

Lusitano Mortgages No.3 plc

Banco Espirito Santo, S.A. Residential Mortgage Backed Securitisation Portugal

PLEASE NOTE: This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 30 June 2004. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **prospective** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk.

CLOSING DATE

[November] 2004

Lead Analyst

Sandie Fernandez
AVP - Analyst
Madrid
(34) 91 702 6607
Sandie.Fernandez@moodys.com

Backup Analyst

Lisa Macedo
AVP - Analyst
London
(44) 20 7772 5535
Lisa.Macedo@moodys.com

CONTACTS

Madrid

Juan Pablo Soriano
Managing Director
(34) 91 702 6608
Juan.Soriano@moodys.com

London

Edward Bowden
EMEA Investor Liaison
(44) 20 7772 5454
Edward.Bowden@moodys.com

Client Service Desk

London: (44) 207 772 5454
csdlondon@moodys.com

Monitoring

London: (44) 20 7772 5399
monitor.london@moodys.com
Madrid: (34) 91 702 6601
monitor.madrid@moodys.com

WEBSITE

www.moodys.com

RATINGS

Class	Rating	Amount	% of Total	Legal Final Maturity	Expected Maturity*
A	(P)Aaa	€[1,140 mln]	[95.00%]	[Oct 2047]	[Oct 2013]
B	(P)Aa2	€[27 mln]	[2.25%]	[Oct 2047]	[Oct 2013]
C	(P)A2	€[18.6 mln]	[1.55%]	[Oct 2047]	[Oct 2013]
D	(P)Baa2	€[14.4 mln]	[1.20%]	[Oct 2047]	[Oct 2013]
E**	unrated	€[10.8 mln]	[0.90%]	[Oct 2047]	

The prospective ratings address the timely payment of interest, and ultimate payment of principal at par on or before the final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks, such as those associated with the timing of principal prepayments and other market risks have not been addressed and may have a significant effect on yield to investors.

* Step Up date

** Tranche E is intended to fund the initial Cash Reserve Account balance. Cash Reserve will be fully funded at closing

OPINION

Strengths of the Transaction

- High quality data provided (including six years of historical data, detailed debt to income data and arrears months/current data)
- Strong eligibility criteria resulting in a well diversified loan pool
- Mortgage pool consisting of 100% standard, non-subsidised, fully disbursed, first lien mortgages
- 75% branch origination, 8% Assurfinance, 17% via brokers and internet inquiries.;
- The Originator is experienced at servicing and origination in this market, and is rated **(A1, Prime-1)**.
- The write-off mechanism (which acts to accelerate loss provisioning) has been improved from the Lusitano 2 transaction.

Weaknesses of the Transaction

- Limited experience of the fund manager – PORTUCALE is a new fund manager in the Portuguese market;
- No liquidity facility, although this weakness is mitigated by structural features which serve to provide liquidity to the deal – among them a contingent rating trigger.



STRUCTURE SUMMARY

Issuer:	Lusitano Mortgages No. 3 PLC
Structure Type:	Floating rate notes to be issued by an Irish special purpose vehicle ("SPV") and backed by distributions from pass-through instruments ("Units") issued by a Portuguese securitisation fund ("FTC"). The Units are secured by a pool of Portuguese residential mortgage assets sold by the Originators to the FTC.
Originator and Seller:	Banco Espirito Santo, S.A. ("BES") (A1, Prime-1)
Borrowers:	Individuals residing in Portugal being clients of BES
Servicer:	BES
Interest Payments:	Quarterly in arrears starting on [16 th January 2005] and thereafter on the 16 th business day of April, July, October and January of each year
Principal Payments:	Quarterly in arrears in line with net principal redemptions on the mortgage pool
Credit Enhancement:	Excess spread, reserve fund, subordination of Note payments
Custodian:	BES
Liquidity Support:	Reserve fund and the ability to draw principal to meet liquidity shortfalls
Liquidity Facility:	Available subject to a Contingent Liquidity Event
Liquidity Facility Provider:	Not Available
Mortgage Loan Collections Bank Account:	BES
Fund Account Bank, Issuer Account Bank and Cash Reserve Account Bank:	Deutsche Bank AG London Branch (Aa3, Prime-1) ("DBAG London")
Fund:	Lusitano Mortgages No.3 Fundo
Fund Manager:	Portucale SGFTC, S.A.
Transaction Manager:	DBAG London
Principal Paying Agent and Agent Bank:	DBAG London
Irish Paying Agent:	Deutsche International Corporate Services (Ireland) Limited
Trustee:	Deutsche Trustee Company Limited
Swap Provider:	ABN AMRO Bank N.V. (London Branch)
Interest Rate Cap Provider:	[•]
Lead Managers:	[ABN AMRO Bank N.V. (London Branch), Lehman Brothers International (Europe), CALYON, Espirito Santo Investment]

COLLATERAL SUMMARY [based on the provisional portfolio of 30 June 2004]

Receivables:	Loan claims or parts thereof for payments of interest and principal arising under amortising, monthly paying mortgage loans. Each loan claim is secured by a first ranking mortgage on one residential property located in Portugal.
Current Balance:	€[1,255,842,886]
Number of Borrowers:	[14,860]
Number of Loans:	[22,262]
Current Loan Size:	Average: €[56,412]; Max: €[347,824]
Geographic Concentration:	Lisbon [43.54]%, and North [27.79]%
W.Average Original LTV:	[77.61]%
W.Average Current LTV:	[73.70]%
W.Average Seasoning:	[23.32] months
Delinquency Status:	< 1 month in arrears [100]%
W.Average Interest Rate:	[3.42]%
W.Average Remaining Term:	[26.59] years
Property Use:	Owner-occupied: [100]%
Rate Type:	Euribor 3-month [5.58]%, Euribor 6-month [88.65]%, Euribor 12-month [5.77]%

NOTES

Class	Rating	Amount	Rate Basis	Initial Margin	Step Up Margin
A	(P) Aaa	€[1,140,000,000]	3-month EURIBOR	[•]%	[2 x initial]%
B	(P) Aa2	€[27,000,000]	3-month EURIBOR	[•]%	[2 x initial]%
C	(P) A2	€[18,600,000]	3-month EURIBOR	[•]%	[2 x initial]%
D	(P) Baa2	€[14,400,000]	3-month EURIBOR	[•]%	[2 x initial]%

Moody's assigns prospective ratings to the third issue of Notes from the Lusitano Mortgages plc series of RMBS securitisations

OVERVIEW

Moody's has assigned provisional long-term credit ratings of (P)**Aaa** to the Class A Notes, (P)**Aa2** to the Class B Notes, (P)**A2** to the Class C Notes, and (P)**Baa2** to the Class D Notes.

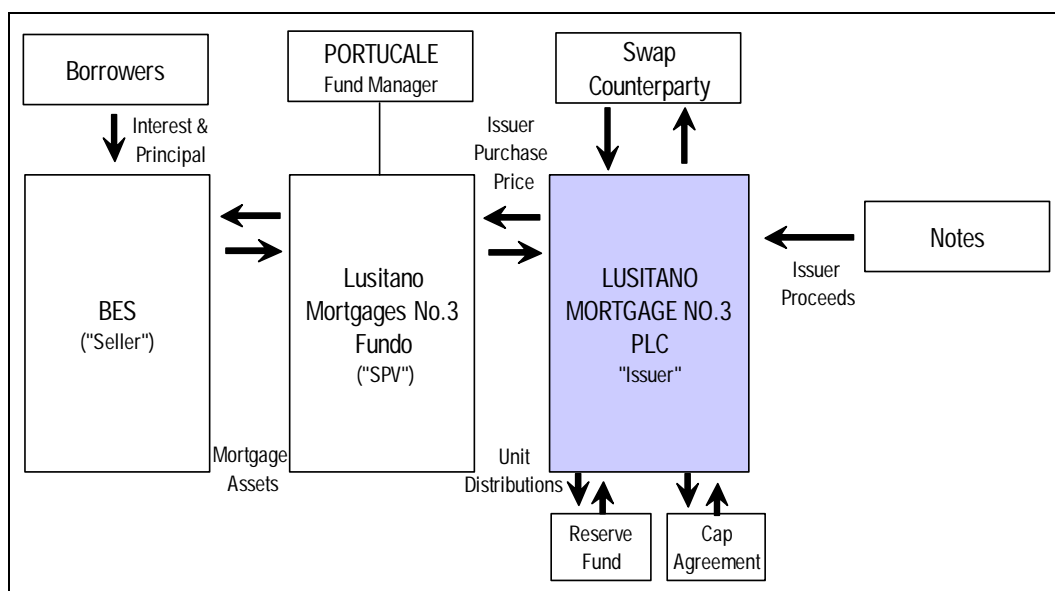
This is the 3rd transaction by BES under the Lusitano programme. Yet, it is their first transaction without subsidised loan products. Structurally, the highlights that this deal introduces are: the innovation of the write-off mechanism (i.e. partially improving it from last time), as well as new delinquency triggers. In addition, a solid swap structure has been provided.

From the collateral point of view, as mentioned, the main highlight is that this is their first deal that does not incorporate subsidised mortgage loans.

The prospective ratings of each class of Notes addresses the timely payment of interest and ultimate repayment of principal at par on or before the final legal maturity date. Moody's issues prospective ratings in advance of the final sale of securities, and these ratings only represent Moody's preliminary opinion. Upon a conclusive review of the transaction and associated documentation, Moody's will endeavour to assign definitive ratings to the Notes. A final rating may differ from a prospective rating.

STRUCTURAL AND LEGAL ASPECTS

Structure Diagram



Two special purpose vehicles: one under Portuguese Law, another under Irish Law

The Notes will be issued by Lusitano Mortgages No. 3 plc (the "Issuer") which is a special purpose vehicle ("SPV") incorporated in Ireland. The SPV is insolvency remote, and its activities are limited to issuing the Notes and using the proceeds to buy¹ shares in a direct ownership interest of a pool of mortgage loans. The Issuer does so by purchasing securitisation units ("Units") from a Portuguese securitisation fund (*Fundo de Titularização de Créditos* or "FTC") on the closing date.

Broadly speaking, the securitisation structure presented above has been used on all previous Portuguese RMBS transactions to date.

To support this structure, the SPV will enter into a swap agreement and various bank agreements. In addition, following the occurrence of a Contingent Liquidity Event, the SPV may enter into a liquidity facility agreement in form and substance confirmed by Moody's.

Initial closing date cash movements under Portuguese legal jurisdiction

On the closing date, and using the proceeds from the Units issue, the FTC will buy a pool of residential mortgage loans (along with all associated rights and benefits) from the Originator. The consideration paid by the FTC to purchase the mortgage asset pool backing the Units, and ultimately backing the Notes will be for 100% of the aggregate outstanding principal balance of the loans comprising the pool.

¹ Via a Unit Purchase Agreement between the Issuer and the FTC

Description of the Units

The Unitholders will have an undivided ownership interest in the FTCs assets. Each Unitholder will have the right to receive any collections arising from the pool after certain senior fund level expenses have been deducted. These net collections will then be distributed pro rata amongst the Unitholders.

The Issuer will own all the Units issued by the FTC and no further Units will be created according to the FTC's regulation. In its capacity as sole Unitholder, the Issuer has the added ability to call for early liquidation of FTC's assets before the end of the FTC duration period (as long as the Fund Managers consent is obtained).

The borrowers relating to the mortgage loan pool will not be notified that this assignment has taken place, and their consent is not necessary for the transfer between BES as seller and the FTC as purchaser to be valid and legally binding. This assignment survives both the insolvency of the seller, and foreclosure upon any individual loan in the pool.

Description of the Fund Manager

This transaction incorporates a newly established management company called PORTUCALE – Portucal has just been approved by CMVM on the 9th of March 2004.

Current shareholders are as follows:

ESAF – Espírito Santo Activos Financeiros, SGPS, S.A. holds 4.96% of the share capital of the Fund Manager and its respective voting rights, and CALYON, Barclays Bank PLC, Credit Suisse First Boston (UK) Investment Holdings, Merrill Lynch International, BNP Paribas Capital Investments Limited and Morgan Stanley International Incorporated each hold 16.84% of the share capital of the Fund Manager and its respective voting rights.

The FTC is subject to supervision by the *Comissão do Mercado de Valores Mobiliários* ("CMVM") or the Portuguese Securities Commission.

A SGFTC's function is to act on behalf of Unitholders and to provide certain administrative and management services with respect to the Units and the collateral pool.

Ongoing cash movements from the fund to the issuer

The Servicer will transfer all collections relating to the mortgage pool from the Originators' accounts to the fund's operating account held at DBAG London by the next following Lisbon and London business day from day of receipt.

These collections then accumulate over quarterly periods and will be paid out quarterly as Unit distributions to the Issuer's account two business days before each interest payment date of the Notes.

Unit distributions are made pro rata and are the sum of:

- 1) All collections relating to interest from the mortgages in the mortgage pool (whether scheduled, or in arrears, and all penalty interest) plus;
- 2) All collections relating to principal from the mortgages in the mortgage pool (whether scheduled, or in arrears, and prepayments) plus;
- 3) Proceeds received owing to a breach of representations and warranties of the mortgage sale agreement for which the FTC was compensated by the seller plus;
- 4) Recoveries attributable to loans which have been written off plus;
- 5) Proceeds from investments made with amounts to the credit of the fund accounts over the period less;
- 6) To adjust for any amounts which may have been paid to the fund in error by borrowers less;

Expenses payable which include the Fund's expenses and fees, the Custodian's fees, the servicing fee, fees to the SGFTC and to the CMVM.

***Ongoing cash movements
from the issuer to
Noteholders***

The Notes pay interest quarterly in arrears starting on the 16th January 2005, and thereafter on 16th April, July, October and January using amounts in the Issuer account which will be the Unit distributions received by the Issuer from the FTC for the previous collection period.

Unit distributions received in respect of principal will be used to pay down the Notes. Remaining unit distributions will be used to pay amounts due under the swap agreement, other senior expenses and Note Interest, and to clear principal deficiency balances.

CREDIT ENHANCEMENT

Excess Spread and Hedging

Excess Spread

The first layer of protection against defaults and arrears available to Noteholders is excess spread. This is the difference between:

- 1) Unit distributions from interest collections on the mortgage pool, proceeds from authorised investments and swap payments received; and
- 2) The interest due on the Notes, various ongoing senior costs and amounts owed under the swap agreements.

***Basis risk is mitigated by a
swap***

The pool contains loans that pay a rate of interest linked to either Euribor 3-month, Euribor 6-month or Euribor 12-month (the "Euribor linked loans").

Without hedging in place, Noteholders are exposed to possible shortfalls in interest receipts from the mortgage pool if Note Euribor increases before the mortgage rates can also reset.

To mitigate this risk, the Issuer has entered into an interest rate swap with ABN AMRO to hedge adverse Note Euribor rate movements against pool base rate.

The Issuer will enter into a swap agreement (the "Swap Agreement") with the Swap Counterparty under which on each Interest Payment Date: (a) the Issuer will pay to the Swap Counterparty certain amounts calculated by reference to the relevant weighted average EURIBOR interest rates applicable in respect of the Mortgage Assets in respect of which no payment is more than 90 days overdue as at the beginning of each relevant Collection Period on a notional amount equal to the Aggregate Principal Outstanding Balance of such Mortgage Assets as at the beginning of each relevant Collection Period and (b) the Swap Counterparty will pay to the Issuer certain amounts calculated by reference to the EURIBOR interest rate of the Rated Notes on a notional amount equal to the Aggregate Principal Outstanding Balance of the Mortgage Assets in respect of which no payment is more than 90 days overdue as at the beginning of each relevant Collection Period

Triggers have been included in the structure to ensure that the transaction continues to benefit from this hedging agreement. If ABN's senior, unsecured and long-term debt rating falls below Moody's long-term rating of **A1**, it will find a replacement counterparty, find a guarantee or post collateral for the benefit of the Issuer. Failure to do so within a specified period could give the Issuer the right to terminate the swap agreement. If ABN's senior, unsecured and long-term debt rating falls below Moody's long-term rating of **A3**, it will post collateral until it has found a guarantor and/or replacement swap counterparty. Failure to do so will constitute an event of default under the swap agreement.

Measuring Excess Spread

Actual excess spread in the deal will depend on a number of factors, including the final coupons on the Notes and the corresponding outstanding Note mix at each point in time.

Excess spread will be used to amortise the Notes up to an amount equal to recorded principal deficiency balances on the loan pool. Any remaining amounts of excess spread will be used to replenish the reserve fund ("CRA") to its required level.

The value of excess spread in the transaction will depend on several factors, including:

- Arrears levels experienced in the loan pool, as the notional balance used to calculate swap payments includes loans which may be in arrears by up to 90 days;
- Prepayment speeds (higher prepayment speeds mean that the cash value of excess spread diminishes); and
- The timing of losses on the pool.

Stronger provisioning mechanism as compared to last deal

This transaction benefits from a provisioning mechanism, where a part of the outstanding principal balance of loans with high levels of arrears will be debited to the principal deficiency ledger, before losses on these loans are actually realised.

The foreclosure process in Portugal is slow, currently averaging three years², hence Moody's views provisioning as a particularly positive feature, as it allows excess spread to be captured to provide for future losses on highly delinquent loans in the pool.

Any loan which exceeds 12 monthly payments in arrears will be deemed a "Written-off Mortgage Assets". Loss provisioning in respect of Written-off Mortgage Assets begins once a loan becomes a Written-Off Mortgage Asset (i.e. at 1 year past due). At this point 35% of the outstanding loan balance will be provisioned for, an additional 35% at the end of year 2, and the remaining 30% at the end of year 3 – (creating the 100% provisioning mechanism).

PDL debits at any time will therefore equal:

- 1) Written-off Mortgage Assets as described above; plus
- 2) Any other realised principal losses which have arisen on loans which were not provisioned for or written off; plus
- 3) Any principal drawings used to meet interest payments.

Principal deficiency balances will be reduced each quarter

Each quarter, all unit distributions less those relating to principal on the mortgage pool, will flow down the revenue priority of payments, and will be used towards reducing principal deficiency ledger debit balances.

Cash Reserve Account

An amortising Reserve Fund is included

The second layer of protection available to Noteholders is the reserve fund ([0.90]% of original rated Notes balance) which will be fully funded at closing through the proceeds of the issue of the Class E Notes.

The reserve fund can be amortised subject to compliance with the following triggers:

- 1) That the current Interest Payment Date falls on or after the date that is three years after the Closing Date;
- 2) That the balance of the Cash Reserve Account is greater than EUR 5,400,000;
- 3) That the Aggregate Principal Outstanding Balance of Mortgage Loans in arrears for more than 90 days as at that Interest Payment Date is lower than 2% of the Aggregate Principal Outstanding Balance of the Mortgage Loans as at the Collateral Determination Date; and
- 4) the balance of the Principal Deficiency Ledger, subsequent to any reduction on that Interest Payment Date, is equal to zero.

² Current reforms to the enforcement process are under way in Portugal which is anticipated to reduce the time to foreclosure

Note subordination as source of credit enhancement

Subordination

The third layer of protection for the holders of more senior classes of Notes is the subordination of principal and interest due to more junior classes of Notes. The Notes will amortise sequentially in the following circumstances: i) where the pro rata test is not satisfied, or ii) after an Enforcement Notice has been served.

On each interest payment date, Class A Note interest is paid in priority to Class B Note interest, and Class B Note interest is paid in priority to Class C Note interest, and Class C Note interest is paid in priority to Class D Note interest.

Unpaid Note interest can be deferred until later interest payment dates, however interest will not accrue on such amounts.

The sequential payment of the notes can nevertheless turn pro rata should the pro rata test be satisfied. (see pro rata test definition below)

LIQUIDITY

No Liquidity facility within the structure – however, liquidity is provided through alternative mechanisms

Liquidity support can minimise the adverse effects of temporary cashflow shortfalls to Noteholders. Examples of situations where shortfalls can occur are delinquencies in the pool, interruptions in servicing or in either cash collection or fund management functions.

The transaction does not currently have any liquidity facility set up in place. However, the deal does incorporate some structural features that serve to mitigate this weakness, among them, the presence of a Contingent Liquidity Facility Agreement by which a liquidity facility agreement in form and substance confirmed by the Rating Agencies would be set up upon a servicer rating downgrade below P-1 would occur (“Contingent Liquidity Event”).

In addition (1) the RF could act as a source of liquidity – although the value of the reserve fund as a source of liquidity for servicing interruptions and other larger liquidity shortfalls is limited, as its size is small relative to the shortfalls which could arise, and (2) principal could be used to pay interest.

Pro Rata Test

The Rated Notes will amortise on a pro rata basis should the following conditions are complied with:

- The Principal Amount Outstanding of the Class A Notes is less than or equal to 75% of the Principal Amount Outstanding of the Class A Notes as at the Closing Date; and
- The balance of the Cash Reserve Account is equal to the Cash Reserve Account Required Balance on such Interest Payment Date; and
- The Aggregate Principal Outstanding Balance of the Mortgage Assets in arrears for more than 90 days as at such Interest Payment Date is less than 2 per cent. of the Aggregate Principal Outstanding Balance of the Mortgage Assets as at the Collateral Determination Date.

SUBSTITUTION AND PRODUCT CONVERSIONS

Variations in the terms and conditions to the mortgages in the pool are permitted

BES, as servicer, may vary certain terms and conditions of the loans comprising the pool, subject to a cumulative balance of 20% of the original pool balance.

Such variations (“Permitted Variations”) contemplated by this transaction are for each loan and allowable only once: (1) extension of loan not more than 3 years, and not more than prior to the final note maturity date and no longer than a further [3] years; or (2) reduction of interest payable by up to [0.50]% per annum.

If BES proposes to grant a variation to any of the mortgages in the pool which is not a Permitted Variation, or if there is a breach of the Seller representations and warranties, then BES may repurchase the affected loans (part of the repurchase proceeds relating to principal would then form part of principal receipts and be used to amortise the notes), or may substitute alternative collateral.

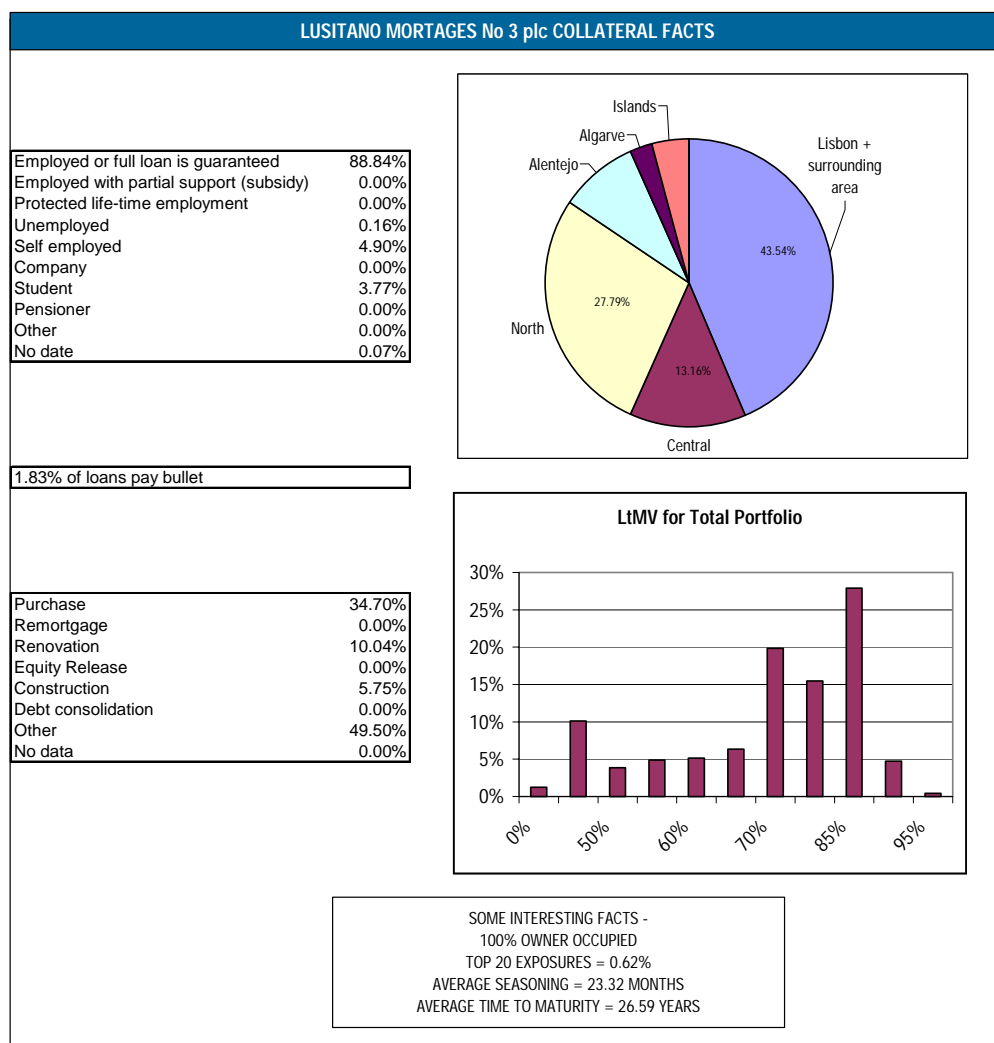
Total cumulative substitution may not exceed:

- In any 12 month period, 5 per cent of the principal outstanding balance of the mortgage loans as at the beginning of the relevant interest period
- 10% of the principal outstanding balance of the mortgage loans as at the Collateral Determination Date

In addition, any substituted collateral must meet a number of portfolio composition and performance tests, and must be eligible for inclusion, in accordance with the mortgage sale agreement.

COLLATERAL POOL

Overview of the collateral



The assets supporting the Notes are first lien loan claims (whether in one or more parts) originated by BES through the course of its residential mortgage lending activities in Portugal.

This portfolio does not include any subsidised mortgage loans.

The loan pool is comprised of loans which meet the following Eligibility Criteria:

- Are not in arrears in respect of more than one monthly instalment payment and were not in arrears in respect of more than one month instalment payments at any time in the last 12 months;
- Are payable in full at least 3 years before the Notes mature
- Are fully disbursed and are amortising principal monthly
- Are made to Portuguese residents, and comply with all applicable laws, registrations etc

- Are registered in the name of either the primary occupant(s) of the property securing the loans' repayment, or the guarantor.
- With a loan purpose for the purchase of a primary or secondary residence
- All borrowers have a bank account with BES capable of direct debit.

Regional Concentration

The pool has a relatively high concentration of loans (c.43.54%) made to borrowers in Lisbon. A well-diversified portfolio in Portugal would typically exhibit no more than 35% in this region. Geographic concentration increases the volatility of losses in a pool.

Loan Size

Moody's has pinpointed that the loan size in this portfolio is a bit large as compared to that of Portuguese standards. Loan size can penalise the transaction depending on where the loan is originated (i.e. it is not the same having a large loan in Lisbon, than the same loan size in Acores).

Description of the Originator and Servicer

ORIGINATOR, SERVICER AND DUE DILIGENCE

The A1/P-1/B- ratings of Banco Espírito Santo (BES) reflect its strong and diversified domestic franchise and its overall good financial profile. The bank's largest shareholder, with a 42% stake, is BESPARG, a subsidiary of the Luxembourg holding company, Espírito Santo Financial Group, which in turn is controlled by the Espírito Santo family. Crédit Agricole owns 8.8% directly, as well as 15.34% indirectly.

As the third largest banking group in Portugal, BES has significant market shares across different business lines including personal, corporate and investment banking and is also well advanced in alternative delivery channels. Through a strategic alliance with Portugal Telecom several new ventures have been launched in recent years including BancoBest, a 'stand-alone' Internet based operation focused on asset management, a SME portal called Pmlink which offers a wide range of information, products and services for SME's, and an interactive TV banking service. BES also has an alliance with Bankinter (rated Aa3/P-1/B), EasyBES which offers to certain corporations and workplaces banking products through automated channels.

The bank's strategy focuses on strengthening its position in the domestic market through cross-selling activities, including to the customer base of Tranquilidade, ESFG's insurance company. BES's expansion abroad is intended to remain limited. Its Brazilian equity investments - representing less than 0.5% of total assets - consist of an investment banking subsidiary, and a 3.25% holding in Banco Bradesco SA (B3/NP/C-). The bank also has various subsidiaries and joint ventures in Spain.

MOODY'S ANALYSIS

To determine the prospective ratings for each tranche of Notes, Moody's used the following methodology, consistent with Europe, Africa, Middle East and Australia/New Zealand.

Loss Distribution

The first step in the analysis of a residential mortgage backed securitisation is to determine a loss distribution of the pool of mortgages to be securitised.

Because of the large number of loans and supporting historical data, Moody's uses the lognormal distribution to approximate the loss distribution.

To determine the shape of the distribution, two parameters are needed: the median loss and the volatility around this number.

Moody's uses loss data with respect to the Originators' mortgage loan book (in addition to other applicable and relevant data) to extrapolate median losses for the loan pool. Examples of relevant data include market and sector wide performance data, the performance of other securitisations, and other originators' data.

Moody's analysis focused mainly on:

- **the collateral**
- **the market sector**
- **the originator**
- **the economic environment**
- **the structure used for the transaction**

Collateral analysis and performance analysis are used to derive a lognormal distribution of losses for the portfolio

As Portuguese market historical data is usually short-dated and in addition coincides with a generally good economic environment, observed historical volatility is not significant and Moody's does not consider it to even be representative. Therefore this data is adjusted to incorporate Moody's view of potential additional risks which are currently not reflected in the available data.

The second step is to determine the enhancement which would be required for a pool of mortgages to obtain a rating consistent with **Aaa** under highly stressed economic conditions.

A loan-by-loan model is used, which produces a credit enhancement number for each property in the pool that is based on its individual characteristics such as loan to value or other drivers of risk. The aggregate credit enhancement number is the "Aaa CE" number.

The Aaa CE number and the median loss number are the two parameters needed to derive the lognormal loss distribution for the pool.

The standard deviation of the distribution is found by ensuring that the expected loss for loss scenarios greater than the Aaa CE number equals the Moody's expected loss target for a **Aaa** rating.

Tranching and Rating of Notes

Cashflow modelling is subsequently used to obtain the prospective ratings of each class of Notes

Having obtained the loss distribution of the pool, a cash flow model is used to assess the impact of various structural features of the transaction, such as the priorities of interest and principal, liquidity and the value of excess spread.

The sum of the loss experience per note class weighted by the probability of such loss scenario equals the expected loss for each tranche. The expected loss for that tranche will then be in line with Moody's target expected losses for each rating class.

The prospective rating of the Class A Notes is based on:

- 1) The characteristics of the mortgage pool backing the Notes;
- 2) The roll-rate levels and arrears seen in Portugal compared to other markets;
- 3) Sector-wide and originator-specific performance data;
- 4) Protection provided by credit enhancement and liquidity support against defaults and arrears in the mortgage pool;
- 5) The role of BES as servicer;
- 6) The role of ABN AMRO as swap provider and liquidity facility provider; and
- 7) The legal and structural integrity of the transaction.

The prospective ratings of the Class B, Class C, and Class D Notes are based on the above factors, and also on an assessment of the extent of their subordinate position within the structure.

RATING SENSITIVITIES AND MONITORING

Moody's publishes periodic updates: Performance Overviews for each transaction

Moody's monitors all transactions on an ongoing basis to ensure that they continue to perform in line with expectation, including checking counterparty ratings and reviewing periodic servicing reports.

Subsequent changes in the ratings will be publicly announced and disseminated through Moody's Client Service Desk.

Moody's also publishes quarterly Performance Overviews for each transaction, which will contain summarised information about the asset and note performance, as well as any other material changes affecting the Notes.

Visit Moody's.com for more details

RELATED RESEARCH

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports available on Moody's.com. In addition, performance overviews and new issue reports are currently available for a number of other Portuguese RMBS transactions.

- The Lognormal Method Applied to ABS Analysis – July 2000
- Default and Recovery Rates of Corporate Bond Issuers – February 2002
- 2002 Review And 2003 Outlook – Portuguese Structured Finance –January 2003
- Portuguese RMBS Q1 and Q2 2003 Performance Review – September 2003

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