Report and Accounts 2000

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# Financial Highlights and Business Indicators – Group BES

BANCO ESPIRITO SANTO

# 4 Financial Highlights and Business Indicators – Group BES

| Variables | Symbol | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **BALANCE SHEET (thousand Euros)** | | | | | |
| Total assets[1] | AT | 26 768 293 | 32 120 255 | 37 445 780 | 42 657 723 |
| Net assets | AL | 21 114 803 | 25 221 466 | 29 384 792 | 33 936 292 |
| Financial assets (average values) | $\overline{AF}$ | 16 914 681 | 20 177 492 | 24 169 331 | 27 482 577 |
| Capital and reserves (average values) | $\overline{KP}$ | 660 174 | 831 386 | 972 047 | 1 038 967 |
| **INCOME STATEMENT (thousand Euros)** | | | | | |
| Net interest income | RF | 436 817 | 482 357 | 568 999 | 640 237 |
| + Banking services to customers | SB | 223 237 | 273 466 | 300 266 | 377 848 |
| = Commercial banking revenue | PBC | 660 054 | 755 823 | 869 265 | 1 018 085 |
| + Earnings from market operations | RM | 143 225 | 150 278 | 160 643 | 210 966 |
| = Operating banking revenue | PB | 803 279 | 906 101 | 1 029 908 | 1 229 051 |
| + Exceptional earnings | RX | 6 266 | 3 656 | 58 315 | 9 286 |
| - Other operating costs | OC | 12 181 | 11 721 | 55 510 | 7 376 |
| = Total banking revenue | PBT | 797 364 | 898 036 | 1 032 713 | 1 230 961 |
| - Operating costs | CO | 451 168 | 499 148 | 547 197 | 627 010 |
| - Provisions and taxes | PVI | 162 219 | 196 022 | 216 389 | 321 432 |
| - Minority interests | Im | 33 804 | 34 507 | 63 612 | 54 526 |
| = Group earnings | RL | 150 173 | 168 359 | 205 515 | 227 993 |
| **PROFITABILITY (%)** | | | | | |
| Financial margin | RF / $\overline{AF}$ | 2,58 | 2,39 | 2,35 | 2,33 |
| + Return of customer services | SB / $\overline{AF}$ | 1,32 | 1,36 | 1,24 | 1,37 |
| + Return of market operations | RM / $\overline{AF}$ | 0,85 | 0,74 | 0,66 | 0,77 |
| = Business margin | PB / $\overline{AF}$ | 4,75 | 4,49 | 4,26 | 4,47 |
| - Weighting of operating costs | CO / $\overline{AF}$ | 2,67 | 2,47 | 2,26 | 2,28 |
| - Provisions and taxes | PVI / $\overline{AF}$ | 0,96 | 0,97 | 0,90 | 1,17 |
| - Minority interests and other costs | (Im+OC-RX)/$\overline{AF}$ | 0,23 | 0,21 | 0,25 | 0,19 |
| = Return of financial assets | RL / $\overline{AF}$ | 0,89 | 0,83 | 0,85 | 0,83 |
| x Weighting of financial assets | $\overline{AF}$/ $\overline{AL}$ | 0,90 | 0,89 | 0,91 | 0,91 |
| = Return on assets (ROA) | RL / $\overline{AL}$ | 0,80 | 0,74 | 0,77 | 0,76 |
| x Placements multiplier | $\overline{AL}$ / $\overline{KP}$ | 28,35 | 27,20 | 27,35 | 29,01 |
| = Return on equity (ROE) | RL / $\overline{KP}$ | 22,75 | 20,25 | 21,14 | 21,94 |
| **EFFICIENCY** | | | | | |
| Operating costs/Total assets (%) | CO/ AT | 1,69 | 1,55 | 1,46 | 1,47 |
| Assets per employee ($10^3$ Euros) | AT / NP | 3 721 | 4 390 | 4 859 | 5 438 |
| Cost to Income (%) | CO / PB | 56,2 | 55,1 | 53,1 | 51,0 |
| **RATING** | | | | | |
| **Short-term** | | | | | |
| STANDARD AND POOR'S | | A 1 | A 1 | A 1 | A 1 |
| MOODY'S | | P 1 | P 1 | P 1 | P 1 |
| **Long-term** | | | | | |
| STANDARD AND POOR'S | | A - | A | A | A |
| MOODY'S | | A 2 | A 2 | A 2 | A 1 |

(1) Includes disintermediation


(*) Includes disintermediation

| Per Share Data and Stock Market Indicators | | | Dez 99 (1) | Dez 00 | Δ (%) 99/00 |
|---|---|---|---|---|---|
| **Stock Market Aata** | | | | | |
| 1. No. of shares outstanding | (thousand) | | 117 500 | 200 000 | 70,2 |
| 2. Last price | (€) | | 18,66 | 17,90 | -4,1 |
| 3. Stock market capitalization | ($10^6$ €) | | 3 732 (2) | 3 580 | -4,1 |
| **Consolidated Financial Data** | | | | | |
| 4. Capital and Reserves | ($10^6$ €) | | 949 | 1 211 | 27,7 |
| 5. Earnings | ($10^6$ €) | | 206 | 228 | 10,9 |
| 6. Gross dividend | ($10^6$ €) | | 82,25 | 86,40 (3) | 5,0 |
| **Values per Share** | | | | | |
| 7. Net stockholders' funds | (€) | (4/1) | 4,74 | 6,06 | 27,7 |
| 8. Earnings | (€) | (5/1) | 1,03 | 1,14 | 10,9 |
| 9. Gross dividend | (€) | (6/1) | 0,411 | 0,432 | 5,0 |
| **Price as Multiple of** | | | | | |
| 10. Net stockholders' funds | PBV | (2/7) | 3,93 | 2,96 | - |
| 11. Earnings | PER | (2/8) | 18,16 | 15,70 | - |
| **Price return on** | | | | | |
| 12. Earnings | (%) | (8/2) | 5,51 | 6,37 | - |
| 13. Dividend yield | (%) | (9/2) | 2,20 | 2,41 | - |

(1) Adjusted values to allow for comparison with 2000.
(2) Value based on 1999 stock market capitalization plus proceeds from capital increase.
(3) Proposal to be submitted to the Annual Meeting of 29 March 2001.

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# Group Banco Espírito Santo – Strategic Guidelines

BANCO ESPIRITO SANTO

# 5 Strategic Guidelines

## 5.1 Strategy Basics

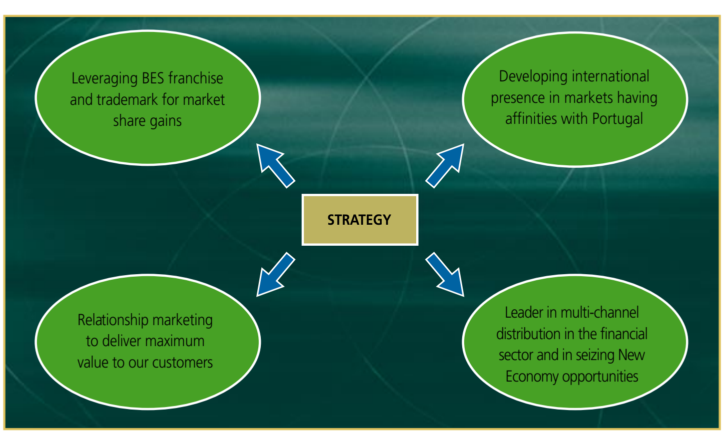
Group Banco Espírito Santo seeks to extend to its clientele a high degree of satisfaction by providing financial services that meet the market's ever-growing requirements in terms of information and sophistication. Only in this way will it be possible to achieve sufficiently attractive levels of return for

- our shareholders, in so far as an adequate reward on their investment will motivate them to finance new projects and initiatives;

- our employees, who are increasingly an interested party in the results achieved; and

- our customers, who will respond positively to our delivery of value.

In this context, we may sum up as follows the strategic mainstays that guide the Group's activity:




To extend our client base and consequently our market share has at all times been an intermediate goal for the Group; the development of our presence in markets having affinities with Portugal was also a strategic vehicle that we have reinforced in order to meet this goal.

Our commercial performance is therefore guided by the underlying objective of delivering maximum value to our customers, and based on a relational marketing approach and the continuous effort to improve efficiency levels. The increase in value generated is shared with the agents involved (employees, customers and shareholders), thus fostering an increasingly concerned and long-lasting relationship.

At the same time and intimately connected to these guidelines, we note the initiatives taken to fully use the potential afforded by the new technologies, which provide a faster and more efficient means both for the communication between the Group and its customers and for carrying out transactions and businesses.

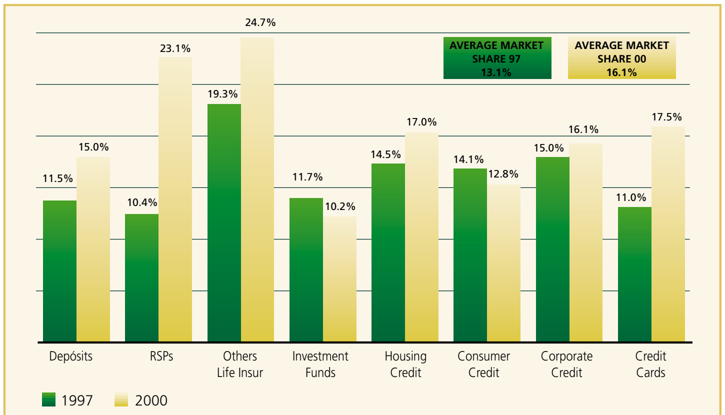
From this performance basis, we established the following medium-term objectives for the 2000/2002 period:

- to raise our overall market share by one percentage point per year;

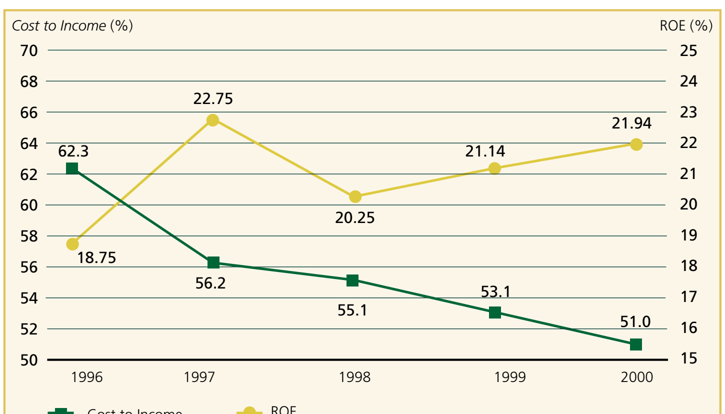
- to maintain ROE above 20%;

- to reach a cost to income ratio of 50% (including trading/market results) at the end of this 3-year period.

In 2000 we reached the objectives set forth in terms of market share, ROE and cost to income, therefore concluding one phase of this route.




**Average Market Share 1997/2000**




**ROE and Cost to Income**

## 5.2 Rationalization and Organizational Efficiency

Reflecting the need to raise the operating efficiency of the Group's institutions so as to boost competitiveness and achieve superior quality in the provision of services, we launched the "Integration Project" which will concentrate in BES the operating and systems platforms of BIC and BESSA and the systems platform of BESI. This major structuring project is part of a strategy aimed at adapting Group BES's global organization to a model better suited to face an increasingly demanding environment in terms of organizational efficiency.

Also within the scope of this rationalization of processes, we note the start-up of the "Back office Zero Project" in BES's branch network. This project's expected impact on the traditional distribution network's structure of costs, together with the decision to increasingly introduce the workflow concept at different operating levels, should be a strong factor in the modernization of processes and the optimization of resources.

Other projects aimed at improving the organizational and operating efficiency are ready to be launched, namely the "Dematerialization Project", or already being implemented, such as the "Workstation project".

The combined impact of these projects will decisively contribute to strengthen our installed commercial capacity.

## 5.3 Human Resources Policy

The real issue faced by companies in the current competitive environment in which they move is their capacity to secure talent as the true basis for producing differentiating results in the long run, in so far as technology constitutes a less permanent competitive advantage.

In order to find and secure talent, we created at the end of 2000 an autonomous organizational unit called the Senior Staff Management and Development Unit. This unit's action will be directed to the Group's top executives in all the companies included in BES consolidation, as well as to those employed by the banking Complementary Grouping of Companies in which BES participates, all in all encompassing approximately 500 people. Taken as a whole, the Group's management of human resources was developed around the following lines:

a) management oriented towards the provision of quality services. All our employees are at the service of the Client, directly or indirectly. Consequently, all the activities developed by the logistics areas aim at assisting in reaching this goal;

b) streamlining and redeployment of staff in operating units to raise productivity and curb costs. Internal mobility actions were intensified with a view to detaching people to the areas where they were most needed;

c) developing change-oriented training and refresher courses that will permit to transform and upgrade the Management of Human Resources, when required; and

d) developing our Incentive System.

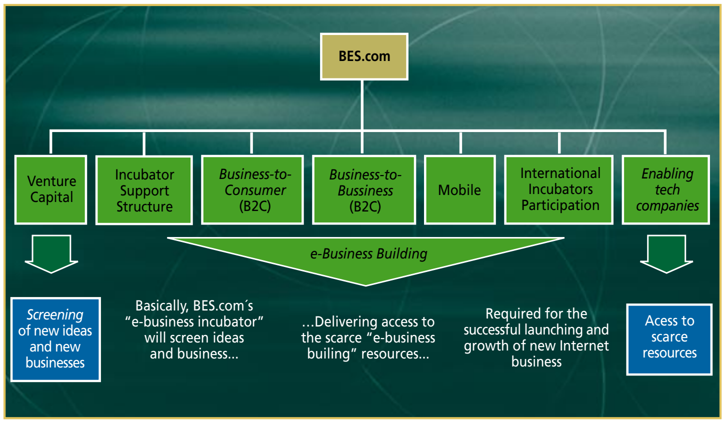
Group BES has since many years ago developed Incentive Schemes aimed at motivating its employees. In 2000 we took another step in this direction by creating a stock-based incentive system (SIBA) whereby we seek to include our staff in the sharing of value created within the Group.

## 5.4 New Economy Approach and Internetization

2000 was a year of intense activity for Group BES in the so-called New Economy area, where we are developing a two-fold strategy: (1) an "incumbent" approach involving the enhancement of multi-channel distribution, particularly internet banking, as a complement to our relationship with our customer base (individual and corporate customers); (2) an aggressive approach that involved the creation of the holding BES.com to develop new business models permitting to take advantage of opportunities for growth in the online arena.

The holding BES.Com, SGPS, S.A. was created in the first half of the year, to take advantage of opportunities arising out of a discerning use of internet technologies. In April we signed a strategic partnership agreement for the new economy area with Group Portugal Telecom and Group Caixa Geral de Depósitos.

Banco Espírito Santo, together with Groups Portugal Telecom and Caixa Geral de Depósitos, recognizing that the increasing convergence of technology, communications and contents progressively leads to the new information society, considered that it was fundamental to establish stronger and closer mutual collaboration ties. Through this strategic alignment, these institutions seek to reinforce their competitive position at home and abroad, and capture the opportunities for growth afforded by the "New Economy".



Under this agreement a number of initiatives will be jointly launched by Portugal Telecom, through its subsidiaries PT Multimedia, PT Prime, SGPS (now being created) and TMN, Group Banco Espírito Santo, through BES.Com, and Caixa Geral de Depósitos.

Hence Group Banco Espírito Santo and PT Multimedia will launch the following projects in the field of Business-to-Consumer e-commerce and e-finance: a financial gateway for individual customers featuring products from various suppliers, asset management facilities and on-line brokerage.

Still in the area of Business-to-Consumer e-commerce, Group Banco Espírito Santo and Caixa Geral de Depósitos have each a 17% stake in the operating unit of PT Prime SGPS for B2B in Portugal. Also in this context and among other initiatives, there are plans to launch a portal for Small and Medium-sized Enterprises.

Within the scope of this agreement, Group Banco Espírito Santo has appointed another member for the Board of Directors of Portugal Telecom and Portugal Telecom appointed one member to the Board of Directors of Banco Espírito Santo.

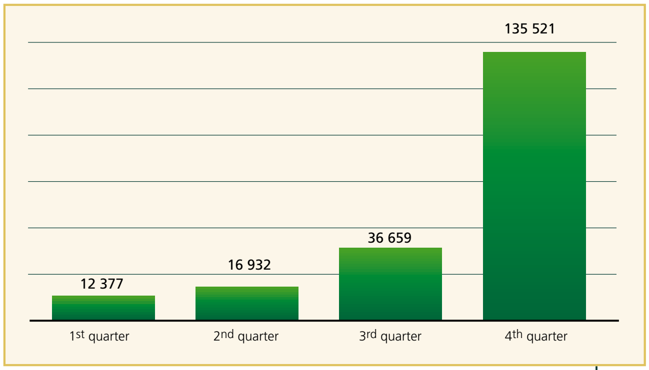
Besides the initiatives falling within the scope of the referred agreement, Group Banco Espírito Santo, through BES.Com, has invested in several businesses, having acquired stakes in the following companies: Quadriga, a company specializing in mobile telephony technology; Novabase, one of the largest integrators of national systems, operating in various technological fields, namely interactive TV; and Fatshoe.com, a company based in New York that specializes in online and offline marketing incentive systems.

## 5.5 Basis of Commercial Performance

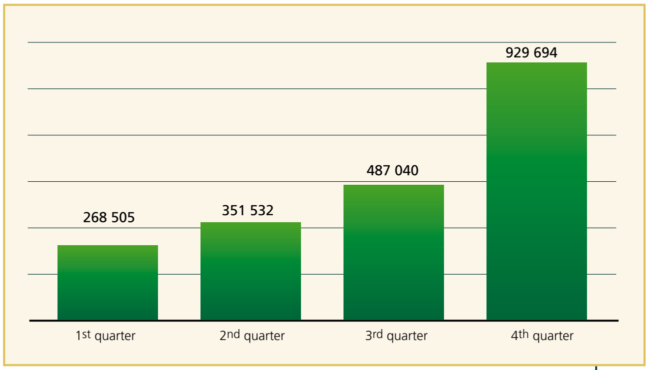
### 5.5.1 Cross-Selling and Multi-Channel Distribution

The Group continued to invest heavily in the development of customer information analytical exploration skills, both by training staff in behavior modelling and propensity techniques, and by acquiring information systems permitting to access critical information concerning the client. We also reinforced our capacity to take advantage of the cross-selling potential and to develop a multi-channel distribution rationale, which is one of Group BES's competitive advantages.

Accordingly, we intensified efforts to migrate customers to web-based channels – BESnet PC and BESnet WAP. At the end of 2000 BESnet users exceeded 135,000, placing BES well ahead of its competitors as leader of the market of online-banking users in Portugal.




**BESnet – Quarterly Increase in Number of Customers**




**BESnet – Quarterly Increase in Number of Logins**

Customer convenience of use was substantially improved: subscription of BESnet and customer identification is now a single and immediate process for all direct channels, except for BES Directo where this change will only take place in the first quarter of 2001; moreover, a new mode of access not requiring digital certificates but guaranteeing equivalent security levels was created in October, enabling access from any computer linked to the internet.

BESCasa, launched in March 2000, was the first real estate site in the Portuguese market. At the end of the year BESCasa had the most comprehensive offer, with 383 real estate brokers and almost 36 thousand properties, with an increasing number of logins. The reinforcement of commercial staff links with real estate brokers was a necessary condition to ensure an extensive, thorough and high quality range of available properties.

As regards the corporate segment, after launching at the end of 1999 an innovating internet banking service directed to the market of Small and Medium-Sized Enterprises, BESnet Negócios, we continued in 2000 to develop an increasing number of features permitting adapt our offer to the needs of larger-size companies.

Seen in this light, BESnet Negócios functions as a strategic piece in the wider-ranging provision offered by the Small and Medium-Sized Enterprises portal of BES.com.

EasyBES, an initiative launched in partnership with Bankinter, became operational at the end of the third quarter of the year. This is an innovating value proposal in the Portuguese market, entirely based on a direct banking approach and directed to the segment of high-yield individual customers. The EasyBESDirecto and EasyBESnet channels, supported by the successful and well-tested technological platforms serving all customers in general, were specifically developed for this purpose. In addition, EasyBES has an exclusive back office that manages the most burdensome processes with high quality and speed of response, thus freeing the customers from the bureaucratic work involved.

## 5.6 Segmentation

### 5.6.1 Retail and Private Banking

In terms of commercial performance, we highlight the significant increase in the sub-segments of residents abroad and private banking.

The area of residents abroad continued to grow in articulation with the network, surpassing the established objectives both in attracting remittances and in the cross-selling of products. The concept of "Remote Relationship Management" was created, permitting to generate a continuous commercial relationship and manage customer accounts by telephone.

Moreover, we launched a Pan-European Financial Consultants Project in association with Espírito Santo Financial Consultants, which has already started up in France.

To reach our core objective of ensuring the Private Banking segment's sustained growth, we took the following initiatives:

- devising a diversified offer of assets permitting to meet the needs of a wider range of customers, from the traditional to the more sophisticated;
- range of products ensuring the best on offer at any moment in the domestic and international markets;
- direct support to commercial units with specialized/focused counseling;

• development of comprehensive and easy to use customer-oriented information systems;

• increasing the operational area's capacity of response to improve circuits and customer service efficacy ;

• redefining and projecting the image of Private banking;

### 5.6.2 Corporate

In the segment of Large Companies, the Group continued to privilege a closer and all-embracing contact with the customer, further diversifying the range of cash management products and services, either for investment or specifically adapted to each customer's needs.

As part of the strategy we have been following of further increasing segmentation, and putting more emphasis on the different needs of Portuguese and foreign companies, we created an area of multinational companies, the International Corporate area. Our purpose was to develop an overall approach specifically geared to this type of companies while seeking to intensify the involvement of the Group's international organization, with particular focus on the Iberian market.

Turning to medium-sized enterprises, the year 2000 was marked by a complete reorganization of this segment. Based on our strategy of enhancing the concept of a multi-specialist financial group, we took decisive steps towards the verticalization of our management model. The first major change took place in July, with the formal start-up of Company Centers, which immediately and effectively separated the management of medium-sized enterprises from retail banking.

The Company Center is a two-fold business unit, having one purely commercial side personified by the team of corporate managers, and another side that supports commercial and operational decisions. This model is basically geared to create conditions permitting to increase the segment's profitability, supported by the provision of high quality services.

A Corporate Marketing Office was created at the same time, its main objective being to assist in the development of the Company Centers' commercial activity by promoting initiatives capable of fostering the segment's economic profitability.

In connection to the "Back Office Zero Project", we created the Operating Unit for Enterprises (OUE).

This move represented a first step in the full centralization of the entire operational structure of the medium-sized enterprises segment that will take place in the near future. At present the OUE concentrates all the operating services of some Company Centers that are fully dedicated to the management of commercial activities, some efficiency gains being expected at this level.

### 5.6.3 Institutionals

In this segment, where we already have around one thousand municipal and institutional customers, and financial flows in excess of Euro 1,000 million, it is important to keep stressing the following guidelines:

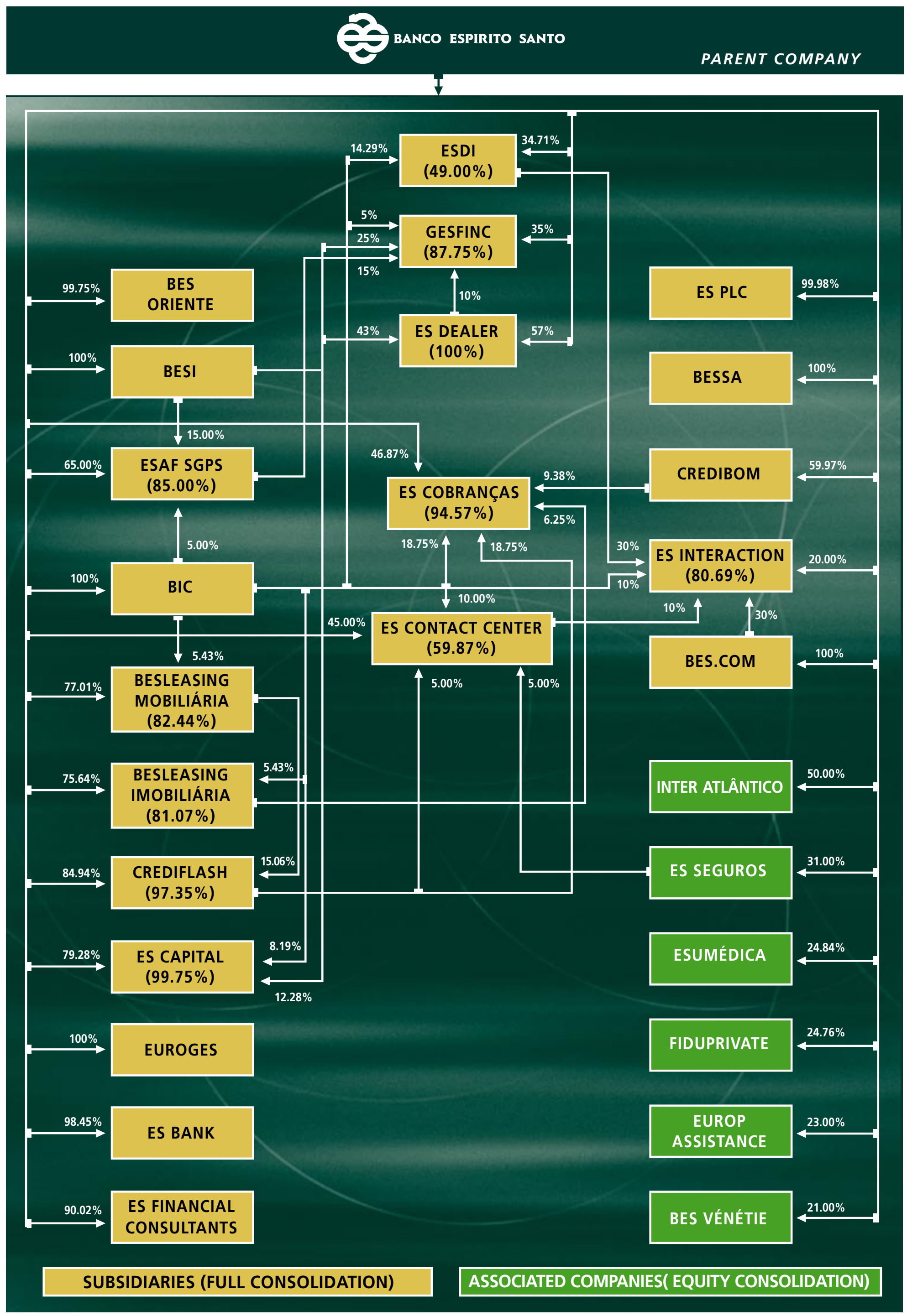
• to develop a range of products and services, financial or others where Group BES is strong, specifically designed to facilitate this segment's current activity;

• to consolidate our portfolio of customers, through the development of synergies and based on the increasing level of confidence shown by our customers, namely the main municipal authorities, hospitals, universities and charitable institutions in Portugal, in the Group's capacity for innovation and creativity;

• to gain a deeper insight into the reality of each customer, finding solutions for his problems and thus building up closer relationships, which should evolve from that existing between the Customer and the Supplier of Services to a deeper and closer partnership relation.

## 5.7 Multispecialist Perspective

The following chart shows the universe of specialized companies and respective shareholding percentages and consolidation methods:



Within our multi-specialization rationale, we complement customer segmentation by maximizing the efficacy and specialization of the operating units that make up the universe of Group BES companies in the respective intervention areas. Accordingly, the Group's main units are especially geared towards the following markets and activities:

**GROUP BES SPECIALIZATION**

| ENTITY | ACTIVITY | MARKET | BUSINESS AREA/SEGMENT | | | | |
|---|---|---|---|---|---|---|---|
| | | | Individual customers and Emigrants | Up-scale and Retail | Small and Medium-sized Enterprises | Large companies and Institucionals | Money and Capital markets |
| BES | Banking | Portugal | → | → | → | → | → |
| BIC | Banking | Portugal | → | → | → | | |
| BES INVESTIMENTO | Banking | Portugal Brazil | | | | → | → |
| BESSA | Banking | Spain | → | → | → | | |
| BES ORIENTE | Banking | Southeast Asia | | | → | → | → |
| ES BANK | Banking | USA Latin America | → | → | → | | |
| BES VÉNÉTIE | Banking | France | → | → | → | | |
| ESAF | Asset management | Portugal Spain | → | → | → | → | |
| BENITO Y MONJARDIM GESCAPITAL | Asset management | Spain | → | → | → | → | |
| BESLEASING | Leasing | Portugal | | | → | → | |
| EUROGES | Factoring | Portugal | | | → | → | |
| ES DEALER | Brokerage | Portugal | | | | | → |
| CREDIFLASH | Debit/Credit cards | Portugal | → | → | → | → | |
| CREDIBOM | Point of sale credit | Portugal | → | → | | | |
| ES SEGUROS | Non-life Insurance | Portugal | → | → | | | |
| ES CAPITAL | Venture Capital | Portugal | | | → | → | |
| BES.com | e-business | Portugal | → | → | → | → | |
| ES FINANCIAL CONSULTANTS | Advisory | Europe América | → | → | | | |

### 5.7.1 Corporate and Retail Banking

As regards the traditional Corporate and Retail Banking activity, our approach was very dynamic this year. At home, we note the sharp decline in the pace of new branch openings by our two main banking units, in so far as the expansion policy pursued in previous years had already guaranteed an adequate coverage, both geographically and in terms of the population.

The agreement concluded between BES and Caixa Económica da Santa Casa da Misericórdia de Ponta Delgada to consolidate the two entities' operating and commercial structures in the Azores, that will eventually lead to the creation of a new Bank, will considerably strengthen the Group's penetration both in these islands and with regard to the population that emigrated from the Azores to the USA.

In the external market, the integration of ES Bank (Florida) in the Group's consolidation scope boosted our capacity to take advantage of synergies and provided us with a more focused private banking approach to Portuguese emigrant communities in the USA and Latin America.

In Spain the integration of Gescapital and Benito y Monjardin activities into BESSA significantly reinforced the range of products and services provided by the branch network.

In Brazil, we should point out that with the integration of Banco Boavista in Bradesco the retail banking activity was discontinued, but on the other hand our capacity to intervene in wholesale banking was reinforced.

### 5.7.2 Investment Banking

The excellent performance of revenues from mergers, acquisitions and primary market operations in Portugal, Spain and Brazil carried out by Banco Espírito Santo de Investimento (BESI), combined with stock and bond trading, made for a very significant growth in the results posted by this area over the last years. The takeover of all BESI stock was implemented in 2000, permitting to fully reflect in the consolidated balance sheet the synergies achieved between this Bank and the remaining Group BES units.

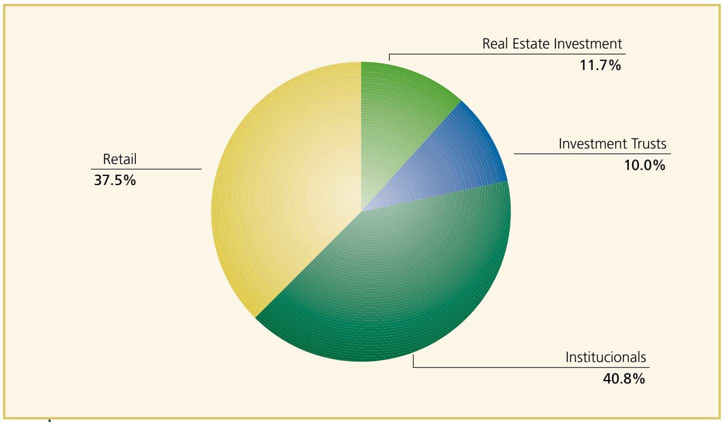
In Brazil potential business opportunities were boosted by the redefinition of our policy, and the partnership established with Bradesco. In 2001 this institution will take a 20% stake in BESI Brasil. Group BES has also announced, already in 2001, its intent of participating in the share capital of Bradespar, Group Bradesco's non-financial holding. Considering Bradespar's interests in some of the largest Brazilian companies, this partnership will considerably heighten the growth potential of our investment banking activity in this market.

In Spain, the acquisition of Benito y Monjardin and Gescapital accelerated the process of rationalizing commercial and back office structures, permitting to consolidate our operations at Iberian level. The integration of the trading structure of our three banking units, BES, BESI and BIC, was also carried out in 2000.

### 5.7.3 Asset Management

In 2000, our activity in this field was marked, at home, by the continuation of the process of rationalizing our investment trust offer, and at international level, by the acquisition of 100% of Gescapital e Benito y Monjardin.

At the end of the reporting year the Group had a total of Euro 8,721 million assets under management, of which Euro 8,258 million correspond to our activity in the Iberian Peninsula.



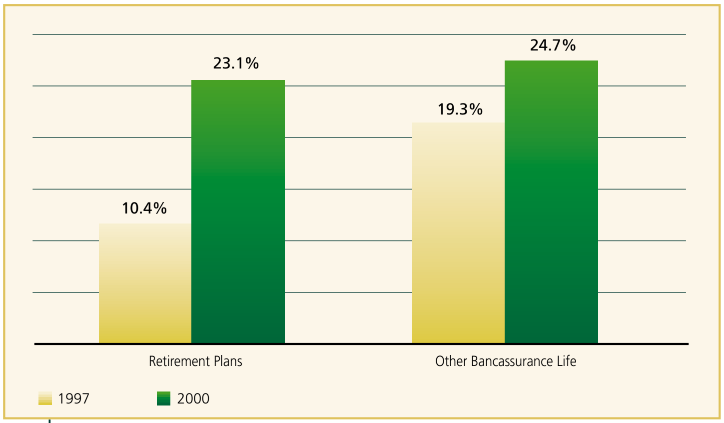

**ESAF, SGPS – Break down of assets under management**

### 5.7.4 Bancassurance and Assurfinance

Bancassurance activities maintained the dynamism displayed in previous years, strongly contributing to the growth of revenues associated to cross-selling.

In this context, we point out the market share increase in retirement savings plans that resulted from a commercial performance that optimized opportunities by eliminating the seasonal swings usually characterizing the sale of this type of products. Thanks to this performance, we were able to grow against the market's overall trend.

In assurfinance, we note the increase to 720 in the number of insurance agents actively involved in selling this concept. Our products offer has also been extended, now including investment trusts, consumer credit, mortgage, leasing and current accounts. Housing credit production placed by this sales team already accounts for roughly 8% of mortgage loans, an achievement that reinforces our conviction that this is indeed the first successful assurfinance operation in Portugal.




**Market Share Performance 1997/2000**

### 5.7.5 Other Specialized Units

Specifically directed to the corporate sector, we have other specialized structures that supplement the aforementioned units to provide an all-embracing coverage or our customers' financial needs.

Thus, on the leasing side, we operate through two units: **Besleasing Mobiliária**, which remains among the top domestic financial leasing companies, and **Besleasing Imobiliária**, a more recently formed company but already occupying a leading position in the ranking of property leasing companies operating in Portugal.

Other companies include Euroges, which specializes in factoring, and **Espírito Santo Capital**, a venture capital company; in consumer credit, **Credibom — Sociedade de Aquisições a Crédito (SFAC)**, which focuses on the motor and household segments, is presently the second largest operator in this market, and Crediflash, our specialized unit in the management of bank cards, is one of the main operators in the sale of both credit and debit cards.

### 5.7.6 Money and Capital Markets

The Group's trading activities have become increasingly global, covering the fixed-income, equity and foreign exchange segments in the Euro, USD, GBP and JPY markets. The emerging markets have also deserved some attention when opportunities arise that can be taken advantage of.

Market activities also reinforced their collaboration in the development and hedging of products intended for sale by the various distribution channels. Of special note was the relationship established with institutional and corporate customers, which is mirrored in the increase of our market share in these segments.

## 5.8 The Integrated Management of Risk

Throughout the year we implemented the plan outlined at the time of the creation of a Global Risk Department in BES, of integrating under this department all the Group's autonomous risk management units. This process confirmed the Group's determination to homogenize criteria and policies by setting up a single structure capable of serving its various businesses and distribution networks. Thanks to this move, and based on the different teams' expertise and know-how in the various business areas and markets, and on the actual potential offered by technology, Group BES has been able to apply an advanced risk management model that will permit to pursue the following objectives:

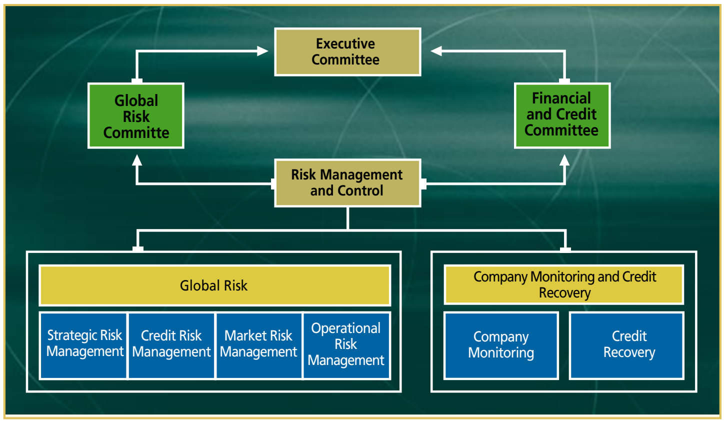
- to preserve the Group and of each of its companies' solvency, ensuring that risk exposure is kept within pre-established tolerance limits while maximizing the return/risk binomial;

- to develop and implement a risk policy aligned by the Group's strategic goals;

- through the use of risk adjusted return measures, to build up a conceptual framework of value creation for our shareholders that directs all the decisions taken inside the Group (operational, tactic or strategic).

### 5.8.1 Organizational Structure

At Group BES, the risk management and control function relies on an organizational structure that facilitates integration, projects a single risk culture and permits to attain the objectives referred.




The Executive Committee, at the proposal of the Global Risk Committee, approves the Risk Management Policy for the Group and all the conditions required for its implementation: risk function organization structure, standards and procedures manuals, systems for measuring and establishing limits, and control and information systems. Additionally, the Executive Committee, the Global Risk Committee and the Financial and Credit Committee are responsible for supervising the implementation of the risk policy and by ensuring that the Group's overall risk profile, and that of each of its companies, is consistent, in terms of operations, customers and business areas, with the Group's strategic perspective.
To ensure that risk is adequately monitored and managed at all stages and across the whole Group, the risk management function was organized into two areas: Global Risk, and Company Monitoring and Credit Recovery.

As regards the global management of risk, and for the purpose of monitoring and managing all risks (credit, market and operating) in an integrated fashion, while fostering expertise in each type of risk, we created the following four units: Strategic Risk Management, Credit Risk Management, Market Risk Management and Operating Risk Management.

To optimize the whole credit risk management process we created a specialized structure, the Company Monitoring and Credit Recovery Department, that deals with situations of significant delays or definitive non-performance of contractual obligations. This Department integrates teams specializing in monitoring complex cases and operates based on pre-established tools and processes, to ensure that credit recovery processes observe the highest standards in terms of efficiency and control.

Within the scope of Group Banco Espírito Santo's organization structure, the function of monitoring and managing risk is included in the function of support to the Executive Committee, though reporting directly to an Executive Member of the Board who does not accumulate any responsibility in business areas, so as to maintain its independence.

### 5.8.2 Credit Risk Management

The management of credit risk is based on the principle that risk should be managed at all stages of its life, which means the assignment of precise responsibilities in all the phases of the credit granting process: analysis, approval, monitoring, and in case of significant deterioration in the quality of credit, the judicious and intensive management of the risk mitigation process to obtain its effective and efficient recovery. Thus the Group simultaneously ensures that all credit exposure is managed by those who are better qualified to do it successfully, that there is good interaction between the various teams involved in the various phases in the life of risk, and that each phase of the process brings in value for the Group. This dynamic management is complemented by the continuous reappraisal and improvement of policies, standards and methodologies, as well as of the procedures, decision circuits and tools used in assessing and monitoring risk.

Credit risk management involves all the participants in the decision process, from customer managers – the first who take responsibility for the risk originated – to the Financial and Credit Committee, up to the Executive Committee - which decides the Group's risk strategy and profile. This organization, based on a matrix structure, permits a very close daily management of business activities without loosing sight of independence criteria.

In this context, the credit risk monitoring and management function pursues two objectives:

- to submit to the Global Risk Committee and to the Executive Committee the adoption of measures that, while complying with the better practices in the sector and the recommendations of the supervising authorities, also ensure at all times the correct identification, quantification, monitoring and control of credit risk. In carrying out these tasks, the risk function should also ensure the homogeneity and consistency of methodologies and procedures used in all the businesses where the Group assumes, intermediates or advises the taking of risks;

- to guarantee the adequate quality of credit risk, and for the purpose issue rules on the risk analysis and approval process; the task of selecting and authorizing credit operations is currently under the direct responsibility of the Financial and Credit Committee, or through differentiated delegation of credit decision powers, carried at the various hierarchical levels.

The daily task of monitoring and controlling the credit quality of each operation is the business units' direct responsibility. These units are the first to ensure that all transactions are successfully completed, using for the purpose information tools, systems and alerts developed by the Global Risk Department. In addition, the Group performs a continuous analysis of its entire credit portfolio in order to identify in due time any situation, either internal or external, liable of affecting its credit risk, and decide on the most appropriate measures that should be taken.

### 5.8.3 Market Risk Management

The Market Risk Central Management has as its main responsibilities to measure, control and monitor the market risks incurred at Group BES level.

Generally speaking, Market Risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or stock quotations, or from changes in the liquidity of markets.
The Market Risk management is integrated in the balance sheet management through the Asset/Liability Committee (ALCO), set up at the institution's highest level. This body is responsible for the formulation of policies defining the components and structuring of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risks.

The main measure of market risks is the assessment of potential losses under adverse market conditions, for which we use Value at Risk (VAR) valuation criteria. Our VAR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

To improve on VAR assessment, other initiatives have been developed, namely back-testing, which consists in comparing the losses foreseen by VAR with actual losses. These exercises permit to fine-tune the model and improve its predictive capacities.

As a complement to the VAR model, we have also developed extreme stress testing scenarios which permit to assess the impact of higher potential losses than those considered using VAR valuation. Finally, the market risks incurred by the Group are subject to limits periodically updated by the Executive Committee.

### 5.8.4 Operating Risk Management

Group BES defines as Operating Risk any risk that stems from non-anticipated changes in business variables (business risk) or from the occurrence of certain events (risk of event). In order to apply these concepts to the practice, we started in 2000 to prepare a list of operating risk sources:

- Transactional – risk directly derived from the processing and control of each transaction

- Human – risk derived from errors and/or fraud

- Technological – risk derived from an interruption in the regular carrying out of activities due to technological failures

- Legal and Fiscal – risk derived from legal inaccuracies in contracts that regulate the operations

- Disaster – risk derived from an interruption in the regular carrying out of activities due to events of force majeure, namely fire, floods or other disasters

- Regulatory – risk derived from breach of financial regulations

An operating risk materializes when any of these sources produces a change in the quality of the processes required for the correct production of financial services.In 2001 Group BES intends to introduce a new set of operating risk indicators and monitor their progress in terms of the processes referred, so as to be able to act promptly if any deterioration is observed. We believe that this is the best possible practice if we want to protect our shareholders' interests from the impact of eventual adverse events. These indicators will provide the Group with additional information that will permit to improve the final quality of service provision and thus better satisfy our customers.

Report and Accounts 2000

6

# Activity and Results of Group Banco Espírito Santo (Group BES)

BANCO ESPIRITO SANTO

# 6 Activity and Results of Group Banco Espírito Santo (Group BES)

2000 may be defined as the year that confirmed the wisdom of the strategy previously outlined and at the same time initiated a new cycle characterized by the challenges brought by globalization and the new technologies.

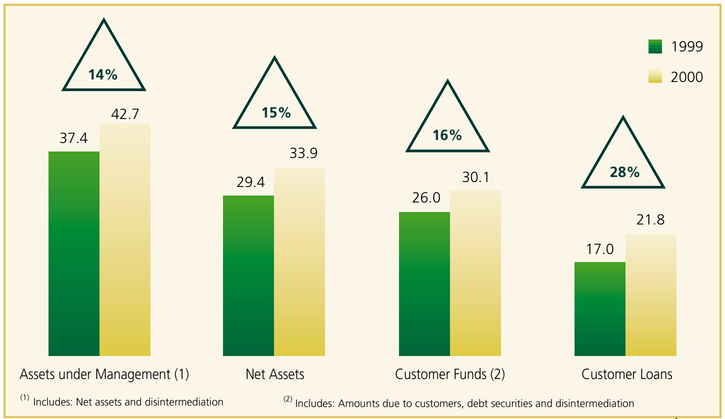
2000 was indeed a year of confirmation for the strategy of organic growth towards the targets set forth in the Millennium 3 Program. In this program, Group BES had set out to reach rather ambitious and apparently conflicting goals: to achieve superior levels of profitability and efficiency and at the same time ensure a pace of growth leading to clear market share gains.

As will be seen, our performance in the reporting year reiterates the sustainability of the advances made in terms of expanding business and improving the efficiency and profitability of Group BES. This progress is particularly relevant if we consider, on the side of demand, the strongly competitive environment enfolding the sector over the last years, and on the side of supply, particularly in 2000, the deceleration of economic activities and the impact of the rise of interest rates.

The year now ended also coincided with the beginning of a new cycle that will be distinguished by the launching of new initiatives making the Group stronger to face the fresh challenges prompted by globalization and the new technologies. The zero back office project and the operational integration of our main business areas (BES, BIC, BESI and BESSA), combined with the initiatives taken in the e-business field, should lead to new thresholds of efficiency and considerably boost the Group's capacity to reach new markets and to keep renewing its provision of products and services.

## 6.1 Activity

Total consolidated assets under management reached Euro 42.7 billion (MM€), which corresponds to an overall business increase over the previous year of 14%. With regard to the activity more directly involving our clients, customer loans were up 28% and customer funds, including disintermediation, grew 16%.




Business Progress ($10^9$€)

The breakdown of consolidated business by the main business areas, shown in the following chart, evidences the magnitude and vigor displayed both in terms of net assets and in terms of the activity more directly involving our customers.

| Business Areas | Net Assets | | Business done with Customers | | | |
|---|---|---|---|---|---|---|
| | | | Credit (Gross) | | Total Costomer Funds [1] | |
| | Value (M€) | Δ (%) | Value (M€) | Δ (%) | Value (M€) | Δ (%) |
| Banking | 42 168 | 28 | 20 195 | 28 | 22 867 | 20 |
| • Commercial | 41 249 | 28 | 19 905 | 28 | 22 670 | 20 |
| • Investiment | 919 | 18 | 290 | 44 | 197 | -15 |
| Specialized credit | 432 | 33 | 427 | 34 | - | - |
| Investment trusts | 59 | 5 | - | - | 8 721 | 8 |
| Factoring | 288 | 61 | 277 | 56 | 23 | -49 |
| Leasing | 915 | 36 | 894 | 37 | 122 | - |
| Others / Eliminations | -9 926 | - | - 4 | - | -1 660 | - |
| **Consolidated** | **33 936** | **16** | **21 789** | **28** | **30 073** | **16** |

(1) Includes amounts owed to customers + debt securities and disintermediation

The Group's business is concentrated on commercial banking, and supplemented, on the funding side, by investment trusts, and on the loan granting side, by our specialized consumer credit, factoring and leasing units. As the above chart also shows, the Group achieved significant growth levels in these last segments: investment trusts under management, notwithstanding the poor performance of capital markets, grew 8%, and the business conducted by our banking units remained at a comfortable level.

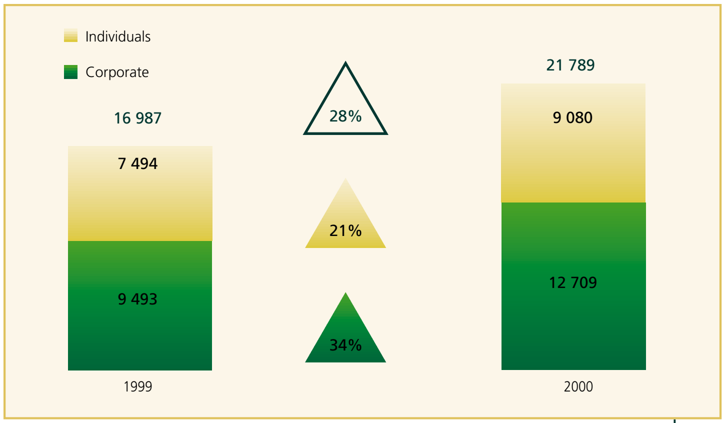
The strong vitality of Group BES was on the whole shared by all its subsidiaries, as can be seen in the chart below, which contains, for each, the value of net assets, their increase during the year, and respective contribution to the Group's growth.

| Subsidiaries | Individual Net Assets | | Contribution to Growth (%) |
|---|---|---|---|
| | Value ($10^6$ euros) | Δ (%) | |
| BES | 26 817 | 18,0 | 6,6 |
| BIC | 6 904 | 16,2 | 3,3 |
| BESSA (Spain) | 3 098 | 106,0 | 2,1 |
| BES Investimento | 854 | 15,9 | 0,3 |
| ES Bank (USA) | 310 | - | 0,9 |
| ES PLC (Irlanda) | 202 | 82,0 | 0,3 |
| Besleasing (Mobiliária + Imobiliária) | 915 | 35,9 | 0,8 |
| Credibom | 321 | 34,3 | 0,3 |
| Crediflash | 112 | 30,2 | 0,1 |
| Euroges | 288 | 61,8 | 0,3 |
| Others / Eliminations / Adjustments | - 5 885 | - | 0,5 |
| **Consolidated** | **33 936** | **15,5** | **15,5** |

Hence Group BES continued to implement its organic growth strategy, promoting the balanced progress of its main business areas based on judicious customer segmentation, the specialization of its operating units, constant innovation, cross-selling and multi-channel distribution.

### 6.1.1 Customer Loans

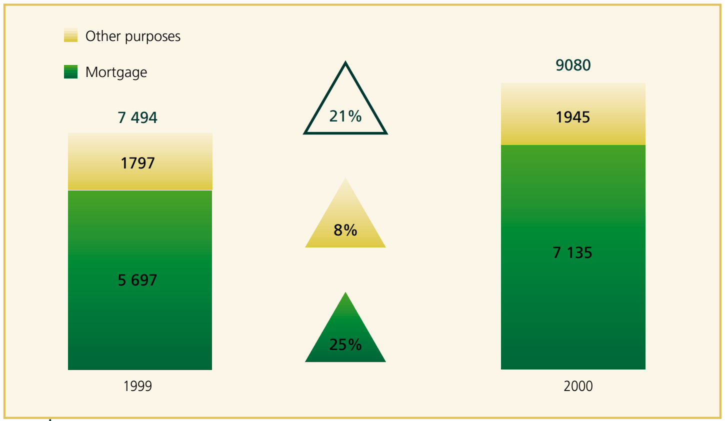
Loan granting, on line with the past year's performance, remained strong: the gross customer loan portfolio grew to 4,802 M€, which corresponds to a 28% increase over the previous year.




**Customer Loans ($10^6$ euros)**

This business area's strength derived from the considerable growth of corporate credit, as otherwise the growth pace of loans to individuals slowed down.

As regards this last segment, which accounts for 42% of total credit, we note the unequal behavior shown by mortgage loans and individuals loans for other purposes. In the first, where the Group grew 25% (46% in 1999), the slowing down of demand was strongly influenced by changes in subsidized credit regulations, in so far as non-subsidized credit increased roughly 35%; as to the contraction of demand for individuals loans for other purposes, namely consumption, we may point out as decisive factors the rise in interest rates and its impact on families' debt service burden. In the specific case of Group BES, and on line with the policy established by the monetary authority (to increase the provisioning level from 1% to 1.5%), this deceleration also reflects the stricter criteria imposed on consumer credit granting.

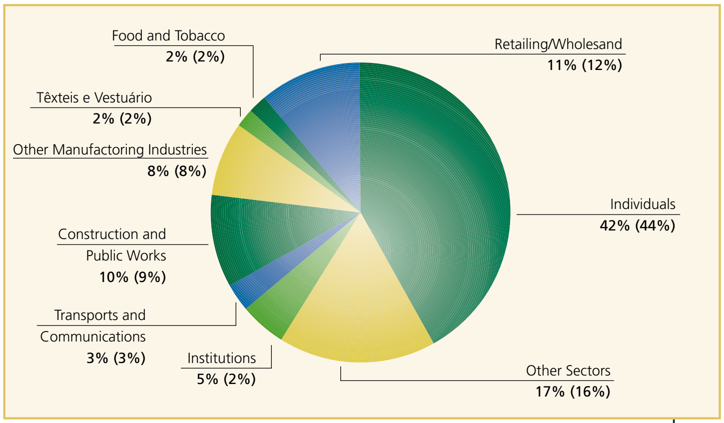



**Personal Loans ($10^6$ euros)**

Mortgage, which represents 79% of loans to individuals and 33% of the overall credit portfolio, has been one of the strategic vehicles and one of the most successful for the Group's performance in commercial banking. The fine-tuned coordination and complementarity between BES, BIC and Tranquilidade has been critical to this success. In 2000, BES, BIC, and more recently Tranquilidade through its network of agents, are expected to have accounted together for approximately 17% of total mortgage loans in Portugal. In this respect, we should refer BESCasa, which has established itself as the reference real estate gateway in the Portuguese market, its offer covering 383 real estate brokers and nearly 36 thousand properties. In consumer credit and credit for other purposes, and in addition to our banking units, Credibom and Crediflash, which operate in specialized consumer credit granting, have achieved increased recognition and weight.

The vigor shown by corporate credit already translates the enhancement of the customer segmentation process, which was taken even further with the creation of Company Centers. The aim was to obtain quality gains in service provision, by implementing across the entire Portuguese territory a commercial organization dedicated to medium-sized companies. 20 of these Centers were created, their administrative burden being centralized to allow for the best customer support in the management of operations.

The distribution of credit by business sectors continues to display its traditional dispersion, actually one of the mainstays of our lending policy whose positive effects are evidenced by the Group's low loan-loss levels. Hence, apart from the emphasis on retail credit (individual clients and trades) where diffusion among a great number of borrowers is the keynote, the highest level of concentration can be seen in the construction sector (10%), followed by financial institutions (5%) and transports and communications (3%). As to the other sectors shown in the following chart, their contribution is of around 2% each, which means that the Group's exposure to all other sectors not shown is below 1% and spread out over a wide range of business sectors.




**Credit Breakdown by Sector**

( ) Previous year

The management of credit risk at Group level, which has yielded such good results, is based on the principle that risk should be managed at all stages of its life, which means the assignment of specific responsibilities in all the phases of the credit granting process: analysis, approval, monitoring, and recovery. This permits to ensure that all credit is managed by those who are better qualified to do it successfully. This process starts with the credit manager, the first who takes responsibility for the risk originated, and goes on up to the Financial and Credit Committee, and to the Executive Committee, which ultimately decides the Group's risk strategy and profile. This organization, based on a matrix structure, permits a very close daily management of business activities without loosing sight of independence criteria.

### 6.1.2 Asset Quality

The structure of the consolidated balance sheet as at 31 December 2000 continues to bear Group BES's distinctive stamp. Despite the increasing weight of loans and advances to customers in total assets, low risk high liquidity assets continue to feature prominently. Financial strength remains high and the quality of credit is shown by low loan loss levels and high provisioning levels.

(10 $^6$ euros)

| Categories of Assets | 1999 | | 2000 | |
|---|---|---|---|---|
| | Value | (%) | Value | (%) |
| Cash and cash equivalents | 1 412 | 4,8 | 1 668 | 4,9 |
| Placements with credit institutions | 4 053 | 13,8 | 3 612 | 10,6 |
| Loans and advances to customers | 16 703 | 56,9 | 21 483 | 63,3 |
| Securities | 5 094 | 17,3 | 4 339 | 12,8 |
| (issued by public entities) | (1282) | (4,4) | (1559) | (4,6) |
| Fixed assets | 686 | 2,3 | 1 375 | 4,1 |
| Other assets | 1 437 | 4,9 | 1 459 | 4,3 |
| **Total** | **29 385** | **100,0** | **33 936** | **100,0** |

The aggregate of cash and cash equivalents, placements with credit institutions and public debt securities continues to be a strong component in the Group's assets (20%), with low risk high liquidity assets ranking in second place. Reflecting the strategy of penetration in the market of retail credit, advances and loans to customers rose to nearly 63% of total net assets.

In view of the strong increase in customer loans when compared to customer funds, the Euro 1,450 million issue under our Euro Medium Term Notes program permitted to keep the proportion of deposits put out on loan below 100%.

Besides the above mentioned sectoral diversification of the loan portfolio, there is clear improvement in terms of loan loss levels – as measured by the ratio of non-performing loans to total customer loans – as well as in their coverage by provisions, which, in the case of loans more than 90 days past due, increased to 155.1%.

(10 ⁶ euros)

| Variables | | 1999 | 2000 | Δ (%) |
|---|---|---|---|---|
| Loans and advances to customers (gross) | | 16 987 | 21 789 | 28,3 |
| Non-performing loans | | 389 | 408 | 4,9 |
| Non-performing loans > 90 days | | 348 | 361 | 3,7 |
| Loan provisions | | 479 | 560 | 16,9 |
| Non-performing loans/Total Loans | (%) | 2,29 | 1,87 | -0,42 p.p. |
| Non-performing loans > 90 days/Total Loans | (%) | 2,05 | 1,66 | -0,39 p.p. |
| Loan provisions/Non-performing loans | (%) | 123,1 | 137,3 | 14,2 p.p. |
| Loan provisions/Non-performing loans > 90 days | (%) | 137,6 | 155,1 | 17,5 p.p. |

As the chart above clearly shows, provisions for credit risk increased by Euro 81 million, which compares with an increase of merely Euro 10 million in non-performing loans. In addition and on an exceptional basis, the Fund for General Banking Risks was increased in 2000 by approximately Euro 43 million.

Thanks to the systematic fine-tuning of the methods used at the whole Group's level by the core unit in Global Risk Management, we may affirm that we are using the best international practices in terms of maximizing the binomial Return on capital invested/Risk.

We should also point out that in the first days of 2000 Moody's upgraded BES's long-term debt rating from A2 to A1; at the end of May, considering the Bank's careful management, financial situation and capacity to develop new businesses, its long-term and deposits rating outlook was advanced from stable to positive.

Lastly, and as far as the quality of Group BES assets is concerned, we note the low degree of involvement with emerging economies, which, excluding equity holdings, accounts for 1.7% only of consolidated assets.

(10 ⁶ euros)

| Countries | 1999 | 2000 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Securities | Loans to Credit Institutions | Custommer Loans | Others and Off-b-s-items | Total | % Total |
| **Latin America** | **177** | **93** | **32** | **151** | **30** | **306** | **50,9** |
| Brazil | 116 | 93 | 18 | 69 | 29 | 209 | 34,8 |
| Panama | 2 | | | 42 | | 42 | 7,0 |
| Others | 59 | | 14 | 40 | 1 | 55 | 9,2 |
| **Eastern Europe** | **33** | **5** | **5** | **10** | | **20** | **3,3** |
| Poland | 7 | | 5 | 7 | | 12 | 2,0 |
| Hungary | 8 | 4 | | | | 4 | 0,7 |
| Others | 18 | 1 | | 3 | | 4 | 0,7 |
| **Asia – Pacífic** | **82** | **34** | **44** | **12** | **1** | **91** | **15,1** |
| South Korea | 10 | 12 | 26 | | | 38 | 6,3 |
| Hong-Kong | 41 | 20 | 4 | 4 | | 28 | 4,7 |
| Turkey | 6 | | 14 | | | 14 | 2,3 |
| Others | 25 | 2 | | 8 | 1 | 11 | 1,8 |
| **Africa** | **137** | **6** | **120** | **55** | **3** | **184** | **30,6** |
| Angola | 123 | | 120 | 1 | 2 | 123 | 20,5 |
| Marocco | 7 | 6 | | 44 | 1 | 51 | 8,5 |
| Others | 7 | | | 10 | | 10 | 1,7 |
| **Total** | **429** | **138** | **201** | **228** | **34** | **601** | **100,0** |
| **Provisions** | **24** | **3** | **30** | **2** | | **35** | |
| **Net Total** | **405** | **135** | **171** | **226** | **34** | **566** | |
| **% Net Assets** | **1,4%** | | | | | **1,7%** | |

Among the various exposures shown in the table above, the following deserve particular mention: the Angolan risk is to a large extent covered by guarantees; in Latin America, our major involvement naturally continues to be Brazil, not only because of the strong cultural and trade links between the two countries, but also due to the Group's strategic commitment in this market.

### 6.1.3 Funding

The Group's funding is based on five main fronts: obtaining customers' deposits, as reflected in the consolidated balance sheet; asset management; funds obtained through the sale of bancassurance products; debt issuance in the domestic and external markets; and, though to a lesser extent, the issuance of subordinated debt.

Deposit growth continued to be strong, both directly, as shown in the balance sheet, and indirectly through disintermediation structures.

(10 ⁶ euros)

| Customer Funds | 1999 | 2000 | Change (%) |
|---|---|---|---|
| **Balance sheet** | **17 888** | **21 338** | **19,3** |
| At sight | 5 540 | 6 377 | 15,1 |
| At term | 8 922 | 9 783 | 9,7 |
| Debr securities | 3 427 | 5 178 | 51,1 |
| **Disintermediation** | **8 061** | **8 721** | **8,2** |
| Mutual funds | 3 477 | 3 438 | -1,1 |
| REIT | 882 | 930 | 5,4 |
| Pension Funds | 1 119 | 1 117 | -0,2 |
| Discretionary management | 2 233 | 2 880 | 29,0 |
| Venture capital and other | 350 | 356 | 1,7 |
| **Total** | **25 949** | **30 059** | **15,8** |

The fact that BES presents the best rating among all Portuguese banks, the improvement in quality standards, constant innovation, cross-selling, the impact from the network's expansion and multichannel strategy, and the increased use of BESMACO, all contributed to Group BES continued and strong funding growth.

In structural terms, funding continued the trend seen in recent years, reflected in a gradually diminishing reliance on time deposits, accompanied by gains in sight deposits and debt securities. As regards this last area, it is worth mentioning the issuance of a large set of innovating shelf bonds linked to the main international stock indices.

In the sale of investment funds, the Group's commercial policy was conditioned by the markets' overall performance, which caused a shift in demand from funds to savings products or others with guaranteed rate and/or capital. ESAF continued to have an active role in this business area, namely in rationalizing the offer of domestic funds and in adapting them to the customers' needs. In 2000, the asset management business gained a new dimension with the integration of Gescapital and GES-BM in Group BES.

In bancassurance, the Group continued to increase the sale of this type of products, namely Retirement Savings Plans (RSP). Our collaboration with Companhia de Seguros Tranquilidade again proved extremely constructive. We should indeed point out that Tranquilidade continued to lead the ranking in life insurance, with a market share of 26%, and also the fact that 93% of Tranquilidade Vida's volume of business was placed by BES and BIC branch networks.

Turning to debt issuance, and to make for greater flexibility in financing, with particular regard to diversification in sources of funds, currencies and maturities, we issued bonds totalling Euro 1,450 million under our Euro Medium Term Notes (EMTN) program, through our subsidiary BES Finance, Ltd..

Moreover, and as shown in the following chapter, we reinforced shareholders funds, both by raising base capital (share capital) and through the issuance of subordinated bonds.

## 6.2 Capitalization

Shareholders equity and similar funds totalled Euro 3,060 million at the year-end, up by Euro 640 million on the previous year. This increase reflects essentially BES's capital increase and the issuance of subordinated debt.

(10 ⁶ euros)

| Shareholders equity and similar funds | 1999 | 2000 | Change |
|---|---|---|---|
| **Share capital** | **587** | **1 000** | **413** |
| **Reserves and similar** | **362** | **212** | **-150** |
| Legal and free reserves | 81 | -82 | -163 |
| Reavaluation reserve | 31 | 0 | -31 |
| Share premium account | 222 | 294 | 72 |
| Retained earnings | 28 | 0 | -28 |
| **Subordinated debt** | **767** | **1 083** | **316** |
| **Preferred shares** | **498** | **537** | **39** |
| **Profit for the year** | **206** | **228** | **22** |
| **Total** | **2 420** | **3 060** | **640** |

With a view to maintaining the pattern of high financial strength that always characterized BES, and endow it with the financial resources required for development, the General Meeting of June 20, 2000 approved a capital increase from Euro 587.5 million to Euro 1,000 million, through the issue of 82.5 million new dematerialized registered shares of common stock, at the par value of 5 euros each. The capital increase was carried out as follows:

| | N.° of Shares Issued (000) | Price (€) | Proceeds (m.€) |
|---|---|---|---|
| Shareholder preference | 29 375 | 11,000 | 323 125 |
| Staff preference | 2 475 | 11,500 | 28 462 |
| **Sub-Total** | **31 850** | **11,039** | **351 587** |
| Special Portugal Telecom | 6 000 | 17,000 | 102 000 |
| **Sub-Total** | **37 850** | **11,984** | **453 587** |
| Incorporation of reserves | 44 650 | | |
| **Total** | **82 500** | | **453 587** |
| Previous stock market capitalization | 117 500 | 25,190 | 2 959 825 |
| **Final stock market capitalization** | **200 000** | **17,067** | **3 413 412** |

Subscription took place from 14 to 28 July, all shares having been placed and total proceeds amounting to approximately Euro 454 million.

The negative variation in reserves resulted from the referred BES capital increase operation, the write-off of goodwill from BESI, ES Bank, Gescapital and Benito y Monjardino acquisitions and extraordinary charges with early retirements. As regards changes in the remaining components, the increase in subordinated debt stemmed from BES Finance issuance of debt, and the rise in the euro value of preferred shares was due to the valuation of the currency in which they are denominated, the USD.

### 6.2.1 Subordinated Debt and Preferred Stock

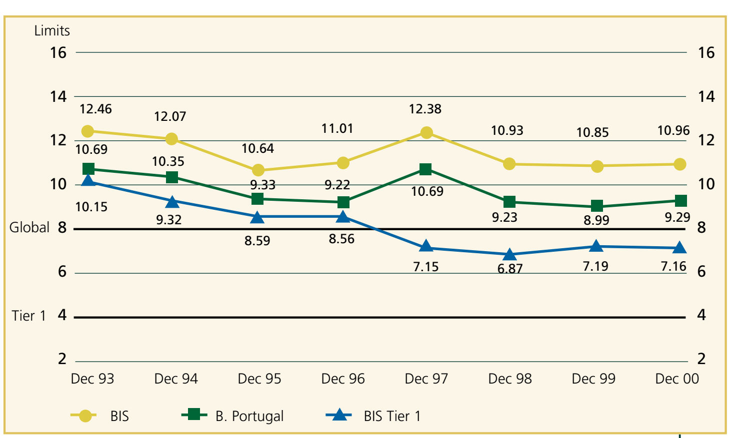
As of 31 December 2000, Group BES carried subordinated debt totalling Euro 1,083 million, an increase over the previous year almost exclusively explained by BES Finance Euro 300 million debt issuance.

Although we will cover this issuance with greater detail in the explanatory notes to the financial statements, we should draw attention to its main features at this point, namely the issuer, currency, amount, etc.. For this purpose, operations between Group companies are eliminated.

| Description | Issuer | Features of the Issue | | | | Listed |
|---|---|---|---|---|---|---|
| | | Currency | Value in € (thousand) | Month and Year of Issue | Maturity | |
| Subordinated shelf bonds | BES | EUR | 99 760 | Nov.93 | 10 Years | BVLP |
| Subordinated shelf bonds | BES | EUR | 59 857 | Apr.96 | 10 Years | BVLP |
| Subordinated shelf bonds | BES | EUR | 99 760 | Jun.97 | 10 Years | BVLP |
| Subordinated perpetual bonds | BES | EUR | 99 760 | Jun.97 | | BVLP |
| Participation certificates | BES | PTE | 167 | Various | | BVLP |
| Subordinated shelf bonds BIC 93 | BIC | EUR | 9 590 | Mar.93 | 10 Years | BVLP |
| Subordinated shelf bonds BIC 95 | BIC | EUR | 23 444 | Oct.95 | 7 Years | BVLP |
| Subordinated perpetual bonds BIC 97 | BIC | EUR | 47 431 | Nov.97 | | BVLP |
| Subordinated perpetual bonds BIC 98 | BIC | EUR | 17 842 | Nov.98 | | |
| Subordinated perpetual bonds | BES Finance | USD | 214 938 | Jun.97 | | Luxembourg |
| Subordinated bonds | BES Finance | USD | 53 735 | Nov.99 | 10 Years | Luxembourg |
| Subordinated bonds | BES Finance | EUR | 300 000 | Mar.00 | 10 Years | Luxembourg |
| Subordinated perpetual bonds | Credibom | EUR | 6 098 | Nov.99 | | |
| Subordinated shelf bonds | Besleasing | EUR | 2 500 | Dec.99 | 10 Years | |
| Subordinated shelf bonds | BESI | PTE | 29 928 | Dec.96 | 10 Years | BVLP |
| Subordinated shelf bonds | BESI | EUR | 18 212 | Dec.98 | 10 Years | BVLP |
| **Consolidated** | | | **1 083 022** | | | |

The above-listed securities are listed on the Lisbon Stock Exchange, except for the subordinated bonds issued by BES Finance Ltd which are listed on the Luxembourg Stock Exchange.

The increase of preferred shares, to Euro 537 million, is explained by the strengthening of the US dollar during the reporting year.




**Solvency Ratio**

### 6.2.2 Solvency Ratio

Business growth, on the one hand, combined with the capital increase and the issue of subordinated debt, continue to reveal the sustained strength of Group BES financial structure, where the consolidated solvency ratio stands clearly above minimum levels, either those required by Banco de Portugal or those recommended by the Bank of International Settlements (BIS).

The capital ratio, which is calculated in accordance with Banco de Portugal rules, reflects an improvement vis-à-vis the previous year. This resulted from the significant increase of stockholder funds, which more than compensated the rise in risk assets

(10 ⁶ euros)

| Variables | | 1999 | 2000 | Change | |
|---|---|---|---|---|---|
| | | | | Abs. | Rel. (%) |
| Net consolidated assets | (1) | 29 385 | 33 936 | 4 551 | 15,5 |
| Equivalent risk assets | (2) | 22 218 | 26 665 | 4 447 | 20,0 |
| Risk weight (%) | (3) = (2)/(1) | 76 | 79 | 3 | |
| Capital requirements | (4) | 1 777 | 2 133 | 356 | 20,0 |
| Risk assets | | 1 641 | 1 913 | 272 | 16,6 |
| Trading portfolio | | 136 | 220 | 84 | 61,8 |
| Actual shareholders funds | (5) | 1 997 | 2 476 | 479 | 24,0 |
| Basic | | 1 363 | 1 699 | 336 | 24,7 |
| Supplementary | | 738 | 965 | 227 | 30,8 |
| Deductions | | 104 | 188 | 84 | 80,8 |
| Shareholders funds surplus | (6) = (5) - (4) | 220 | 343 | 123 | |
| Solvency ratio (%) | [5/(12,5 x (4))] | 8,99 | 9,29 | 0,30 | |

Hence the performance of risk assets and shareholders funds had a favorable impact on the solvency ratio, which rose from 8.99% to 9.29%; under BIS regulations, the total ratio rises to 10.96% (10.85% in 1999), while our 7.16% Tier I ratio compares very well with the minimum of 4% recommended by this institution.

Financial strength can also be valued through the coverage of fixed assets by shareholders equity and similar funds. As the following chart shows, with permanent capital accounting for more than double the value of fixed assets, despite the latter's significant increase through the acquisition of equity holdings during the year, Group BES capitalization remains strong.

(10 ⁶ euros)

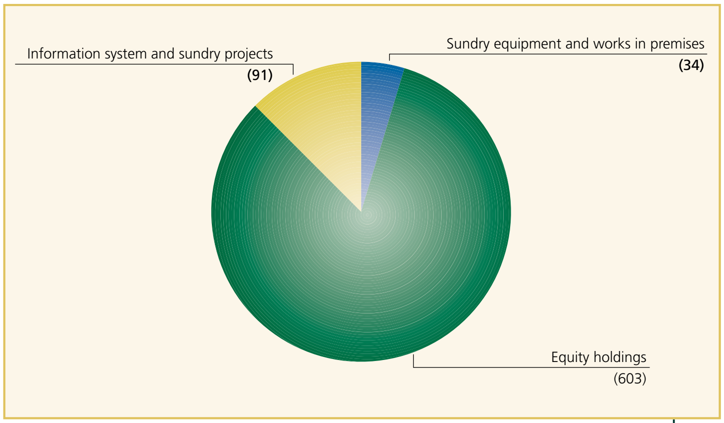
| Variables | | 1999 | 2000 | Δ (%) |
|---|---|---|---|---|
| **Fixed assets** | **(FA)** | | | |
| Tangible & intangible assets | | 593 | 603 | |
| Equity holdings | | 93 | 772 | |
| | | **686** | **1 375** | **100,4** |
| **Shareholders equity and similar funds** | **(SF)** | | | |
| Capital and Reserves | | 949 | 1 211 | |
| Subordinated debt | | 767 | 1 083 | |
| Preferred shares | | 498 | 537 | |
| | | **2 214** | **2 831** | **27,9** |
| **Coverage ratio** | **(SF/FA)** | **3,2** | **2,1** | |

### 6.2.3 Investment

In contrast to previous years, when major expenditure went to the modernization of the information system, network expansion and the refurbishing of premises, investment in 2000 was particularly expressive in increasing Group BES equity holdings.

From the acquisitions carried out, we point out the following: purchase of the remaining 51.4% of BESI share capital (112 M€); acquisition of 100% of ES Bank (71 M€), Gescapital and Benito y Monjardin (95 M€); increase of our stake in Kredit Bank PBI (50 M€); acquisition of 2.8% of Banque Marocaine du Commerce Extérieur share capital (30 M€); and acquisition of a stake in Bradesco (99 M€). In addition, we should also refer the stake taken in Group Portugal Telecom share capital under a strategic partnership agreement for the New Economy area. BES additional investment in 2000, 107 M€, plus that existing as of 30 June 2000 was entered in the consolidated balance sheet heading "Equity holdings" (it was previously recorded under the "Shares and other variable-income securities" heading).

In addition to self-financing, the referred investments were funded by the capital increase (proceeds of 454 M€) and the issuance of subordinated debt (316 M€)



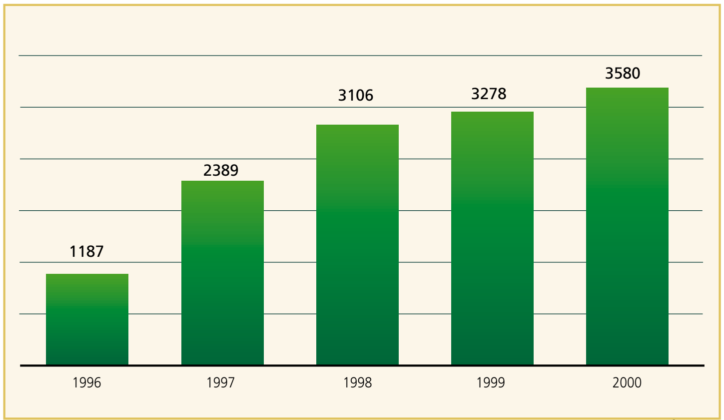

**Investment Breakdown[1] ($10^6$ euros)**

(1) Net of Sales

### 6.2.4 Stock Market Capitalization and BES Shares

At the end of the year BES stock market capitalization was Euro 3,580 million, which represents an increase of 9.2% against the previous year and a three-fold rise when compared to 1996.

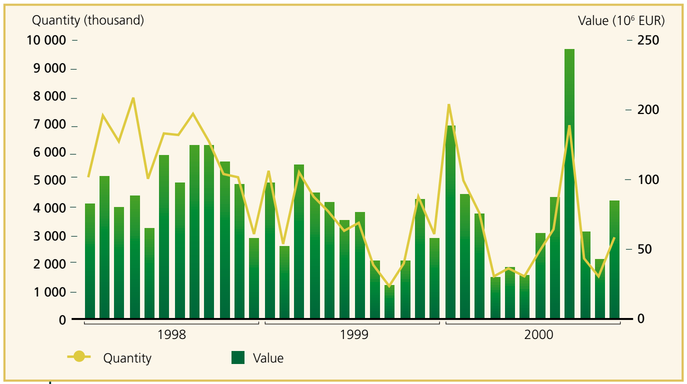
The BES share continues to be one of the most heavily traded equities in the market, ranking in most months among the 10 most traded stocks.



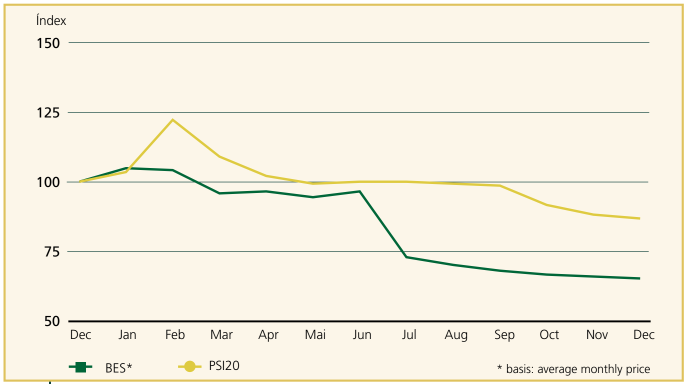

**Market Capitalization ($10^6$ euros)**

BES share price at year-end was Euro 17.90, which is higher than the expected value following the capital increase operation.

During the year, and naturally if corrected for the capital increase effect, BES shares were closely aligned with the general market trend.




Transaction Volume – 1998/2000




Share Price – 2000

**AVERAGE PRICE**

(euros)

| Periods | Real Price | Corrected Price (1) |
|---|---|---|
| **Year of 1999** | **24,49** | **16,66** |
| 1st quarter of 2000 | 27,17 | 18,23 |
| 2st quarter of 2000 | 25,39 | 17,19 |
| 3st quarter of 2000 | 18,44 | 14,98 |
| 4st quarter of 2000 | 17,48 | 17,48 |
| **Year of 2000** | **23,09** | **16,97** |

(1) No. of shares considered: 200 million, stock market capitalization plus capital inflow

If we bear in mind the main indicators used to analyze the stock market performance of BES shares, we observe that:

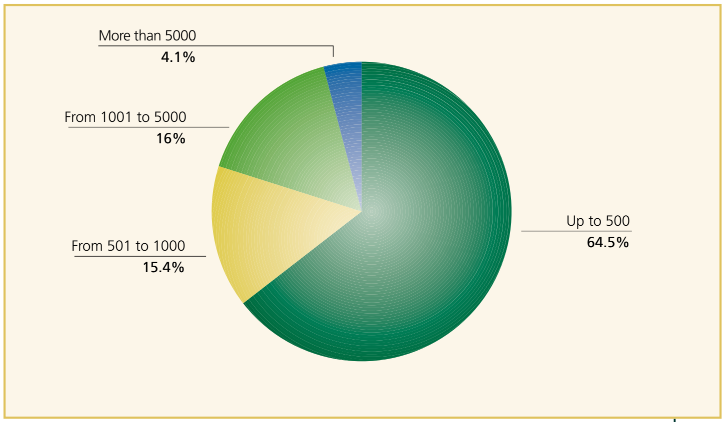
- the Turnover ratio, which measures the volume of shares traded as a percentage of total shares listed, declined;
- the Pay Out Ratio, i.e., the percentage of profits paid out to shareholders in the form of dividends, shows a significant increase over the previous year based on a dividend per share rise of 5.1%.

| Main Stock Market Indicators | | 1999 (1) | 2000 |
|---|---|---|---|
| *Price Book Value* | (PBV) | 3,93 | 2,96 |
| *Price Earnings Ratio* | (PER) | 18,16 | 15,70 |
| *Dividend Yield* | (%) | 2,20 | 2,41 |
| *Pay Out Ratio*(2) | (%) | 50,60 | 64,30 |
| *Turnover Ratio* | (%) | 31,16 | 28,49 |

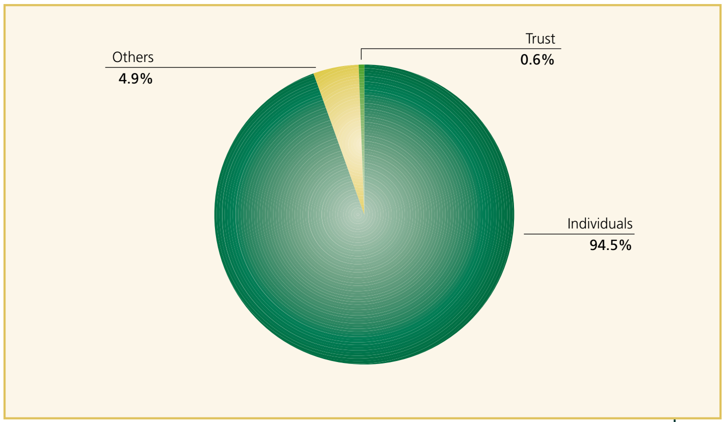
(1) The 1999 price was adjusted taking into account the number of shares listed in December 2000 and the value of proceeds from the capital increase

(2) Based on individual earnings

The breakdown by type of shareholder reveals the predominance of small individual shareholders, who see in the BES share a safe investment with an attractive return.




**Shareholders – by brackets of no. of shares held**




**Shareholders – by legal status**

## 6.3 Operating conditions

The operating conditions of Group BES in 2000, which are implicit in the financial statements, reflect both the strategic guidelines followed and a balanced mix in the generation of earnings.

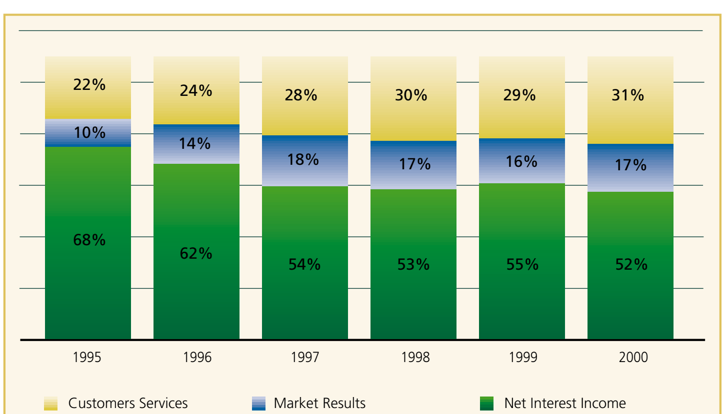
(10 $^6$ euros)

| Consolidated Banking Income | 1999 | 2000 | Var. (%) |
|---|---|---|---|
| Net interest income | 569 | 640 | 12,5 |
| (+) Customer services | 300 | 378 | 26,0 |
| (+) Earnings from market operations | 161 | 211 | 31,1 |
| (=) Operating banking income | 1 030 | 1 229 | 19,3 |

In this respect, we should highlight the following aspects: in the first place, the growth achieved in consolidated banking revenue (19.3%), which compares very well with the previous year's increase (13.6%); secondly, Group BES capacity to raise earnings from investment banking and trading activities (up by 31.1%) despite the strong turbulence that affected the financial markets; thirdly, our ability to diversify income sources, with services up by 26% (9.5% in 1999); finally, and despite the strong pressure on margins, the remarkable recovery achieved by net interest income in the second half of the year.

Hence the various components that make up banking revenue continued to progress in tandem with our strategic guidelines, which seek to offset the shrinking of margins through the sustained increase of revenues from services. Earnings from investment banking and trading, though subject to market fluctuations, remain sensibly on line with those obtained in previous years.

### 6.3.1 Financial Results




**Banking Income**

Earnings from intermediation – the difference between interest income and interest expense – maintained the trend of previous years for a gradual reduction in its contribution to banking revenue, which fell from 68% in 1995 to 68% in 2000, when it nevertheless increased by 12.5% over 1999, to Euro 640 million.

The following chart shows the factors that most influenced this important business area in the reporting year:

(10 [6] euros)

| Variables | 1999 | 2000 | Abs. Val. |
|---|---|---|---|
| **Revenues from intermediation** | **1 345** | **1 692** | **347** |
| Customer loans | 920 | 1 243 | 323 |
| Placements in securities | 200 | 240 | 40 |
| Other placements [1] | 225 | 209 | - 16 |
| **(-) Costs of Intermediation** | **776** | **1 052** | **276** |
| Customer funds | 403 | 636 | 233 |
| Other funds[1] | 373 | 416 | 43 |
| **(=) Results of Intermediation** | **569** | **640** | **71** |

(1) Includes net interest from swap operations

The Euro 71 million increase in financial results stemmed from a 347 million rise in intermediation revenues against a 276 million increase in interest expense. While the increase in interest income originated in customer loans, the deterioration in the cost of funding came essentially from customer funds.

The following chart associates the revenues and costs of interest-bearing assets and liabilities and links them to the respective average interest rates.

(10 [6] euros)

| Variables | 1999 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | Average Principal | Rate (%) | Revenues/ Cost | Average Principal | Rate (%) | Revenues/ Cost |
| **Placements** | **24 169** | **5,566** | **1 345** | **27 483** | **6,158** | **1 692** |
| Customer loans | 15 460 | 5,949 | 920 | 19 301 | 6,443 | 1 243 |
| Securities | 4 030 | 4,953 | 200 | 3 916 | 6,119 | 240 |
| Other placements (1) | 4 679 | 4,828 | 225 | 4 266 | 4,909 | 209 |
| **Borrowed funds** | **24 137** | **3,216** | **776** | **27 359** | **3,846** | **1 052** |
| Customer funds | 15 410 | 2,616 | 403 | 18 962 | 3,356 | 636 |
| Other funds (1) | 8 727 | 4,275 | 373 | 8 397 | 4,953 | 416 |
| **Earnings/Spread margin** | | **2,350** | **569** | | **2,312** | **640** |
| **Own funds and spread** | **32** | **0,004** | | **124** | **0,018** | |
| **Earnings/Global margin** | | **2,354** | **569** | | **2,330** | **640** |

(1) Includes net interest from swap operations

The performance of average interest rates reflects the repricing of rates to adjust them to the reversal occurred in the trend of market interest rates – the annual 3-month Euribor, just to give an example, increased by 1,525 percentage points, from 2.998% to 4.523%. In the case of the loan portfolio, this repricing occurred essentially in the second half of the year.

The increase in the absolute margin (up by Euro 71 million) can be explained by the effect of the rates and business volumes variations, as shown in the following table.

($10^6$ euros)

| | Principal effect | | | + Rate effect | | | = Total |
|---|---|---|---|---|---|---|---|
| | Rate (%) x | Change in Principal = | Change in Interest | Principal x | Change in Interest = | Change in Interest | Change in Interest |
| **Financial assets** | **6,123** | **3 314** | **203** | **27 483** | **0,525** | **144** | **347** |
| Customer loans | 5,949 | 3 841 | 229 | 19 301 | 0,494 | 95 | 324 |
| Placements in Security | 4,953 | - 114 | - 6 | 3 916 | 1,165 | 46 | 40 |
| Other placements | 4,828 | - 413 | - 20 | 4 266 | 0,081 | 3 | - 17 |
| **Financial liabilities** | **2,447** | **3 222** | **79** | **27 359** | **0,721** | **197** | **276** |
| Customer funds | 2,616 | 3 552 | 93 | 18 962 | 0,740 | 140 | 233 |
| Other funds | 4,275 | - 330 | - 14 | 8 397 | 0,678 | 57 | 43 |
| **Difference** | | | **124** | | | **- 53** | **71** |

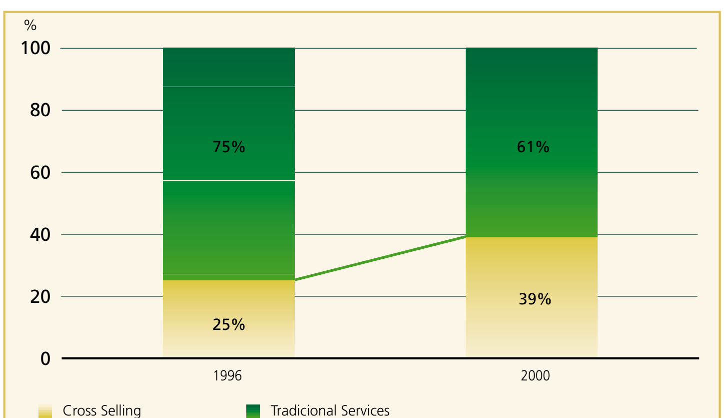
As can be seen, the increase in net interest income lies solely in the principal effect, since the interest rate effect made for a reduction of Euro 53 million.

Increased loan volume contributed decisively to stronger financial earnings. On the tax effect side, customer funds became more expensive in so far as they were more rapidly adjusted to the new market conditions than customer loans (which, as referred, were to a large extent repriced in the second half of the year).

### 6.3.2 Customer service

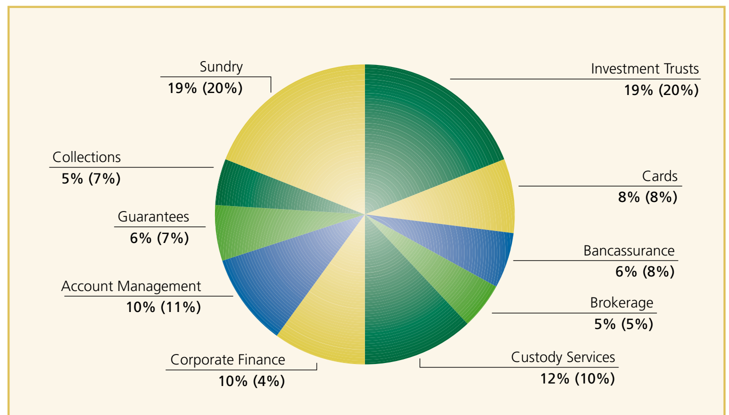
Customer service income (fees and comissions) totalled Euro 378 million, having grown by 26% over the previous year.

This performance, which we believe is very positive, was made possible by the successful specialized diversification of business conducted by the Group's operating units, which continued to launch fee-generating products, with special emphasis on investment banking, bancassurance, investment trusts and cards. In what concerns traditional products and services, we improved the management and effective application of prices so as to minimize the effects of indirect subsidization among products.




**Fees and Comissions**

Among the main fee-generating areas, those involved in cross-selling are of particular note, representing 39% of the total (which compares with 25% in 1996). Traditional services continued to make a strong contribution.




**Breakdown of Fees and Comissions by Type of Service**

As far as electronic services to customers are concerned, we highlight BESnet's excellent acceptance, translated in the number of users which totalled 135,000 and placed BES considerably ahead of its competitors as leader of the market of online banking users in Portugal. This success has extended to our internet banking service directed to corporate customers, called BES Negócios, translated in the increasing number of Small and Medium-Sized Enterprises that use the service.

As regards the use of alternative channels, and just to give an example, electronic stock market orders already account for 60% of the total, while the number of transfers has also increased sharply.

| Operations | 1999 | | 2000 | |
|---|---|---|---|---|
| | BESDirecto | BESNet | BESDirecto | BESNet |
| Stock market orders | 56,6% | - | 49,0% | 10,3% |
| Transfers | 5,7% | 1,0% | 6,9% | 3,4% |

In the area of international payments, which generate an attractive level of fees, the Group's significant progress brought it on line with the highest international standards. In this regard, we took the following initiatives: the implementation of LOCE II, a new facility permitting to issue payment orders and checks at branch level; in April 2000 we joined the EBA payments channel, which gave us the possibility of issuing same day value commercial payment orders in In currencies.

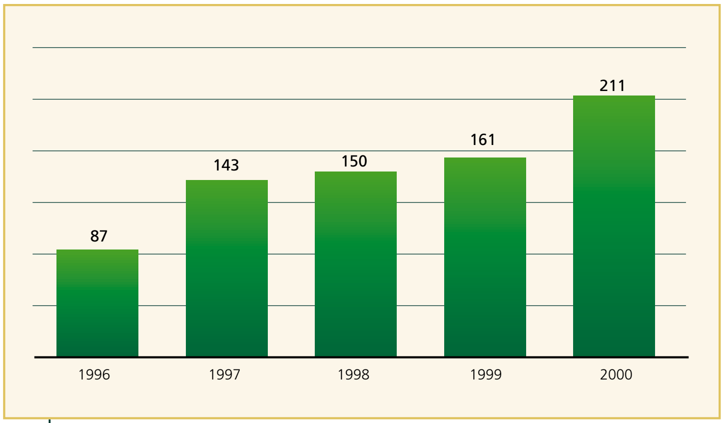
As regards fees obtained from securities services, we draw attention to the role played by Group BES in public offerings and in the privatization of a number of state companies, as well as the fees derived from its custody and brokerage services.

### 6.3.3 Investment Banking and Trading

The excellent performance of revenues from mergers, acquisitions and primary market operations in Portugal, Spain and Brazil, carried out by BESI, combined with stock and bond trading, made for a very significant growth in earnings from investment banking and market operations (+31.3%). These results would have been even better if it weren't for the marked correction experienced by telecommunications and new economy stocks in the last quarter of the year.

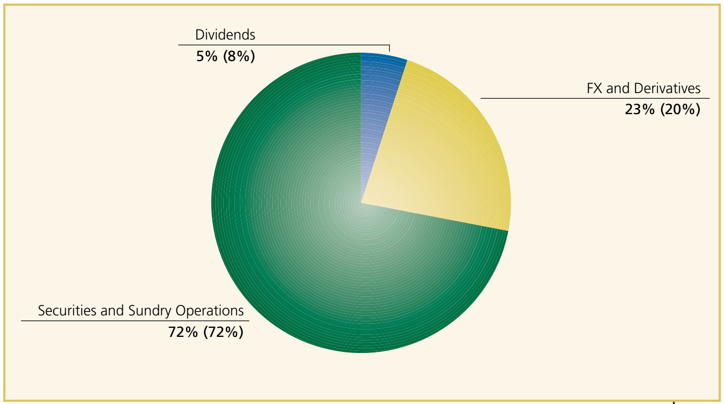
| Privatizaiton Operations | Share in Placements |
|---|---|
| EDP privatization – 4th phase | 8,7% |
| Portugal Telecom privatization – 5th phase | 26,7% |
| Novabase POS | 32,1% |
| Sonae.com POS | 6,8% |
| Impresa POS | 6,8% |

Because it will significantly improve the quality of services provided, we must say a word about the new information systems application that is being adapted to the securities service and is now in the final stage of testing. This system will considerably raise the level of automation in this area, thus permitting to meet the high expectations of our customers, both national and international, in terms of service quality. Associated to this project and in close collaboration with BES.Com, we selected a global broker and a new platform that will be directly connected to the new system. This platform will permit real-time access to international stock exchanges, allowing online stock exchange orders, and also provide a global solution that includes the routing or orders and brokerage and securities custody services.




**Results from Trading Operations** ($10^6$ Euros)

As can be seen through the breakdown of trading earnings, capital gains in the sale of securities were prominent, followed by earnings in the currency and derivatives markets.




**Breakdown of Trading Earnings**
( ) Previous Year

In view of the high volatility of markets throughout the reporting year, a significant part of the gains obtained was allocated to the reinforcement of provisions.

The Group's capacity to derive profit from opportunities arising in the market and obtain sizeable gains in this business area cannot be seen separately from the effort that is put into improving the tasks of measuring, controlling and monitoring Market Risks. Generally speaking, a market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or stock prices, or from changes in the liquidity of markets.

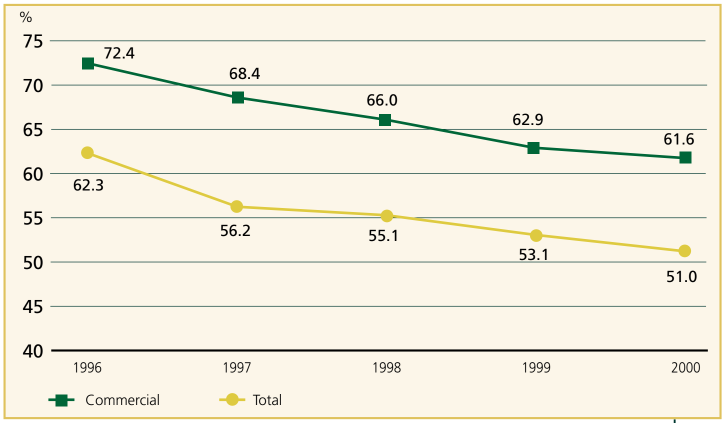
The Market Risk management is integrated in the overall balance sheet management through the Asset/Liability Committee (ALCO), set up at the institution's highest level. This body is responsible for the formulation of policies defining the components and structuring of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risks.

The main measure of market risks is the assessment of potential losses under adverse market conditions, for which we use Value at Risk (VAR) valuation criteria. Our VAR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. The Market risks incurred are subject to limits periodically updated by the Executive Committee.

To centralize risk management and control at Group level, thus improving efficiency, our trading rooms were restructured and BESI and BIC rooms incorporated into BES.

### 6.3.4 Efficiency and Operating Costs

The growth obtained in our business activity in general, and in particular in banking revenue, which grew above operating costs, again yielded




**Total and Commercial *Cost to Income***

significant new gains in terms of the Group's efficiency levels. In fact, cost to income indicators, whether including or excluding market results, have once again improved, confirming the wisdom of the rationalization measures taken in the recent past whose aim was precisely to lead BES into a top position in terms of this indicator.

When we look at the breakdown of operating costs, we conclude that the significant increase observed was driven by depreciation (up by 17.2%) as a result of investment in the continuous modernization of information systems and the integration of new technologies in our operating structure.

In fact, the above table clearly shows that administrative costs continued to drop in terms of net assets, accompanied by improvements in the cost to income and in the number of employees per branch ratios, while assets per employee continued to show considerable growth (up by 12%).

The strategic guidelines aimed at raising the Group's efficiency will be further reinforced by the implementation of two far-reaching projects: the Back-Office Zero Project, which seeks to eliminate administrative burdens at branch level, and the Integration Project, which will bring under a single operating basis the entire logistics and information support services to the activity of BES,

($10^6$ euros)

| Variables | 1999 | 2000 | Change | |
|---|---|---|---|---|
| | | | Abs. | Rel. (%) |
| Staff costs | 245 | 285 | 40 | 16,3 |
| (+) External suppliers and services | 209 | 233 | 24 | 11,5 |
| **(=) Administrative costs** | **454** | **518** | **64** | **14,1** |
| (+) Depreciation | 93 | 109 | 16 | 17,2 |
| **(=) Operating costs** | **547** | **627** | **80** | **14,6** |

Other factors contributed to the 14.6% increase in costs, namely the full consolidation of Benito y Monjardin, Gescapital and Espirito Santo Bank acquisitions, which together accounted for 3.7 percentage points of this rise. At any rate, the increase in costs stood below business growth and that achieved in the generation of revenues, leading Group BES to new productivity gains.

BIC, BESSA and BESI. At the same time, it was decided to transform the BES call center into an autonomous unit. This will permit to make better use of the installed capacity and to extend this unit's support to Tranquilidade, BIC, Crediflash, ES Seguros and all the other Group operating units.

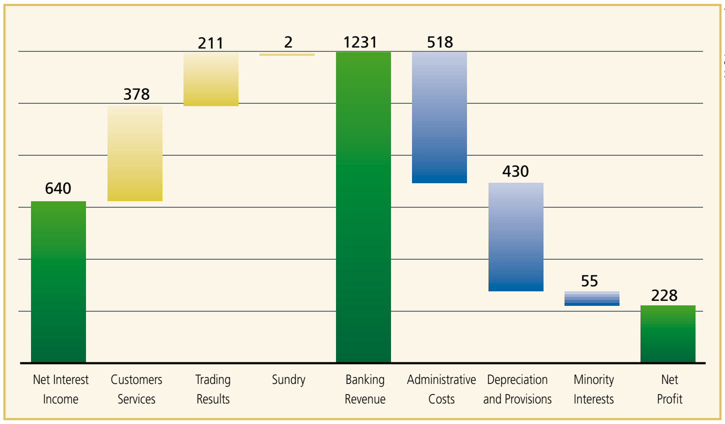
| Indicators | | 1999 | 2000 |
|---|---|---|---|
| Administrative Costs/Net Assets | (%) | 1,55 | 1,53 |
| No. of employees per branch | (n.º) | 12,7 | 12,5 |
| Total assets per branch | ($10^3$ €) | 4 859 | 5 438 |
| Cost to Income | (%) | 53,1 | 51,0 |

## 6.4 Results and Profitability

As we have amply illustrated, 2000 was a very demanding year, both in terms of competitiveness and as regards the improvement of internal processes. Even so, these challenges did not prevent Group BES from attaining remarkable levels of results and profitability.

(10⁶ euros)

| Variables | 1999 | 2000 | Change | |
|---|---|---|---|---|
| | | | Abs. | Rel. (%) |
| Interest and similar revenues | 1 738 | 2 487 | 749 | 43,1 |
| (-) Interest and similar expense | 1 169 | 1 847 | 678 | 58,0 |
| **(=) Net interest income** | **569** | **640** | **71** | **12,5** |
| (+) Customer services | 300 | 378 | 78 | 26,0 |
| (+) Earnings from market operations | 161 | 211 | 50 | 31,1 |
| **(=) Operating banking revenue** | **1 030** | **1 229** | **199** | **19,3** |
| (-) Other earnings/losses | 55 | 7 | - 48 | - |
| (+) Extraordinary items | 58 | 9 | - 49 | - |
| **(=) Total banking revenue** | **1 033** | **1 231** | **198** | **19,2** |
| (-) Administrative costs | 454 | 518 | 64 | 14,1 |
| (-) Depreciation | 93 | 109 | 16 | 17,2 |
| **(=) Gross profit** | **486** | **604** | **118** | **24,3** |
| (-) Provisions net of recovery of overprovisions | 168 | 257 | 89 | 53,0 |
| (-) Minority interests | 64 | 55 | - 9 | -14,1 |
| **(=) Pre-tax profit** | **254** | **292** | **38** | **15,0** |
| (-) Taxes on profits | 48 | 64 | 16 | 33,3 |
| **(=) Group profit for the year** | **206** | **228** | **22** | **10,7** |




In fact, both the main business areas and operating conditions converged to allow this performance: net interest income, through the volume effect, were up by 12.5%; fees from customer services increased 26%; and profits from trading, even though subject to adverse market conditions in the fourth quarter of the year, grew by 31.1%. On the whole the generation of revenues made for a significant increase in provisions (up by 53%), though still permitting a considerable growth of pre-tax profits, which, at Euro 292 million, increased by 15% on the previous year. The reserve set up for deferred taxes on profits generated by the derivatives area increased the respective provision by 33%, making for an increase of nearly 11% in Group BES consolidated profit.

If we make a qualitative analysis of earnings, i.e., if we relate them to the equity capital employed, we observe that Group BES was able to maintain ROE above 20%. The following table shows the breakdown of ROE, using the average value of financial assets as the coefficient of the various income statement items:

To summarize the main aspects of the reporting year, we may conclude that Group BES attained the core goals it had set out to reach when it launched the Millennium 3 Program: ROE, the program's central goal, remained at high levels that surpassed the established target (over 15%, in real terms); efficiency shows sustained improvement, with cost to income actually outperforming the established objective (51% against an established target of 55%); and the growth achieved in business areas, considered strategic, is though to have yielded new market share gains.

(Values in %)

| | 1999 | 2000 | Change |
|---|---|---|---|
| Rate of financial assets | 5,566 | 6,158 | 0,592 |
| - Rate of financial liabilities | 3,216 | 3,846 | 0,630 |
| = Spread margin | 2,350 | 2,312 | -0,038 |
| + Balance sheet management | 0,004 | 0,018 | 0,014 |
| **= Global margin** | **2,354** | **2,330** | **-0,024** |
| + Customer services | 1,242 | 1,375 | 0,133 |
| + Trading results | 0,665 | 0,768 | 0,103 |
| **= Gross return on financial assets** | **4,261** | **4,473** | **0,212** |
| - Operating costs | 2,264 | 2,281 | 0,017 |
| **= Net return on financial assets** | **1,997** | **2,192** | **0,195** |
| + Other items | 0,012 | 0,010 | -0,002 |
| - Minority interests | 0,263 | 0,198 | -0,065 |
| - Net provisions | 0,695 | 0,937 | 0,242 |
| = Pre-tax profitability | 1,051 | 1,067 | 0,016 |
| - Tax on profits | 0,201 | 0,233 | 0,032 |
| **= ROFA (Return on Financial Assets)** | **0,850** | **0,834** | **-0,016** |
| x Weighting of financial assets | 90,93 | 90,83 | -0,10 |
| **= ROA (Return on Assets)** | **0,773** | **0,756** | **-0,017** |
| x Capital leverage | 27,35 | 29,04 | 1,67 |
| **= ROE (Return on Equity)** | **21,14** | **21,94** | **0,80** |

Report and Accounts 2000

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# Banco Espírito Santo (BES)

BANCO ESPIRITO SANTO

# 7 Banco Espírito Santo (BES)

## 7.1 Shareholders of Qualifying Stakes

Under the terms and for the purposes of article 448 of the Commercial Companies Code, and in compliance of section 3), no. 1, of article 6 of the Securities and Exchange Committee Regulation no 11/2000, the shareholders having qualified stakes in BES capital as of 31 December 2000 were as follows:

| Shareholders | N.° of Shares | (%) Share Capital | Voting Rights (%) |
|---|---|---|---|
| BESPAR – Sociedade Gestora de Participações Sociais, SA (*) | 83 952 780 | 41,98 | 41,98 |
| Caisse Nationale de Crédit Agricole | 18 365 108 | 9,18 | 9,18 |
| Companhia de Seguros Tranquilidade-Vida, SA | 9 354 861 | 4,68 | 4,68 |
| Fundo de Pensões dos CTTPT/Previsão | 5 502 044 | 2,75 | 2,75 |
| Companhia de Seguros Tranquilidade, SA | 2 842 234 | 1,42 | 1,42 |

(*) Under the terms and for the purposes of section d), no. 1 of Article 20 of the Securities and Exchange Market Law, the 0.15% that corresponds to the 295,775 shares held by the corporate bodies of BESPAR – SGPS, S.A. is also included in its voting rights.

## 7.2 Proposed Distribution of BES Earnings

Under the terms of section b) of article 376 of the Commercial Companies code, and in compliance with article 30 of the Statures, it is proposed that the following application of the year's earnings be submitted to the General Meeting:

€

| Proposed distribution of earnings | |
|---|---|
| to legal reserve | 13 438 000,00 |
| for distribution to employees and to the corporate bodies | 16 500 000,00 |
| for distribution to the shareholders | 86 400 000,00 |
| to pension fund | 10 000 000,00 |
| to other reserves | 8 036 687,00 |
| | **134 374 687,00** |

The dividend on the 2000 earnings corresponds to a gross value per share of 0.432 euros.


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