BANCO ESPIRITO SANTO

Quem sabe, sabe e o BES sabe.

Annual Report 2002

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Banco Espírito Santo, S.A.
Public Traded Company

Registered Office: Av. da Liberdade, 195 - 1250 - 142 Lisboa
Share Capital: 1 500 000 000 euros
Mat. CRCL no. 1607 - Corporate Registration no. 500 852 367

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BANCO ESPIRITO SANTO

Vieira da Silva
L'Aube Chromatique
Oil on Canvass
Banco Espírito Santo

Joint Message of the Chairman of the Board of Directors and the President of the Executive Committee

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Dear Shareholders,

Faced by an unfavorable external environment, in 2002 the Portuguese economy visibly deteriorated when compared to the previous year. On the other hand, the correction of macroeconomic imbalances was pursued, leading to a sluggish performance of internal demand and to higher unemployment, which rose from 4.1% to 5.1%, below European average of 8.3%. In terms of the state deficit, the adoption of extraordinary measures permitted to bring the public accounts in line with the commitments undertaken before the European Union. The stock market followed international trends, with the PSI-20 index falling by 25%. In the Euro Area, GDP is thought to have grown by 0.8% in 2002, a major slowdown when compared to 2001.

Despite this general backdrop, Group Banco Espírito Santo was able to achieve balanced growth during the reporting year. The factors determining this success were a proactive stance in product innovation, the advance made in the segmentation process and enhanced service quality. Once again, these factors validated the success of the organic growth strategy during difficult times for financial markets worldwide.

Loan granting made frank progress in 2002. Including securitization operations, totaling euro 1,450 million, mortgage credit remained the most dynamic item overall, rising by 14.1%, in spite of the extinction of the subsidized credit regime; other loans to individuals reflected the effects of a policy of higher selectivity, dropping by 4.7%, while corporate credit was up by 10.2%.

Specialized credit showed a good performance in a particularly tough year, driven by increased interconnection with the BES and BIC networks. Crediflash (credit cards), Euroges (factoring) and Besleasing (property and equipment leasing) posted profit growth of respectively 42%, 42% and 26%.

Customer loans were up by 5% (10.2% if including securitized credit, versus 12.5% in 2001) and total customer funding rose by 8.1% (14.5% in 2001).

Total customer funds reached euro 34.1 billion, an annual increase of euro 2.6 billion. In this respect the growth of total on-balance sheet customer funds (+8.3%) and off-balance sheet funds (+7.7%) is quite noteworthy, particularly the latter, in view of the poor performance of the capital markets.

A sales force effort geared to attracting funds, on the one hand, combined with a carefully planned financing policy and moderate credit growth, on the other, led to a fresh improvement in the transformation ratio of customer funds into credit, from 110% to 106%.

Consolidated net profit reached euro 222.5 million, which corresponds to an increase of 12.5% versus the previous year. With Earnings per Share (EPS) of euro 0.74, the Board of Directors intends to submit to the General Shareholders' Meeting a dividend distribution proposal of euro 0.287 per share.

Due to the capital increase carried out in the first quarter of 2002, and the reinforcement of provisions, ROE decreased to 13.1%.

Net interest income increased 12.5%, confirming the recent upward trend. The sustained policy aimed at improving the margin together with the volume effect yielded by the commercial activity contributed to the growth achieved. The net interest margin for the year was 2.27% (2001: 2.18%), translating into a euro 22 million gains; the increase in volume also reflected on the growth of net interest income, its effect totaling euro 67 million.

Fees and commissions on customer services reached euro 407.3 million, a year-on-year rise of 6.5% related mainly to traditional products. Total Fees and Commissions, excluding securities and brokerage, increased by 13% in the period. Important factors towards this growth were the improvement in the quality of services and enhanced customer loyalty, as translated by the increase in the number of products sold to each client to an average of 4.1.

Operating costs have considerably slowed down: an increase of 1.2% (i.e., a real reduction of 2.4%) that compares very well with the figures posted in end 2001 (9.6% on a like-for-like basis) and was also better than expected. In fact, the initial target pointed to a 3% increase in costs. The restructuring projects implemented resulted in a reduction of 578 employees in 2002.

Group Banco Espírito Santo's Cost to Income registered a further improvement, dropping by 4.8 p.p. year-on-year to 53.4%. Notwithstanding current economic difficulties worldwide, the Group maintains the objective of reaching a cost-to-income of 50% in 2003. The remaining productivity indicators also improved, in particular the Operating Costs / Average Net Assets and Total Assets per Employee ratios.

Major contributors to these results were the effects of the integration of the main operating units, which resulted in a reduction of employees, the restructuring of processes, the policy of renegotiating supply contracts and the drive for cost cutting.

Group Banco Espírito Santo's rationalization effort was pursued, namely by extending the integration process to other units and by creating shared service units.

In addition to the results achieved in the areas outlined above, we should also draw attention to the Group's provisioning - a net increase of euro 280.8 million, that exceeds by 37% the previous year's provision charge. Taking into account the difficult times which the Portuguese economy is going through, provisions for credit were reinforced by an amount that exceeds the growth of overdue credit.

The ratio of overdue loans over 90 days was 1.87% while the coverage ratio continued to attain significant levels (149% for overdue loans over 90 days and 131% for total overdue loans).

The solvency ratio remains at comfortable levels: 10.7% according to the Bank of Portugal's rules (Dec 01: 9.3%) and 12.8% under the BIS criteria (Dec 01: 10.7%).

The medium and long-term debt rating is A1, as assigned by Moody's, A- by Standard and Poor's and A+ by Fitchratings.

2002 confirmed the value of Group Banco Espírito Santo's multichannel distribution strategy (particularly as regards the contribution of internet banking) to enhance the efficiency of distribution and cement the Group's relationship with its customers. Leadership of the Internet Banking domestic market was strengthened, in terms of both the absolute number of customers and the penetration rate in the customer base: 586,000 BESnet customers (237,000 frequent users), representing a penetration rate in the individual customer base of 37%; 19,000 BESnet Negócios customers, accounting for a penetration rate in the small trades and the medium and large-sized companies segments of, respectively, 9.8% and 51.5%. The strong contribution to the Bank's income statement also deserves a note: on the costs side, thanks to the outsourcing of operations and rationalization of processes; on the revenue side, by saving time in the branches better employed in commercial action, and by virtue of fees and commissions generated by the direct channels. 22% of low-value operations were outsourced to the direct channels while 84% of all the Bank's stock exchange orders were also executed through these channels.

In the Azores, Banco Espírito Santo merged its operations with those of Caixa Económica da Misericórdia de Ponta Delgada, resulting in the establishment of Banco Espírito Santo dos Açores. This new unit closed the year with net assets of euro 205.3 million and a net profit of euro 1.15 million corresponding to six months in operation.

The process aimed at merging the Banco Espírito Santo, S.A. (Spain) and Espírito Santo Benito y Monjardín (ES ByM) networks was started in 2002, while at the same time their central services were integrated and costs cuts were obtained. In 2003 Banco Espírito Santo, S.A. (Spain) will be more focused on individuals, gearing corporate business to serve Banco Espírito Santo customers in Spain. In turn ES B&M will continue to operate in the financial markets and investment banking.

The restructuring process of InterAtlântico, SA (IASA) was completed in 2002, the entire stake held in Banco Bradesco, SA (3.29%) being concentrated under Banco Espírito Santo. This process involved the disposal by Group Banco Espírito Santo of its controlling position in IASA. The Bradesco partnership project was pursued, permitting to provide support to corporate customers with the valuable assistance of Banco Espírito Santo Investimento do Brasil.

The sale of the 20% holding in Kredyt Bank (Poland), in the first quarter, yielded Banco Espírito Santo a capital gain of euro 18 million, besides releasing the corresponding own funds. This sale reflects Group Banco Espírito Santo's strategic move towards concentrating resources allocated to international expansion in the Iberian Peninsula and other markets having affinities with Portugal.

We pursued this year the stock-based incentive system (SIBA), allocating over 1.6% of BES share capital to the entire staff of all the Group's organizations.

The development of new mechanisms aimed at improving corporate governance was another very important step taken in 2002. In this context, a new Code of Conduct addressed to all the employees of Group Banco Espírito Santo has been approved this year, and it has been gradually adapted and introduced to the Group's various credit institutions and financial companies. The main objective of this code is to establish a set of ethical duties, to prevent situations of conflict of interests and to regulate individual securities transactions made by the Group's employees.

About a year ago Banco Espírito Santo set up an Audit Committee that functions independently from the Board of Directors and the Executive Committee. This committee is made up of non-executive independent directors, all of them having a profound knowledge and experience of financial matters and credit institutions. At the end of 2002, a new information disclosure and control system was created aimed at guaranteeing the efficiency and quality of the overall process of gathering, assessing and disclosing information to the market. This represented a far-reaching measure that should lead to substantial improvements in current procedures.

A final word to the very good performance of Banco Espírito Santo shares during 2002. The BES share outperformed the PSI 20 as well as the Eurostoxx banking sector index, reflecting the market's recognition of the sustained growth strategy followed by BES.

2003 will be a year of multiple challenges and constraints, framed by a macroeconomic climate of uncertainty and a certain degree of pessimism. We nevertheless believe that the conditions are in place that will allow us to pursue in the path we have set out to tread in a sustained and balanced way. We are grateful to our Customers and Shareholders for the trust and confidence they have deposited in us, and will strive to continue to deserve it with the professionalism, dedication and spirit of innovation that has been the hallmark of our activity.

We end by expressing the high esteem in which we hold the Monetary and Financial Authorities and the Supervisory Board.

António Luís Roquette Ricciardi
Ricardo Espírito Santo Silva Salgado

José Malhoa
Loving Care
Oil Painting
Banco Internacional de Crédito

Corporate Bodies and Qualifying Stakes

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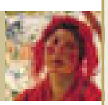


> Composition

In light of BES's statute as a public company, its corporate bodies are elected at General Meetings and are located in the Bank's registered office. Their present composition for the 2000-2003 four-year mandate is as follows:

> Table of the General Meeting

Chairman	Carlos Fernando Olavo Corrêa de Azevedo
Vice-Chairman	Eugénio Fernando de Jesus Quintais Lopes
Secretary	José Jácome da Costa Marques Henriques

> Board of Directors

Chairman	António Luís Roquette Ricciardi
Vice-Chairman	Ricardo Espírito Santo Silva Salgado
Vice-Chairman	Jean Gaston Pierre Marie Victor Laurent
Member	Mário Mosqueira do Amaral
Member	José Manuel Pinheiro Espírito Santo Silva
Member	António José Baptista do Souto
Member	Jorge Alberto Carvalho Martins
Member	Manuel António Gomes de Almeida Pinho
Member	Yves Henri Camille Barsalou
Member	Aníbal da Costa Reis de Oliveira
Member	José Manuel Ferreira Neto
Member	Manuel de Magalhães Villas-Boas
Member	Manuel Fernando Moniz Galvão Espírito Santo Silva
Member	Jackson Behr Gilbert
Member	Manuel António Ribeiro Serzedelo de Almeida[1]
Member	José Maria Espírito Santo Silva Ricciardi
Member	Jean-Luc Louis Marie Guinoiseau
Member	Gilles François Gramat
Member	Rui Manuel Duarte Sousa da Silveira
Member	Joaquim Aníbal Brito Freixial de Goes
Member	Francisco Luís Murteira Nabo
Member	Pedro José de Sousa Fernandes Homem
Member	Ilídio da Costa Leite de Pinho
Member	Herman Agneessens
Member	Patrick Gérard Daniel Coudène
Member	Michel Victor François Vilatte
Member	Mário Martins Adegas
Member	Luís António Burnay Pinto de Carvalho Daun e Lorena
Member	Lázaro de Mello Brandão
Member	Ricardo Abecassis Espírito Santo Silva
Member	Bernard Henri Georges De Wit

[1] Manuel Serzedelo de Almeida is suspended from his post as member of BES's Board of Directors for a period of no less than 60 days, following a request for temporary suspension, submitted by himself to the Chairman of the Supervisory Board on January 24, 2003.

> Executive Committee

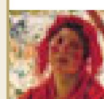
President	Ricardo Espírito Santo Silva Salgado
	Mário Mosqueira do Amaral
	José Manuel Pinheiro Espírito Santo Silva
	José Manuel Ferreira Neto
	António José Baptista do Souto
	Jorge Alberto Carvalho Martins
	Manuel António Gomes de Almeida Pinho
	José Maria Espírito Santo Silva Ricciardi
	Jean-Luc Louis Marie Guinoiseau
	Rui Manuel Duarte Sousa da Silveira
	Joaquim Aníbal Brito Freixial de Goes
	Pedro José de Sousa Fernandes Homem
	Patrick Gérard Daniel Coudène

> Supervisory Board

Chairman	Jacques dos Santos
Executive member	José Queiroz Lopes Raimundo
Official Auditors	João Augusto & Associados - SROC, Sociedade de Revisores Oficiais de Contas, represented by Inês Maria Bastos Viegas Clare Neves Girão de Almeida
Deputy Official Auditors	Jean-Éric Gaign
Substitute	José Manuel Macedo Pereira

> Company Secretary

Secretary	Eugénio Fernando Quintais Lopes
Deputy Secretary	Paulo António Estima da Costa Gonçalves Padrão



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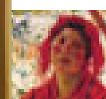

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Executive Committee

From left to right

Joaquim Aníbal Brito Freixial de Goes
António José Baptista do Souto
José Maria Espírito Santo Silva Ricciardi
Rui Manuel Duarte Sousa da Silveira
Patrick Gérard Daniel Coudène
Mário Mosqueira do Amaral
Ricardo Espírito Santo Silva Salgado (President)
José Manuel Pinheiro Espírito Santo Silva
José Manuel Ferreira Neto
Manuel António Gomes de Almeida Pinho
Jorge Alberto Carvalho Martins
Jean-Luc Louis Marie Guinoiseau
Pedro José de Sousa Fernandes Homem

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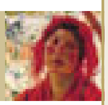


> Shareholdings of the Members of the Corporate Bodies

List to which no. 5 of article 447 of the Companies Code refers:

António Luís Roquette Ricciardi

At the start of the year owned 50,000 BES shares; BES/Cabaz DSL 2003 bonds in the amount of euro 26,000; BES / Cabaz 2003 bonds in the amount of euro 50,000; Espírito Santo Investment PLC/7.5% bonds in the amount of euro 100,000; and BES / Cabaz 2004 bonds in the amount of euro 50,000.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 12,500 BES shares by incorporation of reserves and by rights issue subscribed 17,500 BES shares at euro 11.00 each.

On December 31, 2002 held 80,000 BES shares, plus the bonds held on December 31, 2001.

Ricardo Espírito Santo Silva Salgado

At the start of the year held 130,318 BES shares; 1 share of Crediflash-Sociedade Financeira para Aquisições a Crédito, S.A. and 20 shares of Fiduprivate-Sociedade de Serviços, S.A.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 32,580 BES shares by incorporation of reserves and by rights issue subscribed 43,750 BES shares at euro 11.00 each.

Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 29,471 BES shares at euro 11.50 each.

On December 31, 2002 held 236 119 BES shares. Other holdings on December 31, 2001 did not change.

Mário Mosqueira do Amaral

At the start of the year owned 14,067 BES shares; 1 share of Crediflash-Sociedade Financeira para Aquisições a Crédito, S.A.; 20 shares of Fiduprivate-Sociedade de Serviços, S.A.; and BES / Cabaz 2003 bonds in the amount of euro 100,000.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 3,516 BES shares by incorporation of reserves and by rights issue subscribed 5,334 BES shares at euro 11.00 each.

Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.

On December 31, 2002 held 44 529 BES shares. Other holdings on December 31, 2001 did not change.

José Manuel Pinheiro Espírito Santo Silva

At the start of the year held 20,444 BES shares; 1 share of Crediflash-Sociedade Financeira para Aquisições a Crédito, S.A.; and 20 shares of Fiduprivate-Sociedade de Serviços, S.A.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 5,110 BES shares by incorporation of reserves and by rights issue subscribed 8,802 BES shares at euro 11.00 each.

On April 5, 2002 purchased 100 shares of ES Financial Consultants (Asset Management),

S.A. at euro 5 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On December 31, 2002 held 55,968 BES shares plus the other referred holdings.

António José Baptista do Souto

At the start of the year owned 51,130 BES shares.
On February 18, 2002 sold 9500 BES shares at euro 11.60 each.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 12,783 BES shares by incorporation of reserves and by rights issue subscribed 12,782 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On November 18, 2002 sold 20,000 BES shares at euro 11.00 each.
On November 28, 2002 sold 10,000 BES shares at euro 11.50 each.
On December 11, 2002 sold 3,482 BES shares at euro 12.00 each.
On December 16, 2002 sold 6,518 BES shares at euro 12.00 each.
On December 31, 2002 held 48,807 BES shares.

Jorge Alberto Carvalho Martins

At the start of the year held 12,016 BES shares.
On January 30, 2002 sold 1,016 BES shares for euro 14,676.17.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 2,750 BES shares by incorporation of reserves and by rights issue subscribed 2,750 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On December 31, 2002 held 38,112 BES shares.

Manuel António Gomes de Almeida Pinho

At the start of the year held 11,384 BES shares.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 2,846 BES shares by incorporation of reserves and by rights issue subscribed 2,846 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On December 31, 2002 held 38,688 BES shares.

Aníbal da Costa Reis de Oliveira

At the start of the year held 70,529 BES shares and 50,000 BES - Euribor bonds for a total amount of euro 50,000.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 17,631 BES shares by incorporation of reserves and by rights issue subscribed 21,840 BES shares at euro 11.00 each.
In May 2002 purchased BES - Finance, Ltd. 6.625% bonds in the amount of euro 900,000.
In October 2002 sold 25,000 BES - Euribor bonds, for a total amount of euro 25,000.

On December 31, 2002 held 110,000 BES shares, euro 25,000 in BES - Euribor bonds and euro 900,000 in BES - Finance, Ltd 6.625% bonds.

José Manuel Ferreira Neto

At the start of the year owned 36,167 BES shares.

On March 28, 2002 sold 22,282 BES shares at euro 12.10 each.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 9,041 BES shares by incorporation of reserves and by rights issue subscribed 9,041 BES shares at euro 11.00 each.

Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 24,558 BES shares at euro 11.50 each.

On December 9, 2002 sold 12,640 BES shares at euro 11,84 each.

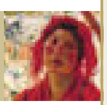
On December 31, 2002 held 43,885 BES shares.

Manuel de Magalhães Villas-Boas

At the start of the year held 384 BES shares.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 96 BES shares by incorporation of reserves and by rights issue subscribed 96 BES shares at euro 11.00 each.

On December 31, 2002 held 576 BES shares.



Manuel Fernando Moniz Galvão Espírito Santo Silva

At the start of the year held 730 BES shares.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 182 BES shares by incorporation of reserves.

On December 31, 2002 held 912 BES shares.

Jackson Behr Gilbert

At the start of the year held 710 BES shares.

On January 7, 2002 purchased 90 BES shares for euro 1,313.55.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 200 BES shares by incorporation of reserves and by rights issue subscribed 200 BES shares at euro 11.00 each.

On December 31, 2002 held 1,200 BES shares.

Manuel António Ribeiro Serzedelo de Almeida [1]

At the start of the year owned 13,296 BES shares.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 3,324 BES shares by incorporation of reserves and by rights issue subscribed 3,324 BES shares at euro 11.00 each.

Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 24,560 BES shares at euro 11.50 each.

On December 31, 2002 held 44,504 BES shares.

Companhia de Cervejas Estrela, SA, of which he is a shareholder and the Chairman of the Board of Directors, held at the start of the year 139,823 BES shares.

[1] Manuel Serzedelo de Almeida is suspended from his post as member of BES's Board of Directors for a period of no less than 60 days, following a request for temporary suspension, submitted by himself to the Chairman of the supervisory Board on January 24, 2003.

At the capital increase, whose deed was registered on March 27, 2002, was attributed 34,954 BES shares by incorporation of reserves.
On June 27, 2002 sold 139,823 BES shares for the total amount of euro 1,600,973.35.
On December 31, 2002 held 34,954 BES shares.

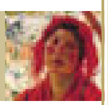
José Maria Espírito Santo Silva Ricciardi
At the start of the year held 11,000 BES shares.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 2,750 BES shares by incorporation of reserves and by rights issue subscribed 375 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On December 31, 2002 held 35,737 BES shares.

Jean-Luc Louis Marie Guinoiseau
At the start of the year held 11,000 BES shares.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 2,750 BES shares by incorporation of reserves and by rights issue subscribed 2,750 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On December 31, 2002 held 38,112 BES shares.

Rui Manuel Duarte Sousa da Silveira
At the start of the year held 11,811 BES shares.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 2,952 BES shares by incorporation of reserves and by rights issue subscribed 2,750 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On December 31, 2002 held 39,125 BES shares.

Joaquim Aníbal Brito Freixial de Goes
At the start of the year held 11,731 BES shares.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 2,932 BES shares by incorporation of reserves and by rights issue subscribed 2,932 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On December 31, 2002 held 39,207 BES shares.

Francisco Luís Murteira Nabo
At the start of the year held 800 BES shares; BES / Cabaz 2003 bonds in the amount of euro 50,000 and BES / Cabaz 2004 bonds in the amount of euro 50,000.
At the capital increase, whose deed was registered on March 27, 2002, was attributed



200 BES shares by incorporation of reserves and by rights issue subscribed 200 BES shares at euro 11.00 each.
On December 31, 2002 held 1,200 BES shares. Other holdings on December 31, 2001 did not change.

Pedro José de Sousa Fernandes Homem
At the start of the year held 11,000 BES shares.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 2,750 BES shares by incorporation of reserves and by rights issue subscribed 2,750 BES shares at euro 11.00 each.
On April 5, 2002 purchased 100 shares of ES Financial Consultants (Asset Management), S.A. at euro 5.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each.
On December 31, 2002 held 38,112 BES shares and 100 shares of ES Financial Consultants (Asset Management), S.A.

Patrick Gérard Daniel Coudène
Within the scope of the stock-based incentive system (SIBA), on May 7, 2002 purchased 21,612 BES shares at euro 11.50 each, maintaining these shares on December 31, 2002.

Mário Martins Adegas
On the date of the election of the Board of Directors, March 27, 2002, held 72,847 BES shares.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 18,211 BES shares by incorporation of reserves and by rights issue subscribed 18,211 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 6, 2002, purchased 18,664 BES shares at euro 11.50 each.
On December 31, 2002 held 127,933 BES shares.

Ricardo Abecassis Espírito Santo Silva
On the date of the election of the Board of Directors, March 27, 2002, held 13,497 BES shares.
At the capital increase, whose deed was registered on March 27, 2002, was attributed 3,374 BES shares by incorporation of reserves and by rights issue subscribed 3,374 BES shares at euro 11.00 each.
Within the scope of the stock-based incentive system (SIBA), on May 6, 2002, purchased 18,665 BES shares at euro 11.50 each.
On December 31, 2002 held 38,910 BES shares.

> Shareholders of Qualifying Stakes

Information on shareholders having qualified stakes as calculated under the terms of article 20 of the Securities Code for the purposes set forth in section e), no. 1, article 6 of the Portuguese Securities Market Commission (CMVM) Regulation no. 11/2000, as amended by the CMVM Regulation no. 24/2000.

- **BESPAR-SGPS, S.A.** holds directly 125,929,168 Banco Espírito Santo, S.A. shares representing 41.98% of the share capital and voting rights.

  Under the terms of section b), no. 1, article 20 of the Securities Code, another 6.17% that corresponds to 18,520,615 Banco Espírito Santo, S.A. shares held directly and indirectly by Companhia de Seguros Tranquilidade - Vida, S.A., a company controlled by BESPAR, SGPS, S.A., is also included in its voting rights.

  Under the terms of section d), no. 1, article 20 of the Securities Code, another 0.16% corresponding to the 475,807 Banco Espírito Santo, S.A. shares held by the members of its corporate bodies are also counted as BESPAR, SGPS, S.A. voting rights.

  Accordingly, 144,925,590 shares corresponding to 48.31% of the voting rights are directly and indirectly attributable to BESPAR, SGPS, S.A..

- **CRÉDIT AGRICOLE, S.A.** holds directly 26,419,710 Banco Espírito Santo, S.A. shares representing 8.81% of the share capital and voting rights.

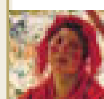
- **COMPANHIA DE SEGUROS TRANQUILIDADE-VIDA, S.A.** holds directly 18,418,135 Banco Espírito Santo, S.A. shares, and indirectly, under the terms of section d), no. 1, article 20 of the Securities Code, another 0.034% of the voting rights that correspond to 102,480 Banco Espírito Santo, S.A. shares held by the members of its corporate bodies. This corresponds to a total of 6.17% of the share capital and voting rights.

- **BANCO BRADESCO, S.A.** holds directly 9,000,000 Banco Espírito Santo, S.A. shares representing 3.00% of the share capital and voting rights.

- **PORTUGAL TELECOM, SGPS, S.A.** holds directly a total of 4,200,000 Banco Espírito Santo, S.A. shares representing 1.4% of the share capital and voting rights.

  The pension funds whose associates are companies of the PT Group and which are managed by Previsão - Sociedade Gestora de Fundos de Pensões, S.A., hold 7,864,744 Banco Espírito Santo, S.A. shares, representing 2.62% of the share capital and voting rights.

  Under the terms of section d), no. 1 of article 20 of the Securities Code the voting rights of PORTUGAL TELECOM, SGPS, S.A. also include a further 0.03% corresponding to 95,007 Banco Espírito Santo, S.A. shares that are held by the members of the PT Group corporate bodies.



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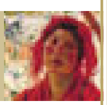


• Under the terms of no. 1, article 20 of the Securities Code, the following are counting as being owned by **ESPÍRITO SANTO FINANCIAL GROUP, S.A.** (Luxembourg):

- the voting rights corresponding to the 962,525 Banco Espírito Santo, S.A. shares which it holds directly;

- the voting rights corresponding to the Banco Espírito Santo, S.A. shares held directly and indirectly by BESPAR, SGPS, S.A. (specified above), in so far as Espírito Santo Financial Group, S.A. holds 100% of the share capital of Espírito Santo Financial (Portugal), SGPS, S.A., which in turn controls BESPAR, SGPS, S.A.

- the voting rights corresponding to the Banco Espírito Santo, S.A. shares held by the members of the Supervisory Board and Board of Directors of Espírito Santo Financial Group, S.A. (Luxembourg), as controlling company, as well as shares held by companies controlled direct or indirectly by it and/or members of the Supervisory Boards and Board of Directors, which together hold a total of 1,362,222 shares corresponding to 0.45% of the voting rights.

Accordingly, and under the terms of article 20 of the Securities Code referred above, 147,250,337 shares corresponding to approximately 49.00% of the voting rights are directly and indirectly attributable to Espírito Santo Financial Group, S.A. (Luxembourg).

By application of sections b) and d) of article 20 of the Securities Code, this percentage of voting rights is attributable to ESPÍRITO SANTO INTERNATIONAL HOLDING, S.A. (E.S.I.H.), and, together with the 177,336 shares held by members of the Board of Directors and Supervisory Board of Companies it controls directly and indirectly, totaling 147,427,673 shares corresponding to approximately 49.14% of the voting rights.

Under the terms and for the purposes of article 448 of the Companies Code, the following shareholders held at least one tenth, one third or half of the share capital of BES, S.A. as of December 31, 2002:

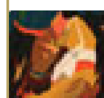
Shareholders	No. of Shares	% Share Capital	% Voting Rigths
BESPAR - Sociedade Gestora de Participações Sociais, S.A.(*)	125,929,168	41.98	41.98

(*) Under the terms and for the purposes of sections b) and d) of no. 1, article 20 of the Securities Code, another 6.33% corresponding to 18,996,422 shares are also counting as BESPAR-SGPS, S.A. voting rights.

2

Júlio Pomar
Grappling the Bull
Tapestry
Banco Espirito Santo

Financial Highlights and Business Indicators



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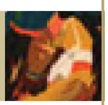
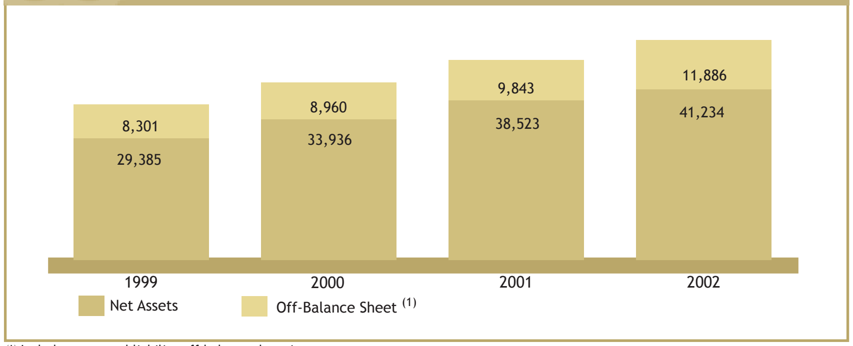


VARIABLES/INDICATORS	1999	2000	2001	2002
BALANCE (euro million)				
Total Assets (1)	37,686	42,896	48,366	53,120
Net Assets	29,385	33,936	38,523	41,234
Loans and Advances to Customers (Gross)	16,987	21,789	24,569	25,795
Total Customer Funds	24,787	27,370	31,497	34,059
Regulatory Capital	2,523	3,092	3,462	4,232
PROFITABILITY (%)				
Return on Assets (ROA)	0.77	0.76	0.55	0.57
Return on Equity (ROE)	21.14	21.94	15.57	13.10
SOLVENCY (%)				
BIS Ratio				
- Total	10.85	10.96	10.75	12.81
- TIER I	7.19	7.16	6.42	7.19
Bank of Portugal Ratio				
- Total	8.99	9.29	9.28	10.74
- TIER I	6.13	6.37	5.83	6.06
ASSET QUALITY (%)				
Overdue Loans > 90 days /Gross Loans	2.05	1.66	1.50	1.87
Coverage of Overdue Loans > 90 days	137.6	155.3	161.1	148.7
PRODUCTIVITY / EFFICIENCY				
Operating Costs / Total Assets (%)	1.46	1.47	1.48	1.36
Assets per Employee (euro thousand)	4,859	5,438	5,992	7,017
Cost to Income (%)	53.1	51.0	58.2	53.4
RATINGS				
Short Term				
STANDARD AND POOR'S	A 1	A 1	A 2	A 2
MOODY'S	P 1	P 1	P 1	P 1
FITCHRatings	-	-	-	F1
Long Term				
STANDARD AND POOR'S	A	A	A -	A -
MOODY'S	A 2	A 1	A 1	A 1
FITCHRatings	-	-	-	A+

(1) Includes assets and liabilities disintermediation

euro million

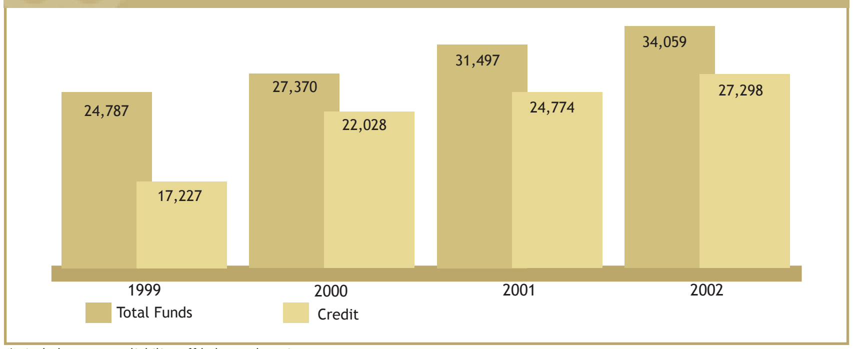
Net Assets



(*) Includes asset and liability off-balance sheet items

euro million

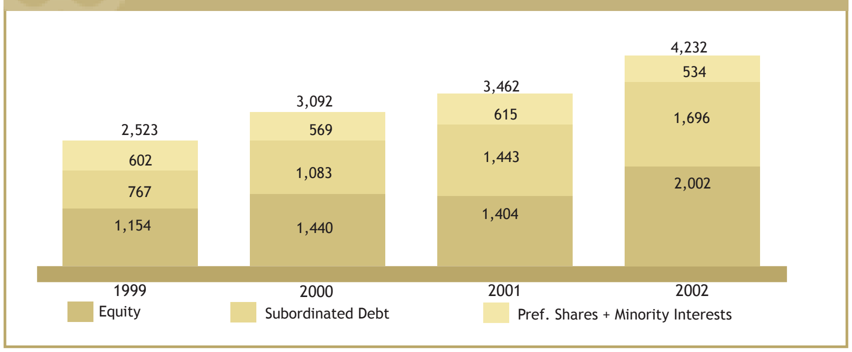
Business with Customers



(*) includes asset en liability off balance sheet items.

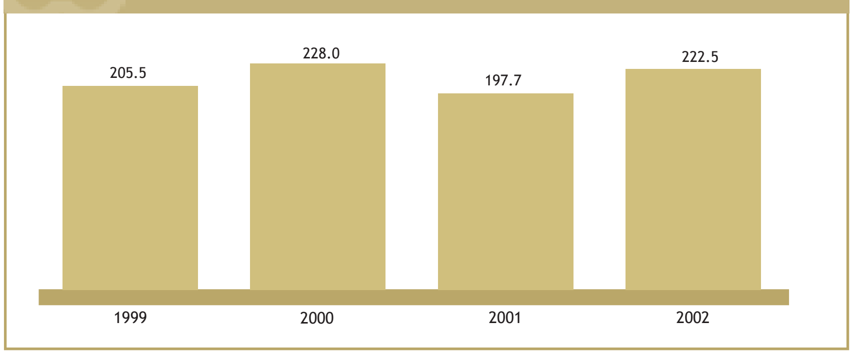
euro million

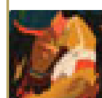
Own Funds



euro million

Net Profit





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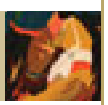
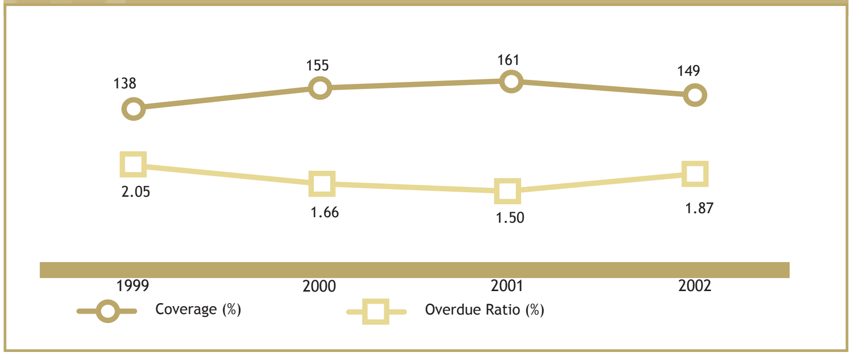
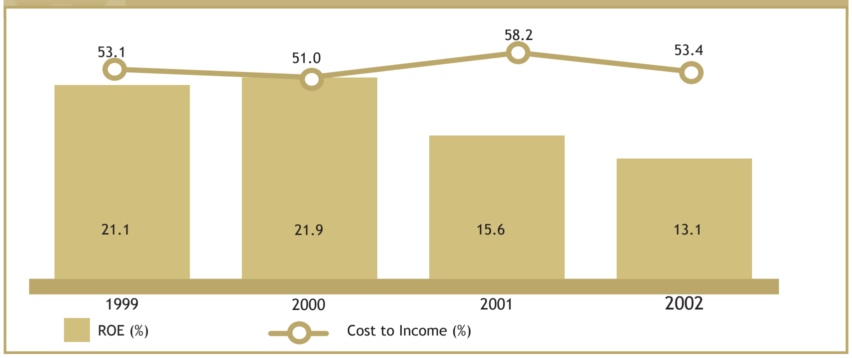


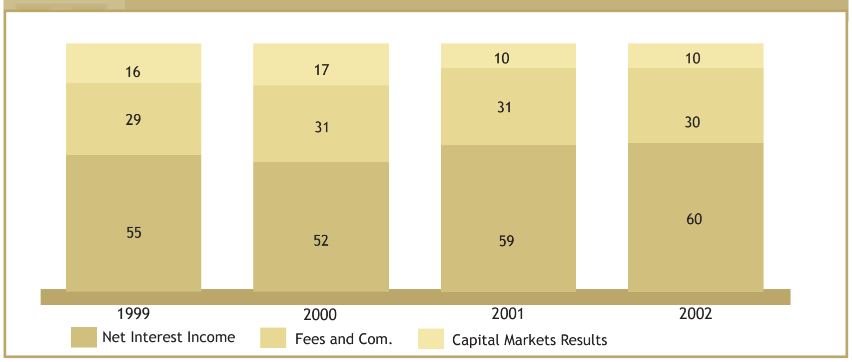
Overdue Loans (> 90 days) and Coverage Ratios



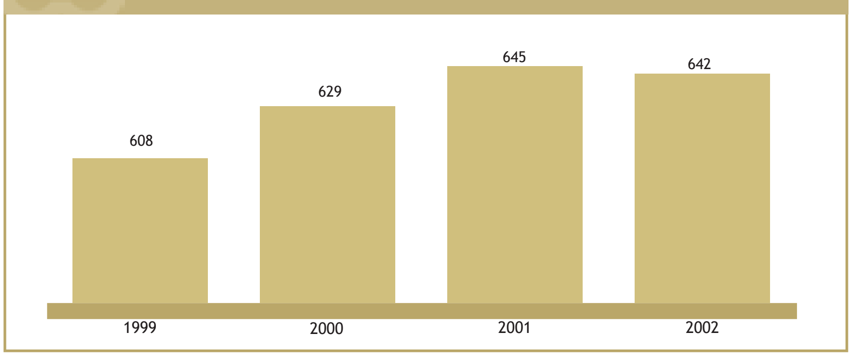
Profitability and Efficiency



Banking Income (%)

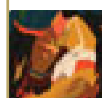


Branches



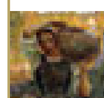
Results and Profitability

VARIABLES	SIMBOL.	1999	2000	2001	2002
AVERAGE BALANCE (euro million)					
Financial assets	$\overline{FA}$	24,169	27,483	33,025	35,559
Capital and Reserves	$\overline{KP}$	972	1,039	1,270	1,698
Net Assets	$\overline{NA}$	26,581	30,140	36,026	39,065
INCOME STATEMENT (euro million)					
Net Interest Income	NII	569.0	640.2	718.6	808.2
+ Fees and Commissions	FC	300.3	377.8	382.6	407.3
= Commercial Banking Income	CBI	869.3	1018.0	1101.2	1215.5
+ Capital Markets Results	CMR	160.6	211.0	125.8	138.5
= Operating Banking Income	BI	1,029.9	1,229.0	1,227.0	1,354.0
- Operating Costs	OC	547.2	627.0	714.1	722.7
- Net provisions	Prov	167.9	257.4	204.8	280.8
- Extraordinary Results and Others	XR	-2.8	-1.9	23.4	57.2
= Results Before Taxes and Minorities	RBT	317.6	346.5	284.7	293.3
- Income Tax	IT	48.5	64.0	38.6	38.5
- Minority Interests	MI	63.6	54.5	48.4	32.3
= Net Profit	NP	205.5	228.0	197.7	222.5
PROFITABILITY (%)					
Net interest margin	NII / $\overline{FA}$	2.35	2.33	2.18	2.27
+ Return on fees and commissions	FC / $\overline{FA}$	1.24	1.37	1.16	1.15
+ Return on capital markets results	CMR / $\overline{FA}$	0.66	0.77	0.38	0.39
= Business margin	BI / $\overline{FA}$	4.26	4.47	3.72	3.81
- Weighting of operating costs	OC / $\overline{FA}$	2.26	2.28	2.16	2.03
- Weighting provisions	Prov / $\overline{FA}$	0.69	0.94	0.62	0.79
- Minority interests and other costs	(MI+IT+XR) / $\overline{FA}$	0.45	0.42	0.33	0.36
= Return on financial assets	NP / $\overline{FA}$	0.85	0.83	0.60	0.63
x Weighting of financial assets	$\overline{FA}$ / $\overline{NA}$	0.91	0.91	0.92	0.91
= Return on assests (ROA)	NP / $\overline{NA}$	0.77	0.76	0.55	0.57
x Placements multiplier	$\overline{NA}$ / $\overline{KP}$	27.35	29.01	28.38	23.01
= Return on equity (ROE)	NP / $\overline{KP}$	21.14	21.94	15.57	13.11



Souza Pinto
Return from the River
Oil painting
Banco Internacional de Crédito

Stock Market Indicators



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Stock Market Indicators

INDICATORS			2001 (1)	2002 Stated (2)	2002 Adjusted (3)	Change % (3/1)
1. No Shares outstanding	(thousand)		200,000	300,000	241,667[a]	20.8
2. Last price	(euro)		14.47	12.50	12.50	-13.6
3. Stock market capitalization	(euro million)		2,894	3,750	3,021	4.4
Consolidated financial data						
4. Capital and reserves	(euro million)		1,206	1,779	1,779	47.5
5. Net profit	(euro million)		197.7	222.5	222.5	12.5
6. Gross dividend	(euro million)		75.2	86.1	86.1	14.5
7. Pay Out Ratio	(%)	(6/5)	38.04	38.70	38.70	0.7 p.p.
Per share data						
8. Book value	(euro)	(4/1)	6.03	5.93	7.12[b]	18.0
9. Net profit	(euro)	(5/1)	0.99	0.74	0.92[a]	-7.0
10. Gross dividend	(euro)	(6/1)	0.376	0.287	0.356[a]	-5.2
Price as multiple of						
11. Book value (PBV)	PBV	(2/8)	2.40	2.11	1.76	-
12. Net profit (PER)	PER	(2/9)	14.62	16.85	13.58	-
Price return on						
13. Net profit	(%)	(9/2)	6.84	5.93	7.37	-
14. Dividend (Dividend Yield)	(%)	(10/2)	2.60	2.30	2.85	-

(1) Number of shares considered: initial number of shares (200 million) + shares subscribed in cash (50 million) weighted by holding period (10/12).
(2) Number of shares considered: 250 million; excludes 50 million of incorporation of reserves in capital increase.
(*) Proposal to be submitted to the General Meeting of March 26, 2003 of a dividend per share of euro 0.287 on all shares existing at the end of the year.

The stock market performance of the BES share reflects on the one hand the market's negative evolution, and on the other the impact of the capital increase that took place in the first quarter of 2002. The number of shares was therefore adjusted to permit a comparison with the previous year.

The share price decreased by 13.6%, which compares well with the fall experienced by the PSI 20 index (-25.6%); the Price Earnings Ratio declined from 14.62 to 13.58; the Price Book Value came down to 1.76%; and the Pay Out Ratio, at 38.7%, remained practically flat. On the other hand the share price profitability indicators made frank progress, with the dividend yield rising from 2.60% to 2.85% and the price return on earnings growing from 6.84% to 7.37%.

Despite an unfavorable economic climate, with the annual stock exchange trading volume falling by roughly 25%, the BES share trading volume actually increased, and turnover improved.

	1999	2000	2001	2002
Annual volume (M€)	1,022	1,020	652	1,056
Turnover (%)	31.2	28.5	22.6	28.2

> Bes Shares and the Market

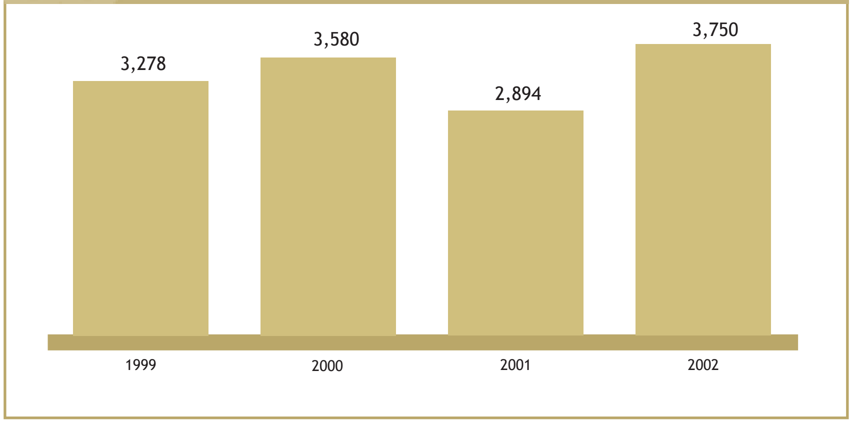
The capital market was sluggish throughout the year, a fact made quite visible by the PSI 20's annual fall of 25.6%. Still, BES reached a stock market capitalization of euro 3,750 million at year end, corresponding to an increase in the Bank's market value of around 30% - this being naturally influenced by the capital increase that took place in the first quarter.

Hand in hand with this increase in value, the stock gained ground in the Portuguese corporate fabric. BES's share in terms of the equity market capitalization rose from 3% in 2001 to 5% in 2002, which corresponds to the third highest stock market capitalization amongst Portuguese companies listed in the Euronext Lisbon.

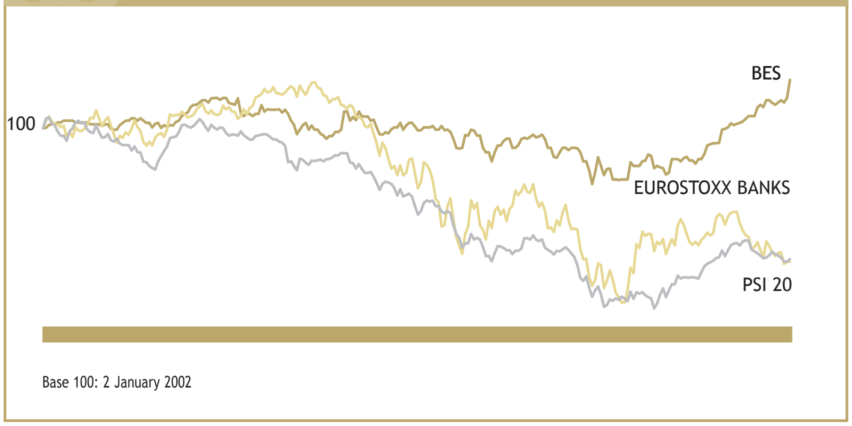
The good performance of BES shares can also be gauged by looking at the general trend in share prices: overall, BES outperformed the market, and except for the period immediately following the capital increase, the share price improved consistently from the second quarter until the end of the year.

(euro million)

Evolution of Market Cap



Evolution of Share Price 2002



Source: Bloomberg

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> Shareholders

The profile of BES's shareholders did not change significantly after the capital increase. The main shareholders as of December 31, 2001 were as follows:

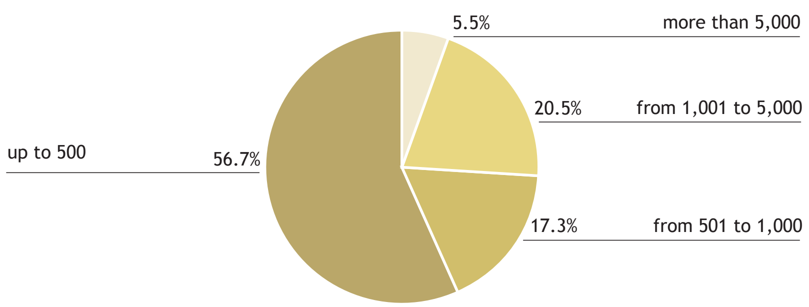
Shareholders	% Share capital
BESPAR – Sociedade Gestora de Participações Sociais, S.A.	41.98
Crédit Agricole, S.A.A	8.81
Companhia de Seguros Tranquilidade - Vida, S.A.	6.14
Banco Bradesco, S.A.	3.00
Previsão - Sociedade Gestora de Fundos de Pensões, S.A. (*)	2.68
Portugal Telecom, S.G.P.S., S.A.	1.40

(*)The pension funds whose associates are companies of the PT Group, managed by Previsão, represent 2.62% of the share capital and voting rights.

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

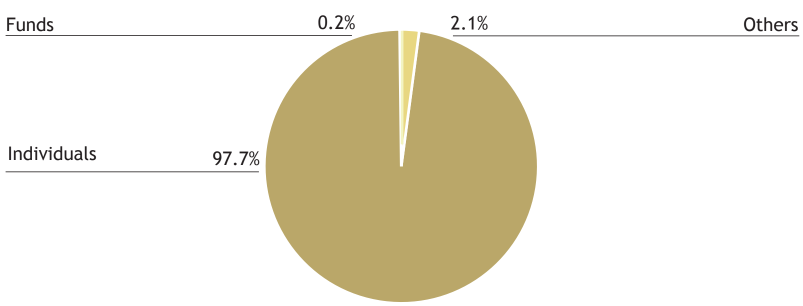
number

Shareholders by Number of Shares Held



number

Shareholders by Legal Status

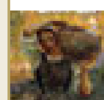


Transactions of Own shares	Number	Unit Value (euro)	Total (euro)
Balance at December 31, 2001	0	-	-
Transactions During the Period			
Purchases	4,777,955	11.49	54,899,988
Sales	4,777,955	11.50	54,946,483
Balance at December 31, 2002	0	-	-

> Own Shares

The transactions involving own securities carried out in 2002 concerned exclusively the shares purchased by BES and sold entirely to its employees within the scope of the share allocation plan - the stock-based incentive system (SIBA).

In accordance with the legislation in force (article 66 of the Companies Code), the following chart presents the information on transactions of own securities.



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Pedro Proença
Ins and Outs
Oil on panel
Banco Espírito Santo

Strategic Guidelines 5

Group Banco Espírito Santo leads its business of providing a universal range of financial services from the fundamental perspective of creating value for its Shareholders while satisfying the equally essential condition of simultaneously meeting the interests of both Customers and Staff.

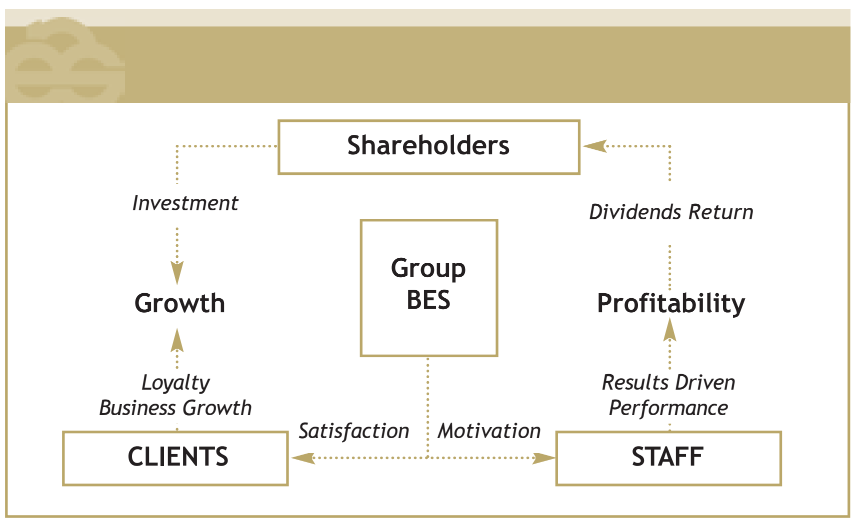
In fact, the sustained creation of value for the Shareholders relies on a permanent focus on the Customer, by providing a specialized, innovative and high-quality service that aims at establishing a long-term financial relationship. On the other hand, a highly competent, dedicated and motivated Staff, able, not only of executing tasks but also of raising questions, will keep the organization on the track of improvement and innovation.

This combination of interests lies at the base of Group BES's strategic objective of further progressing in the path to growth to become the best and most profitable Portuguese Financial Group.

Group Banco Espírito Santo has assumed service excellence as the main driver of strategic differentiation. Along these lines, it has evolved towards the creation of a universal financial group, offering a comprehensive range of financial products and services and involved in all the segments - individual, corporate and institutional customers.

Throughout its history, Group Banco Espírito Santo and its solid and stable core of shareholders have successfully gone through different economic contexts and always acted upon highly consistent standards.

Finally, the role played by technological innovation is not only critical in terms of improving service quality, but also in providing answers that will satisfy the customers' needs and simplify their life, and in the potential it has for raising business efficiency and hence meeting the objective of value creation.



5

Pedro Cabrita Reis
Mixed Technique on Paper
Banco Espírito Santo

Basis of Commercial Performance and Multispecialization

6

The activity developed by Group Banco Espírito Santo throughout 2002 focused on the fine-tuning of its commercial approach to the various customer segments. Specifically, a number of actions were prepared and carried out aimed at enhancing the relationship with the customer based on the perception of his needs.

The successful implementation of the "Proximity Banking" project was one of these actions. It involved refining the segmentation of the universe of retail customers and streamlining the commercial approach to each segment, namely by having regard to the potential economic value of each and the value proposal presented. This allowed Group Banco Espírito Santo to further cement the multispecialist nature of its offer, where each customer will find full and optimal satisfaction of his financial needs, either those relating to his day-to-day requirements and those involving medium and long-term investments and credit.

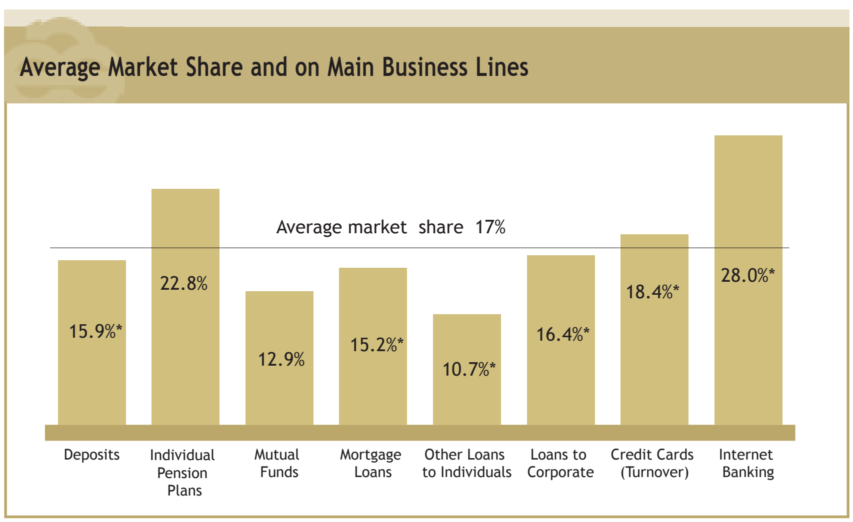
6

The activity developed in 2002 also addressed a number of cross-section issues that have contributed to the high level of differentiation maintained by Group Banco Espírito Santo. Among these, BES's leadership of direct channels from the start (particularly of Internet Banking) and the strong effort put into reinforcing quality levels across all areas of the organization should be mentioned.

The implementation of a total quality policy was pursued in 2002. Over the last few years the aim of this policy has been to establish service quality as a differentiating feature of the Group's activity. Several measures were taken to enhance service quality, namely through the "+ Service + Value" project, aimed at simplifying and standardizing procedures, and certifying staff skills, through training. At the same time, efficient service recovery means were tested in the commercial networks, specifically to support the response to customer problems and complaints.

The instruments used to monitor external quality, launched in previous years, were consolidated. Namely, satisfaction surveys to the market's key segments were given greater prominence, and almost the entire commercial network was covered by "Mystery Client" surprise visits to the branches. As the Group consolidates its commitment to service quality, service quality itself is increasingly aligned to the incentive systems of the various organic units.

The correctness of these initiatives was made apparent by the good progress made by Group BES's average market share (estimated at around 17%), though at a more moderate pace than in past years. The Group maintained its leadership of Internet Banking, with a share of 28% in terms of regular users, according to available market estimates.



(*) Estimate

> Direct Channels: A must for the Customers

The advance made in establishing a multi-channel commercial approach model, supported by the customers' needs and behavior, underscored the ever-increasing importance attributed to direct channels during the reporting year.

The integrated service rationale of direct channels, which seek to provide a remote solution to nearly all the needs arisen in the relationship between the customers and the Bank, presents aspects such as ease of use, accessibility, availability and better service quality that are highly valued and greatly contributed to retain customers and increase their loyalty to the Bank.

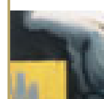
At year end, BESnet (Internet banking) had 586,000 active customers, of which 237,000 users - this represents an annual increase of respectively 60% and 26% that ensures the Bank a major position in this area. The penetration in the customer base reached 32%, in line with leading reference figures worldwide.

BESnet accounted for roughly 22% of total low added-value operations externalized. The use of this channel to give and monitor stock exchange orders is particularly noteworthy, with more than 66% of these transactions being carried out through the Internet. On the side of savings products, the customers now have the possibility of subscribing several products on their own (term deposits, housing savings accounts, Individual Pension Plans and PPA[1]).

The past year also confirmed the bet made on Internet banking for corporate use. As a result, at the end of the year approximately 51% of the medium-sized companies were already frequent users of BESnet Negócios. This service was continuously enriched with new and important functionalities, namely the possibility to pay the social security tax, to consult bills and promissory notes, to access independent entrepreneurs and a multi-corporate access for groups of companies. The nearly 20,000 companies actively using the service show the importance of BESnet Negócios as an added value tool in their conduction of business, while representing a clear advantage for BES in terms of enhancing customer loyalty and reducing the work load in the commercial structures.

At the same time the use of the MultiBES ATMs to deposit checks was given a boost, having increased by 40% over the past year. This represented a very important element in externalizing operations and releasing the commercial network for other tasks. The past year was also a year of optimization for BES Directo (telephone banking), which, having reached maturity, is now witnessing the migration of customers to the Internet Banking Service.

(1) Long term savings plans with shares investment profile and tax benefits.



6.1 > Retail Banking

> Implementation of Proximity Banking

Proximity Banking was implemented to cope with an increasingly aggressive and demanding financial environment, which has imposed greater focus on higher added-value services. This had the following implications:

- New segmentation, oriented according to the customers' current and potential value;
- Definition of fresh commercial approaches, optimized for each segment;
- Re-directing of the sales force and restructuring of the commercial organization.

Four major principles presided over the creation of the Proximity Banking project:

Selectivity - treating each customer according to his current and potential value and introducing separate approaches for each segment;

Proactivity - definition of proactive and dynamic commercial approaches;

Standardization - standardizing approach strategies;

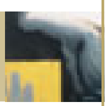
Integration of channels - steering customers to the more suitable channels, to ensure the success of each separate commercial approach.

> Dynamics of commercial campaigns and business progress

Notwithstanding an unfavorable macroeconomic situation, 2002 was a year of very positive results for Retail. The Integrated Management of Savings (IMS) campaigns proved very appealing. These campaigns, the cornerstone of the resources offer, were launched on a monthly basis, with new integrated products being added each month. In this context, the following initiatives were taken:

- Diversified channeling of savings into lower-risk bond funds, within the scope of the IMS;
- Launch of the Summer Campaign addressed to Portuguese residents

abroad; this campaign yielded very positive results, in a segment of particular importance for the Group;
- Development of safety packages, in cooperation with Tranquilidade Vida and ES Seguros, to support cross selling and the placement of an integrated range of products;
- Placement of insurance policies - in Non-Life Insurance (Motor, Home and Health) more than 82,300 than policies were sold while the Seguro Protecção Vida grew by more than 70% over the previous year, with sales exceeding 49,000 policies;
- Launch of new Mortgage Credit products aimed at affluent customers (Executive) and, at the end of the year, of a new product featuring a redemption schedule of 40 years.



6.2 > Private Banking

The area of Private Banking has sought to tackle the new challenges arisen out of the macroeconomic environment of the last few years, which has been leading investors to change their behavior, by taking action along the following lines: a permanent follow-up of customers and a systematic assessment of their investment profiles, resorting to a range of own and third-party products adapted to their needs and expectations; a more defensive allocation of portfolios, characterized by the periodic launch of capital guaranteed structured products betting on various categories of assets, and the introduction of alternative products aimed at absolute return, usually called hedge funds. A comprehensive offering was thus obtained, with access to some of the best products available in the domestic and the international markets.

6.3 > Corporate Banking

The commercial and organizational model for medium-sized companies has been streamlined during the last two years, reinforcing the Group's role as a reference in this segment. Having at present 115 Corporate Managers, organized into 24 Corporate Centers covering the entire national territory, Group BES remains firmly rooted in the Portuguese business fabric.

Bearing in mind the economic situation in Portugal and abroad, risk management deserved redoubled attention, specifically in what concerns exposure levels, pricing and the reinforcement of guarantees. An integrated approach of customer needs was also intensified, by promoting cross selling with the Group BES companies: Besleasing, Euroges, ES Capital, BES Investimento and Crediflash. The performance in terms of insurance products (Tranquilidade) was quite remarkable this year, with sales of life and non-life policies having risen by respectively 26% and 80%.

A dynamic cross-segment approach to Private Banking and Retail activities permitted to enlarge the scope and improve coordination in the offer aimed at the staff and partners/shareholders of medium-sized companies.

The Economy Operational Program, which gave a significant stimulus to corporate investment and modernization as crucial factors in the relaunching of the Portuguese economy, deserved the Group's special attention. Hence a unit was created to take advantage of Investment Support Programs. This unit was responsible for boosting internal and external commercial action and for interconnecting with the entities in charge of the various incentives schemes.

In the segment of Large Corporates, the year was marked by the introduction of stricter risk assessment and monitoring criteria and consequent adaptation of the pricing and selectivity policy, and also by the continuous improvement of service quality in tandem with the offer of a broad and innovating range of electronic banking products. The Group's different business areas, particularly BES Investimento, Besleasing and Euroges, worked together to produce a coordinated range of products and solutions, and also to stimulate and support the internationalization projects of Portuguese groups. On the whole, the work carried out in this area confirmed Group BES's prominent position in terms of involvement and relationship with the Large Corporates.

In what concerns the specialized service provided to multinational companies established in Portugal, a global relationship was promoted involving an intensification of contacts with the respective parent companies and the offer of products adapted to the specific needs of this segment.

6.4 > Investment Banking

The strategy adopted for investment banking is targeted at the Atlantic axis that links the Portuguese, Spanish and Brazilian markets, supporting the expansion of companies in these countries both in their domestic markets and across frontiers.

However, 2002 was quite penalizing for investment banking business worldwide. The equity market was marked by the continuous fall of the main stock market indices. The brokerage business reflected this situation, falling sharply and abruptly.

In Portugal, trading volumes in the local stock exchange were substantially reduced, with brokerage fees deteriorating accordingly.

Group BES's Project Finance activities were recognized by the international market, deserving the classification of 1st Iberian Bank in terms of consultancy and 2nd as lead-arranger in the 2002 League Tables published by the Project Finance International magazine. Also, the LusoScut Beira Litoral e Alta project, where the Group acted as Consultant, and Lead-arranger and Coordinator of the International Syndication, was recognized by the Project Finance Magazine as the Infrastructure Deal of the Year.

In Portugal, the Bank acted as Consultant and Lead Arranger in the Lusoscut Greater Porto road-building project, which involved an investment of euro 841.2 million. This was the 4th project won by the consortium led by Mota & Companhia and supported by the Group. Also in the transport sector, the Bank was Lead Arranger in the financing of rolling stock for the Sul do Tejo underground project, worth euro 64 million. Finally, we also had the role of Consultant and Lead Arranger in the financing of the Sporting Club de Portugal's new football stadium, an investment of euro 131 million.

Turning to the international market, the Project Finance team based in London completed its first year of activity in 2002, having met the objectives it had set out to reach, namely by acting as Lead Arranger in two major projects in the London market: the 1.0 billion sterling pounds financing of Tubelines for the 30-year concession of the London underground's Jubilee, Northern and Piccadilly lines - nominated Deal of The Year 2002 by the Infrastructure Journal Magazine - and the 757 billion sterling pounds financing of the new Wembley stadium.

The venture capital area continued to deserve close attention, important steps having been taken to expand business in Portugal and to move ahead into the creation of partnerships in the Spanish market.

Continuing the trend of the past year, 2002 proved a hard year for the asset management business, due to the performance of capital markets at national and international level. The strategy of launching new products proved absolutely correct - the Caravela Sicav Fund, launched in 2001, saw assets under management rise by 19%.

Finally, the reorganization of the Spanish operation was completed in 2002. This involved the merger of several companies, leading to the creation of ESAF - Espírito Santo Activos Financieros, S.A., which now holds ES Gestion and ES Pensiones.

6.5 > International Activity

Several important developments occurred in 2002 involving BES Group's units abroad that led to a shift in strategies, namely in terms of the approach to markets such as Spain and Eastern Europe.

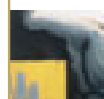
The integration of the commercial networks in Spain permitted to redefine the scope of the Group's activity in this country. BESSA is now strategically positioned as a bank specializing in the personalized and integrated management of individual customer segments (affluent and private) and medium-sized/large companies - as regards the latter, it continues to focus on the strong commercial and investment links that exist between the two countries.

In Eastern Europe, the sale of the stake held in Kredyt Bank (Poland) reflects a strategic move towards concentrating in the Iberian Peninsula and in markets with a strong presence of Portuguese communities the resources earmarked for international development.

The integration of Via Banque into BES Vénétie (France) was concluded. The new bank (Banque Espírito Santo et de la Vénétie) has assumed as its area of strategic engagement the provision of specialized services within the scope of the relationship with Southern European countries.

In the Brazilian market, once the process of swapping holdings with Bradesco was concluded, the partnership project with this institution was pursued. Under this partnership, Portuguese companies doing business in Brazil will be supported by the largest Brazilian private bank and have access to its range of products and services. BES Investimento do Brasil, in turn, continued to have an important role in canvassing business opportunities arisen locally, banking on its knowledge of this market.

The start-up of BES Angola (BESA) at the beginning of the year represented a milestone in BES presence in this African country, until then ensured by the Representation Office in Luanda. During its first year in operation, BESA has embarked on a sustained growth path in the segments of individual and corporate customers. This bank has set out to give an important contribution to the modernization of this country's financial system and to increase the level of bankerization among the Angolan population.



6.6 > Involvement in the Financial Markets

The volume of business done with customers, whether in attracting funds or in granting loans, plays a key role in the activity developed by the Group. On the other hand, in the present era of globalization of the economy and of modern financial management, the involvement of banks in financial markets, both domestic and international, is increasingly vital. Hence the Group has a sophisticated structure to support the operations carried out in the various markets - capital, interbank, derivatives and foreign exchange - that permits to benefit from the advantages that can be obtained from expectations of overall economic trends, and interest rate trends, in particular, while pursuing a prudent management of liquidity risk.

On the capital markets' front, the Group's policy has been to diversify its securities portfolio, mainly by privileging investments in low credit risk sectors in the Euro area, USA and United Kingdom markets.

The Group has made the internationalization of the Portuguese public debt market one of its targets, and has sought to promote it by developing several initiatives addressed to foreign institutional investors. Today, Group BES figures among the reference entities in this market, both as primary dealer and as market maker, and, with consistently high daily transaction volumes, it is the undisputed market leader in the primary and secondary markets.

Turning to the area of liquidity management, the Group continued to be actively involved in international capital markets, essentially by arranging asset securitization operations and by issuing debt under Euro Medium Term Notes (EMTN) and US Commercial Paper programs.

As regards the derivatives market, and besides trading activities, the management of market risk hedging, particularly of interest rate risk, continued to assume great prominence in view of the volatile behavior of interest rates in the Euro area and the USA during the year. Judicious risk management played a particularly relevant role in financial management, which was conducted against an increasingly depressive background, which had a negative impact on the performance of equity markets and resulted in a general widening of credit spreads.

6.7 > Rationalization and Efficiency

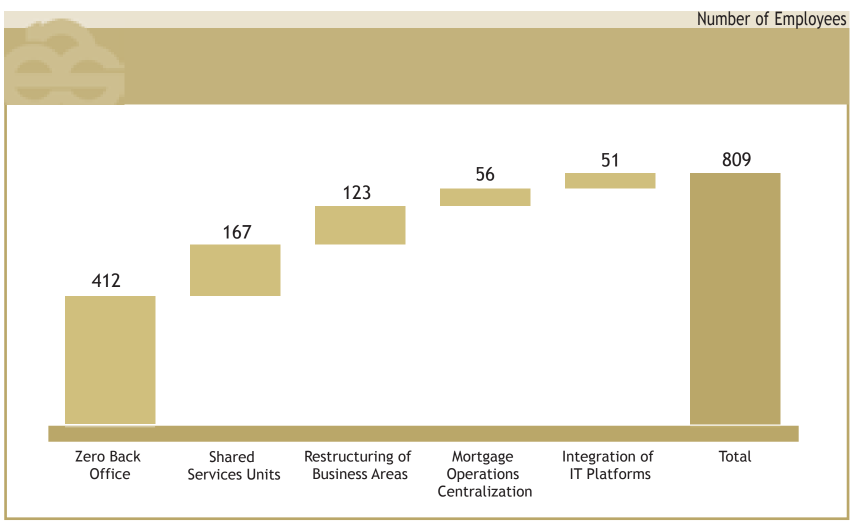
The rationalization and efficiency plan implemented in 2001-2002 relied on exploiting opportunities generated by the digital economy to endow the distribution networks with the technologic capability permitting to increase sales effectiveness, while simplifying the production process, namely through the dematerialization of paper documents and the application of workflow solutions to credit processes, within the scope of the "Zero Back Office" program.

On the other hand, the integration of Banco Internacional de Crédito, Banco BEST and Banco Espírito Santo dos Açores into BES's information systems platform permitted to develop shared service units and rationalize operating areas, as a next step to the integration of the various central back office units.

On a different front, the slowing down of economic activities since 2001 triggered a number of company restructurings in the area of investment banking and in the international area.

Several streamlining schemes were successfully implemented, resulting in a reduction of 808 employees, which compares with the initially planned 790 reduction.

The digitalization of work processes to improve the efficiency and quality of the product and service offering to customers is a constant concern of the Group. Consolidating credit workflow systems and dematerializing paper documents across the organization's internal processes are key elements in a sustained



policy of reducing unit costs, raising service quality and mitigating operational risks - to achieve sustained competitiveness in the medium and long term.

In another dimension, the advances made in a segmented commercial approach, featuring differentiated value proposals for the various segments, while banking on the centralization of operations and systems and enhancing the role of shared service units, have permitted to progressively optimize the multispecialist organizational model.

6.8 > Integrated Risk Management

Risk management and control, for their role in providing active support to management, are currently one of the strategic mainstays supporting Group BES's balanced and sustained development.

This activity relies on the incorporation of the best and latest techniques in risk management, in a balanced trade-off between experience and innovation.

The challenges and opportunities arising out of the New Capital Accord (Basel II) have been closely followed by Group BES. The approach closer to the economic perspective undertaken in the Basle Committee's new regulatory framework - whose principles confirm the founding guidelines and the practices followed by the Group BES - underlines the opportunity and stimulates the effort that is being developed in the risk management area.

At the end of the year Group BES participated in the Quantitative Impact Study (QIS3) on the New Capital Accord (Basel II), which made it possible to assess the positive results of a broad-based set of initiatives taken during the current year at the technologic, processes and methodology levels.

With the aim of ensuring adequate management and control all the way through the different stages of the various processes and in all the Group's institutions, risk management function remains organized in two broad areas, "Global Risk" and "Company Monitoring and Credit Recovery", having the following objectives:

- to identify, quantify and monitor the different categories of risk, in such a way as to reinforce the knowledge and management of the Group's overall exposure;
- to gradually implement the risk policies outlined by the Executive Committee, ensuring consistency of principles, concepts and methodologies across all the Group's entities;
- to contribute to the continuous fine-tuning of the internal tools of performance assessment and capital optimization;
- to provide the commercial areas with tools to assist the structuring and pricing of operations at the time they are originated;
- to efficiently manage situations of significant delay or definitive non performance of contractual obligations.

> Credit risk

The dynamic management of credit risk relies on an efficient interaction between the various teams involved throughout the successive and different phases of its life cycle, complemented by the revision and introduction of continuous improvements at both the level of policies, standards and methodologies, and at the level of procedures, decision circuits and tools used in assessing and monitoring risk.

In this respect, some initiatives taken during the year deserve a note. The overall project for redesigning and differentiating the credit analysis, assessment and approval processes and for revising delegated credit powers, was implemented, though still on a test basis. This project is fully anchored on the perspective of economic risk and seeks to increase the accuracy, speed and cost-effectiveness of credit decisions. To this end, the assignment of internal ratings was pursued, viewing the full coverage of the credit portfolio. The new credit process, whose pilot project proved quite successful at all levels, will be rolled out at the beginning of 2003, fully aligned to the increasingly stricter criteria employed for risk management.

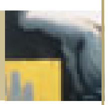
Concerning the rather adverse macroeconomic context, special care was naturally taken in the everyday deployment of credit risk monitoring and control actions involving all the commercial divisions, so as to permit the early definition and implementation of focused risk management measures adjusted to those customers whose risk profile during this period showed signs of deteriorating. The success of this process relied on the combined use of the multiple analysis tools available to and continuously developed by Group BES.

The progress made in the assessment of credit risk was in fact recognized through the sponsorship agreement entered with the Moody's Risk Management Services aimed at speeding up the development and delivery of a version of its Rating RiskCalcTM model for private companies based in Portugal.

The various risk and scoring models employed in the corporate and retail segments have proven very important tools to quantify and assess risk, by permitting to improve on the discrimination of quality between the various categories of customers, with immediate repercussions on differentiated offers of credit based on risk metrics, namely expected losses and economic capital.

> Market Risk

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 share prices, or from changes in the market's liquidity.



The management of market risk is integrated in balance sheet management through the Asset and 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 risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. BES's 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, extreme stress testing scenarios were also developed, 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.

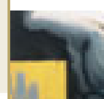
> Operational risk

Operational risk usually represents the possibility of losses from failures while carrying out internal procedures, due to the behavior of individuals or information systems, or even to events external to the organization.

Group BES has been paying particularly close attention to the debate on the revision of capital adequacy requirements currently taking place at the Basel Committee, namely in what concerns the capital allocation for operational risk, and the recommendations put forward, which, if followed by the institutions, will permit to evolve from the usual way of managing operational risk to an integrated and systematic management including the identification, monitoring, quantification and mitigation of this type of risk.

Because of its growing importance, operational risk deserves an exclusively dedicated area. This area operates in a transversal way with other relevant Departments, and, among other tasks, analyses the best management practices with regard to this type of risk.

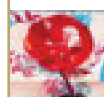
To this end, and following a preliminary diagnosis that focused on some areas of the organization, a number of initiatives were launched, specifically: (i) beginning of data collection and database categorization for some typologies of events resulting from operational risk; (ii) identification and qualitative analysis of critical points in terms of operational risk, in some processes of specific business areas; (iii) revision of procedures associated to the treatment of information as set out in the Security Policy and the Information Security Manual. The revision of surveys and processes analysis, currently under way, will contribute to the success of these initiatives.



6

Nikias Skapinakis
Still life
Oil painting
Banco Espírito Santo

Macroeconomic Environment



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7.1 > International Economic Situation

2002 saw a moderate and fragile recovery of the **world economy**, with GDP growing by 2.3%, after 1.4% growth in the previous year. However, this recovery did not extend to all economic areas. In particular, the deceleration in the Euro Area contrasts with the slight picking up of the USA economy. Notwithstanding a modest growth of world GDP, the confidence levels of economic agents fell down sharply. This situation resulted from the climate of political and military instability that followed the events of September 11th, 2001, whose main features were the United States' military intervention in Afghanistan, constant threats of new terrorist attacks and the increasing likelihood of a new war in the Gulf. The escalation of military tension between the United States and Iraq caused the price of oil to reach 30 dollars per barrel at the end of the year.

The economic scene was also marked by a succession of accounting and financial scandals, particularly in the United States, that pushed the main stock market indices down to five-year lows. The negative wealth effect associated to this slump in equity markets was decisive to the slowing down of consumption and investment, both in the United States and in Europe. Furthermore, the world economy was also affected by the climate of economic instability lived in Latin America, particularly in Brazil, Argentina and Venezuela.

After 0.3% GDP growth in 2001, the United States economy grew by 2.4% in 2002. The rebuilding of inventories in the first quarter, the increase in defense expenditure, and the very positive performance of household consumption were the chief drivers behind the acceleration of GDP in these difficult economic conditions. The main factors contributing to the growth of private consumption were an expansionist budgetary policy and the aggressive stance taken by the Federal Reserve, which, after making eleven cuts in the fed funds rate in 2001, further trimmed the benchmark rate in 2002, from 1.75% to 1.25% at the year end.

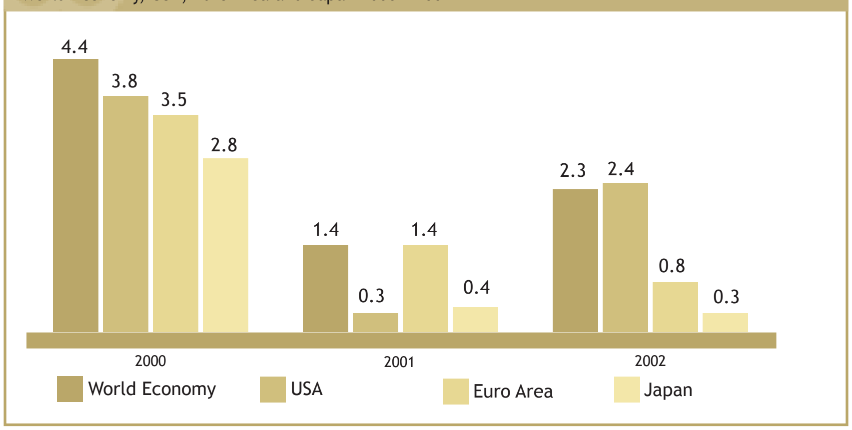
In the **Euro Area**, the estimated GDP growth in 2002 was 0.8%, which is a sharp deceleration compared to the 1.4% growth in 2001. Besides the negative factors that affected the economy worldwide, economic activity in the euro area also suffered from very high unemployment (8.5% in December), which conditioned families' confidence and spending levels. On the other hand, an average inflation rate of 2.2% may have prevented the European Central Bank from taking a more aggressive stance in lowering interest rates. The slowing down of the economy in the Euro area was particularly acute in Germany, which grew by 0.2% only.

Japan, in turn, is though to have registered marginal growth (0.3%), thus avoiding the situation of recession admitted throughout most of the year. Exports were the most dynamic element in demand, with private consumption rising very moderately and investment regressing when compared to the previous year. For the fourth year in a run prices trended downwards, the inflation rate standing at - 0.9%.

Among the **emerging countries**, the climate of extreme uncertainty that characterized the state of the economy in 2002 particularly affected Brazil. In the months that preceded the October presidential elections, the doubts arisen with regard to the economic policies that would be adopted by the new government caused the *real* to fall sharply against the dollar, to reach the year's low in October, at 3.94 USD/BRL. The need to create credible anti-inflationary expectations, against a background of accelerating prices due to the depreciation of the *real*, led the Brazilian central bank to raise the Selic rate from 19% to 25.5%. In Latin America, political instability also plagued Venezuela, affecting the oil market worldwide and contributing to drive up the price of the oil barrel in the last quarter or the year. In Argentina, the economic activity suffered a new contraction, with GDP registering a variation of around -12%.

%

GDP Growth (in real terms)
World Economy, USA, Euro Area and Japan 2000 - 2002

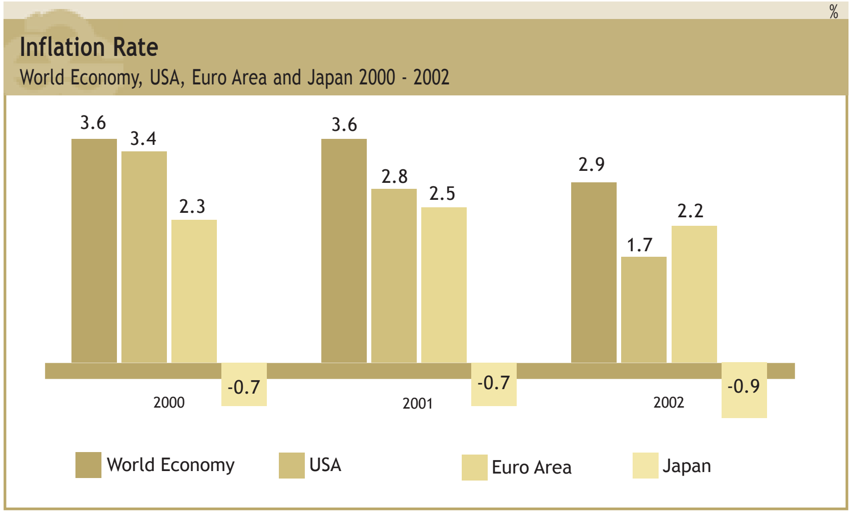


Sources: Eurostat, IMF, Cabinet Office (Japan)

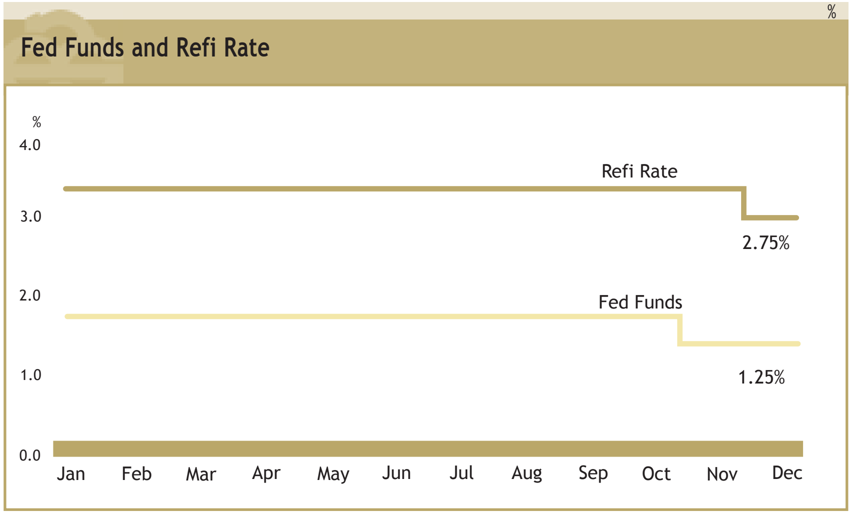
In a situation of overcapacity and high indebtedness levels, the overall climate of uncertainty lived in 2002 was decisive in keeping GDP growth below the potential of the major economic areas. This reflected on price trends, with **inflation** rates falling across the main economic areas. In the United States the general price index decelerated from 2.8% to 1.7%, as a result of sluggish activity growth and also the climate of rising competition faced by companies. In the Euro Area, inflation was down from 2.5% to 2.2%, therefore remaining above the European Central Bank's reference level, despite the euro's effective appreciation and a slowdown of labor costs.

The frailty of the US economy's recovery and the slowing down of the economy in the Euro Area, particularly in Germany, gave rise to fears that in the medium term a deflationary dynamics might set in in these areas. Hence the cycle of expansionary monetary policy that had been a feature of 2001 was also pursued in 2002. In the United States, the Federal Reserve cut the fed funds rate from 1.75% to 1.25%. In the Euro Area, the European Central Bank also cut reference interest rates by 50 basis points, the key refinancing rate standing at 2.75% the end of the year.

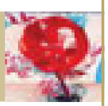
The European Central Bank's decision is thought to have been influenced by the rise of the **euro** throughout 2002, reversing its downward trend in previous years. Between January and December, the European currency rose 18% against the US dollar (at the end of December the EUR/USD exchange rate reached 1.05), which, with crude imports becoming more accessible, contributed to the containment of prices . The euro/dollar trend was essentially determined by the relocation of investors' portfolios away from US-dollar denominated assets as a result of the political and military instability that affected



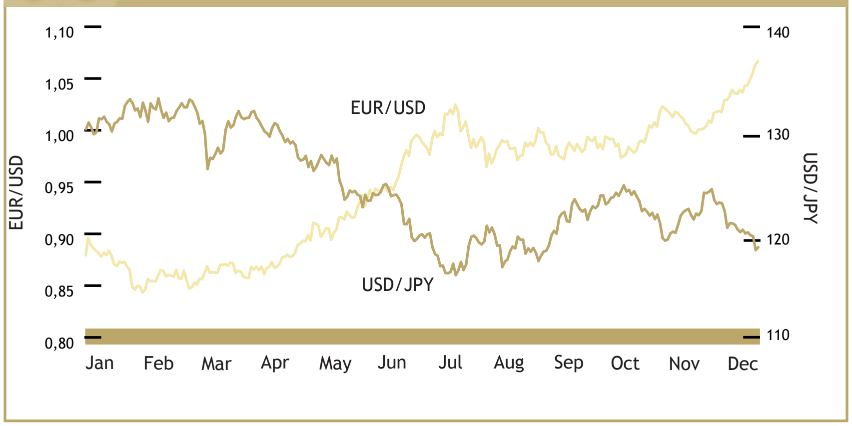
Sources: Eurostat, Bloomberg



Sources: ECB, US Federal Reserve

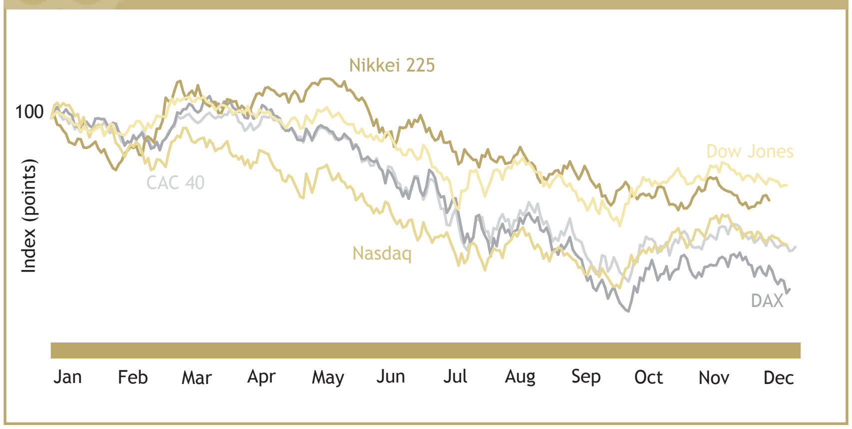


EUR/USD and USD/JPY Exchange Rates



Source: Bloomberg

Stock Market Indices



Source: Bloomberg

the United States, and also of the confidence crisis generated by the accounting and financial scandals that came to light in the first half of the year.

On the equity markets' front, the negative trend of the last two years persisted, with the main indices falling sharply. This was a result of the fragile recovery of the North--American economy, reflected in poor corporate results and in the successive downward revisions of profit outlooks. But it was also an effect of the accounting scandals that involved some benchmark companies in the United States, and also of continuing fears both of new terrorist attacks (particularly in the first half of the year) and of another US military intervention in the Gulf (towards the end of the year). The Nasdaq plunged 32%, while the drop of the general indices, the Dow Jones and the S&P 500, was more moderate, respectively 17% and 23%. In the Euro Area, two of the main stock market indices, the Frankfurt DAX and the Paris Bourse CAC 40, registered falls of respectively 44% and 34%, with the year lows being reached also in the fourth quarter.

7.2 > Domestic Economic Situation

Although progress was made in terms of correcting some structural imbalances, 2002 was not a good year for the Portuguese economy.

Main Economic Indicators

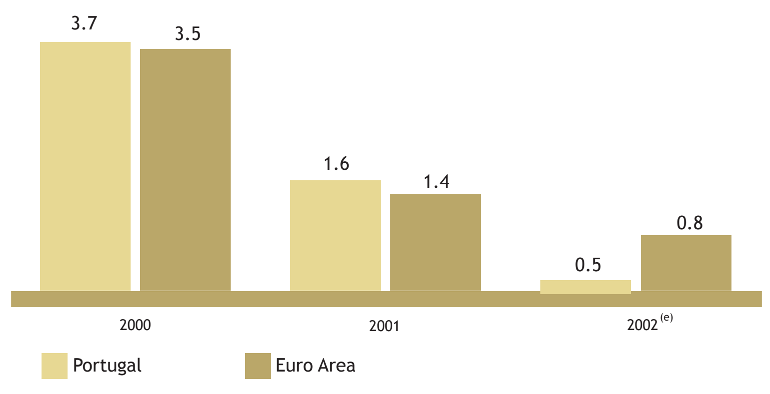
real change rates (%), except when indicated.

	1999	2000	2001	2002 (e)
Private consumption	5.1	2.6	1.2	0.7
Public consumption	5.6	4.0	3.4	3.2
GFCF	7.4	3.3	0.0	-5.1
Exports of goods and services	2.9	8.0	1.9	2.0
Imports of goods and services	8.5	5.4	0.9	-0.4
Gross Domestic Produt (GDP)	**3.8**	**3.7**	**1.6**	**0.5**
Current account (in % of GDP)	-8.3	-10.3	-8.6	-6.7
Budget deficit (in % of GDP)	-2.4	-2.9	-4.1	-2.7
Gross public debt (in % of GDP)	54.4	53.3	55.5	59.3
Unemployment rate (in % of labour force) (1)	4.4	4.0	4.1	5.1
Inflation (CPI)				
Annual average rate (%)	2.3	2.9	4.4	3.6
Interest rates (2)				
Short run (IMM 3 months, %)	3.3	4.9	3.3	2.9
Long run (OT 10 years, %)	5.7	5.3	5.2	4.3

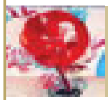
(e) Estimated.
(1) In strict sense: only those individuals who actively seeked a job in the 30 days immediately preceding the survey are included as unemployed.
(2) Year end rates.
Sources: Espírito Santo Research, Bank of Portugal, INE (Portugal), Ministry of Finance, European Commission, OECD, Bloomberg.

GDP growth was 0.5%, which compares with 1.6% in 2001 and represents the lowest level of economic activity since the recession of 1993. The Portuguese economy's behavior resulted essentially from the poor performance of internal demand. Exports, though lacking the vitality of previous years, still played an important role as a driver of demand.

GDP evolution (in real terms)
Portugal and Euro Area 2000 - 2002



Sources: INE, Eurostat, Espírito Santo Research



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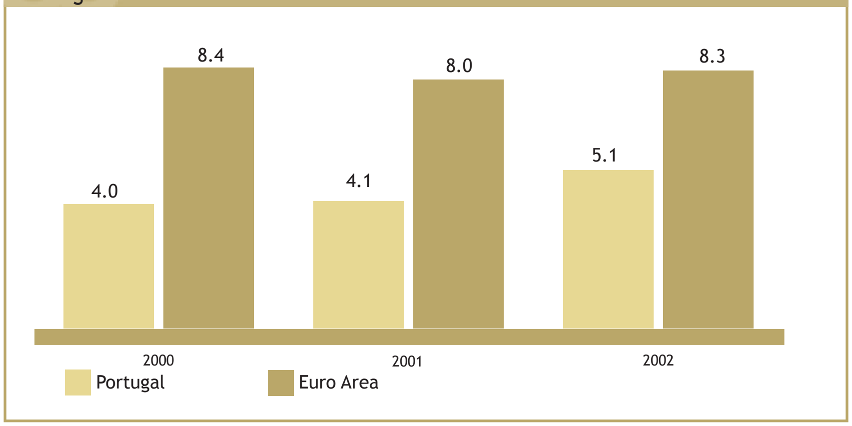
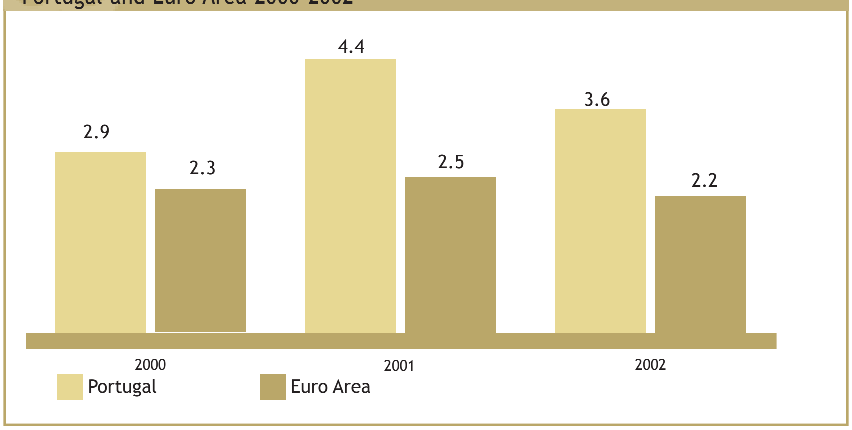
Unemployment Rate (as % of active population)
Portugal and Euro Area 2000 - 2002



Sources: INE, Eurostat

Inflation Rate (annual average)
Portugal and Euro Area 2000-2002



Sources: INE, Eurostat

Private consumption grew at a modest pace (0.7%), given the general deterioration in the confidence level of families. The fall of confidence indices was largely due to the rise of unemployment, in a situation of high indebtedness levels. In 2002 the indebtedness of individuals is estimated to have risen to close to 100% of disposable income, which compares with little more than 60% five years before. The average rate of unemployment increased from 4.1% in 2001 to 5.1% in 2002. This scenario was particularly penalizing for the consumption of durable goods and housing investment . Overall, gross fixed-capital formation fell by 5.1%, after remaining flat in 2001.

In 2002, the average inflation rate fell to 3.6%, from 4.1%, in 2001 the impact of the introduction of euro notes and coins, the rise in fuel prices, the two percentage points increase in the top VAT rate, and also the fact that labor unit prices were kept at relatively high levels, were the main reasons behind a lower than expected deceleration of prices.

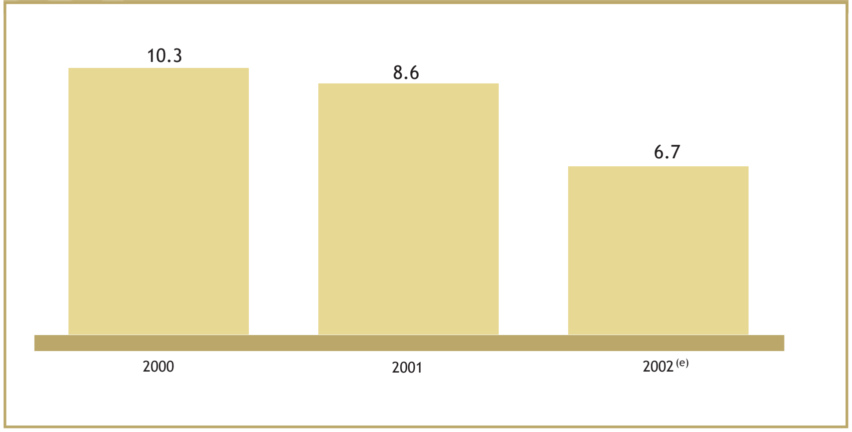
The external accounts underwent a correction of some importance, with the joint current and capital accounts deficit dropping from 8.6% of GDP in 2001 to 6.7% of GDP in 2002. Despite having set off in this positive course, which should continue into 2003 and 2004, Portugal still remains the country with the highest external deficit in the OECD - a situation that, though not liable of triggering a serious financial crisis (because Portugal is part of the euro monetary zone), nevertheless poses significant restrictions to competitiveness and to growth prospects in the medium and long term. The correction of the external deficit relied essentially on the contraction of imports, on the back of the deceleration of internal demand. Exports, although the most dynamic driver of demand, registered moderate growth (2%).

In 2002, fiscal policy followed a pro-cyclic nature - the Government was faced with the need to reduce and suspend spending, particularly capital expenditure, so as to meet the proposed budgetary target of 2.8% of GDP. The overall deficit of the Public Administrative Sector fell from 4.1% of GDP to 2.7% of GDP. This was mainly achieved by means of a set of measures that involved obtaining extraordinary revenues, including the sale of state assets and the recovery of tax revenues through a pardon of interest on unsettled debts.

Finally, and turning to the capital markets, a main event in 2002 was the coming on stream of the new market that resulted from the merger of BVLP and Euronext. Irrespective of this, the Portuguese market followed international trends and did not perform well, with the cash market registering a fall of nearly 30%. On the equity side, which currently accounts for 92% of the market, the fall also came close to 30%. The PSI index plunged by roughly 25%, after having dropped by 13% in 2000 and 25% in 2001.

as % of GDP

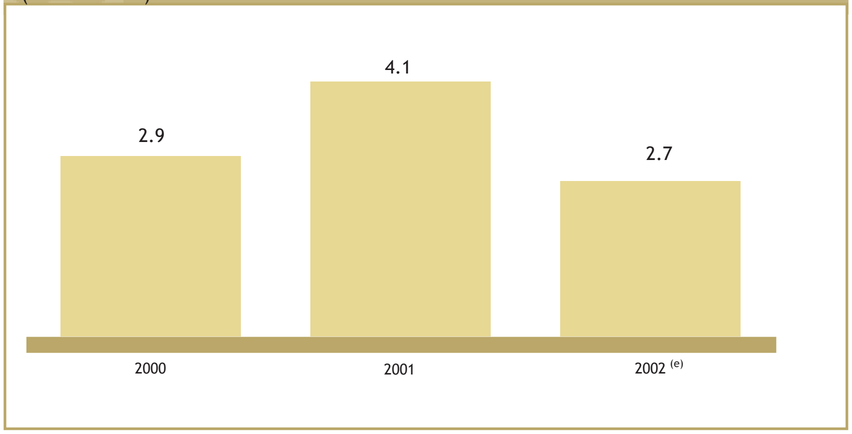
External Accounts: Evolution of joint current account and capital balance deficits (as % of GDP) 2000 - 2002



(e) Estimate
Sources: INE, Eurostat, Espirito Santo Research

as % of GDP

Public Accounts: Administrative Public Sector deficit (as % of GDP) 2000 - 2002



(e) Estimate
Sources: Ministry of Finance-Budget Department, Eurostat

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Júlio Resende
Woman
Oil painting
Banco Espírito Santo

Activity and Results

8

8.1 > Activity and Results of Group BES

In 2002 Group BES steered the conduction of business to reach the following strategic objectives in the medium and long term:

- To ensure a ROE of 15% in 2003,
- To reach a Cost to Income of 50% in 2003; and
- To secure an average market share of 20% in 2005.

As will be described throughout this chapter, the Group has been able to maintain significant and balanced growth levels, it has considerably improved efficiency levels, reinforced its financial strength and provisioning, and on the whole, this had a positive impact on results.

8.1.1 > Activity

8

Notwithstanding the unfavorable macroeconomic situation, at both the national and the international level, Group BES has been able to pursue balanced growth, by setting as determining factors for progress proactivity in product innovation, advancing on the segmentation process and improving service quality. The performance attained once again validated the Group's organic growth strategy during a period of turmoil in financial markets worldwide.

Hence good progress was made, and the competitive position came out reinforced in the main business lines:

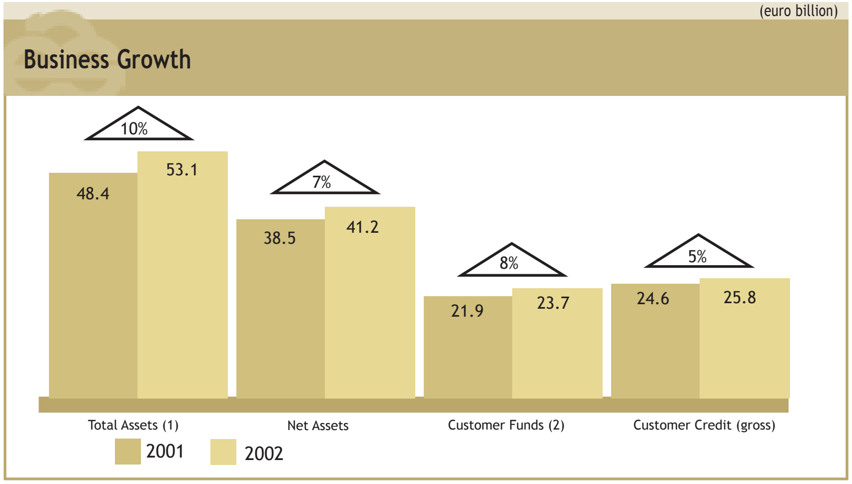
- Total consolidated assets, including off-balance sheet assets and liabilities, for the first time surpassed euro 50 billion - corresponding to an overall year-on--year increase in business of 9.8%;
- on-balance sheet credit, though rising at a slower pace, and excluding securitization operations, was up by 5%;
- total on-balance sheet customer funds grew by 8%.

The fact that funding grew at faster pace than loans led to an improvement in the transformation ratio from 110% in 2001 to 106% in 2002. This is particularly significant in view of the context of scarce liquidity that characterized the market.

> Credit

Credit developed in a scenario of decelerating growth, up by 5%, which compares with 13% in the previous year (if securitized credit were included, the increase would be 10.2% versus 12.5% in 2001).

This behavior is a reflex of external conditioning factors associated to the less favorable economic situation faced during the year, which led to a drop in demand for credit by individuals and to a contraction of investment by companies, combined with internal factors that translated into a policy of higher selectivity in credit granting. At the same time securitization operations were carried out, involving euro 150 million in consumer loan receivables, euro 300 million in leasing receivables and euro 1 billion in residential mortgage. Including outstanding securitized credit, this area shows the following progress:



(1) Net Assets and Off-Balance Sheet Items (assets and liabilities)
(2) Customer deposits and debt securities placed with customers

Credit (with and without securitization) [1]

euro milion

	2001		2002		Change (%)	
	Balance excluding securitization	Balance including securitization	Balance excluding securitization	Balance including securitization	Balance excluding securitization	Balance including securitization
Customer Loans (Gross)	**24,569**	**24,774**	**25,795**	**27,298**	**5.0**	**10.2**
Mortgage	8,446	8,446	8,645	9,641	2.4	14.1
Other Loans to Individuals	2,022	2,227	1,876	2,123	-7.2	-4.7
Corporate	14,101	14,101	15,274	15,534	8.3	10.2

[1] Securitized balance = balance of securitized credit at the considered date

As regards loans to individuals, which continues to account for roughly 41% of the overall portfolio, mortgage loans and other loans behaved quite differently. In the first and most dynamic component, the Group grew by 14.1%, notwithstanding the Government's decision to extinguish subsidized credit with effects as from October 1, 2001. At the end of the year the Group launched a new mortgage credit product featuring a redemption period of 40 years. Mortgage credit, which represents roughly 82% of loans to individuals and 34% of the overall credit portfolio, has been one of the strategic pillars of the Group's commercial performance, as well as one of the most successful. The fine-tuned coordination and complementarity between BES, BIC and Tranquilidade has been critical to this success.

Other loans to individuals were down by 3.4%. This is linked, on the one hand, with the high indebtedness of families and consequent reduction in demand for credit, and on the other, with the tightening of selectivity criteria in loan granting. In addition to the banking units, the companies operating in specialized consumer credit have achieved increased recognition and weight in this business area, namely Credibom, whose portfolio grew by roughly 14%.

> Funding

Group BES's funding relies on the integrated development of the following activities:

- obtaining on-balance sheet funds through traditional products;
- issuance of bonds and medium-term capital guaranteed structured products for customers;
- asset management;
- funds obtained through sale of bancassurance products;
- issuance of debt and medium and long-term loans in international markets; and, to a lesser extent
- issuance of subordinated debt.

The fact that BES presents one of the best ratings amongst Portuguese banks, the continued improvement in quality standards, a renewed offering of products, the reinforcement of cross-selling and the benefits derived from a multi-channel organization, all contributed to Group BES's sustained and reasonable level of funding growth, mainly in customer funds, while maintaining the indispensable equilibrium between progress in lending and growth in attracting savings. In this respect, the balance achieved between the increase in on-balance sheet customer funds (8.3%) and that of off-balance sheet funds (7.7%) is worth a note.

The adoption of a commercial strategy where the Integrated Management of Savings (IMS) was taken as the basis of the Group's offering of funding products - with new integrated products being constantly added - permitted to keep funding under control against an economic scene characterized by a significant scarcity of liquidity.

Customer Funds

euro million

	2001	2002	Change (%)
Customer Funds			
Sight deposits	6,880	7,321	6.4
+ Time deposits	10,515	11,347	7.9
+ Debt securities	8,805	9,271	5.3
= On balance sheet funds	**26,200**	**27,939**	**6.6**
- EMTN and commercial paper	4,339	4,263	-1.8
= On balance sheet customer funds	**21,861**	**23,676**	**8.3**
+ Off balance sheet funds	**9,637**	**10,383**	**7.7**
Mutual funds	3,420	3,493	2.1
Real state funds	1,161	1,405	21.0
Pension funds	1,289	1,461	13.3
Discretionary Portfolio	2,977	3,051	2.5
Other	790	973	23.2
= Total customer funds	**31,498**	**34,059**	**8.1**

As regards the funding profile, the trend seen over the last few years for a gradual reduction in the weight of time deposits in favor of sight deposits has softened a little this year. Hence the Group's structure of funding did not change significantly when compared to the previous year, with time deposits accounting for 41% of total on-balance sheet funding, sight deposits 26% and debt securities 33%.

In the sale of mutual funds, the Group's commercial policy was conditioned by the markets' overall performance, which caused a shift in demand to capital guaranteed savings products. ESAF continued to have an active role in this business area, namely in rationalizing the offer of domestic funds, in better adjusting it to the customers' needs and in consolidating the offering of alternative products to institutionals and individual customers whose portfolios are managed by the asset management area.

The success achieved in sales of bancassurance products (Individual Pension Plans) launched the Group into the lead of this business area, which assumes a prominent role in securing customer loyalty in the long term.

Debt issuance in the international markets, which is directly linked to the need for increasingly flexible and diversified sources to finance the operations and also to reduce short term funding needs, did not change significantly, as in overall terms the new issues of bonds under the Euro Medium Term Notes programme (EMTN) replaced those that in the meantime came to maturity.

8.1.2 > Financial Strength

In line with the tradition at Group BES, financial strength was reinforced during the current year: the asset profile continues to feature high quality levels, as shown by a low ratio of overdue loans and a high provisioning level; liquidity has improved markedly; and own funds were substantially reinforced through the capital increase and the issuance of subordinated perpetual debt.

> Asset Quality and Risk

The consolidated balance sheet as at December 31, 2002 continues to bear Group BES's distinctive stamp, i.e., although loans and advances to customers represent the largest component of total assets, low-risk high-liquidity assets continue to hold an important position.

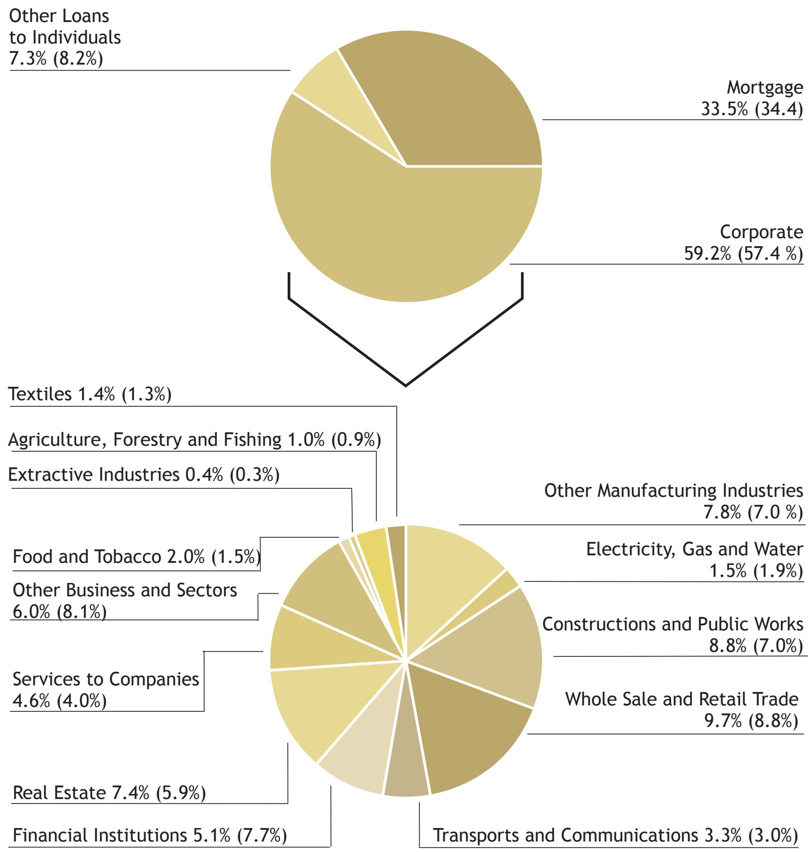
The aggregate of cash and cash equivalents, current accounts with credit institutions and securities of public issuers, having slightly increased over the previous year (20.3%), continues to be a strong component in the Group's assets (21.1%), which means that low-risk high-liquidity assets remain the second most important category of assets.

Categories of Net Assets

	2001		2002	
euro million	Value	(%)	Value	(%)
Cash and cash equivalents	1,965	5.1	1,841	4.5
Current accounts with Credit Institutions	3,888	10.1	5,666	13.7
Loans and advances to customers	24,264	63.0	25,428	61.7
Placements in securities	5,356	13.9	4,626	11.2
(Public Issuers)	(1,955)	(5.1)	(1,195)	(2.9)
Fixed assets	1,511	3.9	1,571	3.8
Other assets	1,539	4.0	2,102	5.1
Total	**38,523**	**100.0**	**41,234**	**100.0**

euro million

Loans to Customers



Loans and advances to customers remains the category of assets featuring more prominently in the balance sheet, although its weight has dropped by 1.3 percentage points. In terms of the distribution by business sectors, and in line with previous years, this category continues to display a healthy dispersion, whose positive effects remain quite clear, namely in terms of the low level of overdue loans.

There were no significant changes in the portfolio's breakdown by business sectors when compared to the past year. Loans to companies have however made some progress over loans to individuals.

The corporate credit portfolio maintained a high level of diversification in 2002, both in terms of sectors of activity and in terms of the highest exposures (by company and/or group or companies), while ensuring that concentration levels remained within prudent and comfortable limits. Looking at the breakdown by sectors of activity, the highest level of concentration does not exceed 9.7% of the total - it concerns credit to the Wholesale/Retail sector, which, as in previous years, remains scattered amongst a great number of borrowers. The weight of the Construction and Public Works sector rose to 8.8%, up by 1.8 p.p. on 2001. The Real Estate sector made considerable progress, rising from a share of 5.9% in 2001 to 7.5% in 2002. These two sectors together (Construction and Real Estate), by

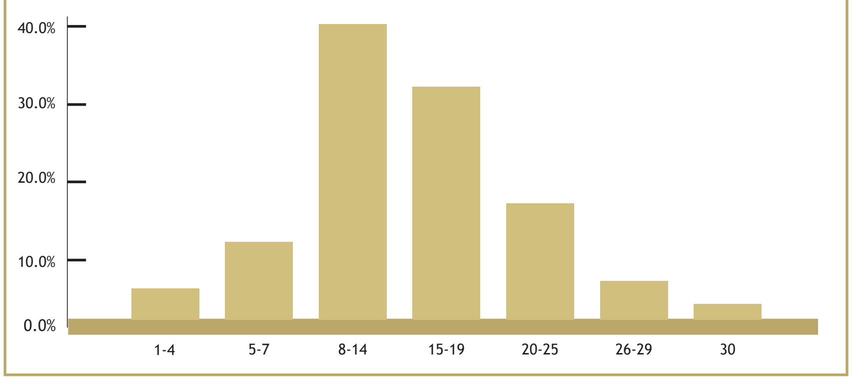
8

increasing their joint position in the credit portfolio, reflect the corporate fabric of the markets where Group BES is present, although they also include operations linked to specific projects, which are subject to systematic assessment and monitoring. With a relative weight of 7.8%, the Other Manufacturing Industries sector ranks third overall. Finally, there was a marked reduction in the Financial Activities sector, which retreated by 2.6 p.p., to roughly 5.1% at the end of 2002. The remaining business sectors did not evidence changes worthy of note, and overall, their weight in the credit position is quite negligible.

The risk implicit in the portfolio of loans to corporates is determined based on the internal rating systems used by Group BES, which were developed in the light of the Basel Committee's recommendations within the scope of the New Capital Accord, and on international rating agencies' practices. To assess the risk of the corporate segment efficiently, and in keeping with the complexity and magnitude of exposures in this universe, the assignment of internal ratings uses two distinct methodologies: (i) the customers included in the segment of medium-sized companies are subject to a standardized rating model, whose statistical strength is analyzed on a periodical basis; (ii) the operations pertaining to the large corporates segment and also project finance operations warrant a risk analysis carried out by the Rating Board, which consists in a team of specialized technical staff, organized by sectors of activity. Internal ratings, as well as risk analysis, besides playing an important role in the loan approval process, are a key element in the monitoring of the portfolio's risk profile, as well as in pricing definition, and in determining the risk-adjusted return of Group BES's segments and commercial units.

As regards companies assigned a rating, the breakdown of exposures (loans and guarantees) shows that 51% fall within the range of 1 to 14, which is considered very low/low.

Internal Rating: Breakdown of exposure per risk class



As regards the loans to individuals component, the Group uses origination scorings and campaigns for consumer loans and credit cards. The experience gained in the fine-tuning of these tools, associated to a risk-adjusted price strategy, has permitted to raise the selectivity of consumer loans, and hence to improve the quality of production.

Driven by worsening economic conditions, overdue loans increased by 22%, while the overdue loans ratio deteriorated, rising to 2.13%. This deterioration also incorporates the effect of the securitization operations in reducing the size of the overall credit portfolio (the overdue loan ratio would be 2.02% if these operations were included).

However, the reinforcement of provisions for credit exceeded the increase in overdue loans, which permitted to keep the coverage ratio of total overdue loans at the same level as last year's. Moreover, these coverages remain comfortably above 100%, confirming the financial strength that has always been one of the Group's strong assets.

Asset Quality

euro million

Variables	2001	2002	Change Absolute	Change Relative (%)
Loans to customers (gross)	24,569	25,795	1,226	5.0
Overdue Loans	450.1	548.8	99	21.9
Overdue Loans > 90 days	368.1	481.8	114	30.9
Credit Provisions	593.1	716.1	123	20.7
Overdue loans/Total loans (%)	1.83	2.13	0.30 p.p.	
Overdue Loans > 90 days/Total Loans (%)	1.50	1.87	0.37 p.p.	
Credit Provisions/Overdue Loans (%)	131.8	130.5	-1.3 p.p.	
Credit Provisions/Overdue Loans > 90 days (%)	161.1	148.6	-12.5 p.p.	

The breakdown of overdue loans by seniority categories and respective specific provisions shows that overdue credit more than three years old accounts for 24% only on the total and is covered at close to 100%.

Overdue Customer Loans - Categories of Risk and Respective Provisions

euro million

Categories of Overdue Credit	Seniority Categories I < 3 m	II 3 to 6 m	III 6 to 12 m	IV 1 to 3 years	V > 3 years	Total	2001
Collateralized Credit							
Gross Value	12.4	7.1	19.8	133.8	29.9	203.0	150.8
Specific Provision	0.1	0.7	5.1	67.9	23.2	97.0	75.0
Non collateralized Credit							
Gross value	54.6	33.3	49.3	105.4	103.2	345.8	299.3
Specific Provision	1.1	7.5	28.5	105.3	103.2	245.6	211.8
Total overdue Credit							
Value	**67.0**	**40.3**	**69.1**	**239.2**	**133.1**	**548.8**	**450.1**
Percentage Breakdown	12%	7%	13%	44%	24%	100%	
Specific Provision	1.2	8.2	33.6	173.2	126.4	342.6	286.8
Provision for Doubtful Credit and Country Risk	-	-	-	-	-	24.8	18.3
Total specific provisions	**1.2**	**8.2**	**33.6**	**173.2**	**126.4**	**367.4**	**305.0**
Specific provisions/Total overdue Credit (%)	1.8%	20.4%	48.6%	72.4%	95.0%	67.0%	67.8%

In addition to specific provisions, whose coverage level is 67%, a significant portion (approximately 37%) of overdue loans is collaterized.

The bond portfolio totaled euro 4,089 million at the end of the year, of which euro 1,201 million, or 29%, correspond to public debt securities. 52% of these assets are risk rated by international rating agencies (Moody's and/or S&P), and 96% are classified as *investment grade*.

Bonds and Ratings

euro million

External Rating(*)		S & P		Moody's	
AAA	Aaa	950	23.3%	1,048	25.7%
[AA+; AA-]	[Aa1;Aa3]	263	6.5%	202	5.0%
[A+; A-]	[A1;A3]	337	8.3%	520	12.8%
[BBB+; BBB-]	[Baa1;Baa3]	490	12.0%	309	7.6%
[BB+; BB-]	[Ba1;Ba3]	9	0.2%	24	0.6%
[B+; B-]	[B1;B3]	41	1.0%	34	0.8%
[CCC+; CC]	[Caa1;Ca]	5	0.1%	20	0.5%
SD/D	C	14	0.3%	0	0.0%
N.R.	N.R.	1,967	48.2%	1,919	47.1%
Total		**4,076**	**100.0%**	**4,076**	**100.0%**

Note: Excludes Own Securities
(*) Issuer Rating

The credit risk of derivatives, calculated in accordance whith the replacement cost (sum of the transactions positive replacement values) arises mainly from exposures rated by international rating agencies. The sound quality of this portfolio is confirmed by the fact that 85% of the current risk value is rated between AAA/Aaa and A-/A3. Moreover, the largest share of the credit risk of derivatives, approximately 88%, can be found in exposures related to financial institutions.

Derivatives and Ratings (Credit Risk)

euro million

External Rating		S & P		Moody's	
AAA	Aaa	33	3.4%	46	4.9%
[AA+; AA-]	[Aa1;Aa3]	577	60.5%	695	72.8%
[A+; A-]	[A1;A3]	199	20.8%	70	7.3%
[BBB+; BBB-]	[Baa1;Baa3]	2	0.3%	0	0.0%
[BB+; BB-]	[Ba1;Ba3]	0	0.0%	0	0.0%
[B+; B-]	[B1;B3]	0	0.0%	0	0.0%
[CCC+; CC]	[Caa1;Ca]	0	0.0%	0	0.0%
SD/D	C	0	0.0%	0	0.0%
N.R.	N.R.	143	15.0%	143	15.0%
Total		**954**	**100.0%**	**954**	**100.0%**

Market Risk

euro million

Value at Risk 99% of 10 days	2001	2002
Interest rate	21.25	6.61
Exchange rate	2.76	1.24
Equity	26.44	19.76
Diversification effect	-19.23	-4.70
Total	**31.22**	**22.91**

In terms of market risk, the Group's value at risk (VaR) in December 2002 was euro 23 million, for its trading positions in equities and fixed income, as well as for its global foreign exchange position, which compares with euro 31 million in 2001. This amount of euro 23 million represents approximately 0.90% of Group BES's consolidated Tier I. The main change observed concerns the fixed income position, whose exposure was reduced. As a result, the portfolio became more concentrated, and, consequently, less diversified. This VaR assumes a confidence level of 99% and an investment period of 90 days.

Exposure to Emerging Markets

euro million

Countries	Risc Weight	2001 Net Exposure	2002 Gross Exposure	2002 Guarantees and Deductions (**)	2002 Net Exposure Value	2002 Net Exposure Structure (%)
Latina America		**195**	**442**	**312**	**130**	**61,9**
Argentina	85%	6	8	4	4	1.9
Bahamas	10%	1	32	32	0	0.0
Brazil	25%	172	294	188	106	50.5
Mexico	25%	5	17	7	10	4.8
Panama	25%	6	27	27	0	0.0
Uruguai	10%	1	20	19	1	0.5
Venezuela	50%	3	21	20	1	0.5
Others		1	23	15	8	3.8
Eastern Europe		**18**	**15**	**4**	**11**	**5.2**
Slovenia	10%	3	3		3	1.4
Hungary	10%	4	0		0	0.0
Poland	10%	7	3	0	3	1.4
Chec Republic	10%	0	4		4	1.9
Others		4	5	4	1	0.5
Asia-Pacifico		**60**	**28**	**7**	**21**	**10.0**
South Korea	10%	20	10	0	10	4.8
Macao	10%	6	12	1	11	5.2
Others*		34	6	6	0	0.0
Africa		**30**	**214**	**166**	**48**	**22.9**
South Africa	25%	0	29	28	1	0.5
Angola	50%	18	124	87	37	17.6
Cape Verde	25%	1	11	10	1	0.5
Morocco	10%	10	48	39	9	4.3
Others		1	2	2	0	0.0
Total		**303**	**699**	**489**	**210**	**100.0**
Provisions		**18**			**26**	
Net Total		**285**			**184**	
% Net Assets		**0.7%**			**0.4%**	

(*) in 2001 this amount includes exposure to Hong Kong, which in 2002 is not considered an emerging market
(**) includes Trade Finance < 1 year totalling euro 36 million

As far as the asset quality of Group BES is concerned, the low degree of involvement with emerging economies deserves a note, as, excluding equity holdings, it accounts for 0.4% only of consolidated assets (0.7% in Dec. 01). Moreover, of the euro 210 million net exposure, euro 71 million correspond to exposures in local currency.

Among the exposures to emerging markets, those assumed in Brazil and Angola deserve particular mention: 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; and Angola, where risk is to a large extent covered by guarantees. Both the overall and the individual exposures are considerably below the maximum limits allowed by Banco de Portugal.

8

> Liquidity and Transformation Ratio

The Group's funding policy is one of the elements of the financial management discipline, which, coordinated with budgetary and investment policies, is established for all liabilities, from customer deposits to shareholders' equity, encompassing the domestic and the international markets.

In a context of strong commercial dynamics, which in the past had led to a negative trend in the transformation ratio, the consolidated management of liquidity, supported by centralized action by the main business units, assumed particular importance.

The past year trend characterized by a rising transformation ratio was reversed in 2001 and this reversal sustained in 2002. The transformation ratio of customer funds (deposits and debt securities) into credit of 106% in 2002 represents a marked improvement versus the two years before (114% in 2000 and 110% in 2001). Owever, a transformation ratio above 100% did not constitute a constraint to growth, as the liquidity needs generated by the commercial balance sheet were met by resorting to: (i) the issuance of medium-term capital guaranteed structured products; (ii) medium and long-term financing in international markets; (iii) the cash-in from the capital increase; and (iv) securitization trasactions (consumer credit, leasing, and subsidized mortgage loans);

On-balance sheet customer funds represented by deposits and securities are the Group's most important source of funding, accounting for 71% of the total, followed by medium and long-term funds, at 16%, and own funds, whose relative weight rose to 13% due to the capital increase.

Transformation Ratio

euro million

Variables		2001	2002
LOANS TO CUSTOMERS			
Loans to customers (gross)		24,569	25,795
Specific and generic provisions		593	716
Loans to customers (net)	A	23,976	25,079
ON BALANCE SHEET CUSTOMER FUNDS + DEBT SECURITIES			
Customer deposits	B	17,395	18,668
Debt securities		4,466	5,008
On balance sheet customer funds	C	21,861	23,676
Euro Medium Term Notes + Commercial paper		4,339	4,263
Total on balance sheet funds	D	26,200	27,939
TRANSFORMATION RATIO (%)			
Deposits into Credit	A / B	138	134
Customer Funds into Credit	A / C	110	106
Total Funds into Credit	A / D	92	90

Funding Sources

euro million

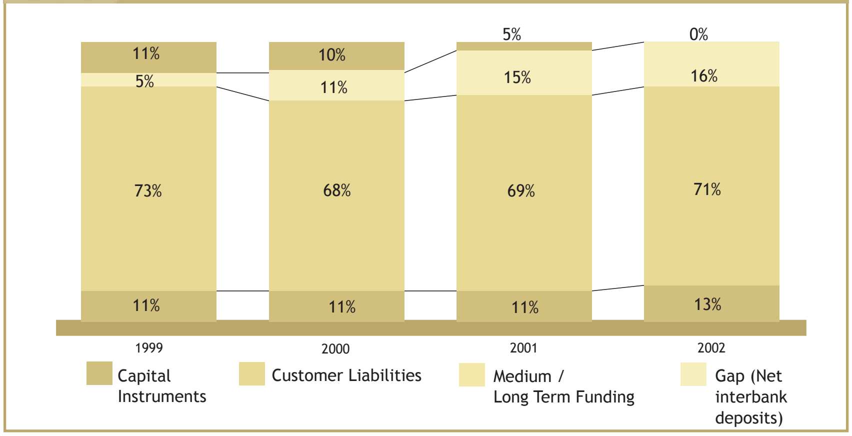
	1999	2000	2001	2002
Gap (Net interbank deposits)	**2,613**	**2,665**	**1,640**	**-927**
Cash and Cash equivalents with Credit Institutions	5,464	5,280	5,356	7,405
Short terndeposits from credit institutions and comercial paper	8,077	7,945	6,996	6,478
Medium / Long Term Funds	**1,219**	**3,024**	**4,881**	**5,464**
Euro Medium Term Notes	1,139	2,605	4,265	4,234
Medium and long tern deposits with credit institutions	80	419	616	1,230
Customer Liabilities	**16,753**	**18,649**	**21,861**	**23,676**
Capital Instruments	**2,523**	**3,092**	**3,463**	**4,184**
Total	**23,108**	**27,430**	**31,845**	**32,397**

A prudent liquidity management policy, expressed in the extension of funding sources' maturities, has allowed to substantially reduce short-term needs. Hence the ratio of the Treasury Gap (immediate liquidity and short-term interbank loans minus interbank debts up to one year) to Net Assets has made very good progress (-7.8% in 2000 and - 4.3% in 2001), becoming positive in 2002.

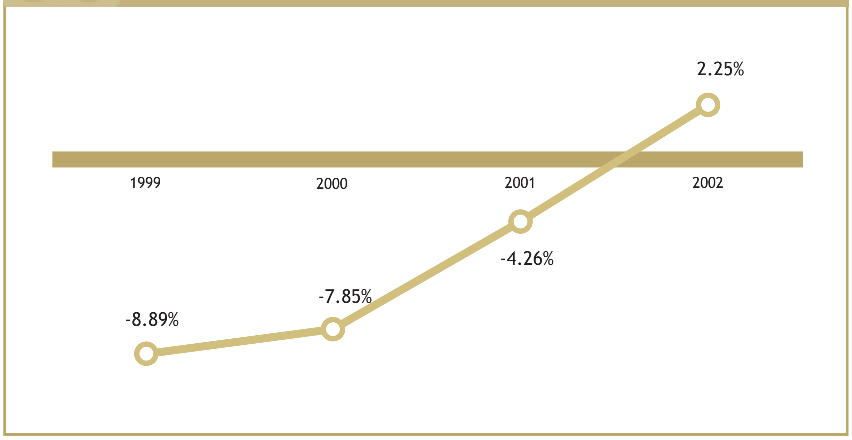
The stance taken in the management of short-term liquidity is all the more sound in view of the uncertainties that weigh on the markets due to the geopolitical risks currently faced.

In addition, the Treasury gap coverage by the public debt portfolio has been consistently high.

Funding Structure

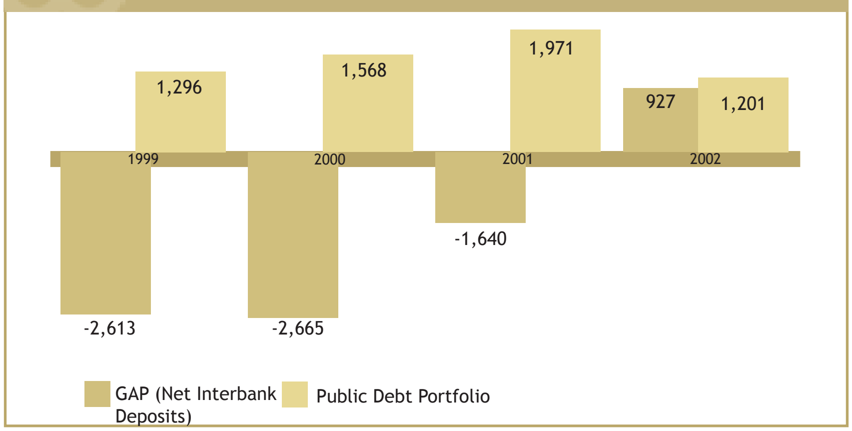


Treasury Gap (as % of Net Assets)



euro milion

Public Debt Portfolio versus Treasury Gap



> Capitalization level

Regulatory capital totalled euro 4,232 million at year-end, up by euro 770 million on the previous year.

This rise reflects the impact of BES's capital increase carried out at the end of the first quarter, an operation that was driven by the need to maintain the pattern of high financial strength that always characterized the Bank and endow it with the financial resources required for sustained development and thus creat the conditions to pursue the Group's rationalization and modernization process.

The increase in the share capital from euro 1,000 million to euro 1,500 million (approved by the General Shareholders' meeting held on December 31, 2001) was carried out through the issue of 100 million new ordinary shares, with nominal value of five euros each, and was fully subscribed, as follows:

- 50 million new shares awarded to shareholders as bonus shares through the incorporation of reserves available for the purpose, with a ratio of one bonus share for each four shares held.
- 50 million new shares subscribed by shareholders at the price of euro 11.00 each, each shareholder being entitled to subscribe one new share for each four shares held.

The operation was a complete success, with proceeds totalling euro 550 million, and the Bank's reference shareholders - BESPAR and Crédit Agricole - subscribing the issue and maintaining their relative positions in the Bank's shareholder structure. Subscription took place between February 11 and 25, 2002, and the capital increase deed was celebrated on March 37, 2002.

The fact that the shareholders fully subscribed the capital increase, which took place at a rather difficult time for capital markets, plainly shows their support and commitment to the action plan and development strategy implemented by Group BES.

euro million

Regulatory capital	2001	2002	Change
Share capital	**1,000**	**1,500**	**500**
Reserves and similar	**206**	**279**	**73**
Legal and Others	13	-21	-34
Reavaluation	0	0	0
Share premium	193	300	107
Retained Earnings	0	0	0
Subordinated debt	**1,443**	**1,696**	**253**
Minority interests and preference shares	**615**	**535**	**-80**
Net profit	**198**	**222**	**24**
Total	**3,462**	**4,232**	**770**

The positive change in the share premium account is also a reflex of the share capital increase. The euro 193 million existing on the balance sheet on the date of this operation was incorporated into capital and thus in turn generating a new share premium in the amount of euro 300 million. Reserves decreased from euro 13 million to euro -21 million, in so far as provisions for equity holdings (Bank of Portugal Regulation no. 4/2000) and the goodwill of subsidiaries are charged against this heading.

Under applicable regulations, unrealized capital losses in equity holdings subject to provisioning and/or deduction from eligible regulatory capital, are calculated based on average market prices over the last six months, concerned the following strategic positions:

Provisions for Equity Holdings

euro million

Participations	Potential Capital Losses (Yend prices)	Potential Capital Losses (average prices)	Corridor 15%	Excess
Portugal Telecom	106.9	121.9	49.0	73.0
PT Multimédia	168.2	197.5	44.4	153.1
Banco Bradesco	27.6	51.7	24.4	27.3
Novabase	9.9	11.6	3.7	8.4
Banque Marrocaine Com. Ext.	9.4	10.5	3.8	6.7
Others	47.2	47.5	7.2	20.9
Total	**369.2**	**440.7**	**132.5**	**289.4**

Hence, according to the referred regulation, only euro 289.4 million of the capital losses will be subject to prudential control up to 2006. Of this amount, part will be recognized as provisions (euro 118.3 million) and the remainder (euro 171.1 million) treated as deductible to regulatory capital.

If prices had been considered at year-end, the referred values would be reduced by approximately 16%.

Provisions for Equity Holdings: Impacts

euro million

Years	Provisions (*)	Deduction to Regulatory Capital	Total Impact on Regulatory Capital
2002	31.9	45.4	77.3
2003	28.8	41.9	70.7
2004	28.8	41.9	70.7
2005	17.3	25.1	42.4
2006	11.5	16.8	28.3
Total	**118.3**	**171.1**	**289.4**

(*) In 2002 and 2003 provisions are charged against reserves; and fom 2004 will afect results

The devaluation of the USD led to a euro value decline of the outstanding amount of preference shares (denomination of all issues of preference shares).

The increase insubordinated debt during 2002, is due to (i) a new Upper Tier II issue, in the amont of euro 500 million and (ii) the redemption of an existing USD 200 million Uper Tier II issue.

BES Group subordinated debt outstanding amount is euro 1,696 million.

Although a detailed description of subordinated debt is included in the explanatory notes to the financial statements, all outstanding subordinated is presented in next table where operations between Group companies are eliminated.

8

euro million

Subordinated Debt	Issuer	Issue terms: CCY	Value (000 EUR)	Issue date	Maturity	Listing
Subordinated Bonds	BES	EUR	34,996	Nov.93	10 years	Euronext Lisbon
Subordinated Bonds	BES	EUR	59,857	Apr.96	10 years	Euronext Lisbon
Subordinated Bonds	BES	EUR	99,760	Jun.97	10 years	Euronext Lisbon
Subordinated Perpetual bonds	BES	EUR	99,760	Jun.97	-	Euronext Lisbon
Subordinated Bonds BIC 93	BIC	EUR	9,553	Mar.93	10 years	Euronext Lisbon
Subordinated Perpetual Bonds BIC 97	BIC	EUR	49,540	Nov.97	-	Euronext Lisbon
Subordinated Perpetual Bonds BIC 98	BIC	EUR	24,175	Nov.98	-	-
Subordinated Bonds	BES Finance	USD	47,678	Nov.99	10 years	Luxembourg
Subordinated Bonds	BES Finance	EUR	300,000	Mar.00	10 years	Luxembourg
Subordinated Bonds	BES Finance	EUR	400,000	May.01	10 years	Luxembourg
Subordinated Perpetual Bonds	BES Finance	EUR	500,000	May.02	-	Luxembourg
Subordinated Perpetual Bonds	CREDIBOM	EUR	8,600	Nov.99	-	-
Subordinated Bonds	BESLEASING	EUR	12,000	Dec.99	10 years	-
Subordinated Bonds	BESI	PTE	29,928	Dec.96	10 years	Euronext Lisbon
Subordinated Bonds	BESI	EUR	19,952	Dec.98	10 years	Euronext Lisbon
Total			**1,695,799**			

Most of the securities are listed on the Euronext Lisbon, except for the subordinated bonds issued by BES Finance Ltd, which are listed on the Luxembourg Stock Exchange.

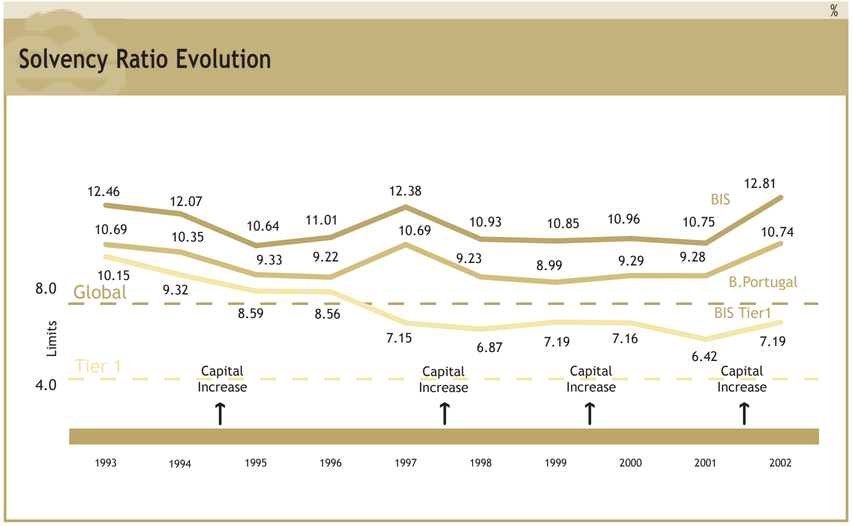
> Solvency

The increase in Tier I and Tier II capital by respectively euro 226 million and euro 355 million was determining to maintain Group BES's financial strength. Hence the consolidated solvency ratio improved significantly when compared to the previous year, rising from 9.28% to 10.74%, remaining clearly above minimum levels, either those required by Bank of Portugal or those recommended by the Bank of International Settlements (BIS).

BES Group capital increase aimed to sustain business development on adequate solvency levels.

Solvency ratio, as calculated in accordance whith Bank of Portugal rules, shows an increase of 8.6% in risk - weighted assets, and a rise of roughly 12.8% in Tier I capital. Tier II capital was up by 27.6% due to the new issuance of subordinated bonds

Under BIS regulations, the total ratio is 12.81% (10.75% in 2001), while the Tier I ratio, at 7.19%, compares very well with the minimum of 4% recommended .



Risk Weighted Assets and Eligible Regulatory Capital (Bank of Portugal)

euro million

Variables		2001	2002	Change Absolute	Change Relative (%)
Net consolidated assets	(1)	38,523	41,234	2,711	7.0
Risk weighted assets	(2)	30,364	32,973	2,609	8.6
Risk weight (%)	(2)/(1)	79	80	1	
Regulatory capital requirements	(3)	2,429	2,638	209	8.6
Risk weighted assets		2,214	2,504	290	13.1
Trading portfolio		215	134	- 81	-37.7
Existing regulatory capital	(4)	2,817	3,541	724	25.7
Core		1,772	1,998	226	12.8
Complemetary		1,284	1,639	355	27.6
Deductions		239	96	- 143	-59.8
Surplus	(4) - (3)	388	903	515	
Solvency ratio total	[4/(12.5 x3)]	**9.28%**	**10.74%**	**1.46 p.p.**	
TIER I Ratio		5.83%	6.06%	0.23 p.p.	
Core TIER I		3.81%	4.44%	0.63 p.p.	
Solvency Ratios BIS.					
Total BIS Ratio (%)		**10.75%**	**12.81%**	**2.06 p.p.**	
TIER I Ratio		**6.42%**	**7.19%**	**0.77 p.p.**	
Core TIER I		4.43%	5.61%	1.18 p.p.	

Financial strength can also be valued through the coverage of fixed assets by regulatory capital. As the following table shows, with permanent capital now accounting for more than two and a half times the value of fixed assets (2.2 times in 2001) BES Group' capitalization was significantly reinforced in 2002.

> Investments

In 2002 major expenditure went to the development of the information system and works in premises, totalling on the whole euro 124 million. Net financial investments amounted to euro 92 million.

The most significant financial investments/divestments made during the year are directly related to strategic reorientations undertaken by the Group, and may be summed up as follows: the sale of the stake held in Kredyt Bank (Poland), aimed at concentrating resources in the development of the Group's position in the Iberian market and in markets with a strong presence of Portuguese communities; the disposal of the holding in VTR, S.G.P.S., S.A.; the increase in the stake held in BES Vénétie (France), from 20% to 40%, taking advantage of favorable buying conditions to strengthen the relationship with Southern European countries; and the purchase of nearly the entire share capital of Bank Espírito Santo (International) Limited, as part of the Group's strategy of establishing closer links with the Portuguese communities living abroad.

The restructuring process of InterAtlântico, SA (IASA) was completed in 2002, the entire stake held in Banco Bradesco, SA (3.29%) being concentrated under Banco Espírito Santo. This involved the disposal by Group BES of its 81% stake in IASA, which permitted to reverse euro 20.4 million from the provision booked in the consolidated balance sheet for this equity holding. However, this had no impact on the Group's results in so far as the amount reversed was allocated to provisions for general credit risks, whose level exceeds mandatory levels.

In national territory, a new institution was created, Banco Espírito Santo dos Açores, which resulted from a partnership established with Caixa Económica da Misericórdia de Ponta Delgada. Also in Portugal, the share capital of Banco BEST was increased, Group BES maintaining its stake unchanged.

In addition to self-financing, these investments were funded by the increase in regulatory capital.

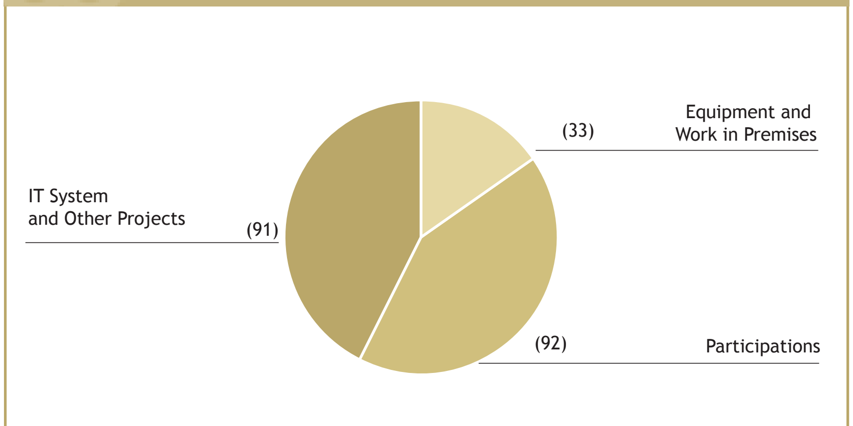
Coverage of Fixed Assets

euro million

Variables	2001	2002	Change (%)
FIXED ASSETS (FA)			
Net tangible & intangible assets	620	611	-1.5
Equity holdings	891	960	7.7
	1,511	1,571	3.9
REGULATORY CAPITAL (RC)			
Capital and Reserves	1,206	1,779	47.5
Subordinated Debt	1,443	1,696	17.5
Preference Shares	567	477	-15.9
Minority Interests	49	57	16.3
	3,265	4,009	22.8
Coverage Ratio (%) (RC / FA)	**2.2**	**2.6**	

euro million

Investments



8.1.3 > Operating Conditions

The operating conditions of Group BES in 2002, which are implicit in the generation of banking revenue, reflect the strength of the commercial activity based on a multispecialist organization.

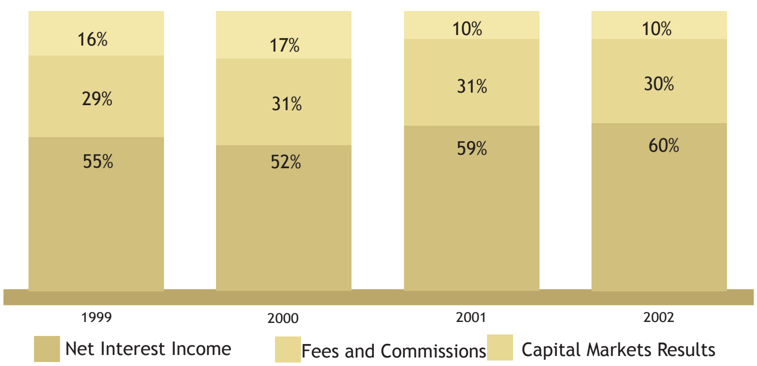
Although the factors that led to the expressive increase of each of the components that make up banking income will deserve a more detailed description further down, it is important to highlight at this point the balance that was achieved in the diversification of income generating sources, as translated by the increase in net interest income (12.5%), fees and commissions (6.5%) and capital markets results (10.0%).

The initiatives taken with a view to achieving a sustained increase in the contribution of fees and commissions to the Group's overall revenues were pursued, while the weight of capital markets results in total banking income remaining practically flat, at around 10%.

euro million

Breakdown of Banking Income	2001	2002	Change (%)
Net interest income	718.6	808.2	12.5
+ Fees and commissions	382.6	407.3	6.5
= **Commercial Banking Income**	**1,101.2**	**1,215.5**	**10.4**
+ Capital Markets Results	125.8	138.5	10.0
= **Operating Banking Income**	**1,227.0**	**1,354.0**	**10.3**

Breakdown of Banking Income



> Net Interest Income and Margin

Net interest income increased by euro 89 million, or 12.5% on the previous year. The factors that most influenced this important business area during the reporting year are described below.

The increase in net interest income is explained by a reduction in intermediation costs of euro 256 million against a decline in interest income that amounted to euro 167 million only. While the decline in interest income originated mainly in customer loans, the contraction in the cost of funding came from customer funds and also from those obtained through the issuance of debt. The drop in both interest income and interest expense resulted from the decline in the interest rate of currencies in which the Group's placements and funds are denominated.

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

euro million

Intermediation	2001	2002	Change
Revenues	**2,020**	**1,853**	**- 167**
Customer Loans	1,537	1,436	- 101
Placements in securities	242	251	9
Other placements [1]	241	166	- 75
Costs	**1,301**	**1,045**	**- 256**
Customer Funds	849	726	- 123
Other Funds	452	319	- 133
Net Interest Income	**719**	**808**	**89**

[1] Includes net interest from swaps

8

Net Interest Income and Net Interest Margin

euro million

	2001			2002		
Variables	Average Volume	Rate (%)	Revenues /Costs	Average Volume	Rate (%)	Revenues /Costs
Placements	**33,025**	**6.116**	**2,020**	**35,559**	**5.212**	**1,853**
Customer Loans	23,297	6.596	1,537	25,470	5.639	1,436
Securities	4,809	5.029	242	5,243	4.798	251
Other placements (1)	4,919	4.907	241	4,846	3.417	166
Borrowed Funds	**32,485**	**4.006**	**1,301**	**35,263**	**2.964**	**1,045**
Customer Funds	23,098	3.676	849	26,265	2.763	726
Other Funds	9,387	4.816	452	8,998	3.552	319
Result/Business Margin		**2.110**	**719**		**2.248**	**808**
Own Funds and Spread	**540**	**0.066**		**296**	**0.025**	
Result/Global Margin		**2.176**	**719**		**2.273**	**808**

[1] Includes net interest from swaps

As the above table shows, the Group's net interest margin improved by 9.7 basis points in 2002, rising from 2.176% to 2.273%. This progress is explained by the fact that the average rate of financial liabilities (-1.042%) suffered a larger cut than the average rate of placements (-0.904 p.p).

The increase in the absolute margin (up by euro 89 million) can be explained by both the price and volume effects, as the table shows.

Price and Volume Effects

milhões de euros

	Volume Effect			+	Spread Effect		=	Total
	Rate (%)	x Change in Volume	= Change in Interest		Volume	x Change in Interest Rate	= Change in Interest	Change in Interest
Financial assets	**5.149**	**2,533**	**141**		**33,025**	**-0.899**	**- 307**	**- 167**
Customer Loans	5.639	2,173	122		23,297	-0.957	- 223	- 101
Placements in Securities	4.798	434	21		4,809	-0.231	- 11	10
Other placaments	3.417	- 74	- 2		4,919	-1.490	- 73	- 75
Financial Liabilities	**2.652**	**2,778**	**74**		**32 485**	**-1.015**	**- 330**	**- 256**
Customer Loans	2.763	3,167	88		23,098	-0.913	- 211	- 123
Other Funds	3.552	- 389	- 14		9,387	-1.264	- 119	- 132
Difference			**67**				**22**	**89**

The price effect explains an increase of euro 22 million in net interest income, the remaining euro 67 million rise having resulted from the increase in volume.

Net interest income monitoring and the management of the balance sheet, including interest rate, foreign exchange rate and liquidity risks, is carried out by the Asset and Liability Committee (ALCO). Some of the most important measures defined by the ALCO concern the adjustment of the balance sheet to the forecast trend in the yield curve, and consequent repricing of both lending and borrowing operations.

In response to prevailing market conditions in 2002 - nominal interest rates at historically low levels and a contraction in savings by families, which was particularly acute in the domestic market - the ALCO applied a policy of contention to the pricing of deposits, while devising anchor products that permitted to secure the loyalty of customers in segments more sensitive to the price factor. As regards credit operations, the ALCO pursued the policy that had been initiated in 2001, raising the spreads of loans to corporates. This policy was supported by sophisticated risk assessment tools, and sought to align the practice in Portugal to the trend observed abroad in most business sectors.

On the other hand, the belief held since the beginning of the year that the slowing down of the economy in the US and the European Union would continue at least until 2003, led the Group to brace itself for the fall of interest rates. To this effect, at the beginning of the second quarter, the Group carried out operations aimed at protecting the balance sheet against a decline in long-term interest rates.

Additionally, the policy of extending the maturity of funding was pursued, both through structured products for customers and by issuing debt at indexed rates in the international market. These issues, apart from permitting a significant reduction in short-term funding needs and thus improving liquidity ratios, also benefited net interest income by fully incorporating the drop in market interest rates.

> Fees and Commissions on Customer services

Fees and commissions totaled euro 407.3 million, raising the previous year's figure by more than euro 24.7 million, which corresponds to an increase of 6.5%.

This performance basically originated in the growth of fees and commissions charged for traditional products (i.e., those directly associated to the banking business), specifically:

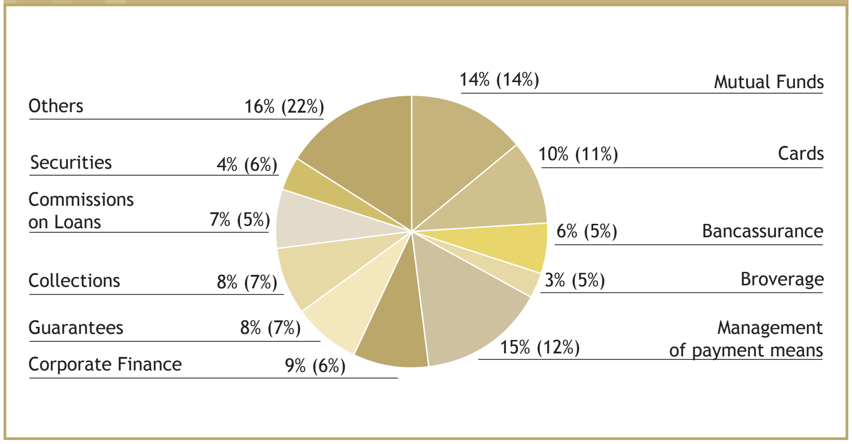
- Fees and commissions on loans (+49%), which include both credit lines and consumer credit and mortgages;
- Corporate Finance (49%), associated to a number of sizeable debt renegotiation operations;
- Management of payment means (+29%), which includes, among others, account management, transfers, payment orders and checks and reflects the buoyancy derived from the commercialization of service accounts and the introduction of the euro;
- Guarantees and endorsements, where the increase results essentially from an improved pricing policy that seeks to adjust price to the cost of risk; and
- Collection of receivables (18%).

Revenues from custody services and brokerage were down by respectively 38% and 47% as a result of the poor performance of the capital market and consequent reduction in purchase and sale operations. If revenues associated to capital market transactions were excluded, total fees and commissions would have grown by 13%.

The progress achieved was only made possible by the development of a policy geared towards improved service quality and an increasingly loyal customer base, which translated into a rise in the average number of products sold to each customer from 3.8 to 4.1.

%

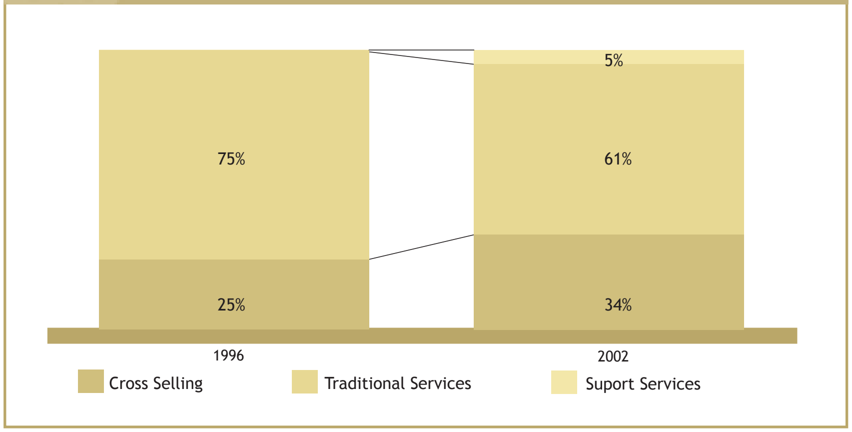
Breakdown of Fees and Commissions



( ) Previous year

Evolution of Fees and Commissions Breakdown

%



Among the main fee-generating areas, those relating to cross-selling (mutual funds, cards, bancassurance, brokerage, factoring) are of particular note, representing 34% of the total (from 25% in 1996)

As far as electronic customer services are concerned, the Group's leadership of the domestic Internet banking market, both in the absolute number of customers and in the penetration in the customer base, deserves a note: BESnet, with 237,000 frequent users, has achieved a penetration rate in the individual customer base of 37%; the penetration rate of BESnet Negócios in the small trades and the medium and large-sized companies segments is respectively 9.8% and 51.5%.

The cash management and trade finance business area performed quite well during the year despite the global trend for a contraction in economic activities, and consequent and direct impact on the reduction of payments and trade finance operations, a trend that the Group was nevertheless able to counter.

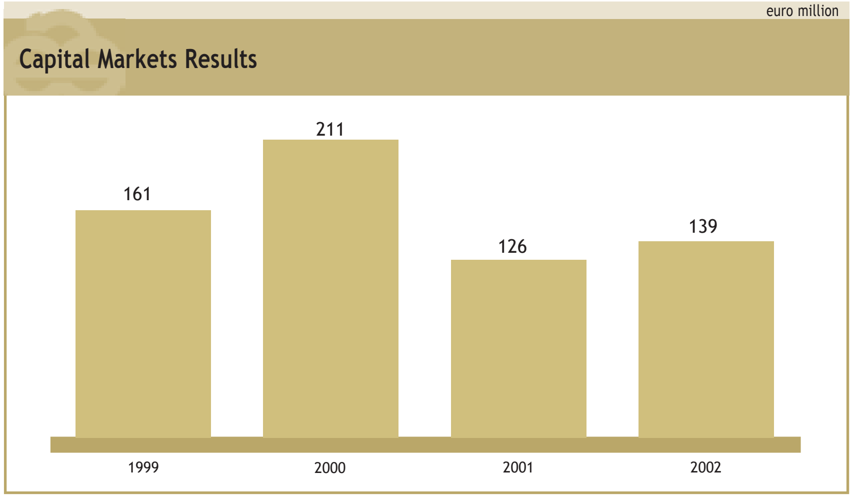
The commercial area dedicated to custody customers continued to progress, and some initiatives were taken to improve the quality of the information on the Portuguese market provided to institutional customers. Within the scope of an annual survey conducted by the *Global Investor* international magazine, BES was distinguished with the prize for *Best Settlement and Clearing Bank in Portugal in Custody Services*. This award reflects the changes introduced in custody services over the last few years aimed at providing this area with the infrastructures required for the provision of a service obeying high quality standards.

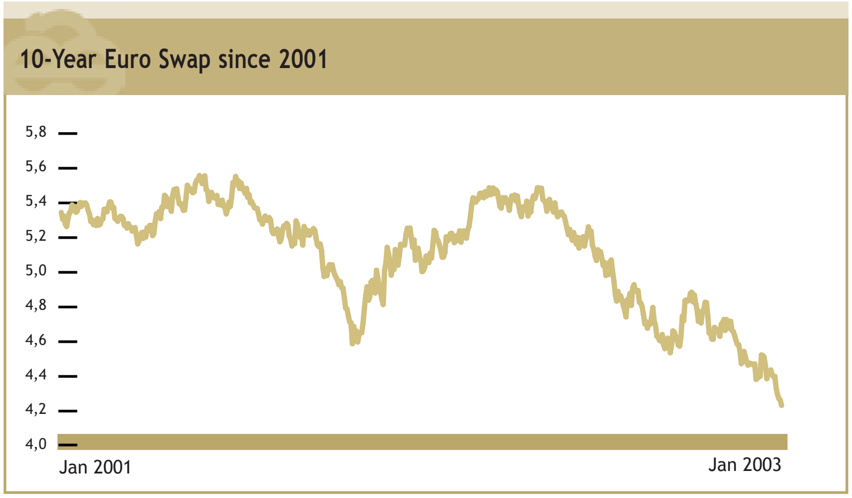
> Investment Banking and Capital Markets

The 10% increase achieved in trading results derived essentially from a positive performance in the fixed income, which permitted to counteract the negative impact from equity trading.

Despite their volatile behavior throughout the year, interest rates dropped sharply in 2002, reaching historical lows. Group BES's stance in the management of interest rate instruments permitted to obtain significant gains, due to, on the one hand, to the bearing out of expectations of interest rate trends, and on the other, to a strict monitoring of interest rate risk.

Conversely, this area's results were influenced by the performance of equity markets, which, for the second year in a run, led to the recognition of significant losses.





Source: Bloomberg

Source: Bloomberg

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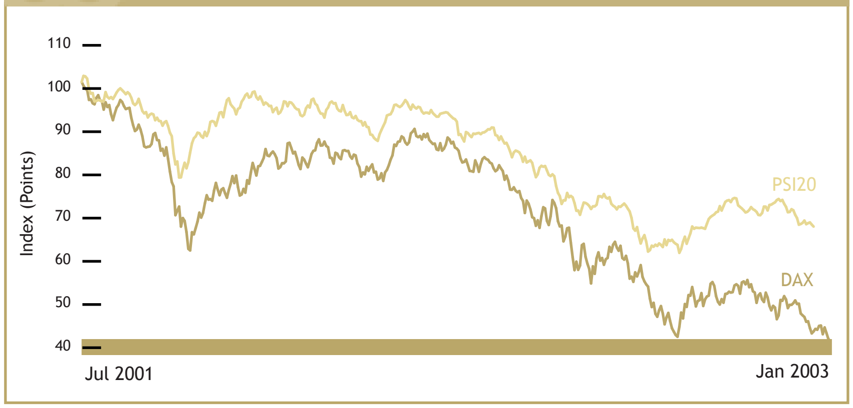
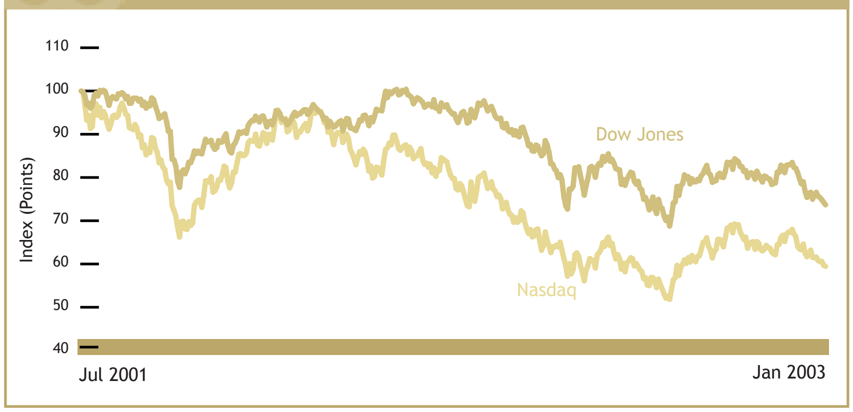
In addition, this heading also includes the gains obtained in the sale of the stake in Kredyt Bank, Poland (euro 18 million) and in the Public Offering to swap BVLP shares for EURONEXT shares (euro 7.8 million).

DAX and PSI20 evolution since July 2001



Source: Bloomberg

DOW JONES evolution since July 2001



Base: Jul/2001=100
Source: Bloomberg

> Efficiency and Operating Costs

Operating costs were contained within the limits proposed and below estimates, posting a nominal growth of 1.2% that in fact corresponds to a real reduction of 2.4%. Major contributors to these results were, on the one hand, the effects of the integration of the main operating units, the creation of shared services units and the restructuring of processes and consequent reduction of employees, and on the other, the renegotiation of a number of supply contracts and the drive for cost cutting that extended to the Group's entire organization. The prepayment of a total of euro 7.9 million, made the Group's performance in this respect even more striking.

Operating costs slowed down sharply, registering an increase of 1.2% that compares very well with the figure posted in 2001 (9.6% on a like-for-like basis). This surpasses the initial target, which pointed to an increase of 3%, subsequently adjusted to 1.5% at the end of the third quarter.

Group BES achieved a fresh improvement of its Cost to Income, which dropped by 4.8 p.p. versus the previous year.

The remaining productivity indicators also improved, in particular the Operating Costs / Average Net Assets and Total Assets per Employee ratios, to which the rationalization projects implemented, which resulted in a reduction of 578 employees in 2002, greatly contributed. These staff cuts, added to those made in 2001, made for a total workforce reduction of 809 employees that surpasses the target set for 2001/2002, of 790 employees.

While pension liabilities inevitably increased under the impact of the rationalization projects, pension funds' returns declined as a result of the fall of the markets. These effects, added on to current contributions, led the Group to make a total contribution to the Pension Fund of euro 304.8 million, raising the coverage level to 94% (91% in the previous year).

Operating Costs

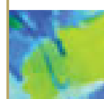
euro million

Variables	2001	2002	Change Abs.	Change Rel. (%)
Staff costs	320.5	323.1	2.6	0.8
+ Other Administrative costs	271.4	264.9	-6.5	-2.4
= Total Administrative costs	591.9	588.0	-4.0	-0.7
+ Depreciation	122.2	134.7	12.5	10.3
= Operating Costs	**714.1**	**722.7**	**8.6**	**1.2**

Productivity Indicators

euro million

Indicators		2001	2002
Cost to Income (including markets)	(%)	58.2	53.4
Cost to Income (excluding markets)	(%)	64.9	59.5
Operating Costs/Average Net Assets	(%)	1.98	1.85
Total Assets per Employee	eur'000	5,992	7,017



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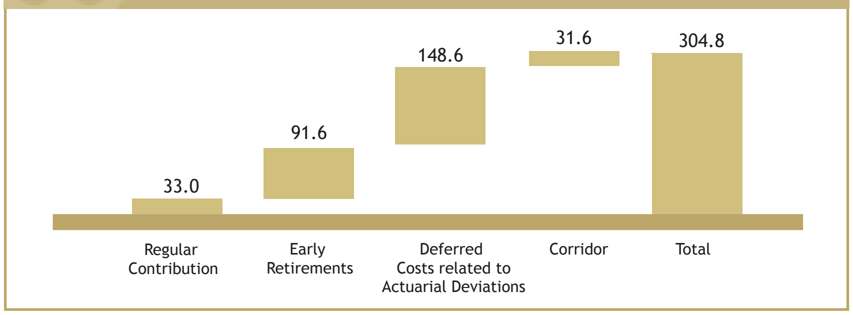
euro million

Contributions to the Pension Fund



Pension Fund - Funding Level

euro million

	2001	2002
Total Liabilities	1,017	1,152
Coverage	926	1,085
Uncovered Liabilities	91	67[1]

Coverage: 94%
(2001:91%)

[1] To be amortized until 2014, according to Bank of Portugal Notice 12/2001

8.1.4 > Results and Profitability

Net consolidated profit reached euro 222.5 million, which corresponds to an increase of 12.5% versus the previous year. This result is particularly striking as it was achieved in a very demanding year, both in terms of competitiveness and in terms of the improvement of internal processes.

In addition to the good progress made in the areas already described, the Group's provisioning also deserves a note - a net increase of euro 280.8 million, that exceeds by 37% the previous year's provision charge. Looking at the various components of provisions, credit provisions were raised by euro 224 million (+55%), translating the Group's customary prudent stance in the light of current economic conditions. Provisions for securities reflect the general downturn of the capital markets, particularly on the equities side. Other provisions include an increase of euro 21.8 million for several purposes (country risk, equity holdings, other risks and charges and general banking risks), and an amount of euro 20.5 million as a reversal of provisions for Interatlântico, SA, following BES Group's disposal of 81% in this company's capital. However, and as has been referred before, this reversal did not influence the result since such provisions had been allocated under provisions for general credit risks, whose level exceeds the mandatory provisioning level.

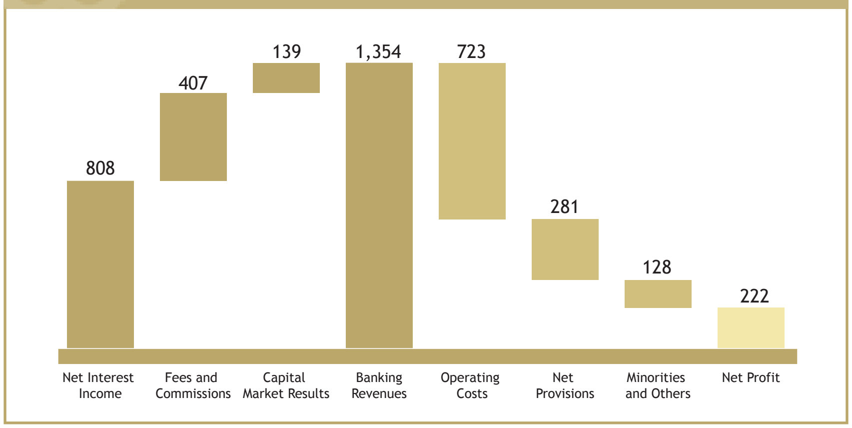
Against a particularly tough year, the good performance achieved by Group BES's institutions in the area of retail and corporate banking, specifically by BES and BIC's operating units, was quite noteworthy. Good results were also achieved in the area of specialized credit, with Crediflash (credit cards) rising by 42%, Euroges (factoring) by 42% and Besleasing (leasing) by 25.3%.

euro million

				Change	
	Variables	2001	2002	Abs.	Rel. (%)
	Net Interest Income	**718.6**	**808.2**	**89.6**	**12.5**
+	Fees and Commissions	382.5	407.3	24.8	6.5
+	Capital Market Results	125.8	138.5	12.6	10.0
=	**Banking Income**	**1,227.0**	**1,354.0**	**126.9**	**10.3**
-	Operating Costs	714.1	722.7	8.6	1.2
	(Depreciation)	(122.2)	(134.7)	(12.5)	(10.3)
-	Net Provisions	204.8	280.8	76.0	37.1
	Credit	144.5	224.3	79.8	55.2
	Securities	27.5	59.3	31.8	115.6
	Others	32.8	-2.8	-35.6	-108.5
-	Minorities and Others	110.4	128.0	17.6	16.0
=	**Net Profit**	**197.7**	**222.5**	**24.7**	**12.5**

euro million

Breakdown of Banking Revenue and Costs



As a result of the capital increase carried out in the first quarter of 2002, and the reinforcement of provisions, return on equity (ROE) dropped to 13.1%, though continuing to translate an attractive profitability level. The table shows the breakdown of ROE using average financial assets as the coefficient of the various income statement items.

To sum up the main points in the year under review, Group BES was able to maintain an attractive profitability level, with ROE standing at around 13%; efficiency continued to make good progress; its competitive position in the main business lines came out reinforced; the transformation ratio of customer funds into credit was improved; financial strength was significantly reinforced; and risks, particularly credit risk, were kept under tight control, while a sizeable cash flow volume was allocated to provisions.

Breakdown of Return on Equity

figures in %

		2001	2002	Change p.p.
	Rate of Financial Assets	6.12	5.21	-0.90
-	Rate of Financial Liabilities	4.01	2.96	-1.04
=	Spread Margin	2.11	2.25	0.14
+	Balance Sheet Management	0.07	0.03	-0.04
=	**Global Margin**	**2.18**	**2.27**	**0.10**
+	Fees and Commissions	1.16	1.15	-0.01
+	Capital Market Results	0.38	0.39	0.01
=	**Gross Return on Financial Assets**	**3.72**	**3.81**	**0.09**
-	Operating Costs	2.16	2.03	-0.13
=	**Net Return on Financial Assets**	**1.55**	**1.78**	**0.22**
-	Net Provisions	0.62	0.79	0.17
+	Others	-0.07	-0.16	-0.09
-	Minority Interests	0.15	0.09	-0.06
=	Pre-tax Return	0.72	0.73	0.02
-	Income Tax	0.12	0.11	-0.01
=	**Fees and Commissions**	**0.60**	**0.63**	**0.03**
x	Weighting of Financial Assets	91.52	90.93	-0.59
=	**Return on Assets (ROA)**	**0.55**	**0.57**	**0.02**
x	Placements Multiplier	28.38	23.01	-5.39
=	**Return on Equity (ROE)**	**15,57**	**13,10**	**-2,47**

8

8.2 > Activity and Results of Banco Espírito Santo (BES)

Main Activity Highlights and Business Indicators

	VARIABLES		SYMBOL.	1999	2000	2001	2002
	BALANCE SHEET (euro million)						
	Total Assets (1)		TA	27,461	32,007	33,526	36,035
	Net Assets		NA	22,733	26,817	27,590	29,416
	Financial Assets (average values)		FA	18,274	20,438	23,790	23,322
	Capital and Reserves (average values)		KP	1,016	1,130	1,365	1,762
	INCOME STATEMENT (euro million)						
	Net Interest Income		NII	344.9	373.2	417.1	417.1
+	Fees and Commissions		FC	196.0	213.7	205.4	235.3
=	Commercial Banking Income		CBI	540.9	586.9	622.5	652.4
+	Capital Markets Results		CMR	144.4	201.3	123.8	153.7
=	Operating Banking Income		OBI	685.3	788.2	746.3	806.1
+	Extraordinary Results and Other Costs		XR-OC	11.2	-1.7	14.5	-32.0
=	Total Banking Income		TBI	696.5	786.5	731.8	774.1
-	Operating Costs		OC	387.9	418.1	448.6	444.0
-	Provisions and Taxes		PT	146.0	234.0	142.1	200.7
=	Net Profit		NP	162.6	134.4	141.1	129.4
	PROFITABILITY (%)						
	Net Interest Margin		NII / FA	1.89	1.83	1.75	1.79
+	Return on fees and commissions		FC / FA	1.07	1.05	0.86	1.01
+	Return on capital market results		CM / FA	0.79	0.98	0.52	0.66
=	Business Margin		OBI / FA	3.75	3.86	3.14	3.46
-	Weighting of Operating Costs		OC / FA	2.12	2.05	1.89	1.90
-	Provisions and Taxes		PT / FA	0.80	1.14	0.60	0.86
-	Extraordinary Results and Other Costs		(OC-XR) / FA	0.06	-0.01	-0.06	-0.14
=	Return on Financial Assets		NP / FA	0.89	0.66	0.59	0.55
x	Weighting of Financial Assets		FA/ NA	0.87	0.87	0.87	0.85
=	Return on Assets (ROA)		NP / NA	0.77	0.57	0.52	0.47
x	Placements Multiplier		NA / KP	20.70	20.88	20.05	15.61
=	Return on Equity (ROE)		NP / KP	16.00	11.89	10.34	7.34
	PRODUCTIVITY/EFFICIENCY						
	Operating Costs / Total Assets	(%)	OC / TA	1.41	1.31	1.34	1.23
	Assets per Employee	(Eur 000)	TA / E	5,068	5,960	6,440	8,394
	Cost to Income	%	OC / OBI	56.6	53.0	60.1	55.1

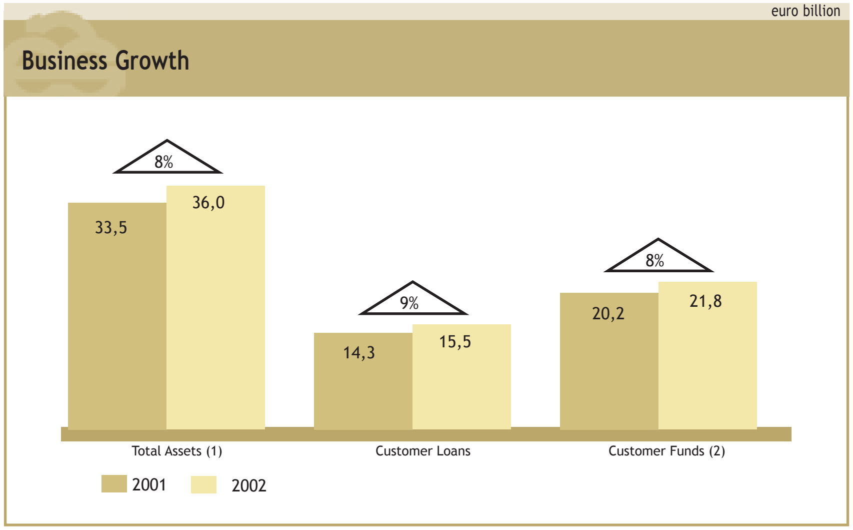
(1) Includes disintermediation

> Activity

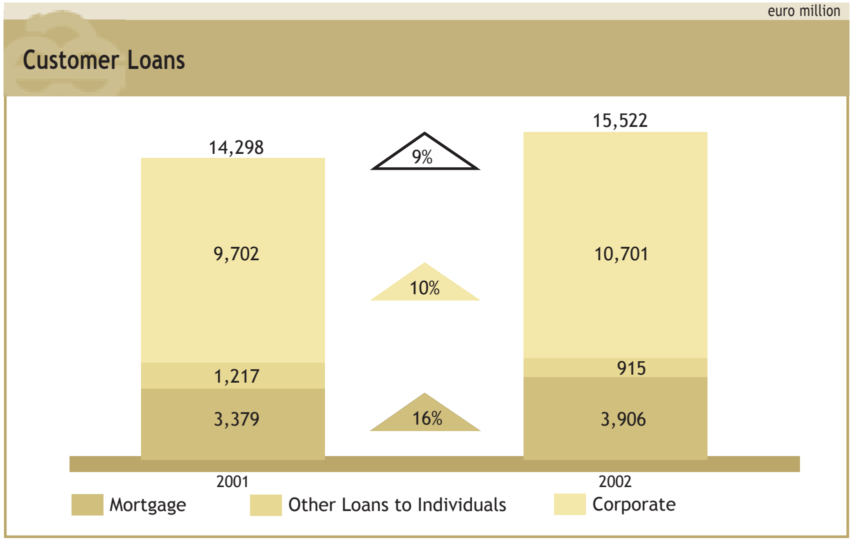
In line with previous years, 2002 was lived in a climate of strong commercial dynamism. Major structural transformations were consolidated, while at the same time new and challenging paths were opened by the reorganization of a multispecialist financial Group.

The vigor displayed by the business more directly involving customers remained one of the key features of BES's activity, with credit continuing to expand (rising by 9% year-on-year), and funding, including disintermediation, maintaining the same growth pace as in the previous year (approximately 8%).

Customer loans continued to show that there is room for expansion, mortgage lending again proving the most active component of credit, having risen by roughly 16% against the previous year; other loans to individuals were down by 25% on 2001, a drop that is influenced by the securitization of euro 150 million in consumer credit at the end of April 2002. At the end of the year loans to individuals continued to account for roughly one third of the Bank's total credit portfolio. Finally, the performance of corporate credit - an increase of 10% - once again confirmed BES's strong foothold in the Portuguese corporate fabric.



(1) Includes: Net Assets and off balance sheet items
(2) Includes: Customer deposits, debt securities and off balance sheet items



Thanks to the systematic fine-tuning of methods, both those used by the Global Risk Management Area and that employed for decentralizing decision powers, and the skills shown by all those intervening in the process in assessing credit risk from a commercial standpoint, one of BES's strong points is indeed the quality of its credit portfolio.

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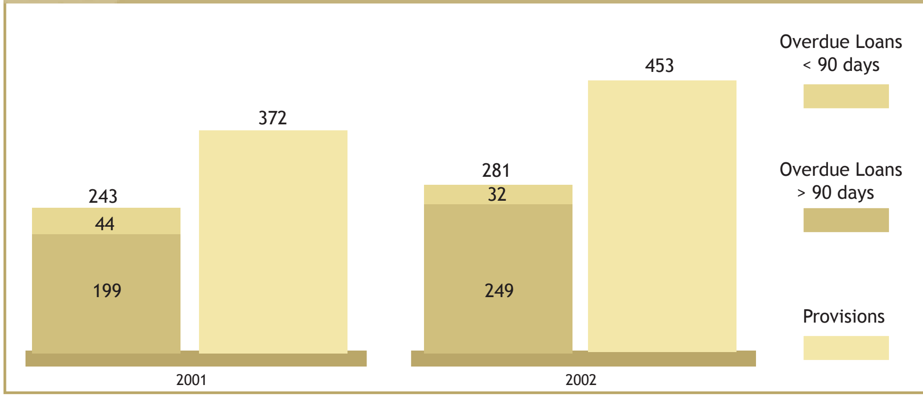
euro million

Asset Quality



	2001	2002
Total Overdue Loans / Customer Loans (Gross)	1.70%	1.81%
Overdue Loans > 90 days / Customer Loans (Gross)	1.39%	1.60%
Total Provisions / Total Overdue Loans	153%	161%
Total Provisions / Overdue Loans > 90 days	188%	182%

8

This quality may be gauged by the low loan loss level recorded, which stood at around 1.8%, and by the high level of coverage by provisions, where the reference ratio rose by 8 p.p. (161% in 2002 against 153% in 2001).

Funding growth, though slightly more moderate than that of credit, is nonetheless quite meaningful, considering that it occurred in a context of rising indebtedness of families and of an ever-increasing array and diversity of desintermediation products on offer. However, the Bank continued to conduct its activity with the concern of maintaining a balance between, on the one hand, the offer of products such as mutual funds and bancassurance, and on the other, its need to finance customer loans through on-balance sheet funds, including debt securities, which remained the most vigorous component of intermediation.

Funding

euro million

Variables	2001	2002	Change Abs.	Change Rel. (%)
Customer Funds	**14,513**	**15,398**	**885**	**6.1**
Sight Deposits	5,696	6,003	307	5.4
Term Deposits	6,242	6,187	- 55	-0.9
Debt Securities	2,575	3,208	633	24.6
Off balance sheet funds	**5,731**	**6,373**	**642**	**11.2**
Total Customer Funds	**20,244**	**21,771**	**1,527**	**7.5**

> Banking Revenue, Productivity and Profitability

The Bank's performance, despite the good growth pace achieved in fees and commissions (+14.6%) and capital markets results (+24.2%), was nevertheless strongly affected by the sharp rise in provisions (+ euro 57 million), which, as usual, reflect its prudent stance in view of current economic conditions, and led to a reduction in net profits of euro 11.7 million.

euro million

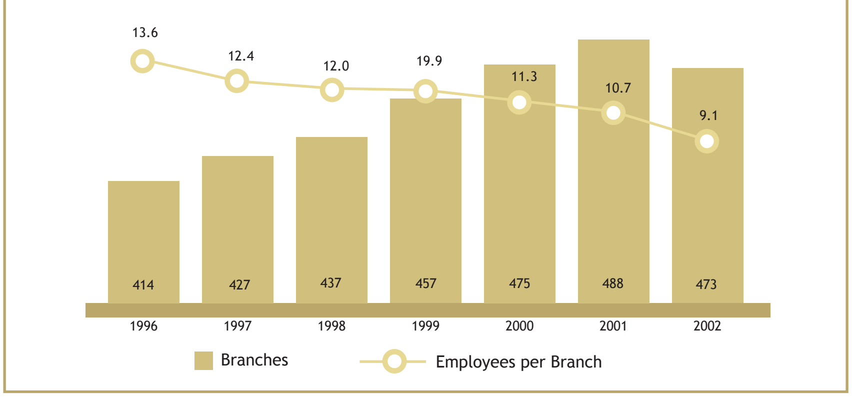
	Banking Income and Results	2001	2002	Change %
	Net Interest Income	417.1	417.1	0.0
+	Fees and Commissions	205.4	235.3	14.6
+	Capital Market Results	123.8	153.7	24.2
=	Banking Income	746.3	806.1	8.0
+	Extraordinary results and others	-14.5	-32.0	....
-	Administrative Costs	354.8	340.6	-4.0
-	Depreciation	93.8	103.4	10.2
-	Net Provisions	142.1	199.0	40.0
=	Pre-tax Results	141.1	131.1	-7.1
-	Income tax	0.0	1.7	....
=	Net Profit	141.1	129.4	-8.3

The reduction of operating costs (-1.0%) was consistent with the global objective established for the Group (already referred). It permitted to improve both the Cost to Income, which dropped by five percentage points, from 60.1% to 55.1%, and physical productivity, as measured by either the number of employees per branch, or by the ratio of assets per employee, which rose by 30%.

Productivity Indicators		2001	2002	Change
Operating Costs/Total Assets	(%)	1.34	1.23	-0.11 p.p.
Assets per Employee	(eur 000)	6,440	8,394	30.3%
Employees per Branch	(number)	10.7	9.1	-1.6
Cost to Income	(%)	60.1	55.1	-5.0 p.p.

These developments are closely linked to the reduction in the number of employees that took place during the year. This has been a constant feature over the last few years, and occurred in tandem with an indispensable effort to arrive at a younger and overall better qualified workforce.

Network Expansion / Organization Efficiency



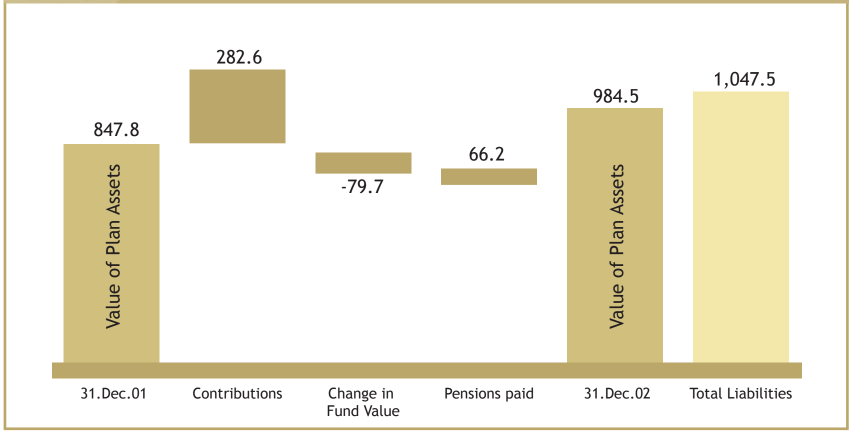
The process of streamlining the Bank's human resources inevitably had an impact in terms of pension liabilities, which suffered a marked rise and therefore called for an increase in the respective funding.

Liabilities for retirement pensions thus increased by euro 116.7 million and were funded through contributions to the pension funds that totaled euro 282.6 million. Hence the coverage level improved significantly, from 91% to 94%.

2002 was characterized by a decline in profitability, in terms of both return on equity and return on assets. This resulted from the combination of various factors that are explained throughout this report. Hence return on average equity dropped from 10.3% in 2001 to 7.3% in 2002, while return on assets stood at 0.47% (0.52% in the previous year).

euro million

Annual Change in BES Pension Fund



> Proposed Distribution of BES Net Profit

Under the terms of section b) of article 376 of the Companies Code, and in compliance with article 30 of the Statutes, it is proposed that the following application of the year's net profit be submitted to the General Meeting:

The proposed dividend on the 2002 earnings corresponds to a gross value per share of euro 0.287, payable on all existing shares at the end of the year.

euros

Proposed Distribution of Net Profit	
• For legal Reserve	13,000,000.00
• For distribution to the members of the Board of Directors	920,000.00
• For distribution to the employees	15,250,000.00
• For distribution to the shareholders	86,100,000.00
• For other reserves	14,104,275.00
	129,374,275.00

8

8.3 > Activity and Results of the Main Business Units

> Banking

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

Business made good progress during the year, both on customer loans, particularly mortgage lending, and on customer funds, notwithstanding the unfavorable conditions for attracting savings. At the end of the year the Bank carried out a securitization operation of subsidized residential mortgage credit in the amount of euro 1 billion, which permitted to obtain liquidity and improve the solvency ratio.

The new organization model that was built by integrating the operating and systems structures into shared service units completed its first full year in operation.

As a result of the referred securitization operation, customer loans were down by 4.1%, from euro 6,652 million to euro 6,378 million. Mortgage credit, which accounts for 76.5% of total gross customer loans, reached euro 4,943 million. In order to ensure sufficient funding to expand the mortgage lending business, the Bank issued bonds totaling euro 205 million.

The Bank posted net interest income of euro 157.2 million and banking income of 174.3 million. Net profit was euro 49.6 million, a decrease of 4.4% year-on-year.

8

> Registered Office
Av. Fontes Pereira de Melo, 27
1050-117 Lisboa

> Share Capital
Euro 150 million

> BES holding
100%

consolidated values — euro million

Variables and Indicators		2001	2002	Change (%)
Net Assets		8,158	7,974	-2.3
Capital and Reserves		205	222	8.3
Customer Funds		4,013	4,125	2.8
Customer Loans (net)		6,652	6,378	-4.1
Net Profit		51.9	49.6	-4.4
Employees per Branch	(number)	7.8	7.7	-0.1
Return on Equity (ROE)	(%)	33.3	27.5	-5.8p.p.

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

BES Investimento closed the year with a consolidated net profit of euro 2.8 million, a year-on-year increase of 32.4%. The deep crisis that affected capital markets had a substantial impact on the Bank's activity, in so far as it did not permit to carry out any major operations in the primary market, while strongly conditioning the business of its associated companies ES Dealer and Benito y Monjardin.

In Project Finance, Group BES was ranked 30th Global Mandated Lead Arranger in the League Tables issued by the Project Finance International magazine - the second-ranking Iberian bank in this list - and 22nd in the classification for Global Advisory Mandates - which corresponds to the top position at Iberian level.

In financial services, and notwithstanding the market's adverse conditions, BESI provided financial advisory services to Generg, in the sale of its holding in IPE, to Sogrape, in the acquisition of Sandeman, and in Spain, to Neoplástica, in the acquisition of Trevira. The Sogrape operation was associated to an issue of commercial paper, in which the bank was lead manager.

In the primary equity market, the most affected by the lack of large operations, the Bank arranged Sacor Marítima's and Orey's tender offers; in the Spanish market, it co-led the IPO of Enagás; and in the Brazilian market, it had the role of advisor in TelespCelular's rights issue and co-led the IPO of CCR (Companhia de Concessões Rodoviárias).

Also in Project Finance, a substantial volume of fees, both advisory and lending, was obtained, as a result of the Bank's involvement in motorway projects and the construction of a new football stadium.

As regards the debt markets, and in addition to its role in the referred Sogrape issue, BESI co-led BES FINANCE, Ltd. eurobonds issue, led the commercial paper issue of Banco Mais, and, in the Brazilian market, participated as leader or co-leader in the Euro and USD international bond issues by the Federal Republic of Brazil, the Bradesco and Unibanco banks and also by Odebrecht.

consolidated values — euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	850,503	871,519	2.5
Capital and Reserves	159,897	156,840	-1.9
Banking Income	49,749	54,933	10.4
Net Profit	2,088	2,764	32.4

Espírito Santo Investment

> Registered Office
Rua Alexandre Herculano, 38
1269-161 Lisboa

> Share Capital
Euro 70 million

> BES holding
100%

8

8

BEST - Banco Electrónico de Serviço Total, S.A.

> Registered Office
Rua Alexandre Herculano, 38
1250-011 Lisboa
> Share Capital
Euro 43 million
> BES holding
66.0%

In 2002 Banco BEST completed its first year in operation. The bank has achieved a high level of customer satisfaction (94%), as shown by the results of a satisfaction survey carried out by mid-year.

Besides consolidating its primary access channels -Web, Wap, ITV, Investment Centers and Contact Center - the Bank developed or extended personal relationship channels, which feature the following:

– financial advisors, delivering a personalized and free of charge service to support financial decisions;

– agents, commercial network extended to all district capitals;

– financial advisors, network of financial specialists;

– BEST spaces in PT Group shops.

Banco BEST maintained a brisk pace in the launching and sale of products, producing the widest offering of term deposits in the market and extending brokerage services to eight of the main stock exchange markets (increasing its market share six-fold when compared to 2001). Its mutual fund portfolio posted a rise in excess of 50% (the bank sells over 170 funds from 13 managing companies). Moreover, the bank also issued structured products featuring diversified profiles. At the end of the year Banco BEST launched unit-linked insurance polices, consumer credit (in a first phase, to the purchase of luxury watches, under a partnership), the salary account product, and on the side of tax savings products, a housing savings account. The provision of services in the area of payment means and account management was enlarged, by the introduction of checks, a VISA Gold credit card, a VISA Electron debit card and the payment of services.

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	149,442	186,908	25.1
Capital and Reserves	32,422	39,626	22.2
Customer Deposits	118,072	153,724	30.2
Net Profit	-3,374	-10,679	...

Banco Espírito Santo dos Açores, S.A.

BES dos Açores is headquartered in the Azores and started operations on July 1, 2002. The need felt by Group BES and Santa Casa da Misericórdia de Ponta Delgada, later joined by the Bensaúde Group, to find an adequate solution to meet the challenges faced by the financial system in the Autonomous Region of the Azores was behind the creation of this new bank. Aware of the requirements of the national and regional banking system, and of the need to provide quality services and products, by improving working methods and the communication with the customers, the players in this process decided to associate themselves for the establishment of BES dos Açores - the first bank to open in the Azores in the last 90 years, and also the first in the new millennium.

The main target of BES dos Açores are the residents of the Autonomous Region of the Azores, and, equally important, the large community of emigrants from these islands, particularly in North America (USA and Canada). To this end, the branches were redefined and refurbished, and the staff received intensive training.

The strategic business plan defined is geared to the Bank's development and implantation in the Azores, banking on the outsourcing of services and product design, and on exploiting strong synergies with BES Group.

The complex process of integrating and fine-tuning the operation of the two networks of branches - BES's and that of Caixa Económica da Misericórdia de Ponta Delgada - was pursued during these six months in operation. This task was only possible thanks to the very positive work developed by several units and employees of both the Group and the former Caixa Económica. At the same time, an intensive commercial activity was developed to raise customer loyalty and improve the new bank's capacity to meet customer needs.

The Bank closed the year with net assets of euro 205.3 million and a net profit of euro 1.151 million (corresponding to six months in operation).

euro thousand

Variables and Indicators	2002
Net Assets	205,291
Capital and Reserves	24,181
Customer Loans (gross)	178,260
Customer Deposits	154,541
Banking Income [1]	4,607
Net Profit [1]	1,151

[1] Corresponding to results half year

Banco Espírito Santo
dos Açores

> Registered Office:
Rua Hintze Ribeiro, 2 - 8
9500-049 Ponta Delgada

> Share Capital
Euro 17.5 million

> BES holding
59.98%

Banco Espírito Santo
Espanha

8

> **Registered Office**
Serrano, 88
28006 Madrid - Spain
> **Share Capital**
Euro 86.5 million
> **BES holding**
100%

Banco Espírito Santo, S.A. (Espanha)

In the course of 2002 BES Group in Spain successfully cemented its specialization strategy focused on medium-high and high net worth individual customers. Along these lines, the Group's units in this country were gradually integrated, a process that involved the merger and restructuring of the commercial networks and the integration of the central services. This integration, whose results will only be fully visible in 2003, aimed at separating investment banking from commercial banking (the latter essentially geared towards individual customers), while maintaining in operation the corporate banking business, which gives the Bank added value in terms of the relationship with Portugal.

The commercial efforts and business done this year by the Bank translated into a rising contribution of fees and commissions to banking income. The Bank's standalone result came out slightly above euro 400,000.

As regards the Group's other business units, both the fund manager and the broker posted losses this year, as a result of the implementation of the restructuring process. The Group posted a consolidated profit of euro 2.1 million.

consolidated values | euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	2,355,586	2,981,194	26.6
Capital and Reserves	63,268	62,311	-1.5
Customer Loans (gross)	1,010,359	1,049,538	3.9
Customer Funds	959,406	1,406,475	46.6
Banking Income	62,311	74,799	20.0
Net Profit	- 1,724	2,105	...

Espírito Santo Bank, S.A.

Despite the difficult economic situation lived in 2002, ES Bank was able to increase its private banking customer base and business, by taking advantage of selective credit opportunities.

Net assets increased 7%, customer funds and credit portfolio were up respectively 9% and 5.6%, year-on-year. The credit portfolio maintained an excellent quality level, where mortgage loans and loans to private banking customers (collateralized) were the most dynamic components.

Net interest income grew by 25%, thanks to an improved asset mix; and fees and commissions on customer services, under the markets' unfavorable climate for business, remained flat.

In the third quarter of the year ES Bank sold its 50% holding in the factoring company ES Bankest.

Espírito Santo Bank

> Registered Office:
1395 Brickell Avenue
Miami, Florida, 33131 U.S.A.

> Share Capital
$US 16.973 million
(Euro 15.442 million)

> BES holding
98.45%

8

euro thousand

Variables and Indicators	2001	2002	Change (%)
Assets under Management [1]	918,118	898,409	-2.1
Net Assets	465,992	497,068	6.7
Capital and Reserves	35,526	31,699	-10.8
Customer Loans (gross)	189,174	199,747	5.6
Customer Deposits	350,276	383,376	9..4
Net Profit	4,863	1,640	-66.3

[1] Net assets and off balance sheet items

Banco Espírito Santo do Oriente

必利勝銀行

8

Banco Espírito Santo do Oriente, S.A.

Lacking any clear signs of sound economic growth, the US economy's behavior in 2002 had the effect of holding back the confidence of international investors and this reflected on all other economies. In Asia, the Popular Republic of China officially posted another year of strong expansion, with GDP growth reaching close to 8%, in contrast to the persistent weakness of the Japanese economy. On the other hand, the overall Asian scenario is one of uncertainty, as, although the majority of the economies in the region have improved when compared to the previous year, the pace of economic growth slowed down in the second half of the year versus the first. These countries being strongly dependent on exports, the performance of their economy was intimately linked to the overall poor level of demand in the US and Europe. Additionally, most stock exchanges in the region have registered falls versus the previous year.

In Macao, despite the lack of official data, the year seemed to boost the confidence of the entrepreneurial sector in the recovery of an economy that increasingly relies on public works, tourism and investment by the new operators of chance games.

Always alert to the surrounding environment, the Bank pursued a policy of restriction, strictness and prudence in the assumption of new risks. At the end of the year net assets totaled euro 119 million, and net profit euro 1.358 million.

> Registered Office
Av. Dr. Mário Soares, n.º 323
Edifício Banco da China,
28tº E-F - MACAO

> Share Capital
MOP 200 million
(Euro 23.743 million)

> BES holding
99.75%

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	171,646	118,845	-30.8
Customer Loans (gross)	35,821	25,764	-28.1
Capital and Reserves	29,887	25,251	-15.5
Net Profit	162	1,358	...

Banco Espírito Santo Angola, S.A.R.L.

Banco Espírito Santo Angola made good progress in its first year in operation. The Bank is already viewed as a competitive and modern bank, where commitment to both quality service and skilled human resources was decisive in the good performance achieved.

BESA mainly focused its activity on the provision of savings products in *Kwanzas* (the local currency) as well as on currency purchases and sales for imports, money transfers abroad, forward operations to hedge the foreign exchange risk incurred by certain customers (mostly in USD/rand) and the management of customer portfolios.

Despite the obviously small expression of credit due to the Bank's recent start-up, loan granting obeyed strict criteria in terms of its assessment, and care was taken to obtain collateral security.

Net interest income contributed with 66% to total banking income. The Bank's "BESA rendiment" term account was the first time-deposit in Kwanzas to appear on the Angolan banking scene. Trading operations, namely foreign exchange operations on imports, the management of currency portfolios and forward contracts, also contributed to banking income.

Customer funds reached euro 50 million, while customer loans stood at just euro 4.5 million. At year-end total net assets were euro 67 million and the Bank posted a profit of euro 1.062 million.

euro thousand

Variables and Indicators	2002
Net Assets	67,332
Capital and Reserves	7,367
Customer Loans (gross)	4,502
Customer Deposits	50,059
Banking Income	4,135
Net Profit	1,062

Banco Espírito Santo
Angola

> Registered Office
Rua Guilherme Pereira Inglês
n.º 43 - 1º CP 6459 Luanda, Angola

> Share Capital
Equivalent to euro 9.536 million

> BES holding
99.96%

8

Banque Espírito Santo et de la Vénétie

8

> **Registered Office**
45, Avenue Georges Mandel
75116 Paris - France

> **Share Capital**
Euro 52.154 million

> **BES holding**
40.00%

Banque Espírito Santo et de la Vénétie, S.A.

2002 was marked by the merger with Via Banque, following the acquisition from ESFIL of all its shares in VIA Banque. Another important event was BES's acquisition of part of the stake held in BESV by the Cardine Banca group and the SAN PAOLO IMI group, after these entities merged their operations.

The new bank that resulted from the merger continued to operate in the areas of commercial banking, structured finance, private management and the cash management that was born from the merger, having posted satisfactory results. Banking income was up by 119.1%, while recurrent operating costs increased by 78.1%, leading to a rise in the recurrent operating result of 339%.

Improved profitability was achieved against a tough economic environment, with the expected rebound of the French economy in the second half of the year failing to materialize. Economic growth in France was approximately 1%, and stemmed essentially from private consumption, which made up for the low level of investment. The number of the unemployed (9% of the active population) stabilized at the end of the year, but job creation stood below the previous year's level. At the same time, quite a lot of restructurings and "social plans" were announced during the year.

In 2002 BESV had to bear high restructuring costs derived from the merger with Via Banque. Also, the Bank considered that it would be necessary to set up substantial credit provisions (euro 8.5 million against euro 1.3 million in 2001), as loans, although classified as performing, are experiencing some temporary problems.

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	402,731	1,188,764	195.2
Customer Loans [1]	202,448	614,853	203.7
Customer Deposits [1]	122,523	230,514	88.1
Equity	53,477	61,910	15.8
Net Profit	53	708	...

[1] Except Financial Customers

> Asset Management

Espírito Santo Activos Financeiros, SGPS, S.A.(ESAF)

At the end of 2002 the volume of assets under management reached approximately euro 9 billion, an increase of nearly 7% when compared to 2001, largely generated in the real estate fund Gespatrimónio Rendimento and in the discretionary management business. This fund maintained its lead as the largest open-end real estate fund in the Portuguese market, with assets under management exceeding euro 1,374 million, which corresponds to an increase of more than 22 % over the previous year.

Within the scope of BES Group's expansion plan in Spain, the project for the reorganization of the companies' structure was completed. This was achieved through the creation of ESAF ? Espírito Santo Activos Financieros, S.A., which now holds the two manager companies - Espírito Santo Gestion and Espírito Santo Pensiones.

The area of alternative products was given a boost. These products, namely the Caravela Fund SICAV, are sold to institutional customers, and private customers, whose portfolios are managed through ESAF ? Espírito Santo Gestão de Patrimónios, S.A. At the end of the year the Caravela Fund posted a volume of assets under management that surpassed euro 260 million, an increase of 18.8% versus the previous year. The drive towards streamlining the offering of mutual funds managed by ESAF - Espírito Santo Fundos de Investimento Mobiliário S.A. and ESAF - International Management led to the liquidation of their ES Fixed Income and ES Focus I Funds, respectively.

Two factors jointly led to a drop in consolidated net profit: the fall in certain values under management, namely in higher risk funds, which are those that most contribute to the income statement, and the restructuring costs of the Spanish operation.

consolidated values | euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	60,067	60,693	1.0
Capital and Reserves	20,618	20,825	1.0
Net Profit	11,261	7,735	-31.3
Assets under Management (euro million)	8,506	9,056	6.5

Espírito Santo Activos Financeiros

> Registered Office
Av. Álvares Cabral, 41
1250-015 Lisboa

> Share Capital
Euro 11.75 million

> BES holding
85.00%

> Leasing

Besleasing Mobiliária - Sociedade de Locação Financeira, S.A.

Besleasing Mobiliária

8

> **Registered Office**
Av. Álvares Cabral, 27 - 4.º
1269-140 Lisboa
> **Share Capital**
Euro 2.65 million
> **BES holding**
83.72%

The equipment leasing sector saw a marked reduction, reflecting the decelerating growth pace of the economy. Besleasing Mobiliária, though to a lesser degree, was also affected by the economy's sluggish performance. Supported by the BES and BIC commercial networks, it posted production totaling euro 326.8 million. In a scenario of general crisis in the sector, this result nevertheless placed the company in second position in the national ranking of equipment leasing companies, with a share of 13.4% of a market that is growing increasingly competitive.

Production was essentially channeled to the manufacturing industry, retail, construction and public works and transport and communications sectors. Vehicles and equipment specific for the industry were the most sought after category of goods.

A securitization operation totaling euro 300 million was carried out, aimed at boosting the potential for business, releasing own funds and improving the solvency ratio. This operation was fully placed in the international markets and was rated by Moody's, Standard & Poor's and Fitch Ratings. In addition, it permitted to lower the cost of funding. This securitization explains the reduction in credit and consequent fall in net assets, besides its natural impact in terms of reducing interest-bearing liabilities.

Net profit was down, mainly as a result of the strong increase in provisions, and also of the retraction in the company's business, with overdue credit gaining weight in total loans under the securitization effect.

consolidated values — euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	627,166	387,811	-38.2
Capital and Reserves	25,020	25,773	3.0
Customer Loans	614,204	364,931	-40.6
Net Profit	1,089	931	-14.5
New Contracts			
Number	7,823	6,625	-15.3
Amount	365,281	326,785	-10.5

Besleasing Imobiliária - Sociedade de Locação Financeira, S.A.

The faltering pace of economic growth in 2002 affected the real estate leasing industry, Besleasing Imobiliária's business included. Supported by BES and BIC's networks, the company's production totaled euro 177.8 million, of which euro 159.3 million concerned buildings already constructed and euro 18.5 million buildings under construction. This performance allowed Besleasing Imobiliária to maintain the third position in the national ranking of leasing companies, with a share of 19.2% of a fiercely competitive market.

Production was mainly channeled to the retail, manufacturing industries and transport and communication sectors. The chief categories of leased goods were commercial property, warehouses, industrial facilities, offices and land for construction.

Net profit for the year, euro 4.2 million, benefited from the credit recovery policy pursued, thanks to which overdue loans stood at 0.4% only of total loans, which is less than in the previous year. This improvement resulted both from a reduction in overdue loans (- 15.3%) and from an increase in total customer loans.

consolidated values | euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	462,459	566,638	22.5
Capital and Reserves	15,035	15,342	2.0
Customer Loans	451,459	555,493	23.0
Net Profit	3,002	4,197	39.8
New Contracts			
Number	545	470	-13.8
Amount	179,856	177,793	-1.1

Besleasing Imobiliária

> Registered Office
Av. Álvares Cabral, 27 - 1.º
1269-140 Lisboa

> Share Capital
Euro 12.9 million

> BES holding
82.70%

Espírito Santo Crediflash

> Registered Office
Alameda António Sérgio, 22-2º - Miraflores
1495-132 Algés

> Share Capital
Euro 7.5 million

> BES holding
98.37%

8

> Specialized Consumer Credit

Crediflash - Sociedade Financeira para Aquisições a Crédito, S.A.

Consumer credit suffered the effects of the slowing down of economic growth. Still, Crediflash posted credit growth of 5%, and according to VISA, in the last quarter of the year BES Group had risen from third to second place in the ranking of credit cards turnover.

Based on the prime objectives set by the Group for credit card management this year - to boost their use and to increase the number of cards, while maintaining risk under control - several campaigns were launched, namely:

- the National Geographic promotion, targeted at Classic and Premier cards holders, which rewarded customers with a bonus annual subscription of this world-famous magazine;

- the summer campaign "to embark on this trip, all you have to do is use your card";

- the year-end campaign (running till the end of January 2003), featuring a contest and offering direct prizes, under the name "do your Christmas shopping with cards that give you presents"; and

- canvassing campaigns whereby BES Ritmo, BES Classic Duo and BES Premier Duo cards were awarded to customers of the Bank who did not hold any credit cards, based on the prior analysis of their credit card use and risk profile.

The increase in net profit, by 42%, derived not only from the 7% rise in credit commissions (in turn due to the growth of credit) but also from the joint effect of three different factors: net interest income was up by 32%, operating costs fell by 13% and the recovery of overdue loans improved 101%.

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	122,175	124,639	2.0
Capital and Reserves	11,426	11,706	2.5
Customer Loans (net)	110,871	115,128	3.8
Net Profit	2,841	4,032	41.9

Credibom - Sociedade Financeira para Aquisições a Crédito, S.A.

This year saw the start of two major projects in the area of information systems: the upgrade of the contract management system, which will bring greater flexibility into credit products, and the Revolving project, which will leverage direct customer loans. Both will be crucial in sustaining the company's future growth. A new Telemarketing organic unit was created following the launch of direct customer loans (these are called "Short Circuit").

An unfavorable economic environment, the fall of confidence indices, and the high level of indebtedness of Portuguese families, all contributed to hamper the growth of the consumer credit business. This explains which production only increased by 2.1% over the previous year, to reach euro 250.7 million.

On the other hand, the company's financial indicators performed quite well, with net assets reaching euro 471.8 million and customer loans totaling euro 452.6 million (up by 13.6% on 2001). The coverage ratio of total overdue loans by provisions stood at 118.1%.

Credibom posted net profit of euro 9.1 million, which corresponds to an increase of 12.2% over the previous year. ROE reached 44.5% and the Cost to Income came to 34.3%.

> Registered Office
Av. General Norton de Matos, 71-3º - Miraflores 1495-148 Algés

> Share Capital
Euro 10 million

> BES holding
59.98%

8

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	417,896	471,848	12.9
Capital and Reserves	18,450	20,502	11.1
Customer Loans (net)	398,419	452,655	13.6
Net Profit	8,129	9 120	12.2
ROE	44,1%	44,5%	0.4p.p.
Cost to Income	43,3%	34,3%	-9.0p.p.
Coverage of total Overdue Loans	112,1%	118,1%	6.0p.p.
New Contracts			
Number	66,127	60,596	-8.4
Amount	245,563	250,707	2.1

8

Espírito Santo Securities

> Registered Office
Rua Alexandre Herculano,38
1269-161 Lisboa

> Share Capital
Euro 3.5 million

> BES holding
100%

> Brokerage

Espírito Santo Dealer- Sociedade Financeira de Corretagem, S.A.

2002 was another bad year for capital markets. At world level, the economic crisis became even worse, strongly contributing to the fall of the main European indices. After September 11, and although the North-American Federal Reserve pursued an expansionist monetary policy, its practical effects were limited in so far as investors' confidence became even more shaken, particularly after the scandals involving Enron and WorldCom, as well as others related to dubious accounting practices. The specter of a war of with Iraq, the crisis in Argentina and the presidential elections in Brazil, acted together to condition the risk premia required by investors, and particularly affected the performance of a large part of the Iberian companies.

The Euronext Lisbon's PSI20 index fell by 25.6%, but was nonetheless one of the best performing indices of the main European stock exchanges. Notwithstanding this good relative performance, the trading volume and the official equities market capitalization were down by respectively 29.4% and 24.2%. This fall is all the more significant if we consider that in 2001 the trading volume had already slumped by 48% versus the year before. One of the main consequences of stock exchange crises is to penalize the more peripheric markets, and if in Spain this was felt to a certain degree, in Portugal it assumed rather more upsetting proportions.

At the same time competition strongly intensified, featuring aggressive fees, and this made it even more difficult for business profitability growth. Still, ES Dealer reached an accumulated market share of 8.6%, which gave it the fourth place in the ranking of companies that operate in the cash market in equities. The market share made some further progress towards the end of the year. In Spain, it was a year of consolidation and of opportunities in brokerage, through ES B&M. The management and approach to the Spanish market is carried out in an integrated fashion, taking advantage of the know-how and experience accumulated over the last years.

ES Dealer posted a consolidated net loss of euro 125,000 while total net commissions amounted to euro 4,082 thousand, down by 52% on 2001.

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	35,108	119,758	241.1
Capital and Reserves	7,823	6,470	-17.3
Net Profit	- 1,353	- 125	-90.8
Net Fees	8,575	4,082	-52.4

> **Factoring**

Euroges - Aquisição de Créditos a Curto Prazo, S.A.

In 2002 Euroges once again reaffirmed its presence in the Portuguese market as a reference in efficiency and profitability, aligned to the best practices which are a constant in the Group.

Portfolio growth of 20% and assets under management totaling euro 625 million at the end of 2002 allowed the company to remain in second position in the sector's ranking. An increasingly fine-tuned interpenetration with Group BES's network resulted in turnover growth in excess of 14.5%, to euro 1.723 million.

Net profit and cash flow, at respectively euro 4.8 million and euro 8.6 million, were up by 42.5% and 27.6% on the previous year's figures. Thanks to these results, EUROGES maintained the first position amongst its peers, accounting for respectively 37.7% and 42.3% of the sector's total net profits and cash flow, as published by the Portuguese Association of Factoring Companies.

The company's expansion and its containment of costs resulted from the strategy outlined, which focused on the pricing of loan operations, a strict risk control, a judicious management of human resources, and also on suppliers and external services, thus making it possible to pursue sustained growth. It was thanks to this strategy that the Cost to Income reached 27.4% and ROE 28.3%.

Finally, the management of payments to suppliers (confirming), after being developed on a quasi-test basis in 2001, went into full execution in 2002, when it already reached production of euro 131 million.

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	415,712	468,793	12.8
Capital and Reserves	15,240	17,077	12.1
Net Profit	3,398	4,843	42.5
Portfolio of gross receivables purchased	380,355	457,153	20.2

Espírito Santo
Euroges Factoring

> Registered Office
Rua Castilho, 44 - 3º
1250-071 Lisboa

> Share Capital
Euro 12 million

> BES holding
100%

Espírito Santo Capital

> **Registered Office**
Rua Alexandre Herculano, n.º 38 - 1.º
1269-161 Lisboa

> **Share Capital**
Euro 25 million

> **BES holding**
99.74%

8

> Venture Capital

Es Capital - Sociedade de Capital de Risco, S.A.

ES CAPITAL's activity in the course of 2002 consisted essentially in promoting the investment in the funds placed at its disposal, monitoring its subsidiaries' performance and preparing the launch of new venture capital funds, together with the IAPMEI and the EIB.

During the year there was a substantial reinforcement in the financial instruments available, which total euro 120 million in funds, broken down as follows: equity (euro 32 million), FCR-PME/BES (euro 21 million), FRIE-IMIT/BES (euro 22.5 million), lines under the IAPMEI protocol (euro 2 million), FUNGEPI/BES (euro 38 million) and EIB line (euro 1.5 million).

In terms of venture capital operations, approval was obtained for eleven equity holdings (for a total of euro 20.5 million), of which four were acquired, totaling euro 4.1 million.

During the year ES CAPITAL sold, fully or partially, fifteen equity holdings for a total amount of euro 18 million - of these, four were included in the FCR-PME/BES (euro 2.2 million) and another six in the FRIE-IMIT/BES (euro 6.9 million).

With regard to the FUNGEPI/BES fund, it carried out two transactions, totaling euro 2.4 million, reaching the end of the year with euro 38 million.

Net profit reached euro 2.9 million, up by 35% on the previous year's.

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	37,262	38,789	4.1
Capital and Reserves	28,969	29,384	1.4
Net Profit	2,172	2,926	34.7
Equity Holdings Portfolio [1]	36,073	24,393	-32.4

[1] Includes FCR – PME/BES and FRIE – IMIT/BES

> **Insurance**

Espírito Santo Companhia de Seguros, S.A.

In 2002 the Portuguese market of non-life insurance products for private individuals was naturally influenced by the domestic and international climate of decelerating growth that had already affected the economy in 2001. Notwithstanding this environment, BES Group's bancassurance business continued to perform well, both in terms of market penetration and in terms of results.

Total production during the year, obtained through the BES, BIC and BES Açores networks, exceeded 93 thousand contracts - distributed through home, auto and health insurance - corresponding to a portfolio growth of 27.9% to 267,756 contracts. On the technical side, there was a deterioration in the loss level, mainly originated in the auto insurance product. Nevertheless, the non-life technical result made good progress, rising by 21.8% versus the previous year.

The strong increase in production and in gross premium volume, the fact that technical results were maintained at good levels and operating costs kept under control allowed ES Seguros to post a net profit of euro 937 thousand, which corresponds to 2.3% of the gross premium volume.

Espírito Santo Seguros

> Registered Office
Avenida da Liberdade, 242
1250-149 Lisboa

> Share Capital
Euro 15 million

> BES holding
40.00%

8

euro thousand

Variables and Indicators	2001	2002	Change (%)
Gross premium volume	29,448	40,004	35.8
Costs of claims [1]	14,752	22,664	53.6
Technical balance result	693	845	21.9
Net profit	1,211	937	- 22.6
Net Assets	32,225	38,148	18.4
Gross tangible assets	8,874	9,057	2.1
Equity	10,431	11,359	8.9

[1] Amounts paid and change in provision for claims

Europ Assistance – Companhia Portuguesa de Seguros de Assistência, S.A.

> **Registered Office**
> Avenida Álvares Cabral, 41 - 3.°
> 1250-015 Lisboa

> **Share Capital**
> Euro 5 million

> **BES holding**
> 23.00%

2002 was another year of sustained growth for Europ Assistance, which not only maintained but also consolidated its lead of the assistance insurance market, with a share that surpassed 29%.

Total premiums issued amounted to euro 17.6 million, an increase of 10% against the previous year. This growth was achieved based on the sale of traditional products, and also of other, structured products that were developed within the scope of the specialization and market segmentation strategy followed over the last few years in response to market trends and the needs voiced by the customers.

More than 600 thousand calls were taken during the year and assistance was provided to over 300 thousand casualty victims, placing business growth at close to 15%. The accident record continued to increase as the assistance concept became more widely know, and also as a result of the considerable enlargement of the insured customer base.

Despite the significant drop in financial results, driven by the great instability felt in the financial markets and the already referred increase in the accident record, the company was able to improve profitability thanks to the continuous adoption of measures aimed at a strict control of costs with claims and fixed structural costs. The year was closed with a significant increase in net profits, which rose by 26% over the previous year.

On the international front, despite the serious economic crisis experienced in Argentina, and the political uncertainties that affected Brazil during the year, it was possible to consolidate and increase turnover in both countries and close the year with positive results.

euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	17,178	18,829	9.6
Equity	6,612	6,843	3.5
Net profit	795	1,004	26.3
Production	16,049	17,593	9.6

> e-BUSINESS

BES. COM, S.G.P.S., S.A.

BES.Com, a holding company specializing in investment in technological companies, focused its activity in 2002 mainly on extending support to the initiatives in which it participates.

The pmelink.pt, the first online business center in Portugal for small and medium enterprises, is one of these initiatives, that resulted from a joint venture with the CGD and PT Groups. In addition to its role in the regular management of this portal, the company and the other shareholders developed a joint effort to consolidate the business lines already in place, and to prepare and launch new product and service segments.

Thanks to an aggressive marketing campaign, and the innovative value proposal it introduced in Portugal, BANCO BEST has been able to further raise the high levels of recognition which it already enjoyed. The large number of products launched in 2002 by this bank specializing in the affluent customer segment also deserves a note.

In the second half of the year BES.Com assisted in the arrangement of a loan to its American subsidiary Clarity Payment Solutions, Inc. This company has developed a sophisticated payment processing platform, and counts among its customers names such as Coca-Cola, Ford Motors and AOL Time Warner.

Other initiatives undertaken jointly with BES included the incubation of a Clarity payment solutions business in Portugal. Moreover, BES.Com also capitalized on its own expertise to take part in initiatives directly participated by BES.

At the beginning of 2003 the company changed its name to Espírito Santo Tech Ventures, S.G.P.S., S.A.

consolidated values — euro thousand

Variables and Indicators	2001	2002	Change (%)
Net Assets	64,056	61,348	-4.2
Capital and reserves	45,322	35,100	-22.6
Equity Holdings Portfolio	51,343	49,409	-3.8
Net profit	-5,356	-10,614	...

Espírito Santo Tech Ventures

> Registered Office
Rua Alexandre Herculano, n.º 38 ? 4.º
1250-011 Lisboa

> Share Capital
Euro 50 million

> BES holding
100%

8

> Issuers of Securities

Within the universe of companies included in the consolidation, some units are specialized in obtaining funds in the international markets. Such entities, located in tax neutral financial centers are common in major international financial groups.

Espírito Santo Overseas, Ltd (ESOL), incorporated in the Cayman Islands, was established in October 1993 with ordinary share capital fully subscribed and paid up by BES. By December 31, 2002 ESOL had issued two series of non-voting preference shares, fully placed in the United States and guaranteed by BES, totaling USD 250 million. These preference shares are listed on the New York Stock Exchange.

BES Overseas, Ltd (BESOL), incorporated in the Cayman Islands, was established in September 1996, with ordinary share capital fully subscribed and paid up by BES. By December 31, 2002 BESOL had issued one series of non-voting preference shares totaling USD 250 million, guaranteed by BES, which was placed in the European market. These preference shares are listed on the London Stock Exchange.

BES Finance, Ltd incorporated in the Cayman Islands, was established in 1997, with ordinary share capital fully subscribed and paid up by BES. In February 1997 BES Finance established an Euro Medium Term Notes programme (EMTN), which is updated every year through the respective Offering Circular. The EMTN allows the issuance of senior and subordinated bonds in any currency and for any maturity, up to a nominal aggregate amount of euro 7 billion. BES guarantees all bonds issued under the EMTN.

At the end of the year the bonds outstanding, totaling euro 5,266 billion, were entirely placed with international investors. The proceeds were fully placed in the Group to finance its activities.

> Ancillary Service and Outsourcing Companies

Group BES's progressive concentration in a business that is essentially financial and the externalization of tasks not directly related to this activity has led to the redefinition of its organizational and functional structure. From this reorganization emerged outsourcing and ancillary service units which, while providing services to the Group's companies, and therefore permitting to release human and technological resources, have also in some cases started to operate in the markets where they are located.

The following are the business units engaged in oursourcing:

Espírito Santo Data, SGPS, S.A. (ESDATA)

(Share Capital: euro 7 million)

ESDATA is a holding company that manages the following subsidiaries: ES Interaction (design and commercialization of interactive information systems), ES Innovation (design, development and implementation of information systems, networks and communication systems) and Oblog Software (design and commercialization of information systems' management applications and software).

Espírito Santo Gestão de Instalações , Aprovisionamento e Comunicações, S.A. (ESGEST)

(Share Capital: euro 100,000)

ESGEST extends services related to the management of automobile fleets, building maintenance, company stores, communications and other related services.

Esumédica - Prestação de Cuidados Médicos, S.A.

(Share Capital: euro 1.5 million)

It is primarily a provider of medical care in the work place, extending health care to the employees of Group BES companies, resulting from a joint participation of BES and Companhia de Seguros Tranquilidade Vida.

Espírito Santo Cobranças, S.A.

(Share Capital: euro 798,000)

ES COBRANÇAS specializes in providing debt-collection services to Group companies, namely BES, BIC, CREDIBOM and CREDIFLASH. It also develops functional activities linked to research, pledges and the safe-keeping of valuables.

Cêntimo - Sociedade de Serviços, LDA

(Share Capital: euro 249,000)

CÊNTIMO'S sole activity is the safe-keeping of securities under the custody of three of the Group's banks headquartered in Portugal - BES, BIC and BESI.

Gesfinc - Espírito Santo Estudos Financeiros e de Mercado de Capitais, S.A.

(Share Capital: euro 399,000)

GESFINC develops research work in close coordination with the Group's broker (ES Dealer) and with Banco Espirito Santo de Investimento, this joint work having been crucial to assert the Group's position in the capital market.

Fiduprivate - Sociedade de Serviços, Consultadoria e Administração de Empresas, S.A.

(Share Capital: euro 125,000)

FIDUPRIVATE operates in the Madeira Free Zone, providing consultancy services to companies.

Espírito Santo Contact Center - Gestão de Call Centers, S.A.

(Share Capital: euro 3.6 million)

This company operates exclusively in the management of the call centers that support the telephone banking activity of BES, BIC, CREDIFLASH, BES.Com and Tranquilidade Vida.

Esegur, Empresa de Segurança, S.A.

(Share Capital: euro 2.75 million)

This company, where BES has a 29% stake, specializes in private security services. Originally stemming from the oursourcing process, it rapidly started providing services to a wide number of companies from the most different areas of activity. In 2001, under a partnership established with CGD and the CTT, these two institutions acquired stakes in Esegur. In 2002 it also entered the security transport business, posting net profits of euro 937 thousand in that year.

ES Interaction - Sistemas de Informação Interactiva, S.A.

(Share Capital: euro 500,000)

ES INTERACTION designs, develops and commercializes interactive information systems, also providing advisory, training and project management services and services linked to the development, implementation and support of information and communication systems.

Lisbon, 21 February 2003

The Board of Directors

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