<b>7 260</b>	<b>3 823 310</b>	<b>8 301</b>

During 2007, under a purchase program, the Bank acquired 5,148,829 shares in the total amount of t€ 22,770, and placed 6,876,041 treasury shares in the total amount of t€ 30,339.

## 31 Reserves and retained earnings

	2007	2006
Revaluation reserves	1 162	26 061
Legal reserve	22 524	18 787
Other reserves and retained earnings	150 334	124 565
	<b>174 020</b>	<b>169 413</b>

### Revaluation reserves

The revaluation reserves represent the amount of the unrealised gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years, and the effective part of the changes in the cash flow hedging derivatives fair value.

The amount of this reserve is shown net of deferred taxes, as follows:

	AFS reserve	Cash-flow hedge reserve	Other revaluation reserves	Total
<b>Balance as at 1 January 2006</b>	<b>5 347</b>	<b>(4 197)</b>	<b>(52)</b>	<b>1 098</b>
Net changes in AFS financial assets	16 288	–	–	<b>16 288</b>
Deferred taxes (see Note 23)	(2 035)	–	–	<b>(2 035)</b>
Changes in cash flow hedge reserve	–	10 710	–	<b>10 710</b>
<b>Balance as at 31 December 2006</b>	<b>19 600</b>	<b>6 513</b>	<b>(52)</b>	<b>26 061</b>
Net changes in AFS financial assets	(22 569)	–	–	<b>(22 569)</b>
Amortisation of HTM related reserve (see Note 14)	(178)	–	–	<b>(178)</b>
Deferred taxes (see Note 23)	2 488	–	52	<b>2 540</b>
Amortisation of cash flow hedge reserve (see Note 19)	–	(1 872)	–	<b>(1 872)</b>
Changes in cash flow hedge reserve (see Note 19)	–	(2 820)	–	<b>(2 820)</b>
<b>Balance as at 31 December 2007</b>	<b>(659)</b>	<b>1 821</b>	<b>–</b>	<b>1 162</b>

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As at 31 December 2007 and 2006, the fair value reserve of the AFS financial assets included in the revaluation reserves disclosed above can be explained as follows:

	2007	2006
Amortised cost of available-for-sale financial assets	137 738	378 980
Accumulated impairment recognised in income (see Note 14)	(1 827)	(714)
Amortised cost of AFS financial assets, net of impairment	135 911	378 266
Fair value of AFS financial assets (see Note 14)	135 342	400 444
Net unrealised gains recognised in the fair value reserve	(569)	22 178
Deferred taxes (see Note 23)	(90)	(2 578)
<b>Balance at the end of the year</b>	<b>(659)</b>	<b>19 600</b>

During 2007, due to sales and to the maturity of securities from the AFS portfolio, the amount of t€ 29,127 (2006: t€ (5,996)) included in the AFS reserve, was recognised in profit or loss, in accordance with the accounting policy disclosed in Note 2.9. From this amount, t€ 19,349 relate to changes in fair value occurred during 2007 (2006: t€ (4,300)).

The legal reserve can only be used to cover cumulated losses or to increase capital. According to Article 97 of the General Regime for Credit Institutions and Financial Companies, approved by Decree-Law 298/92 of 31 December and amended by Decree-Law 201/2002 of 25 September, Banco Finantia and other Portuguese Group financial companies must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of share capital or the sum of the free reserves plus retained earnings (in accordance with the Article 296<sup>o</sup> of the Portuguese Companies Code).

The other Group companies with head offices in Portugal must transfer to a legal reserve at least 5% of their net annual profits until this reserve is equal to 20% of issued capital.

## 32 Off balance sheet items

	2007	2006
<b>Guarantees issued</b>		
Securities pledged under repos	2 293 724	1 109 193
Guarantees and standby letters of credit	23 038	28 107
	<b>2 316 762</b>	<b>1 137 300</b>
<b>Contingent liabilities</b>		
Revocable committed lines	25 328	26 677
Other commitments	18 370	13 975
	<b>43 698</b>	<b>40 652</b>
<b>Other off-balance sheet items</b>		
Securitisation assets under management for clients	2 198 308	2 469 926
Securities received as collateral under reverse repos	1 483 320	1 544 621
Securities and items held for safekeeping	1 101 373	893 257
Other guarantees received	11 113	15 722
	<b>4 794 114</b>	<b>4 923 526</b>

As a part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge. The fair value of the securities accepted under these terms as at 31 December 2007 amounts to t€ 1,539,684 (2006: t€ 1,553,487).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

## 33 Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise the following balances with maturity less than three months, from the date of acquisition:

	2007	2006
Cash (see Note 12)	143	163
Deposits with banks (see Note 12)	22 259	31 037
Due from banks (see Note 35)	468 804	443 659
	<b>491 206</b>	<b>474 859</b>

## 34 Balances and transactions with related parties

	2007	2006
<b>Assets</b>		
Loans and advances to customers	17 032	30 734
<b>Liabilities</b>		
Due to customers	41	210
<b>Income</b>		
Interest and similar income	419	415
<b>Costs</b>		
Interest expense and similar charges	529	164

The balances and transactions stated above mainly relate with Finantipar - S.G.P.S., S.A. and Finantipar Finance Limited.

The amount of remunerations paid to the Group's management and supervisory bodies is disclosed in Note 8.

## 35 Risk management activity

The Finance Committee, which meets monthly, is responsible for evaluating and monitoring the various risks that the Group is subjected to. They analyse and propose methodologies, policies and adequate procedures to control and/or mitigate such risks.

In organisational terms, in what regards the Investment Banking as well as the Consumer Finance business, the risk management function is centralised in the Credit and ALM Department (Assets and Liabilities Management), as an independent unit from the Group's origination Departments, including the various risks: credit, market, liquidity and operational. This structure facilitates a cross and integrated analysis, considering the complementarity of the analysis and correlations between the different kinds of risks.

In the Consumer Finance area, the credit risk management component is shared with the Risk Management Department, a more specialised unit in the Sofinloc and Banco Finantia Sofinloc business.

### Credit Risk

Credit risk, which arises not only from the possibility of a counterparty defaulting but also from the change in the economic value of a certain instrument on the back of a fall in the credit quality, constitutes one of the most important risks for the Group considering its assets structure.

The approval of any credit exposure is carried out according to a set of internal principles and procedures embodied in the Group's Credit Rules and Regulations, which define the different decision levels commensurate with the amount and kind of product to be financed.

For the Consumer Finance business, the first decision level is the automatic decision through the Group internally developed system, Siacc. This allows the Bank to balance the expected return and the use of capital for each operation. The Group has scoring models that are applied separately to the Portuguese and Spanish credit portfolios, based on the wide experience developed since the Group's first scoring model of 1995. Besides being the basis to the automatic decision process (a credit proposal has to satisfy a minimum score to have an automatic approval along with other certain defined criteria and filters) the scoring model attributes a score to each proposal based on the probability of loss. This permits calculating the expected profitability of each operation adjusted to the probable loss.

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In the Investment Banking area, all operations are subject to limits defined by the Credit Department. Every individual limit is analysed by this department with a cap on the maximum amount permitted based on the issuers rating and category. Over and above the guidelines new limits established also take into account the geographical exposure. The department of Credit and ALM is also responsible for the daily monitoring of the approved limits.

The credit portfolio risk profile is analysed monthly by the Finance Committee, with special emphasis on credits with problems, both in the Investment Banking and the Consumer Finance areas (the latter relating to only credits pertaining to higher levels of decision making, considering the portfolio granularity). In these meetings the respective exposures are analysed, including the Consumer Finance portfolio analysis which reflects the review of impaired loans, delinquency, coverage and asset quality ratios, as well as the allocation and consumption of capital. Other risks such as interest rate, currency and liquidity are also addressed.

Excluding the consumer finance portfolio (Portugal and Spain) which is analysed in Note 17, and considering the Group's credit risk exposure by external rating designation at 31 December 2007, nearly 80% of its overall exposure is to investment grade countries while the remaining is largely diversified over more than twenty countries (2006: 81%).

## **Market risk**

Market or price risk is defined as the likelihood of incurring losses due to unexpected variations in the price of instruments or operations. These prices include interest rates, exchange rates and share prices.

As part of the market risk control and assessment process within the Group, emphasis is placed on the daily calculation of VaR for the entire consolidated balance sheet. This is in line with the BIS recommendation. The VaR is calculated using the historical simulation approach, with one year of historical price data, a one day holding period and a 99% confidence interval. Back-testing exercises have been satisfactorily concluded. For the year 2007, the average daily VaR was €2.86 million (up from €1.71 million in 2006), which corresponds to 0.88% of Tier 1 Capital (0.75% in 2006). The average daily VaR for foreign exchange risk was €1.56 million (€1.43 million in 2006) and for interest rate risk was €2.35 million (€1.01 million in 2006).

## **Interest rate risk**

Exposures to interest rate fluctuations constitute one of the principal aspects for proper risk management. The Group has adopted a strategy of minimising the interest rate risk, structuring the balance sheet in order to hedge the impact of the movements on the yield curve in its securities portfolio.

In the case of assets related to Consumer Finance, the complete hedging of interest rate risk has been laid down as a general principle through the contracting of interest rate swaps, with the object of matching the maturities and the rate resetting dates of the assets with the liabilities resulting from the securitisation operations.

## **Foreign currency exchange rate risk**

The Group only deals in assets and liabilities denominated in EUR and USD, while the positions in other currencies are sporadic and have no significant impact on the balance sheet and results. In order to neutralise the currency risk, these exposures are monitored in a daily basis, not only in the spot revaluation position, but also in the forward revaluation position, resulting on the impact expectations that the USD assets and liabilities can generate in the future.

This analysis is presented and discussed in the Finance Committee on a monthly basis, with a view to defining or correcting the measures to be adopted in terms of managing the Group's currency risk.

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The assets and liabilities detail by currency can be analysed as follows:

	2007		
	EUR	USD	Other
<b>Assets</b>			
Cash and banks	23 570	8 102	280
Financial assets at fair value through profit or loss	564 713	1 063 578	4 024
Available-for-sale financial assets	70 509	64 833	–
Held-to-maturity financial assets	33 176	–	–
Due from banks	412 730	233 523	–
Loans and advances to customers	1 458 366	91 323	–
Interest rate hedging operations	842 032	705 951	–
Other financial assets	88 397	4 150	246
<b>Total assets</b>	<b>3 493 493</b>	<b>2 171 461</b>	<b>4 550</b>
<b>Liabilities</b>			
Financial liabilities held for trading	8 776	29 471	–
Due to banks	1 363 336	635 757	13
Due to customers	530 381	254 569	–
Interest rate hedging operations	831 483	699 128	–
Debt securities issued	706 127	–	–
Subordinated debt	187 822	–	–
Other financial liabilities	32 762	9 876	195
<b>Total liabilities</b>	<b>3 660 686</b>	<b>1 628 801</b>	<b>208</b>
<b>Equity</b>	411 868	(797)	–
<b>Total liabilities and equity</b>	<b>4 072 554</b>	<b>1 628 004</b>	<b>208</b>
<b>Derivatives held for risk management</b>			
Forwards	26	–	–
Currency swaps	579 035	(544 480)	–
	<b>579 061</b>	<b>(544 480)</b>	<b>–</b>
<b>Net position</b>	<b>–</b>	<b>(1 024)</b>	<b>4 342</b>
<b>2006</b>			
	EUR	USD	Other
<b>Total assets</b>	3 043 431	2 048 797	126
<b>Total liabilities</b>	3 080 236	1 624 772	15
<b>Total equity</b>	391 180	10 234	–
	(427 985)	413 791	111
<b>Derivatives held for risk management</b>	427 985	(417 673)	–
<b>Net position</b>	<b>–</b>	<b>(3 882)</b>	<b>111</b>

## Liquidity risk

Liquidity risk is the potential that an institution will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions.

The liquidity risk management is centralised at a Group level and kept within pre-defined limits, in accordance with two distinct parameters: (i) cash flow management, through a system of cash flow controls that permit daily calculation of Treasury balances up to a one year horizon; (ii) balance sheet management, to maintain excess short-term liquidity ensuring normal functioning of the Group even under unfavourable conditions.

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The Treasury Department takes over the cash flow management, making a daily report to at least one member of the Executive Committee. The ALM Department is responsible for all the analysis pertaining to the Group's balance sheet management. The report is then presented on a monthly basis, to the Finance Committee, which is responsible for the liquidity strategy of the Group, as well as for the adoption of all corrective measures whenever the pre-defined limits are not achieved.

In the Investment Banking area, the strategy defined consists in favouring high liquidity applications, easily marketable or that allow autofinancing through repos or other funding instruments.

In what concerns the Consumer Finance activity, the option has been the back-to-back funding through securitisation operations, which represented at the end of the period almost 75% of the value of those assets.

In 2007, the Group did its eighth securitisation operation that is supplied monthly with Consumer Finance credits originated in the Iberian Peninsula. This operation reaches an amount of EUR 400 million and contributed to the reduction of the Group dependence to other sources of funding.

Relative to the other liability instruments used, we have diversified our funding sources, not only in terms of counterparties, but also in the types of instruments. Care is taken to comply with certain maximum concentration ratios in counterparty depositors, money market and repos.

A brief analysis of the investment portfolios' exposure of the Group by period to maturity is presented as follows:

	Note	Carrying amount	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Undetermined
<b>31 December 2007</b>							
Cash and banks	13	31 953	31 953	–	–	–	–
Available-for-sale financial assets	14	135 342	9 309	13 321	49 443	63 267	1
Held-to-maturity financial assets	15	33 176	–	–	–	33 176	–
Due from banks	16	646 253	468 804	36 119	27 076	114 253	–
Loans and advances to customers	17	1 549 689	60 104	98 622	885 024	511 300	(5 361)
		<b>2 396 413</b>	<b>570 171</b>	<b>148 062</b>	<b>961 544</b>	<b>721 996</b>	<b>(5 360)</b>
Due to banks <sup>(a)</sup>	25	922 682	175 147	167 191	580 344	–	–
Due to customers <sup>(a)</sup>	26	473 394	239 186	125 011	102 196	7 000	–
Debt securities issued	27	706 127	4 317	–	44 910	656 900	–
Subordinated debt	28	187 822	1 613	–	10 000	176 209	–
		<b>2 290 025</b>	<b>420 263</b>	<b>292 202</b>	<b>737 450</b>	<b>840 109</b>	<b>–</b>

(a) Excludes securities sold under repurchase agreements ("repos") and collateralised liquidity facilities.

	Note	Carrying amount	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Undetermined
<b>31 December 2006</b>							
Cash and banks	13	37 871	37 871	–	–	–	–
Available-for-sale financial assets	14	400 444	6 572	9 512	128 024	230 532	25 804
Due from banks	16	649 181	457 375	98 248	93 380	178	–
Loans and advances to customers	17	1 277 175	111 492	214 729	809 241	141 361	352
		<b>2 364 671</b>	<b>613 310</b>	<b>322 489</b>	<b>1 030 645</b>	<b>372 071</b>	<b>26 156</b>
Due to banks <sup>(a)</sup>	25	642 727	326 727	6 000	310 000	–	–
Due to customers <sup>(a)</sup>	26	464 562	276 235	75 811	110 790	1 726	–
Debt securities issued	27	779 136	3 816	–	18 642	756 678	–
Subordinated debt	28	135 476	476	–	–	135 000	–
		<b>2 021 901</b>	<b>607 254</b>	<b>81 811</b>	<b>439 432</b>	<b>893 404</b>	<b>–</b>

(a) Excludes securities sold under repurchase agreements ("repos").

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## Operational risk

Operational risk may be defined as the risk of loss resulting from inadequate internal processes, human or system failures, or external factors, that include legal risk (excludes, however, the strategic and reputational risks).

The operational risk management has always been an area of the Group's concerns. As a consequence, the Group has developed a policy of systematically creating operational manuals and simultaneously making accountable the head of each department for its compliance. This automatically helps mitigating the operational risk. Having in mind the best practices established in the new Basel Accord (Basel II), the Group has been intensifying its efforts in implementing more advanced and effective measurement and risk control methods. The Group is currently in the process of collecting and recording the various types of risk that may affect its activity (loss event register and risk control self assessment).

In 2006, some additional measures within the scope of evaluation and control of operational risk have been taken. Heads of the main areas of the Group's activities were advised on the importance of complying with the measures defined. In the Consumer Finance area, whose operational risk events are typically characterised by a high frequency and low severity, a task force was constituted that includes the Directors of the different operational areas. This task force was formed with an objective of identifying the critical aspects in the processes and procedures, issuing opinions and taking corrective measures aimed at minimising the incurred risk.

There is a Quality Control area, whose objective is the certification and validation of the data inserted in the proposals and contracts in line with the internal credit rules, representing an additional measure of control, along with the Bank's internal and external audit.

In a global perspective, there is a strong concern in identifying and analysing ex-ante the problems and risks, with the objective of either preventing or controlling them. This is particularly relevant in the approval of new financial products, which is subject to the analysis and opinion of multidisciplinary and interdepartmental teams, as well as different levels of authorisations. There is a Contingency and Disaster Recovery plan in place that ensures the continuity of the Group's activities even in the more extreme situations.

## 36 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bank of Portugal (the Authority), for supervisory purposes. The required information is filed with the Authority on a periodic basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of €17.5 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'CAD ratio') at or above the internationally agreed minimum of 8%. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in the European Union are directly regulated and supervised by their local banking supervisor, which may differ from country to country.

The Group's regulatory capital as managed by its central Group Treasury is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital: qualifying subordinated loan capital and 55% of the unrealised gains arising on the fair valuation of financial instruments held as available-for-sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The risk-weighted assets are measured according to the nature of - and reflecting an estimate of credit, market and other risks associated with - each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2007 and 2006. During these two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	2007		2006
	Bal I	Bal II	Bal I
<b>Total equity</b>	<b>411.0</b>	<b>411.0</b>	<b>401.4</b>
Add: Subordinated debt instruments	186.7	186.7	135.4
Less: Amounts recognised in equity – cash flow hedges	(1.8)	(1.8)	(6.5)
Less: Revaluation reserve – AFS investments	(0.9)	(0.9)	(12.3)
Less: Estimated dividend to be paid	(29.3)	(29.3)	(28.9)
Other increases/(deductions)	(0.7)	(0.7)	5.9
<b>Total qualifying capital</b>	<b>565.0</b>	<b>565.0</b>	<b>495.0</b>
<b>Risk-weighted assets</b>	<b>4 156.6</b>	<b>4 258.0</b>	<b>3 136.7</b>
<b>CAD ratio</b>	<b>13.6%</b>	<b>13.3%</b>	<b>15.8%</b>

The increase of the risk-weighted assets reflects the expansion of the business in 2007.

### 37 Fair value of financial assets and liabilities

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value:

	Note	2007		2006	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>					
Cash and banks	12	31 953	31 953	37 871	37 871
Due from banks	16	646 253	646 253	649 181	694 181
Loans and advances to customers	17	1 549 689	1 590 742	1 277 175	1 293 170
Held-to-maturity financial assets	15	33 176	29 398	–	–
<b>Liabilities</b>					
Due to banks	25	1 999 105	1 993 827	1 466 281	1 466 281
Due to customers	26	784 950	784 950	701 793	701 793
Debt securities issued	27	706 127	685 164	779 136	780 167
Subordinated debt	28	187 822	172 576	135 476	135 476

Fair value is based on market prices, whenever they are available. The main methods and assumptions used in estimating fair values of financial assets and liabilities accounted for at amortised cost, are analysed as follows:

#### Cash and banks

Considering the short term nature of these financial instruments, its carrying amount is a reasonable estimate of its fair value.

#### Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows (capital and interest), considering that the instalments are paid in the contractually defined dates.

#### Held-to-maturity financial assets

The fair value of these financial assets is obtained from quoted market prices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## Due from/to banks

For repos and deposits with banks by their short term nature it is considered that its carrying amount is a reasonable estimate of its fair value. The fair value of medium and long term deposits and MLT loans with banks is estimated based on the discount of the expected future cash flows (capital and interest), considering that the instalments are paid in the contractually defined dates.

## Due to customers

The fair value of these financial instruments is based on the discount of the expected future cash flows (capital and interest), considering that the instalments are paid in the contractually defined dates. Considering that the applicable interest rates are variable and that the period to maturity is substantially less than one year, there are no measurable differences in its fair value.

## Debt securities issued and subordinated debt

Fair value of these financial instruments is based on market prices when available and, when unavailable, is estimated based on the discount of the expected future cash flows (capital and interest).

## 38 Group structure

As at 31 December 2007, the Group structure can be analysed as follows:

Company	Year of constitution	Year of acquisition	Head Office	Activity	% held	Consolidation method
Banco Finantia Internacional, Ltd.	1997	1997	Cayman Islands	Banking	100	Full
Banco Finantia Sofinloc, S.A.	1993	2001	Spain	Banking	99.21	Full
Esprin – Española de Promociones, S.L.	2000	2001	Spain	Advisory services	100	Full
Finantia Brasil, Lda.	1997	1997	Brazil	Advisory services	100	Full
Finantia Europe, Ltd.	1991	1991	Jersey	Advisory services	100	Full
Finantia PH Ltd	2004	2004	Malta	Holding company	100	Full
Finantia Securities Ltd.	1993	1997	United Kingdom	Broker-Dealer	100	Full
Finantia Serviços – Prestação de Serviços Empresariais, Lda.	1989	1989	Portugal	Advisory services	100	Full
Finantia – S.G.F.T.C., S.A.	2003	2003	Portugal	Securitisation funds management company	100	Full
Finantia USA, Ltd.	1995	1997	U.S.A.	Broker-Dealer	100	Full
Sofinloc – Instituição Financeira de Crédito, S.A.	1983	1992	Portugal	Specialised credit	100	Full
Finantia Emea Ltd.	2005	2005	Cayman Islands	Advisory services	100	Full
Finantia Madeira – S.G.P.S., S.A.	2004	2004	Portugal	Holding company	100	Full
Finantia Holdings BV	2004	2004	Netherlands	Holding company	100	Full
Finantia Participações – S.G.P.S., S.A.	2005	2005	Portugal	Holding company	100	Full
Sofinloc Mediadora – Soc. de Mediação de Seguros, Lda.	1990	1992	Portugal	Insurance broker	100	Full
LTR Finance nº4 plc	2002	2002	Ireland	Special purpose entity	100	Full
LTR Finance nº5 plc	2004	2004	Ireland	Special purpose entity	100	Full
LTR Finance nº6 plc	2006	2006	Ireland	Special purpose entity	100	Full
LTR Warehouse Ltd.	2007	2007	Ireland	Special purpose entity	100	Full

# STATUTORY AUDIT REPORT

(Consolidated Financial Statements)

(Free translation from the original presentation in Portuguese)

31 December 2007

## Introduction

1. We have audited the consolidated financial statements of Banco Finantia, SA ("the Bank"), comprising the consolidated balance sheet as at December 31, 2007, (which shows total assets of €5,700,766 thousand and total equity of €411,071 thousand, including a net profit of €63,925 thousand), the consolidated statement of income, the consolidated cash flow statement and the statement of consolidated changes in equity for the year then ended and the corresponding notes to the accounts. The consolidated financial statements were prepared in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union.

## Responsibilities

2. It is the responsibility of the Bank's Board of Directors to prepare consolidated financial statements which present fairly, in all material respects, the financial position of the Bank, and the consolidated results of its operations and consolidated cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain adequate systems of internal accounting controls.

3. Our responsibility is to express an independent and professional opinion on these consolidated financial statements based on our examination.

## Scope

4. We conducted our examination in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors which require that we plan and perform the examination to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our examination included: (i) verification that the subsidiary's financial statements have been examined and for the cases where such an examination was not carried out, verification, on a test basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements, and assessing the reasonableness of the estimates, based on the judgments and criteria of Management used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and, when applicable, the utilisation of the equity method; (iii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; and (v) evaluating the overall presentation of the consolidated financial statements.

5. Our examination also included the verification of the consistency of the financial information integrated in the consolidated Management Report with the consolidated financial statements.

6. We believe that our examination provides a reasonable basis for our opinion.

## Opinion

7. In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of Banco Finantia, SA as at December 31, 2007 and the consolidated results of its operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Lisbon, March 31, 2008

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