03
Annual Report

BANCO ESPIRITO SANTO

The objects depicted in the present annual report are kept at the museum of the Fundação Ricardo do Espírito Santo Silva, a foundation which celebrated its fiftieth anniversary in 2003. Established in Lisbon, Portugal, in 1953 by Ricardo do Espírito Santo Silva, then chairman of Banco Espírito Santo, the museum contains some 2,000 pieces of mainly Portuguese decorative arts, such as furniture, silverware, tapestries, textiles, paintings, porcelain, faience, tiles and chandeliers, donated from his private collection. These objects were housed *Palácio Azurara* in central Lisbon and arranged in such a way as to invoke a splendid Portuguese aristocratic residence of the XVIIIth century. Simultaneously, Mr. Espírito Santo Silva established a school designed to help maintain and promote the old standards and techniques typical of Portuguese artistic tradition, which has educated more than two generations of Portuguese artists and is currently attended by some 300 students.

Museu-Escola de Artes Decorativas Portuguesas
Fundação Ricardo do Espírito Santo Silva
Ld. das Portas do Sol, 2
1100-411 Lisboa
Portugal
Tel: + 351 21 881 4600
e-mail: relacoes.publicas@fress.pt
www.fress.pt

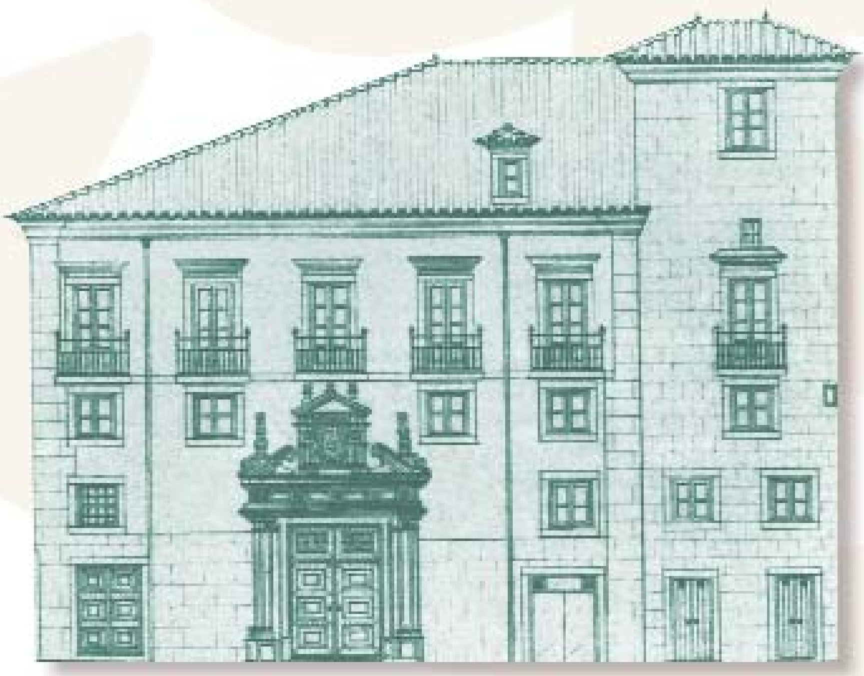
Index

Banco Espírito Santo, S.A.
Sociedade Aberta

Registered offices:
Av. da Liberdade, 195
1250 - 142 Lisboa

Share capital: 1 500 000 000 euros
Registered with the Lisbon Companies
Registry under no. 1607
Tax payer no.: 500 852 367

Joint message of the Chairman of the Board of Directors and the Chairman of the Executive Committee



Azurara Palace - Museum-School of Decorative Arts of the Ricardo Espírito Santo Silva Foundation.
17th century (2nd half)
Detail of previous page:
Front façade.

1

Joint message of the Chairman of the Board of Directors and the Chairman of the Executive Committee

The Group's economic and financial performance reflects a commercial effectiveness,

Dear Shareholders,

In 2003, after initial uncertainty caused by the war in Iraq, the world economic situation then featured a moderate recovery. The Euro Area economy, however, slowed down further, with GDP rising by around 0.4% - even though the stagnation of the first half was followed by a slight acceleration of GDP growth in the second half, as exports picked up. Consumer confidence and expenditure levels remained conditioned by high unemployment (8.8%). Under these circumstances, the strong rise in the euro versus the dollar (20%) and the decline in average inflation to 2.1% led the European Central Bank to extend in 2003 the downward cycle of reference interest rates.

as well as a clear bet on profitability as a key factor in shareholder value creation.

The Portuguese economy pursued the process of adjustment of internal demand against an adverse international context. Despite some signs of stabilization towards the end of the year, GDP should have suffered a real decrease of 1%, driving unemployment higher, from 5.1% to around 6.4%. Equity markets mirrored international trends, with the PSI 20 index rising by 16%.
For Group Banco Espírito Santo, 2003 was a crucial year in the consolidation of a strong competitive positioning in the various business areas, and in the achievement of high efficiency levels.

Notwithstanding macroeconomic constraints, BES Group showed strong activity growth in 2003, based on increased focus on service quality and the specialization of the commercial networks according to the Clients' characteristics. The Group's economic and financial performance reflects a commercial effectiveness, as well as a clear bet on profitability as a key factor in Shareholder value creation. Hence the growth achieved in 2003 highlights two aspects, which are the base of the results obtained over the last few years:

- A multispecialist commercial approach, which, in these tougher, slower growth times, allowed revenues, obtained through an efficient cross-selling strategy relying on service quality and the growth of investment banking and trading activity, to more than offset the decline in intermediation revenues caused by a sharp deceleration in lending and the increase in the costs of customer funding;

- A flexible and agile organizational model that allowed the costs structure to adjust swiftly to a recessive environment, translating into the capacity to reduce the cost to income ratio from 58% in 2001 to 50% in 2003.

Net income reached its highest level ever, rising by 14.4%, in a comparable basis, to euro 250.2 million. Return on equity reached 13.4%. Earnings per Share were euro 0.83, allowing the Board of Directors to propose to the General Shareholders' Meeting a dividend of euro 0.33 per share, an increase of around 15% vis-à-vis 2002.

Customer funds rose by 12.7% to euro 38.4 billion, mainly driven by innovation and strong commercial dynamism. The increase in on-balance sheet customer funds (11.8%) was coupled with a very significant increase in off-balance sheet funding (14.8%), namely in mutual funds and bancassurance products, notably pension savings plans and capitalization products. BES Group was thus leader in the placement of pension savings plans with a market share of more than 23%.

Lending activity was backed by a prudence and selectivity approach, leading to a deceleration in the growth pace of the loan portfolio. Including securitized credit, gross loans grew by 5.8%, to euro 28.4 billion. Mortgage lending remained the most dynamic item overall, rising by 7.5%, followed by corporate credit, up by 6.6%.

In this context, net interest income decreased 4.7%, although more than offset by the strong performance of fees and commissions related to customer services, which rose by 15.3%, to 469.5 billion, allowing the banking income to increase 2.1%. The improved customer service and an increasingly loyal customer base leveraged the cross-selling of products and consequently the average number of products per Client. Capital markets results showed a very positive performance, rising by 54% to euro 213.4 million, based on gains obtained in fixed-rate instruments as well as the recovery of the equity markets, particularly in the second half of the year.

In the current economic context, the efficiency levels achieved in 2003 - the cost to income ratio reached the 50% level - are particularly significant, representing an incessant search for efficiency at all levels. The reorganization and streamlining of processes and structures - based on the restructuring of the organizational model - allowed for a reduction of 1,073 employees in the 2001-2003 period (264 employees in 2003). At the same time, a strong commitment to rejuvenating, qualifying and endowing human resources with more skills, had a very positive impact in terms of productivity and quality of the service provided.

The performance of operating costs in 2003 is thus particularly noteworthy. In fact, the implementation of projects and initiatives aiming at cost reduction and control permitted to contain costs below the planned targets, leading to an increase of 0.2%, on a like-for-like basis. The integration of the leasing and factoring businesses will permit to propel the specialized credit to the corporate segment to a higher level of rationalization and efficiency, not only in terms of costs but also in terms of commercial approach.

In the current economic context, the efficiency levels achieved in 2003 - the cost to income ratio reached the 50% level - are particularly significant, representing an incessant search for efficiency at all levels.

Banco Espírito Santo sold in 2003 shares representing 45% of the share capital of Credibom - Sociedade Financeira para Aquisições a Crédito, S.A. The capital gain from this sale, an extraordinary result of euro 65.3 million, was allocated to the reinforcement of the Fund for General Banking Risks, which has increased to euro 126.4 million, thus neutralizing its impact on the income statement.

The provisions were considerably reinforced by euro 381.5 million, which reflects the prudent stance of the Group vis-à-vis the economic situation. Specifically, credit provisions amounted to euro 216.7 million. The increase in the balance of provisions for credit surpassed the increase in overdue loans, thus reinforcing the coverage ratio of overdue loans over 90 days to 153%, while decreasing at the same time the ratio of overdue loans over 90 days to customer loans from 1.87% in 2002 to 1.83% in 2003. The total overdue loans ratio remained at the 2002 level, while its provision coverage rose to 132.5% (from 131.5% in 2002).

The solvency ratio remains at comfortable levels, according to both Bank of Portugal (11.1% in 2003 vs. 10.7% in 2002) and BIS rules (13.1% in 2003 vs. 12.6% in 2002). The medium and long term debt ratings assigned by Moody's (A1), by Standard and Poor's (A-) and by FitchRatings (A+) reflect the Group's strong positioning in Portugal, adequate risk levels and asset quality and also a comfortable solvency level .

On the commercial side, the project initiated in 2002 involving a focused and specialized approach to the affluent segment was pursued. The training initiatives taken and the upgrading of information systems allowed for a unique capacity of the commercial structure in terms of value proposal and sophistication of financial advisory services. In 2004 this strategic bet was given broad public visibility through the launch of an important communication campaign.

2003 was also characterized by the cementing of the relationship of the Clients with the Group through direct channels, particularly Internet Banking (BESnet and BESnet Negócios). The quality certification of BESnet under the international standard NP EN ISO 9001:2000 for the effectiveness of the quality management system implemented is particularly noteworthy. Around 42% of individual Clients already use this channel, and for the first time interactions through BESnet matched the branch network. BESnet Negócios, the internet banking service for corporate clients, is used by 78% of the medium and large-sized companies and the number of transactions rose by 87% versus the previous year.

The direct channels are radically changing the way customers relate with BES Group. The penetration rate in the customer base already reached 47%. In addition to being a source of efficiency and costs reduction, they are increasingly used as a channel for providing services, as shown by the growth of the fees and commissions generated during the year, up by 42% on 2002.

Other initiatives where BES Group participates in the electronic banking area deserve to be mentioned. The pmelink.pt, an online business centre for companies promoted by BES, CGD and PT, already has more than 12,000 companies as clients. Banco BEST, a BES/PT joint venture, has continued to capitalize on a differentiated value proposal intended for the affluent segment, having already surpassed the 20,000 customers' barrier.

Investment banking reached leadership positions in Portugal and internationally, particularly in mergers and acquisitions, project finance and stock brokerage. The international market was the arena for some of the more representative operations carried out in 2003, particularly in project finance.

On December 31, 2003, BES set up a renting company in joint venture with CGD. Locarent, Companhia Portuguesa de Aluguer de Viaturas, S.A. will use the distribution capacity of the retail networks of the two groups to exploit the clear commercial opportunity in the segment of individual customers for this type of credit instrument.

In Spain, the Group pursued its strategy of specializing in affluent customers and private banking, as well as in corporate banking targeting companies operating in Portugal and Spain. The merger of the Benito y Monjardin and BES Spain networks was concluded, the activity being currently concentrated in 31 branches. Along with the positive evolution of the asset management business in Spain, the Group has recently reached an agreement to purchase the capital of the asset management units of Banco Simeón (CGD Group) as part of its growth strategy in the Spanish market. This transaction is based on a commercial agreement to distribute the funds managed by asset management companies of BES Group through Banco Simeón's branch network.

A final word on the good performance of Banco Espírito Santo shares during 2003. BES shares rose by 4% in 2003, and by 13% since the capital increase of February 2002, clearly outperforming both the Portuguese market's reference index, the PSI 20 (+4.6%), and the Eurostoxx 50 (+6.8%). BES Group has been pursuing a sustainable and balanced organic growth strategy, with a strong focus on shareholder value creation, thus deserving the trust and confidence of its Customers and Shareholders. Indeed, the value creation since the privatization until the end of 2003 represents a 13% growth p.a.

As far as corporate governance is concerned, the adoption of mechanisms aimed at reinforcing transparency and the pioneering implementation of best practices are the basis to guarantee responsible governance geared to value-creation. To this end, the function of Compliance Officer was created in 2003. The Compliance Officer is responsible for guaranteeing compliance with legal, statutory, operational, supervisory, ethical and conduct requirements applicable to BES. On the social responsibility and BES role in the promotion of sustainable development, the initiatives taken in 2003 were intended to help improve social welfare, particularly in situations of crisis and/or catastrophe. This included the aid provided under the form of donations and subsidized loans to help repair the damage caused by the fires that ravaged the country during the year. At the beginning of 2004, in line with the Group's traditional engagement in a culture of sharing and active social responsibility, another step was taken - involving the implementation of a set of far-reaching initiatives - to take even further social commitment across its multiple sides: relations with Customers, Shareholders, Employees and the Community.

We gratefully acknowledge the trust and confidence once again shown throughout the year by our Customers and Shareholders, to which the Board of Directors of BES and all the staff of Group Banco Espírito Santo will continue to respond with the professionalism, dedication and spirit of innovation that has been the hallmark of their activity. To all the employees, a special word of recognition for their effort, dedication and the exemplary quality of their performance in such a difficult year as 2003.

To the monetary and financial authorities and the Supervisory Board, we also wish to express our high esteem and recognition.

Ricardo Espírito Santo Silva Salgado

António Luís Roquette Ricciardi

BES Group has been pursuing a sustainable and balanced organic growth strategy, with a strong focus on shareholder value creation, thus deserving the trust and confidence of its Customers and Shareholders

Management Report

Coach of the Oceans
18th century
National Coach Museum
Detail of previous page:
Handshake of the "Oceans"

2 Management Report

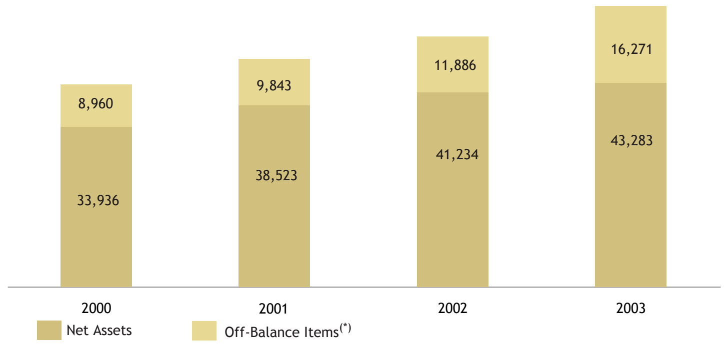
1 - Key Indicators

Balance (euro million)	2000	2001	2002	2003
Total Assets [1]	42,896	48,366	53,120	59,554
Net Assets	33,936	38,523	41,234	43,283
Loans and Advances to Customers (Gross)	21,789	24,569	25,795	26,042
Total Customer Funds	27,370	31,497	34,059	38,401
Regulatory Capital	3,146	3,522	4,246	4,492
PROFITABILITY (%)				
Return on Assets (ROA)	0.76	0.55	0.57	0.61
Return on Equity (ROE)	21.94	15.57	13.10	13.44
SOLVENCY (%)				
BIS Ratio				
- Total	10.96	10.74	12.64	13.13
- TIER I	7.16	6.41	7.01	7.76
Bank of Portugal Ratio				
- Total	9.29	9.28	10.74	11.05
- TIER I	6.37	5.83	6.06	6.55
ASSET QUALITY (%)				
Overdue Loans > 90 days / Gross Loans	1.66	1.50	1.87	1.83
Coverage of Overdue Loans > 90 days	155.3	161.1	148.7	152.7
PRODUCTIVITY / EFFICIENCY				
Operating Costs / Total Assets (%)	1.47	1.48	1.36	1.20
Assets per Employee (euro thousand)	5,438	5,992	7,017	8,262
Cost to Income (%)	51.0	58.2	53.4	50.0
RATINGS				
Short Term				
- STANDARD AND POOR'S	A 1	A 2	A 2	A 2
- MOODY'S	P 1	P 1	P 1	P 1
- FITCHRatings	-	-	F1	F1
Long Term				
- STANDARD AND POOR'S	A	A -	A -	A -
- MOODY'S	A 1	A 1	A 1	A 1
- FITCHRatings	-	-	A+	A+

[1] Includes net assets, asset management, other off balance sheet items (liabilities) and securitized loans

Net Assets

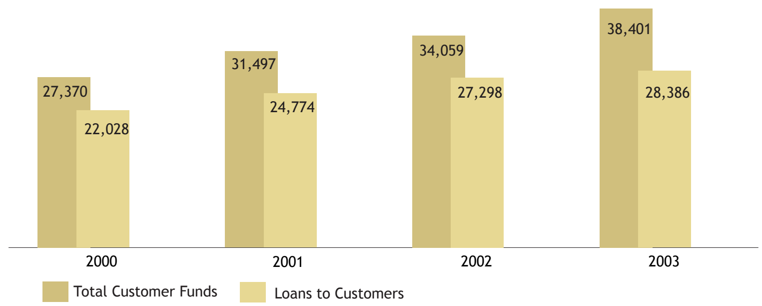
euro million



(*) Asset and Liability off-balance sheet items

Business with Customers(*)

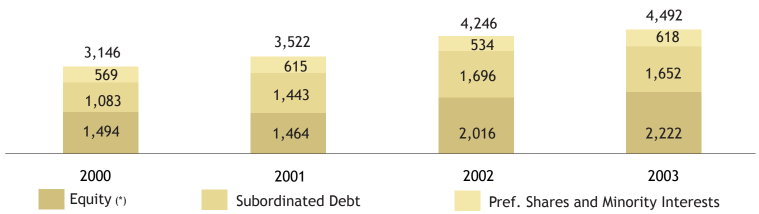
euro million



(*) Includes Asset and Liability off-balance sheet items

Own Funds

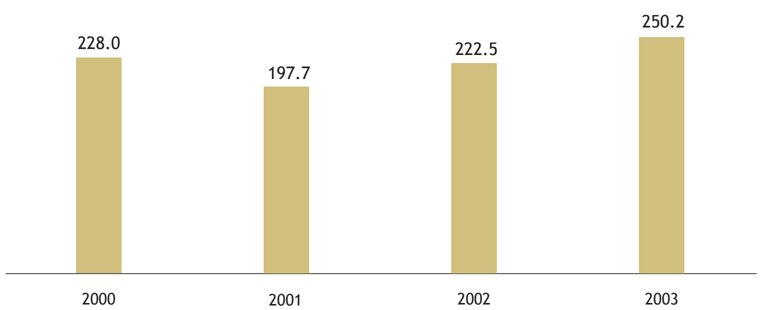
euro million



(*) Includes Fund for General Banking Risks (FGBR)

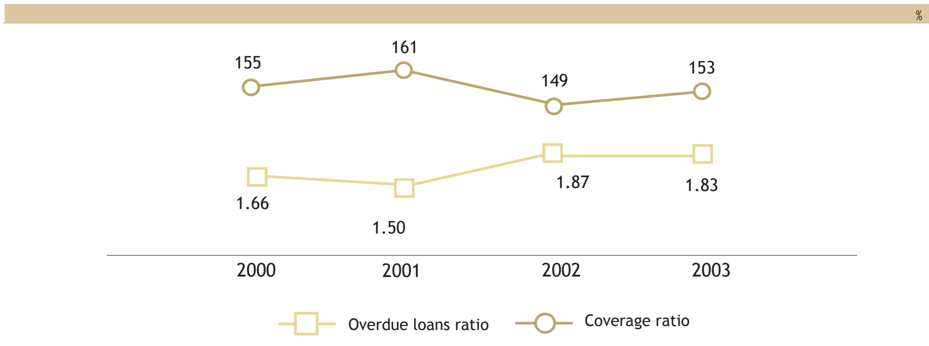
Net Income

euro million

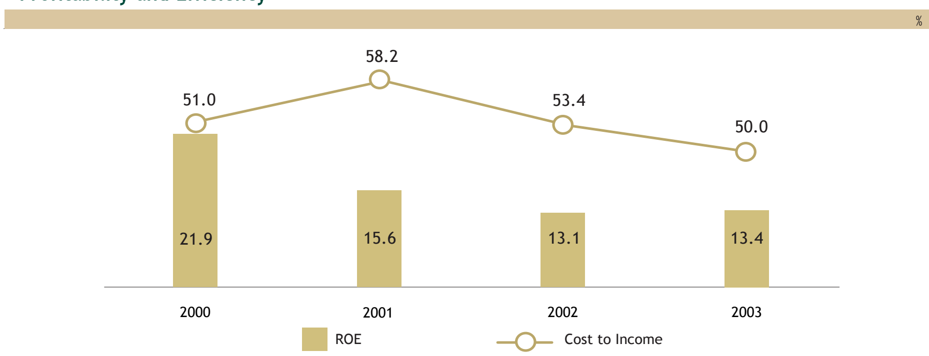


Overdue Loans and Coverage Ratios

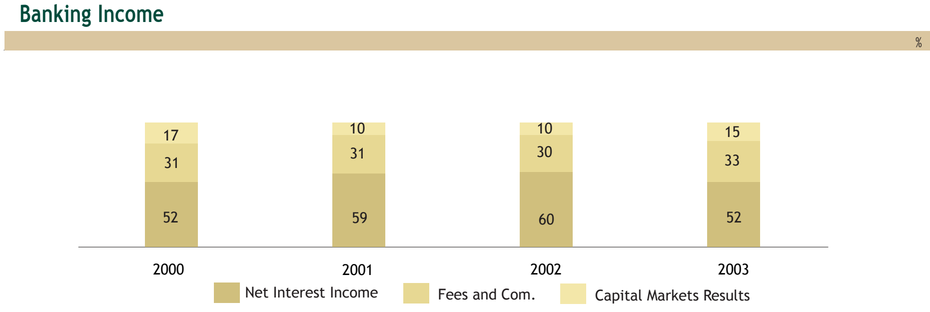
(Overdue loans > 90 days)



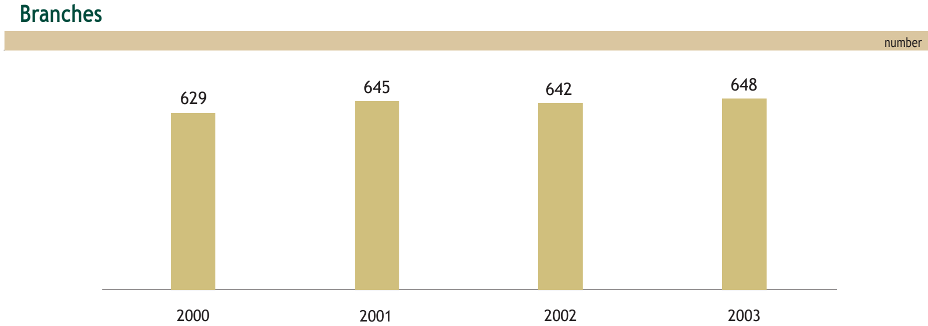
Profitability and Efficiency



Banking Income



Branches



Results and Profitability

	Symbol.	2000	2001	2002	2003
AVERAGE BALANCE (euro million)					
Financial Assets	$\overline{FA}$	27,483	33,025	35,559	37,072
Capital and Reserves	$\overline{KP}$	1,039	1,270	1,698	1,861
Net Assets	$\overline{NA}$	30,140	36,026	39,065	41,009
INCOME STATEMENT (euro million)					
Net Interest Income	NII	640.2	718.6	808.2	749.3
+ Fees and Commissions	FC	377.8	382.6	407.3	469.5
= Commercial Banking Income	CBI	1,018.0	1,101.2	1,215.5	1,218.8
+ Capital Market Results	CMR	211.0	125.8	138.5	213.4
= Banking Income	BI	1,229.0	1,227.0	1,354.0	1,432.2
- Operating Costs	OC	627.0	714.1	722.7	716.6
- Net Provisions	Prov	257.4	204.8	280.8	381.5
- Extraordinary Results and Other	XR	1.9	-23.4	-57.2	8.4
= Profit Bef. Tax and Min. Interests	PBT	346.5	284.7	293.4	342.5
- Income Tax	IT	64.0	38.6	38.5	55.0
- Minority Interests	MI	54.5	48.4	32.3	37.2
= Net Income	NI	228.0	197.7	222.5	250.2
PROFITABILITY (%)					
Net Interest Margin	NII / $\overline{FA}$	2.33	2.18	2.27	2.02
+ Return on Fees and Commissions	FC / $\overline{FA}$	1.37	1.16	1.15	1.27
+ Return on Capital Market Results	CMR / $\overline{FA}$	0.77	0.38	0.39	0.58
= Business Margin	BI / $\overline{FA}$	4.47	3.72	3.81	3.86
- Weighting of Operating Costs	OC / $\overline{FA}$	2.28	2.16	2.03	1.93
- Weighting Provisions	Prov / $\overline{FA}$	0.94	0.62	0.79	1.03
- Minority Interests and Other Costs	(MI+IT+XR) / $\overline{FA}$	0.42	0.33	0.36	0.23
= Return on Financial Assets	NI / $\overline{FA}$	0.83	0.60	0.63	0.68
x Weighting on Financial Assets	$\overline{FA}$ / $\overline{NA}$	0.91	0.92	0.91	0.90
= Return on Assets (ROA)	NI / $\overline{NA}$	0.76	0.55	0.57	0.61
x Placements Multiplier	$\overline{NA}$ / $\overline{KP}$	29.01	28.38	23.01	22.04
= Return on Equity (ROE)	NI / $\overline{KP}$	21.94	15.57	13.10	13.44

Per Share Data and Stock Market Indicators

			Dec 02	Dec 03	% Change
1. No. Shares Outstanding	(thousand)		300,000	300,000	-
2. Last Price	(euro)		12.50	13.00	4.0
3. Market Cap	(euro million)		3,750	3,900	4.0
Consolidated financial data					
4. Capital and Reserves	(euro million)		1,779	1,846	3.8
5. Net Income	(euro million)		222.5	250.2	12.5
6. Gross Dividend	(euro million)		86.1	99.0(*)	15.0
7. Pay Out Ratio	(%)	(6/5)	38.70	39.56	0.9 p.p.
Per share data					
8. Book Value	(euro)	(4/1)	5.93	6.15	3.7
9. Net Income	(euro)	(5/1)	0.74	0.83	12.5
10. Gross Dividend	(euro)	(6/1)	0.287	0.330	15.0
Price as multiple of					
11. Book Value	PBV	(2/8)	2.11	2.11	-
12. Net Income	PER	(2/9)	16.85	15.58	-
Price return on					
13. Net Income	(%)	(9/2)	5.93	6.42	-
14. Dividend (Dividend Yield)	(%)	(10/2)	2.30	2.54	-

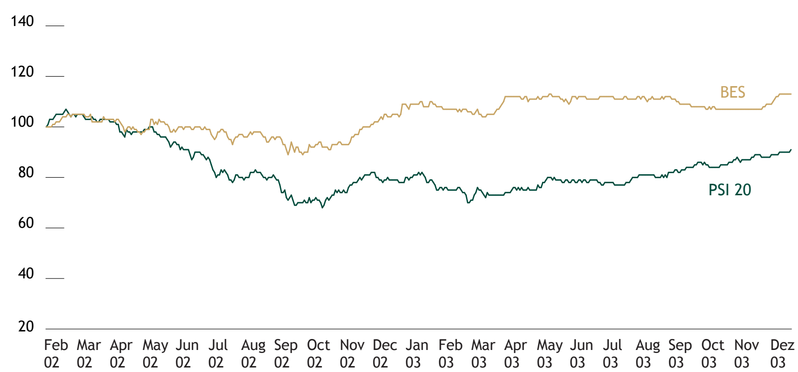
(*) Proposal of a dividend per share of euro 0.33 on all shares existing at the end of the year to be submitted to the Annual General Meeting on March 30, 2004.

BES shares showed a positive performance in 2003, following the reversal of the negative trend in the international markets in recent years. The share price rose by 4.0%; the Price Earnings Ratio decreased from 16.85 to 15.58; the Price Book Value remained flat at 2.11, and the Pay Out Ratio increased from 38.7% to 39.6%. The dividend yield rose from 2.30% to 2.54% and the price return on earnings grew from 5.93% to 6.42%.

BES shares and the market

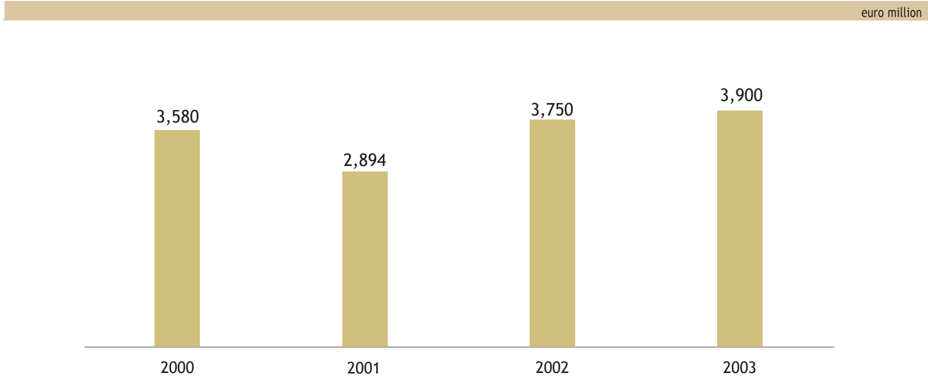
The positive performance of the capital markets showed the first signs of recovery from a clearly depressive 2002. The PSI 20 index increased 15.8% in the year. BES shares were less volatile, though generally following market trends, except in the later part of the year when the PSI 20 performance was influenced by the turnaround in telecoms and utilities.

BES shares and PSI 20 performance since the last capital increase



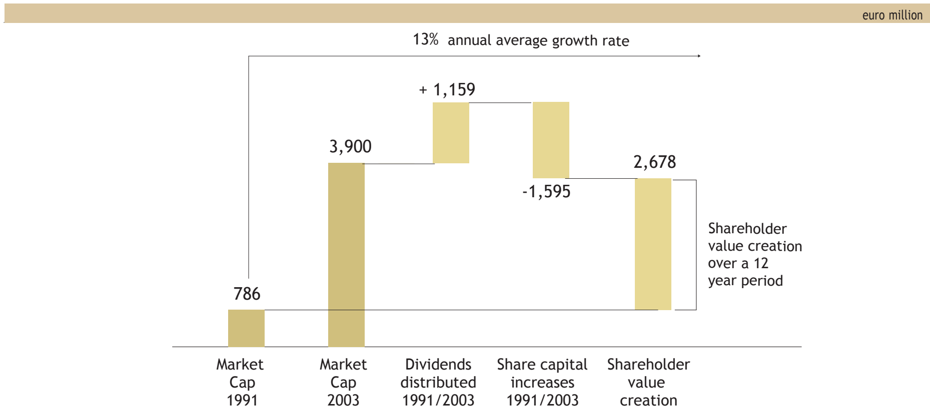
BES has the second highest market capitalization amongst listed financial institutions, reaching euro 3,900 million at the end of the year. This represents an increase of 4% in the market value in 2003 and 13% since the last capital increase in February 2002.

Evolution of Market Cap



Considering the market value of BES between 1991 and 2003 adjusted by the dividends distributed during the same period and the capital increases (cash entries), shareholder value creation at BES shows a CAGR of 13%.

Value Creation at BES Group



Shareholders

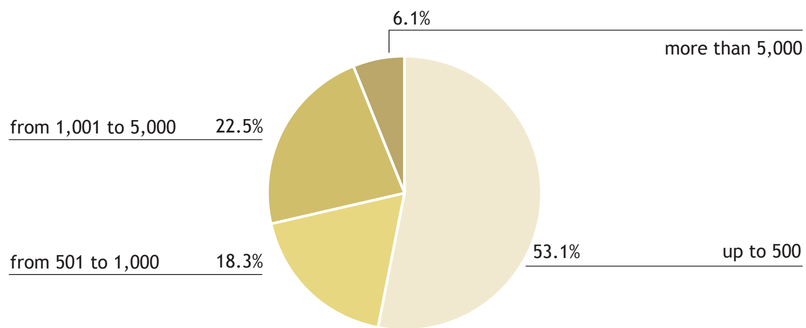
The profile of BES's shareholders did not change significantly during the year. The main shareholders as of December 31, 2003 were as follows:

Shareholders	% Share Capital
BESPAR – Sociedade Gestora de Participações Sociais, S.A.	41.98
Crédit Agricole, S.A.	8.81
Companhia de Seguros Tranquilidade - Vida, S.A.	6.56
Banco Bradesco, S.A.	3.00
Previsão - Sociedade Gestora de Fundos de Pensões, S.A.	2.62
Portugal Telecom, S.G.P.S., S.A.	1.40

Individual shareholders are the predominant holders of BES shares.

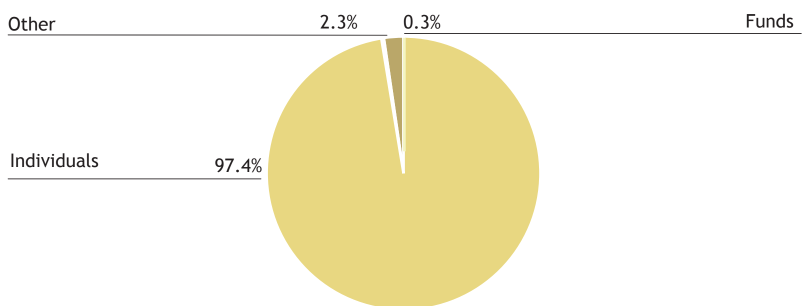
Shareholders by Number of Shares Held

number



Shareholders by Legal Status

number



Transactions of Own Shares	Number	Unit Value (euro)	Total (euro)
Balance as at December 31, 2002	0	-	-
Transactions during the period			
• Purchases	2,498,634	11.98	29,942,880
• Sales	2,498,634	12.01	30,008,594
Balance as at December 31, 2003	0	-	-

Own Shares

Transactions of own shares in 2003 concerned exclusively the shares purchased by BES and sold entirely to its employees within the share allocation plan - the stock-based incentive system (SIBA).

In accordance with article 66 of the Companies Code, the following table shows the information on transactions of own securities.

On December 31, 2003 the subsidiary Banco Espírito Santo dos Açores had 354 BES shares in its security portfolio, which did not change during the year.

2 - BES Group

2.1 - Corporate Bodies

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

> General Meeting

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

> Board of Directors

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

> Executive Committee

Ricardo Espírito Santo Silva Salgado (Chairman)
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

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

> Company Secretary

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

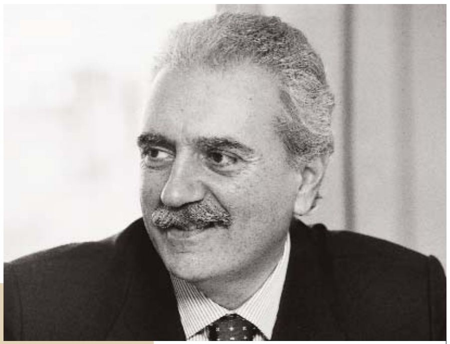
Executive Committee


Ricardo Espírito Santo Salgado


Mário Mosqueira do Amaral


José Manuel P. Espírito Santo Silva


José Manuel Ferreira Neto

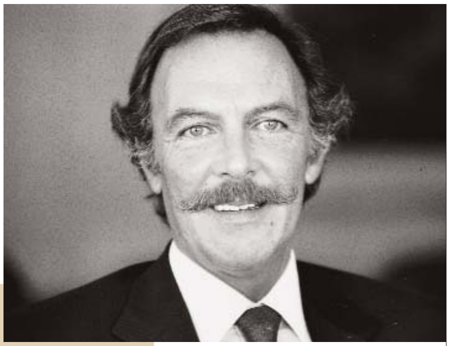

António José Baptista do Souto


Jorge Alberto Carvalho Martins


Manuel António G. de Almeida Pinho


José Maria Espírito Santo Silva Ricciardi


Jean-Luc Louis Marie Guinoiseau



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2.2 - Milestones

The origin of Banco Espírito Santo goes back to 1869 and to the trading business of José Maria do Espírito Santo e Silva. From 1884, he founded several banking houses, in his own name or associated with others, which, following his death, led to the creation of Espírito Santo Silva & C.ª Banking House, set up by his heirs and former partners under the management of his eldest son, José Ribeiro do Espírito Santo e Silva. In 1920 the Banking House was made into a public company under the name of Banco Espírito Santo.

Throughout the difficult 20s BES consolidated its position in Portuguese banking, withstanding the political, economic and social upheavals that led various banks into bankruptcy. During the next decade, the implementation of a renewed management model, and the prolonged expansionist phase of the Portuguese economy created the conditions for BES to rise to the position of first Portuguese private bank before the end of the 30s. This position was further reinforced in 1937 through the merger with Banco Comercial de Lisboa, originating Banco Espírito Santo e Comercial de Lisboa (BESCL). In the following years, BESCL consolidated its position as the undisputed leader in Portuguese banking. After playing a major role during the 2nd World War, the Bank focused its activity in supporting the development of the economy and the industry's modernization effort.

Till the mid-70s the Bank strengthened its position in Portugal, by launching a number of pioneering products, namely personal loans (1965) and traveller's cheques (1966).

Under the Decree-Law no. 132-A of March 14th, 1975, all Portuguese credit institutions and insurance companies were nationalized.

After banking activities were again opened to private initiative, in 1986, Group Espírito Santo, under a joint venture with Caisse Nationale du Crédit Agricole (CNCA) and backed up by a hard core of Portuguese shareholders, set up Banco Internacional de Crédito. In the same year, Espírito Santo Sociedade de Investimento (ESSI, the precursor of BES Investimento) was acquired, with the participation of Union des Banques Suisses (UBS) and Kredietbank, from Luxembourg, among other financial institutions. Euroges, a factoring company, was set up in 1989, and Bescleasing, a leasing firm, in 1990.

The reprivatisation of BESCL began in 1991, and Group Espírito Santo, in partnership with CNCA, regained control of the Bank. In the same year, Crediflash (credit cards) was incorporated and the broker ESER was acquired.

In 1992, BES entered the Spanish market following the acquisition of Banco Industrial del Mediterráneo, later transformed into Banco Espírito Santo (Spain). ESAF, the holding company for asset management business, was also set up in 1992.

Following the reprivatization, the Group put into practice various projects aiming at administrative reorganization, technological and information systems modernization and the improvement of services provided and the quality of customer service. The consolidation of BES's positioning in the domestic market is translated by a two-fold increase in its market share from the beginning of the 90s to the present day.

2.3 - The BES brand

The Banco Espírito Santo brand is considered as one of the Group's main assets and as being at the core of the tangibilization of the relation with the various stakeholders. The consistent recognition enjoyed by the BES brand has been a unique factor in the success of the Group's strategy.

Hence the Banco Espírito Santo brand and franchise in great part explain and synthesize the value of the intangible assets which are not shown in the balance sheet.

As revealed in market surveys, the Banco Espírito Santo brand is perceived by the public in general as containing the following main values/associations:

- Permanence;
- Solidity;
- Portugueseness.

The fact that such values are perceived by the consumers expresses a presence of eight decades in the financial services market in general, and in the banking market, in particular. A presence that is based on a praxis that always gave the priority to values of trust and credibility on the side of Customers, Employees and Shareholders.

The result is that, from amongst all private banks operating in the domestic market, Banco Espírito Santo has for several years been that which enjoys higher brand awareness and recognition.(*)

Based on a two-fold dimension - institutional communication and customer communication - the management model of the BES brand has permitted to reinforce its position within the range of brands operating in the Portuguese financial sector. The investment in communication pursued in 2003 aimed at sustaining the value of the brand.

Still having at its basis the concept of "territory of knowledge", new dimensions associated to the brand were enhanced, such as "modernity", "proximity" and "inclusiveness": an approach that is sustained by the focus put on transparent communication with Customers and potential Customers.

2.4 - Strategy and Business Model

Group Banco Espírito Santo develops its activity of providing a universal range of financial services framed by the fundamental concern of creating value for its shareholders while simultaneously meeting the needs of Customers and Employees, and within a broader framework of social responsibility.

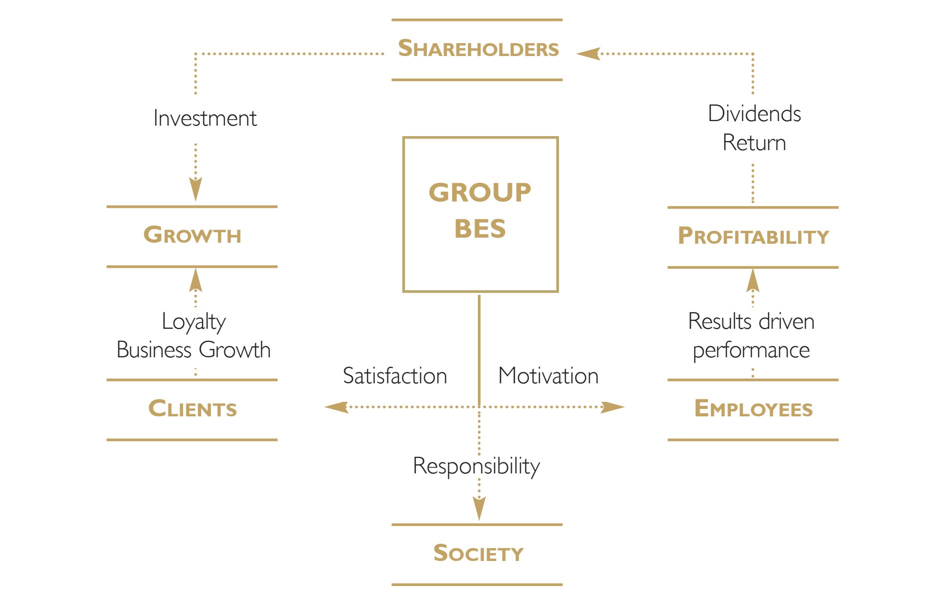
The sustained value creation for the Shareholders is underpinned by a constant focus on the Customers and an increasingly deep knowledge of their individual needs, so as to be able to offer them a specialized, innovating and high quality service leading to long-term broad-based relationships.

At the same time, a highly skilled workforce, dedicated and imbued with the required critical spirit and challenging attitude, decisively contributes to the organization's constant fine-tuning and renewal. Hence Group Banco Espírito Santo resolutely endeavors to offer its employees an attractive working environment and career prospects that will satisfy and retain the best.

Group Banco Espírito Santo fully assumes the social responsibility that falls on it by virtue of its presence and role in Portuguese society, seeking in all manners at its reach to contribute to the harmonious development of the community of which it is part.

This coming together of interests is incorporated in the Group's strategic design of continued growth, to become the best and more profitable Portuguese financial group.

(*) Source: Basef



In this context, Group Banco Espírito Santo adopts as the main pillar of strategic differentiation the provision of a service characterized by excellence and permanent focus on the Customer needs, setting itself as a universal financial group serving all segments of individual, corporate and institutional Clients and offering a full range of financial products and services.

Putting technological innovation at the service of the activities developed is a specific concern of Group Banco Espírito Santo, not only to improve service quality and to meet the Customers' needs and particular requirements, but also to raise efficiency and achieve the objective of value creation.

Throughout its history, Group Banco Espírito Santo and its solid core of shareholders have successfully withstood different economic contexts, always steered by the standards of high consistence and prudence that should guide banking activities.

Of Portuguese matrix, Group Banco Espírito Santo has increasingly assumed itself as a regional financial institution, choosing as privileged markets for its foreign operations the Iberian Peninsula and Brazil, where it seeks to serve not only local customers in target segments but also those who more and more do business on a transnational scale.

In a global and strongly competitive financial market, the dimension added through geographical implantation across borders, the full exploitation of the potential of the customer base through excellence and the permanent improvement of the service provided, and also the efficiency of the activities developed, are assumed as pre-requisites for the reinforcement of Group Banco Espírito Santo's strategic autonomy in the medium and long term.

> Service Quality as a Factor of Differentiation

In 2003 BES Group consolidated its strategic focus on service quality as a factor of differentiation in the relationship with the Customer.

Service quality has greatly improved by standardizing the approach to key products/services and by training the organization, specifically the commercial network. This permitted to instill a culture of service in the commercial activity. The customer satisfaction surveys conducted to all segments permitted to observe a considerable rise in the levels of satisfaction when compared to the previous year.

In what concerns service recovery, a multichannel model (satisfaction line) was developed through which the customer can present complaints in a simple and direct way using any channel - post, electronic mail, phone, the agency. At the same time, the internal coordination circuits and processes for solving complaints were reorganized, clearly improving the effectiveness of response.

BES's Internet Banking for individual customers - BESnet - has recently obtained a quality certification issued by the Portuguese Association for Certification, under the international standard NP EN ISO 9001: 2000, for the effectiveness of the Quality Management System implemented in this service.

Based on BES Group's policy of total quality service, which seeks permanent improvement based on customers' expectations and increasingly high service levels, the level of customer retention made significant progress.

2.5 - Human Resources

The Group's policy for Human Resources relies on the continuous qualification and development of its employees. The various measures taken over the last few years to streamline and rejuvenate the workforce, together with a process of continuous training, contributed decisively to significantly raise efficiency and productivity.

The structure of the Group's workforce was subject to far-reaching changes on a cost-cutting and efficiency framework, aiming at increasing the flexibility of the organization based on its capacity of adapting promptly to the reality of the banking sector, where quality standards are increasingly demanding.

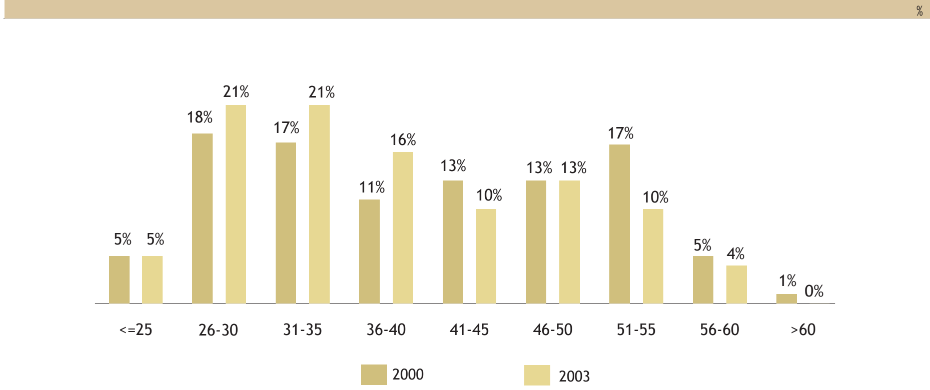
The reorganization and streamlining of processes carried out in the 2001-2003 period with a view to achieving significant productivity gains permitted to cut 1,073 jobs. This was in part done through the strategic identification of people who could be retired without needing to be replaced in their organic units.

BES reduced its staff by 658 employees, with the following average profile: 56.8 years of age and 39.9 years of service, most of them having basic education as qualifications (76.7 % of the total).

At the same time, the workforce was considerably rejuvenated, mostly by recruiting young and dynamic people, though retaining key elements over 40 years of age who lend a high degree of maturity and experience to areas such as credit analysis and credit granting.

Currently all age groups are represented in the workforce, making it strongly balanced. As a result of the staff cuts implemented, namely through early retirements, the percentage of employees over 50 years of age was considerably reduced, from 23% at the end of 2000 to 14% at the end of 2003.

Age Structure of Human Resources



The quality improvement achieved in the workforce resulted from a strong commitment to training, with a view to developing skills, motivation and mobility among workers, and also from the recruitment of new elements with university degrees.

The investment made in training involved the development of a fresh training environment using a new e-learning platform, and the decentralization of training by allocating specific spaces for the purpose at Regional Division level. At the same time, in order to ensure a uniform standard of quality service, a certified training plan was implemented, addressed to all the staff of the branch network, as well as a certified training plan designed for all executive managers (dedicated to the affluent segment).

In addition, the initiatives addressed to the different segments were pursued, while the various ongoing projects for organizational change continued to be monitored. This involved a great effort of training, with the objective of encouraging mobility and the development of skills. On the whole, there were 383 training initiatives for a total of 115,000 hours.

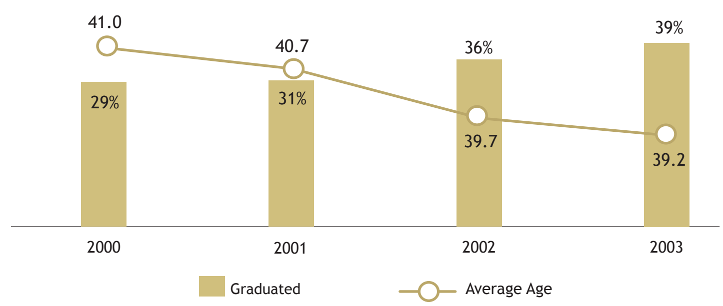
The recruitments in 2003 viewed for the most part the reinforcement of the commercial area (70%), to strengthen the sales force. At the same time, due to a constant concern with enhancing staff skills, as required by the business's growing complexity and the need to raise the overall quality of service, the majority of the employees recruited have a university degree.

This effort which was made over the last years to improve skills resulted in a considerable increase in the number of employees with university qualifications, to 39% of the total, and also in the rejuvenation of the workforce. From 2000 to 2003 the average age of the employees dropped from 41.0 to 39.2 years.

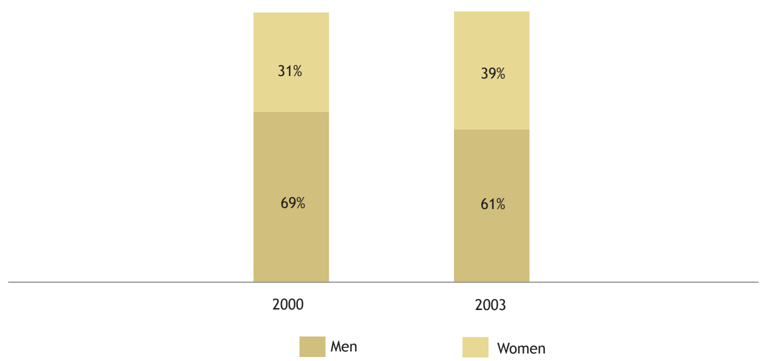
The current workforce is more balanced in terms of distribution by gender, with the percentage of women having risen from 31% to 39%. The growing percentage of women working for the Group is in large part due to their weight in recent recruitments, namely in 2003 (65% of the total).

The policies outlined and implemented by Group BES at Human Resources level permitted to reduce, equilibrate and upgrade its staff, with very positive impacts on the operating efficiency of work systems. The rejuvenation of the staff, its higher qualifications, and a more balanced age structure enhance the Group's competitive advantages and as such its chances of success in markets that are increasingly demanding.

Staff: Graduated and Average Age



Staff breakdown by Gender



2.6 - Efficiency

The main driver for the 50% cost to income level reached by Group BES at the end of 2003, was the incessant search for efficiency gains in all areas: in the organizational model, in the automation of the main business processes, through a culture geared towards the continuous improvement of processes, and in the optimization of purchasing.

Organizational Model

The organizational model that was developed since 2001 was based on a segmented distribution model that differentiates the approaches to the Private, Retail, and Corporate markets. This model was implemented in the domestic market in Banco Espírito Santo, Banco Internacional de Crédito, Banco Espírito Santo do Açores and Banco BEST. Its difference vis-à-vis the previous model consists in the creation of Shared Service Units at the operations, information systems and logistics levels.

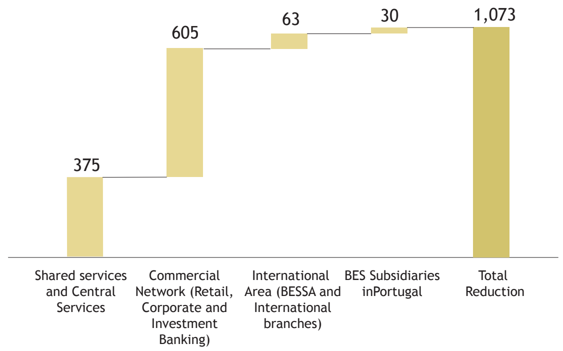
The strategic decision to use the same information systems platform for all these banks made for a high level of process standardization, permitting to operate these processes from a single central back office.

On the other hand, the centralization of logistics in a shared service unit not only produced immediate productivity gains in terms of economies of scale, but also created the conditions for setting up a single purchasing unit at Group level.

The streamlining that resulted from the implementation of the new organizational model permitted to reduce the workforce as shown in the following chart.

Staff Reduction in the 2001/2003 period

Rationalization Projects

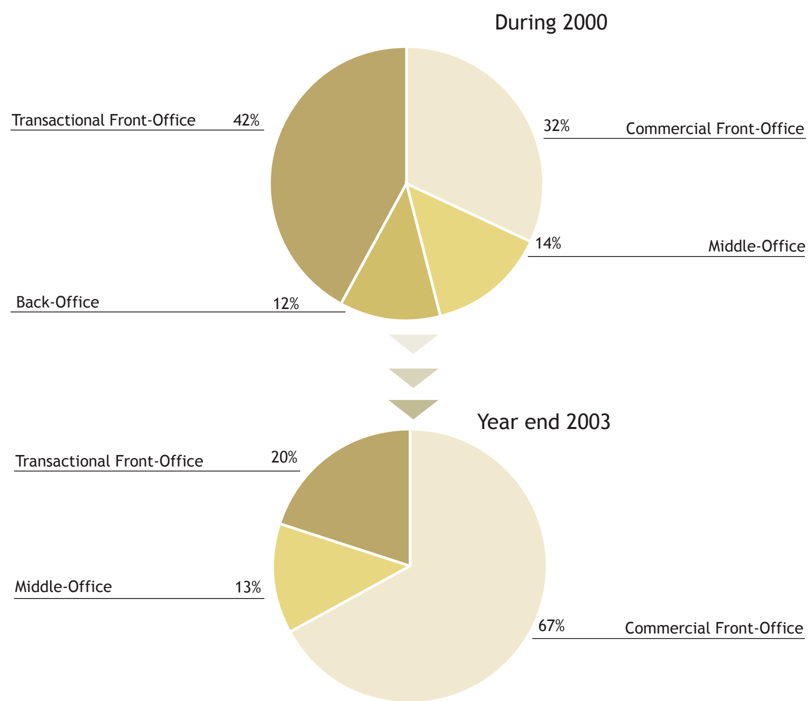


Automation of Processes

On the other hand, the automation and digitalization of business processes and the centralization of operations originating in the commercial networks were some of the main factors behind the strong increase in the profitability displayed by the commercial networks, and were crucial for the success of the 2001-2003 rationalization plan. The Back Office Zero project, which centralized administrative tasks previously performed at branch level, permitted to standardize processes, improve the control of operational risk and increase distribution focus on the commercial action and sales.

These measures allowed for a substantial increase of the time spent in commercial action and sales from 32% to 67% of total time worked in the retail network. Also, the back-up tasks (back office and middle office), which in 2000 took up 26% of working hours, had fallen in 2003 to just 13%.

Time spent in each of the macro-functions in the Retail Network (2000/2003)



The main actions taken within the scope of the Back Office Zero project were: the introduction of workflow solutions in the approval of the main credit products - mortgage loans and commercial credit; the centralization of the commercial network's operating component; the automation of accounting processes; the dematerialization of forms and listings; the centralization of calls received by the commercial network in a call center; the migration of a substantial part of the transactional load to other channels: Internet Banking, telephone banking, ATMs (52% of transactions through direct channels).

Optimization or Purchasing Processes

The creation of a Shared Service Unit in logistics permitted to set up a purchasing unit at BES Group level. By systematizing the various stages of the purchasing process, it was possible to act at various levels: to aggregate volumes; to standardize products/services; to standardize purchase processes; to plan Group needs; to reduce the number of suppliers, and to rationalize and simplify contracts.

This methodology has resulted, already in 2003, in a reduction of euro 6 million in costs within the universe considered (telecommunications, construction works, general maintenance, IT).

Continuous Improvement of Processes
One of the Group's main concerns is to consolidate the gains achieved through the measures described above. Hence, by building a culture geared towards the continuous improvement of business processes it will remain on track to achieving ever higher efficiency.

The various steps taken in this direction since 2001 have started to bear fruits, namely the certification of the Group's Internet Banking channel for individual customers, BESnet, under the international standard NP EN ISO 9001:2000.

2.7 - Social Responsibility

Throughout its History, Banco Espírito Santo has always valued its contribution to the economic, cultural and social development of Portugal. From an early stage, it was clear that this would be an inescapable side of its mission, while also representing a strong stimulus to its continued expansion and growth. Taking Portugueseness as a core value, the Group is aware of its social responsibility. In 2003 this vision materialized into a set of strategies and actions undertaken by BES Group towards the parties involved: employees, customers, the community and the environment.

Employees
Each and every one of its employees is essential for value creation in Group BES. Hence fostering their well-being is a constant concern.

At internal level, the Group organized a second edition of the Efficiency Prize, which is addressed to all its employees. This is a best-ideas competition whose purpose is to help improve processes and the internal organization.

The health of the staff continues to deserve great care on the part of the Group. In addition to an internal medicine service, which has existed for more than sixty years, a service for tracking breast and prostate cancer has also been set up, and it has already been used by 622 employees since its implementation in 2001.

Customers
The Group has always been committed to improving service quality and guaranteeing the satisfaction of its customers. This permanent concern allowed for BESnet service to obtain a quality certification from the Portuguese Association for Certification under the international standard NP EN ISO 9001:2000, for the effectiveness of the quality management system implemented. The Group has also designed tools permitting to gauge the level of customer satisfaction and the performance of the branches in terms of customer service.

The Community
Recognizing the importance of its contribution to the development of a healthy and balanced community, BES Group has a strong presence, as a promoter, in the areas of social solidarity, sports, education and culture.

The Group's endorsement of social solidarity was materialized through various initiatives to assist social solidarity institutions. Acreditar - Associação de Pais e Amigos das Crianças com Cancro inaugurated in 2003 its first home for children who, though suffering from cancer, may be treated out of the hospital, as well as for their families. The Group, which had already supported this cause in 2002, continued to help Acreditar in 2003, by financing two of its home's twelve rooms.

In March 2003, the Group joined several other companies under the PORCIDE 3/THINK project. The purpose of this project is to integrate thirty-two disabled persons who are starting their professional activity doing telework. The consortium formed by these companies provides the infrastructures which these disabled people need to develop their professional activities, free of charge, for an initial period of six months, after which BES will grant a special credit line for the acquisition of work material.

Within the scope of its corporate citizenship project, Group BES decided to allocate part of the sum usually spent in Christmas gifts to support several social solidarity institutions, namely the Associação Portuguesa de Portadores de Trissomia 21, the Acreditar – Associação de Pais e Amigos das Crianças com Cancro, the Associação Novo Futuro, the Banco Alimentar Contra a Fome, the Liga Portuguesa contra o Cancro, the Associação Crianças sem Fronteiras, the Liga Portuguesa para Deficientes Motores and the Centro de Apoio a Deficientes João Paulo II.

With regard to the forest fires that ravaged Portugal in the summer of 2003, Banco Espírito Santo has released a sum as a donation to the families whose homes had been practically destroyed. This sum permitted to rebuild ninety-five houses. A credit line aimed at re-launching economic activities was also made available, and it has already been used to develop five projects. Finally, the Bank opened an account named "Solidarity Fund - Summer 2003 Fires", where anyone could make a deposit, thus actively contributing to this cause.

In sports, the Group made a difference in its association to football by promoting values of healthy companionship, under the slogan "Solidarity and Fair Play: We have a Team". At the time of the last derby in the 2002-2003 season between the Sporting Clube de Portugal and Sport Lisboa e Benfica football clubs, BES Group joined the two teams under a social solidarity initiative in favor of the

Associação Novo Futuro. This initiative consisted in granting a donation worth twice the amount the Bank with spend in a stadium as a match sponsor.
In August 2003 Group BES and the A Bola newspaper created the "BES A Bola" Cup, a championship to be disputed between the three clubs sponsored by the Group - Futebol Clube do Porto, Sport Lisboa e Benfica and Sporting Clube de Portugal - where the winner is the club that gains more points in the matches played between the three teams. The Group has added a social responsibility and social solidarity dimension to the winner's performance: it will donate an amount corresponding to twice the number of points obtained by the winner, in euro million.

Education is another area privileged by the Group, on account of its importance in the formation of the next generations of the Portuguese society. The Group has signed cooperation protocols with some of the more prestigious Portuguese universities, and the donations awarded are used for a number of initiatives, namely study grants, prizes for the best students and support to scientific activities.

In culture, Group Banco Espírito Santo continues to support a number of activities in areas such as music, painting, traditional tile making and jewelry making, among others. Its role as the main sponsor of the Ricardo Espírito Santo Silva Foundation is particularly noteworthy. The aid provided by the Group has permitted not only to maintain the Foundation's museum - which houses one of the more representative collections in the country in painting, furniture, jewelry and china - but also to give continuity to the restoration works performed in the Foundation's eighteen workshops.

The Environment

BES Group has been implementing several practices aimed at lessening the negative impact of its activity on the environment. Namely, it has introduced a system that controls consumptions per premise, and taken steps to optimize water and electricity consumption. In addition, all the units separate paper which then goes for recycling. Part of the consumables used in the equipment (toner cartridges, drums, etc) is regularly collected by external firms, which treats/recycles them in accordance with environmental regulations in force.

The Group's commitment to society goes very far back in time, the first steps towards social responsibility having been given in the very beginning of the 20th century. Aware that there is still a long way to go, to Group is set on helping build a sustainable and harmonious society.

2.8 - Main Events in 2003

January 14th
BES announces to the market the acquisition of Bank Espírito Santo International, Limited, as part of the Group's internationalization strategy in the financial markets and international private banking.

February 5th
BES Group releases 2002 consolidated results. Net income reaches euro 222.1 million, corresponding to ROE of 13.1%.

March 21st
BES holds the third edition of its Strategy Day, an event dedicated to investors and analysts, where the Group's strategy and activity are broadly discussed.

March 26th
Annual General Shareholders' Meeting where the annual report and proposed earnings application are approved.

April 11th
Payment of dividends relative to 2002 results, of euro 0.287 per share, corresponding to a payout ratio of 38.7%.

April 28th
Release of third quarter results. BES Group posts a net income of euro 60.1 million (an annual increase of 9.9%), corresponding to ROE of 13%.

May 22nd
BES announces the coming merger of its subsidiaries Besleasing Mobiliária, Besleasing Imobiliária and Euroges Factoring into a single financial credit institution.

May 30th
BES Group informs the market that it will merge Espírito Santo Dealer into Banco Espírito Santo de Investimento.

July 2nd
BES Group, through its subsidiary BES Finance Limited, issues non-voting preference shares for an overall amount of euro 450 million, fully subscribed by institutional investors in the international financial market.

July 9th
BES informs the market about the sale of 45% of the share capital of Credibom to Banque Sofinco (Crédit Agricole Group), maintaining a stake of 15%.

July 25th
Announcement of first half 2003 results. Net income reaches euro 115.3 million (an increase of 12.8%), corresponding to ROE of 12.4%.

August 18th
BES, through its subsidiary BES Overseas, Ltd, redeems preference shares for an overall amount of US dollar 250 million, issued in November 1996 and listed on the London Stock Exchange.

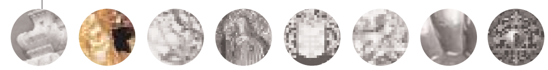
September 18th
The internet banking service for individual customers - BESnet - obtains the Quality Certification NP EN ISO 9001:2000 awarded by the Portuguese Association for Certification for the service's high level of safety, availability and speed, which reflects the effectiveness of the quality management service implemented.

October 29th
Announcement of third quarter 2003 results. Net income reaches euro 156.6 million (an increase of 15%), corresponding to ROE of 11.2%.

November
Banco Espírito Santo Group securitizes a mortgage credit portfolio of its subsidiary Banco Internacional de Crédito, for an overall amount of euro 1 billion.

December 1st
Group BES, through its subsidiary Espírito Santo Overseas, Ltd, redeems preference shares for an overall amount of US dollar 100 million, issued in December 1993 and listed on the New York Stock Exchange.

December 31st
Creation, under a joint venture with CGD, of – LOCARENT, C.ª Portuguesa de Aluguer de Viaturas, S.A., a car-renting company operating in the segment of individual customers.
Group BES reaches a record net income of euro 250.2 million, corresponding to ROE of 13.4%. Cost to Income ratio of 50% matches the target set for 2003 (established by the Board of Directors at the end of 2001).



3 - Macroeconomic Environment

International Economic Situation

Following a beginning of 2003 marked by a climate of uncertainty caused by the war in Iraq, the world economy then featured a moderate recovery, with global GDP rising by 3.2%, after having risen by 3% in 2002. In contrast with the previous year, the 2003 recovery occurred across all the main areas of the economy. Particularly noteworthy was the reversal of the deceleration cycle in the entire Euro Area observed since the second half of the year, matching the consolidation of the rebound in the United States and Asia.

The oil price (brent) remained high throughout the year (at an average of USD 28.87 per barrel and USD 30.48 per barrel at the end of December) as a result of the sharp depreciation of the US dollar, increased demand driven by the rally of the global economy and OPEC's greater discipline in the management of production quotas.

After rising by 2.4% in 2002, the US economy is thought to have grown by 3.1% in 2003. The North-American private domestic demand continued to benefit this year from strong stimuli from monetary and budgetary policies, translating into an increase in the disposable income of households and an improvement in the financial situation of companies. With a year-on-year inflation rate of 1.9% in December, in 2003 the Federal Reserve made yet another cut in official interest rates, with the fed funds' target rate falling from 1.25% to 1%.

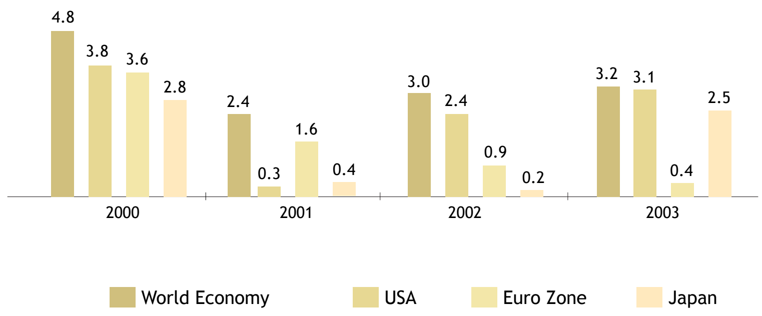
The increase in the confidence levels of economic agents translated, in the second half of the year, into a considerable acceleration in corporate productive investment and a slight recovery in the labor market, the unemployment rate dropping from 5.8% to 5.7%. The cost-cutting strategy implemented by companies, together with a sharp boost in labor productivity, only led to a moderate rally in net job creation, and hence the United States economy continued in 2003 to progress in a path free of inflationary pressures.

In the Euro Area, GDP is expected to have risen by 0.4% in 2003, which came after 0.9% growth in 2002. However, the economy's performance was not even along the year, with stagnation in the first half giving way to an acceleration of GDP growth in the third and fourth quarters. The recovery initiated in the second half of the year stemmed from the growth of domestic demand, translating into a positive evolution in the main business confidence indices. Private internal demand remained conditioned by high household and corporate indebtedness levels, as well as by rising unemployment (up from 8.6% in January to 8.8% in December). Moreover, monetary policy did not assume an expansionist nature as it did in the United States. The difficulties experienced in the Euro Area were particularly acute in Germany, where GDP registered a real drop of 0.1%.

GDP Growth (in real terms)

World Economy, USA, Euro Area and Japan - 2000/2003

%

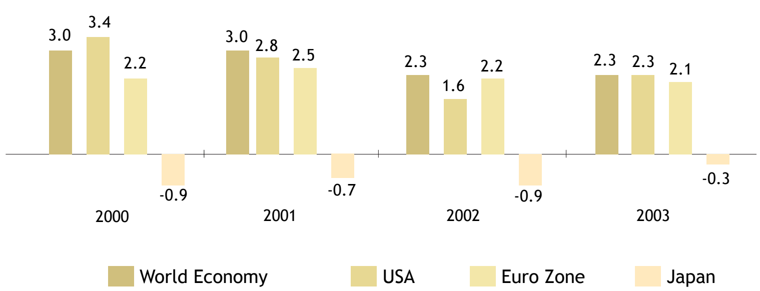


Sources: FMI, Eurostat, Cabinet Office (Japão), Bloomberg

Inflation

World Economy, USA, Euro Area and Japan - 2000/2003

%



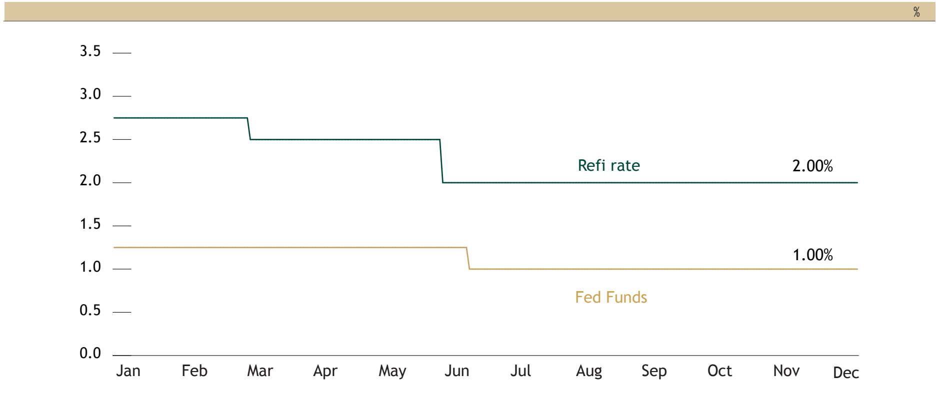
Sources: FMI, Eurostat, Bloomberg

The fall in inflation, from 2.2% to 2.1%, and the higher restrictiveness of monetary conditions imposed by the euro's rising trend, led the European Central Bank to prolong in 2003 the downward cycle of official interest rates initiated in 2001. The main refi rate was thus reduced by 75 basis points, to reach 2% at the end of the year.

The **Spanish** economy continued to excel during 2003, again showing healthier GDP growth (2.3%) than the Euro Area as a whole. The gradual recovery of the economy was supported by domestic demand, with the construction and real estate sectors performing remarkably well. In addition to tax cuts, and the positive impact of historically low interest rates on the disposable income of households, the performance of domestic demand may also be explained by the vigor of job creation and a falling inflation rate. The drop in real interest rates to 50-year lows stimulated the expansion of credit and drove prices in the real estate market to increasingly high levels, generating a wealth effect that also benefited private consumption.

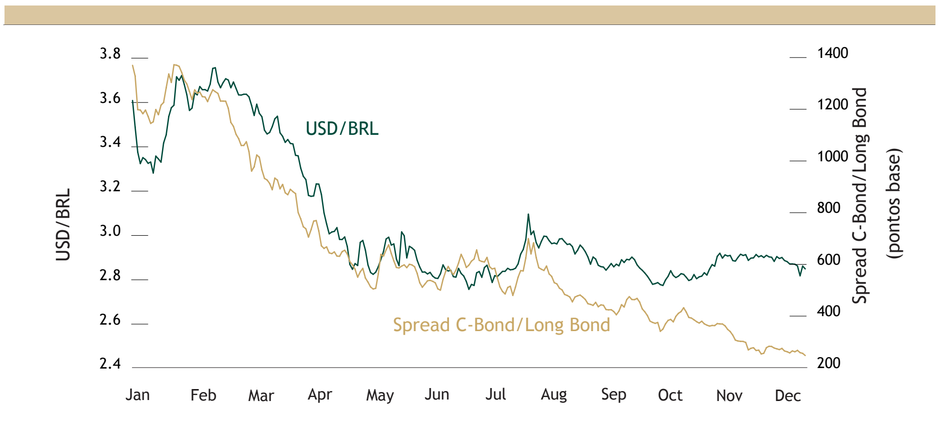
In **Brazil**, after an initial period characterized by uncertainties at both internal and external level, the economy benefited in 2003 from the stabilization of the international economy, and from compliance with an agenda of macroeconomic continuity, which contributed to almost fully eliminate from Brazilian assets the premium risk that had been incorporated in the previous year. The real tended to rise against the US dollar, with the exchange rate recovering from USD/BRL 3.54 to USD/BRL 2.89, though maintaining a real threshold that still encouraged the expansion of the exporting sector. The balance of current transactions went from a deficit of 1.7% in 2002 to a surplus of 0.7% in 2003, with exports rising by 21%. The drop in inflation, from 12.5% to 9.3%, permitted to considerably lower official rates, with the Selic rate being reduced from 26.5%, in February, to 16.5% in December. Despite this reduction, the fact that monetary conditions remained restrictive had a negative impact on domestic demand, particularly in the first half of the year. Hence GDP is thought to have risen by between 0% and 0.5% in 2003.

Evolution of FED Funds' Target Rate (USA) and Refi Rate (Euro Area) - 2003



Source: Bloomberg

USD/BRL Interest Rate and Sovereign Risk - 2003



Source: Bloomberg

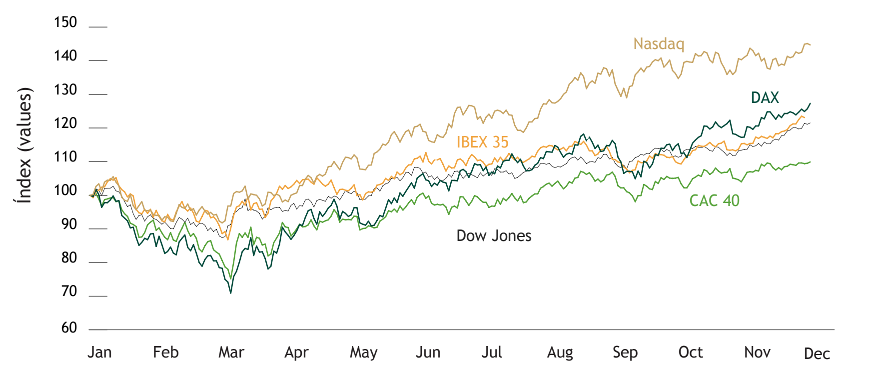
The growing perception of the macroeconomic imbalances associated to the United States external and budgetary deficits resulted in a period of turmoil in the **foreign exchange markets**, with the dollar plunging by 16.4% against the euro in the course of 2003. The US external deficit at around 5% of GDP, the reduction in the external capital flows entering the North-American economy, and implicit signs that the US Government was abandoning its "strong dollar" policy, all contributed to the strong depreciation of the North-American currency. On the other hand, the foreign exchange policies followed by the main Asian economies, of practically pegging their currencies to the dollar through a massive accumulation of US dollars, meant that the burden of the external adjustment of the United States' economy fell mainly on the Euro area and its currency.

On the **equity markets**' front, 2003 reversed the negative trend of the previous years, and in fact it emerged as the first good year after the burst of the speculative bubble in March 2000. The Nasdaq climbed 50% while the general Dow Jones and S&P 500 indices surged by respectively 25% and 26%. In the Euro Area, the Frankfurt DAX and the IBEX 35 rose by 37% and 28%, and the CAC 40 by 16%. However, major increases only occurred since March, both through some clearing in the climate of uncertainty after the start of the war in Iraq, and through the acceleration of global economic activity in the third quarter, particularly in the United States. The equity markets were also propped up by the policy of low interest rates followed by the main central banks. In addition to the resulting stimulus to economic activities, this policy helped rebalance the economic situation of firms, and consequently their earnings. The change in the market's mind frame observed since the second quarter was beneficial for higher risk investments, translating into considerable gains in the emerging markets. In Brazil, the Bovespa index climbed by 97%. In Portugal, notwithstanding a tough economic situation, the PSI-20 performed in tandem with international trends, rising by 16%.

EUR/USD Exchange Rates - 2003

Source: Bloomberg

Selected Stock Market Indices - 2003



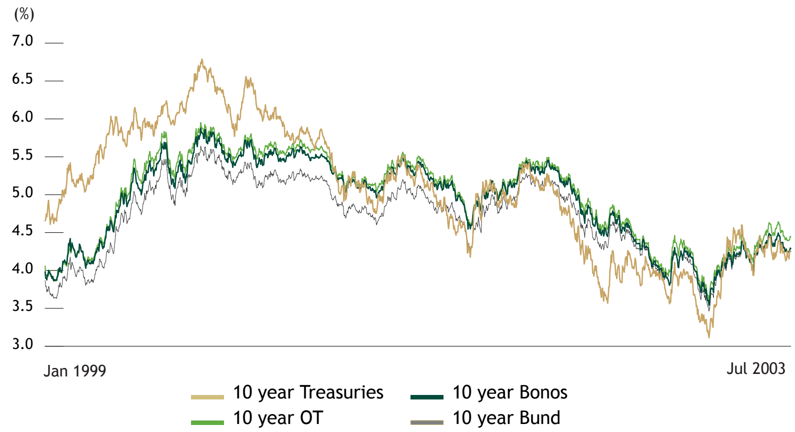
Source: Bloomberg

In the **public debt market**, notwithstanding the gradual rally of the US economy and the progressive improvement in corporate results (based on costs streamlining and debt overhaul), yields on North-American and European public debt securities showed considerable resistance to growth in 2003. 10-year Treasuries were up by 43 bps, to 4.25%, while the 10-year Bund rose by 9 bps, to 4.29%. This performance is mainly explained by the persistence of geopolitical risks, intensified by the military conflict in Iraq and by a succession of terrorist attacks and threats.

A continuing climate of low interest rates, weak inflationary pressures, and the accounting scandals that involved companies in both the United States and Europe, also contributed to the resilience shown by public debt securities. On the other hand, the **private debt market** further stressed the positive trend initiated late in 2002. The recovery in macroeconomic conditions and the efficiency gains achieved by the European and North-American companies translated into a significant improvement in credit quality (quite clear in the main rating agencies' reports) and a general reduction in aversion to risk. This, together with generally low yields and low inflation, permitted to progressively squeeze credit spreads.

Public Debt Securities Yield (1999/2003)

%



Source: Bloomberg

Economic Situation in Portugal

In **Portugal**, the economy was marked by the continuing process of adjusting domestic demand against an international context that remained unfavorable. Despite some signs of stabilization towards the end of the year, GDP should have suffered a real drop of 1%. The behavior of domestic demand mainly reflected the need to pursue the correction of the high level of personal and corporate indebtedness that had prevailed all through the nineties, when the reduction of interest rates had fostered an increase in credit.

Portugal - Main Economic Indicators

real change rates (%), except when indicated

	1999	2000	2001	2002	2003 (e)
Gross Domestic Product (GDP)	3.6	3.7	1.7	0.4	-1.0
Private Consumption	4.8	2.9	1.3	0.6	-0.8
Public Consumption	5.5	4.1	3.5	2.4	-0.4
Investment	7.9	2.4	0.1	-5.5	-8.5
Exports	3.2	7.8	1.8	2.4	3.5
Imports	8.8	5.5	0.9	-0.6	-1.5
Inflation (CPI) (average annual rate)	2.3	2.9	4.4	3.6	3.3
Budget Deficit (% of GDP)	-2.4	-2.9	-4.1	-2.7	-2.8
Public Debt (% of GDP)	54.4	53.3	55.6	58.1	59.5
Unemployment (% of labour force)	4.4	4.0	4.1	5.1	6.4
Current Account Deficit (% of GDP)	-8.3	-8.9	-8.4	-5.7	-3.0

(e) Estimate

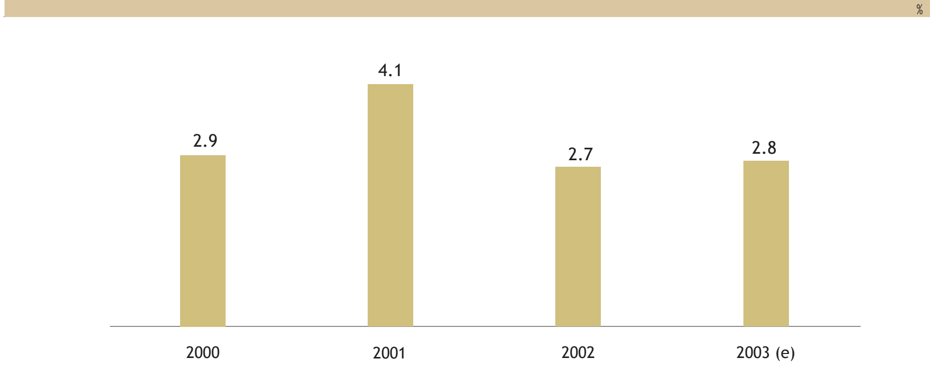
Sources: Bank of Portugal, INE (Portugal), Ministry of Finance, European Commission, OECD, Bloomberg, ES Research

Private consumption is expected to have contracted by around 0.8%, following a real rise of 0.6% in 2002. In addition to falling confidence levels and the fears caused by a deteriorating labor market, the behavior of household expenditure also resulted from the stagnation (or even slight reduction) in disposable income, largely due to a negative trend in wages as well as in corporate and property income, only partly offset by an increase in internal transfers received. With private consumption rising at a slower pace than disposable income, the household savings ratio increased slightly, to around 12.5% of disposable income. Durable goods were particularly affected by the economy's cyclical downturn, and their consumption should have fallen by 10%. Public consumption should have experienced a negative evolution (even if close to zero), after having grown by 2.4% in 2002.

Gross fixed-capital formation should have contracted by 8.5% (-5.5% in 2002). This reduction affected all sectors, including construction (the sharpest fall), transportation material, and machinery and capital goods. In addition to the restrictions imposed by indebtedness, the negative trend in investment also stemmed from falling business confidence levels, caused not only by the drop in domestic demand but also by a still very weak external demand. Public sector investment should have remained flat throughout the year, reflecting the effort undertaken by the Government to contain public expenditure.

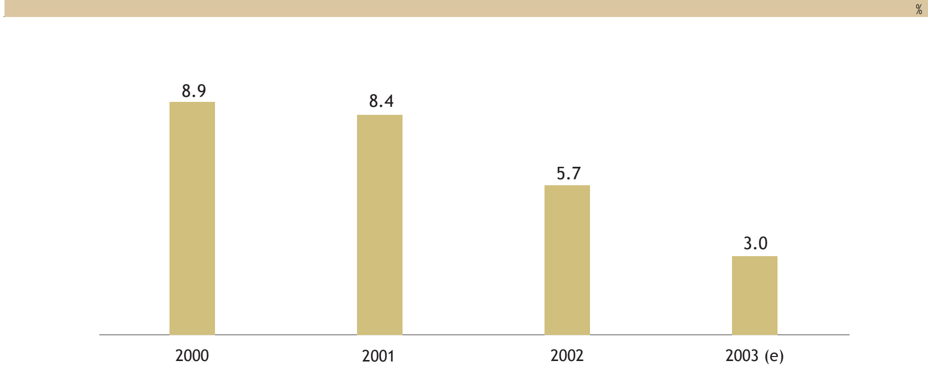
Within a context of real contraction in economic activity, tax revenues declined, making it difficult to reach the objective of keeping the budget deficit below the targeted 3% of GDP. As a result, and as had already happened in 2002, the Government was forced to resort to extraordinary revenues, should have amounted to roughly euro 2,760 million. The General Government deficit is thus believed to have risen from 2.7% of GDP, in 2002, to 2.8% in 2003.

General Government Budget Deficit (% of GDP)



(e) *Estimate* — *Source: Ministry of Finance, Eurostat, ES Research*

Evolution of Joint Current Account and Capital Balance Deficit (% of GDP)



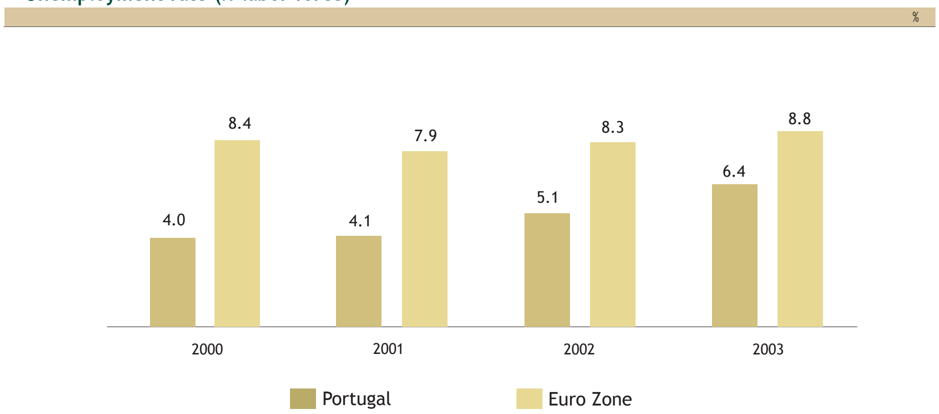
(e) *Estimate* — *Source: Bank of Portugal, Eurostat, ES Research*

Despite the deceleration in economic activity in the whole of the Euro Area, exports should have risen by 3.5%, having somewhat accelerated when compared to 2002. Faced with feeble demand and increasing competition, exporting companies were forced to accept a reduction in their profit margins in order to raise the competitiveness of their products. Imports are expected to have fallen by 1.5% in real terms, reflecting the negative evolution of domestic demand. The correction of the external imbalance that characterized the Portuguese economy in recent years (in 2002 the Joint Current Account and Capital Balance Deficit reached 8.9% of GDP) was therefore pursued in 2003, when that deficit should have accounted for 3% of GDP.

The reduction in economic activity had an adverse impact on the labor market, with employment suffering on the same scale as GDP. The unemployment rate pursued the deteriorating trend already observed in 2002, rising from 5.1% to around 6.4% of the labor force.

The contraction in domestic demand also translated into a slight deceleration in the prices of the services industry, contributing to lower the average inflation rate, from 3.6% to 3.3%. The resistance shown by inflation to a sharper drop resulted mainly from the acceleration in energy and food prices (in the last case due to the heat wave during the summer months).

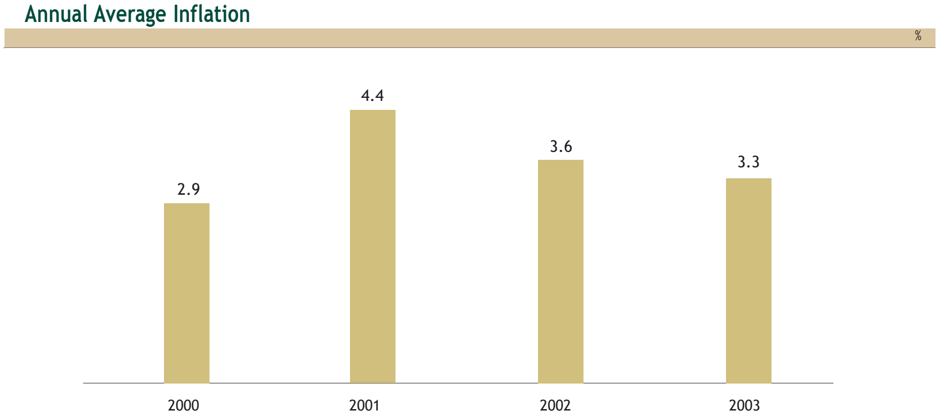
Unemployment rate (% labor force)



(e) Estimate

Source: Eurostat

Annual Average Inflation



(e) Estimate

Source: INE

4 - Bases of Commercial Performance

The activity developed by BES Group in 2003 focused on the development and finetuning of its commercial approach to the various customer segments, cementing its nature of a multispecialist provider where each customer finds optimal and full satisfaction of his financial needs.

Further steps were taken to enhance the new concept of commercial approach addressed to the affluent segment (private customers with a high level of financial involvement), considerably reinforcing the Group's positioning in this high-value segment. Following the creation of a specific marketing unit dedicated to this segment, the 360° concept was launched already in 2004.

In addition, great emphasis was put on several cross-section issues which have permitted to maintain a high level of differentiation, namely:

- development of sales support instruments, leveraging the deep knowledge of the customers' needs through a statistical study on the propensity to buy each product;

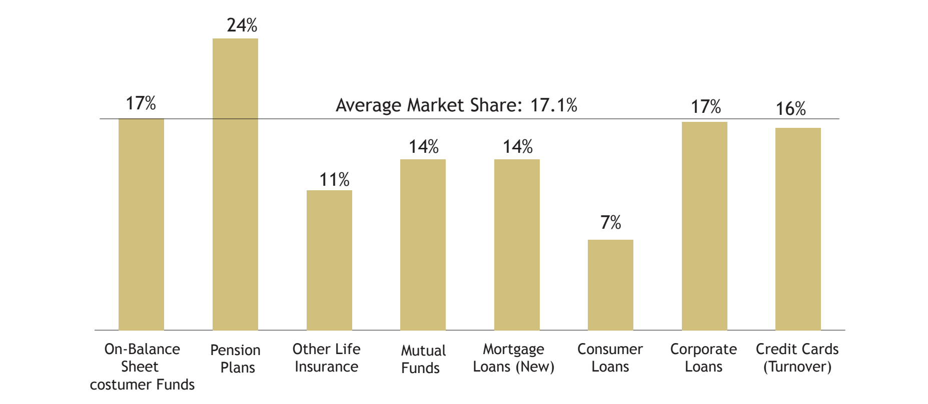
- creation of a customer retention center responsible for the development, management, control and supervision of initiatives aimed at retaining individual customers and permitting to materialize the potential detected when fighting churn;

- pursuing the effort to improve service quality in the different areas of the organization - this is an area of special commitment for the Group, which introduced the concept of guaranteed service levels in the main processes;

- the development of tools for measuring risk and for optimizing the risk/return relation that permitted to fine-tune the credit-decision process, translating into a faster (and more efficient) response, and an improvement in risk levels and risk-adjusted return.

The activity developed underpinned the positive evolution of average market share that is currently estimated to stand at 17.1%. Moreover, the leadership in high added value products such as pension plans was reinforced (23.5% market share in 2003).

Average Market Share (*) and Share in Main Business Areas



(*) *Estimate*

> BES Group's Commercial Strategy leveraged by *Assurfinance*

The *Assurfinance* project was initiated in 1997 as a joint venture between BES Group and the insurer Companhia de Seguros Tranquilidade, aiming at taking advantage of synergies which could be found by exploiting the potential of the commercial capacities of the sales force of the insurance brokers, engaging customers from their portfolios to subscribe financial products of a banking nature.

Under current legislation insurance brokers can promote, but not develop or sell, banking products, a situation that the Group and the Insurance Company exploited to make the most of their partnership's potential. The Group obtains a significant flow of new customers referred by the insurance brokers - a significant value in terms of risk - while Tranquilidade in turn gives its brokers the opportunity to offer different financial products - with a direct impact on their revenues.

Leveraging on the strength of the mortgage credit product, the assurfinance network, formed by 900 brokers, was responsible for bringing in 11.8% of new mortgage loans - a unique result in the Portuguese banking scenario.

4.1 - Retail Banking

In 2003 the activity of the retail network was expanded in every area, particularly in customer funding, cross-selling, and staff commitment to the continuous improvement of customer service. These were the main areas of engagement:

• Expanding the offer

- the strategy of extending the maturity of customer placements was pursued, namely through structured products, mutual funds, bancassurance life products (Capitalization) and other off-balace sheet products - every month new proposals were launched with excellent acceptance from the Clients;

- the already strong positioning in the area of pension plans was reinforced, in terms of both volume and number of products placed - BES Group reached market leadership in this area with a share of 23.5%;

- in terms of day-to-day management, the main focus on service accounts, whose penetration rate rose from 37.8% to 43.2% was reinforced. In particular, the renewal of the BES 100% account, promoted by a strong advertising campaign in June, permitted to considerably increase the number of customers with this type of account;

- in safety and protection products, Life insurance policy Protecção Vida BES sales was stepped up, while reinforcing the positioning in health insurance, and launching real insurance products for small businesses;

- in terms of credit, the mortgage products offered to Young People and Senior Citizens were renewed, and a new loan solution with a maximum maturity of 40 years was launched, allowing increased vigor in attracting new operations and new customers. In personal loans, the regular launch of pre-approved series was extremely successful. In addition, it permitted to monitor risk in advance, and to centralize the control of all the documents integrating the credit process.

• Human Resources: training and Productivity

Several initiatives taken during the year had a decisive contribution to the results obtained, namely:

- a vast training program that extended for several months, addressed to all sales assistants of all branches with a view to reinforcing their skills, namely in terms of the commercial approach;

- the introduction of a daily sales monitoring scheme to monitor sales performance against reference benchmarks and also permitting to enhance global results in this area.

A system aimed at fine-tuning the management of the multi-channel relation with the customer (GRM) was developed during the year. This system integrates in a cooperative way and in real time the interactions maintained with the customers through the branch, telephone and internet channels. It has been introduced as a pilot-project and it will be rolled out during the first four months of 2004. The system contains a matrix of preferred products specifically addressed to each customer, showing the first results of an enhanced capacity for fostering the product sales.

• Improving service quality

The involvement of all the structures, and in particular the commercial teams, in an effort to improve service quality was a constant feature throughout the year. These were the main steps taken for the purpose:

- regular monitoring of customer satisfaction levels through quality surveys;

- continuous launching of mystery customer programs, and regular analysis of the results shared with the commercial teams;

- establish of internal service levels, particularly in the areas of mortgage loans and credit cards, involving the central structures in a commitment to global quality, to be increasingly shared with the clients;

- establish of Service Protocols for all the main products available in the brach network, giving the staff adequate training on the subject and monitoring compliance;

- centralized management of complaints and suggestions, as per internal and external customer - this permitted a continuous improvement in response times and consequently in the satisfaction levels.

The Retail contribution to BES Group's results in 2003 was reinforced through permanent commitment to innovation, service quality and the promotion of staff skills.

> **Strengthening the Approach to the Affluent Customers Segment**

BES 360°

The fine-tuning of the commercial approach specifically addressed to the affluent segment (individual clients with a considerable financial involvement), which had been started at the end of 2002, was pursued in 2003, through the creation of a segment marketing unit exclusively dedicated to these customers.

A huge effort developed during 2003 allowed BES to launch a new concept of commercial approach to this segment at the beginning of February 2004. Under the name of BES 360°, this fresh approach stemmed from the strategy of increasingly segmenting the clientele by profile/financial needs, and in turn led to the creation of a new value proposal supported by a truly innovative form of communication, which seeks to critically reinforce the Group's positioning in this segment.

Framed by a customer-centric logic based on global service, the BES 360° concept materializes an idea of service that takes in every perspective the customer's financial needs. It offers:

• A specific physical space, set apart within the current branch network;

• Private Customer Managers strongly qualified, externally certified and supported by a network of professionals with a high level of financial expertise, who accompany and monitor the relation with the customers;

• A comprehensive offer of financial solutions, suiting to the needs of every customer and adapted to their lifestyle and age, risk profile, investment time-frame and level of sophistication;

• A customized Financial Planning Service supported by a technological platform specifically developed for the purpose;

• Complete and improved access to remote channels;

· Delivery of high quality ensured by a commitment to Guaranteed Service Levels;

· Specific information and contents.

4.2 - Private Banking

BES Group is set on reinforcing its leadership in the segment of Private Banking by offering its customers a personalized, independent and comprehensive financial advisory and asset planning service that ensures the excellent quality of the service provided while maintaining a high level of customer loyalty.

The offer to the private segment relies on an integrated vision of the Client, delivering investment solutions that not only address financial needs but also fiscal and asset needs.

The Group's capacity to deliver a global offer of financial products has been crucial to this integrated approach as it permits to fully meet the Clients' financial needs, namely in terms of discretionary management, life insurance, non-life insurance or investment banking products.

The high recognition of the Group, in Portugal and internationally and its close ties to reference players worldwide, has permitted to design customized solutions that are clearly differentiated in terms of innovation and competitiveness.

In a context of permanent change, constant adaptation to the market's evolving trends is a crucial asset for providing a maximum quality service that strengthens a relation of trust and confidence between the Client and the Private Banker.

4.3 - Corporate Banking

The streamlining of the commercial and organizational model for medium-sized companies, initiated in 2001, has yielded excellent results, namely in terms of profitability, quality and risk, even against an adverse economic environment. The development model was based on five key areas:

- Improving quality - through the centralization of operating processes, the dematerialization of the credit process, development the internet banking - BESnet Negócios platform (currently with a penetration rate of 78%) and the permanent monitoring of satisfaction levels through customer satisfaction surveys.

- Management of Human Resources - a plan of continuous training and development of skills in technical and behavioral areas was developed, with a remarkable impact in terms of quality improvement. This plan was addressed not only to Corporate Managers (front office), but also to Commercial Assistants (middle office). By monitoring performance assessment and skills, career management was considerably improved, which, together with a selective recruitment policy, permitted to endow the corporate area with a strong sales force.

- Management of credit risk - the development of risk measurement tools and the optimization of risk/return assessment tools permitted to fine-tune the credit-decision process, translating into a faster and more efficient response, and into improved risk-adjusted return;

- Expanding the offer - the range of products offered was enriched through (i) the launch of the online business centre - pmelink - promoted by BES, CGD and PT, whose turnover already reached euro 8 million (a year-on-year increase of more than 80%); (ii) the development of capitalization, life and health insurance products; (iii) the creation of a pre-paid card for paying expenses, which fosters loyalty among employees and customers; and, more recently, (iv) the launch of the à la card card, the first meal voucher in the shape of a credit card to be launched in Portugal, which is used to process the employees' meal allowances. Finally, sales of life and non -life insurance policies also made very good progress this year, with the production rising by respectively 34% and 48%;

- Customer Knowledge - the development of sales support instruments, specifically the Commercial Database (BD.com) and the Return/Risk Optimizer (OR2) provided the sales force with fast and efficient means of diagnosis.

The creation of a marketing structure focused on this segment had a crucial contribution to the sustained development of the commercial approach to the medium-sized companies. In this context, a number of skills were developed in terms of the offer (in cooperation with the Product Units), the results monitoring, the establishment of commercial action plans, the prospecting of new customers, data mining and the design, maintenance and training of sales support tools.

Stemming from a deep and comprehensive diagnosis of the customers' needs, the commercial approach development model is based on four fundamental pillars:

- expanding the offer of differentiating products and services;

- consolidating the internal organization, in terms of the corporate centers' geographical coverage and customer segmentation, to strengthen the capacity for commercial action;
- reinforcing the structured commercial approach, with emphasis on financial advisory services;

- developing sales support instruments, based on a proactive identification of commercial opportunities.

In the segment of large corporates, the strategy of enhancing the relationship with corporate groups was consolidated, based on stricter risk assessment and monitoring criteria and consequent adaptation of the involvement, pricing and service level policies, as defined in individual business plans.

Despite the adverse economic situation, it was possible to raise the share of wallet of a selected group of customers, namely by permanently coordinating the offer with other business areas of BES Group, specifically investment banking, leasing, factoring and venture capital. A continuous effort was also made to introduce new products and services, namely new electronic banking functionalities, pre-paid cards and invoice confirming.

The contacts with the subsidiaries and branches of multinational companies established in Portugal were intensified. In this area, a high degree of coordination was achieved in the sale of products offered by the Group's different units. Also, new opportunities were detected also in terms of foreign investments, and by maximizing the offer of solutions specifically adapted to this segment.

In Municipalities and Institutional Customers segment, the Group continues to offer a broad range of products aimed at local and regional development. These include, among others, Support Funds for micro-companies, offered in association with Regional Development Agencies, municipal loans, and protocols addressed to Universities and Hospitals. The strong links developed with local entities permitted to increase intermediation volumes in this segment.

The dynamic cross-segment approach of Corporate Banking with Private Banking and Retail segments permitted to develop a coordinated and broader offer of products addressed to the staff and partners/ /shareholders of corporate customers.

In 2002 was created a specific unit to deal with Investment Support Programs, boosting internal and external commercial action and interconnecting with the entities in charge of the various incentives schemes. Its work greatly contributed to reinforce the Group's role in the promotion of investment.

BES Group remains firmly rooted in the Portuguese corporate fabric, which it continued to support, thus consolidating its reference position in Corporate Banking, a position that it is set on further reinforcing.

4.4 - Investment Banking

In 2003 the strategy adopted for investment banking continued to target a systematic approach of the Iberian market, through an increasingly strong presence in Spain. The focus on the Brazilian market and the relations with the companies brought to Latibex by the Bank were reinforced at various levels. This strategy allows a recognition as a local player in Spain and Brazil, while also keeping in mind the goal of stimulating and supporting the internationalization projects of Portuguese groups, thus ensuring the consolidation of leadership in the domestic market.

While an integrated offer of products boosted all areas of activity, the Mergers and Acquisitions area privileged the origination of cross-border operations of an attractive scope, also promoting an integrated offer of advisory services and structured finance, and whenever possible, venture capital.

The strong bet on the Atlantic axis that links the Portuguese, Spanish and Brazilian markets produced considerable results: Banco Espírito Santo de Investimento was classified as "The

Best M&A house in Portugal" by the Euromoney magazine, and it was ranked fourth in this business by the M&A Financial Advisory, in the Iberian Peninsula, and second in Brazil, in Bloomberg's League Tables.

The role played by the Group in several major operations certainly contributed to earn it these tributes, namely:

- as financial advisor to the shareholders of Parfil concerning the sale of their stakes in Central de Cervejas to Scottish Newcastle;

- as financial advisor to Banco Bradesco in the process of acquisition of Banco BBVA do Brasil;

- as financial advisor to the consortium led by Corsán-Corviam, Comsa, Azvi, Sando Construcciones and BES in the tender for the award of the concession of the Madrid-Toledo motorway.

Investment banking preformed very well across all its different areas. The Group's activity in Project Finance continues to deserve international recognition, with the investment bank being appointed by the Infrastructure Journal as "Arranger of the year 2003", for the Transports and Infrastructures sector. Several projects contributed to this recognition, namely the project to refinance the M5 motorway in Hungary, the bank's role as Arranger in the financing of the Benfica football stadium and the series of transactions that led to the creation of a secondary market infrastructure fund in the United Kingdom.

In Portugal, the Group also played an important role as Advisor to various entities in infrastructures and transport projects, namely to Lusoscut (refinancing and financing of several concessions), to Porto de Sines (concession of the oil pipeline terminal), to the TCGL Consortium (concession of the Leixões harbour silos) and to the Consortium led by Setefrete (concession of the operation of the Setúbal harbour terminal). In the energy sector, the Group acted as Lead Arranger in several loans to finance generation and cogeneration plants, specifically those of the ENERSIS Group (Pinhel and Rabaçal hydroelectric plants, in the amount of respectively euro 8.5 and 10.2 million) and of Carriço Cogeração, in the amount of euro 21 million. In the Communications sector, the Group was Lead Arranger in the euro 575 million loan to OPTIMUS.

The experience gained in the international arena was extremely useful in the consolidation of the Project Finance activity in Spain, where BES Group acted as Lead Manager in the financing of Tramvia Metropolitá, in the amount of euro 247 million, to build and operate the Marti-Besos light subway, in Barcelona, as Arranger in the financing of the concession of the R-3 (Madrid-Arganda del Rey) and R-5 (Madrid-Navalcarnero) motorways, for a total of euro 668 million and as Co-Arranger in the euro 605.5 million financing of Bizkaia Energia - Amorebieta, for the construction of a 755 MW cogeneration plant.

The Project Finance team based in London not only expanded its activity locally, but also to Eastern European countries. In the local market, it was Lead Arranger in the financing of the new stadium of the Manchester City Football Club, in the amount of 14 million pounds, Joint Underwriter in the 1,020 million pounds financing of Metronet (London Underground) and Advisor and Lead Arranger in the financing of the Tagus Infrastructures Fund, which specializes in the secondary asset market. In Eastern Europe, it acted as Lead Arranger in the euro 205 million financing of AKA M5 Toll Motorway, in Hungary, and as Advisor to MSF in motorway concession projects, in Bulgaria.

The Finance and Risk Management Area had a very active role in offering risk and exchange rate hedging solutions to customers in the Portuguese and Brazilian markets, also taking a prominent position in several debt issues (Bonds, Commercial Paper and Syndicated Loans) in these markets. In the Brazilian market, the Bank was leader in the issues of Eurobonds by Banco Bradesco and by Banco do Brasil and co-leader in the dollar issues by Telesp Celular and CBPO. In the Iberian market, it lead or co-led the commercial paper issues of Estoril-Sol, Somague and Santogal, and the syndicated loan to Warner Lusomundo Sogecable.

The Acquisition Finance side of Structured Finance area continued to be very active in Portugal, also extending the business to Spain, where the Bank acted as Lead-Arranger in the leverage buy-out of the Bravo Companies, as Joint Lead Arranger in the leverage buy-out of the Paconsa Group and as Co-Arranger in the issuance of senior debt intended to refinance the Uralita Group.

The Equity Capital Market's area benefited in 2003 from the reversal of the cycle which had affected the equity markets since 2000. The main stock markets´ indices gained considerable ground, matching to a certain extent the upturn of the international economy. The brokerage business reflected this trend, considerably recovering from its performance in 2002. After being subject to a reorganization process, this area focused on promoting an Iberian product (Portuguese and Spanish stocks) to an increasingly diversified customer base.

Notwithstanding the rally of stock markets, the volume of IPOs in Europe and in the United States was still very small, negatively affecting the Primary Equity Market's activity in 2003. The Portuguese market saw a single listing, the privatization of Gescartão, through an Initial Public Offering, in which BES Investimento acted as joint global coordinator. In Spain, the Group organized the public offer launched by Advent International on Parques Reunidos, and the capital increase of Ebre Puelva. In Brazil, BESI was global coordinator of the public offer launched by TelespCelular Participações on TeleCentro Oeste Celular Participações.

The brokerage business in Spain was reorganized: the retail business was integrated into BESSA, while the wholesale and investment banking activity were fully integrated into the Investment Bank.

The venture capital business, developed through the subsidiary Espírito Santo Capital, continued to deserve close attention, important steps having been taken to set up a joint venture for the Iberian market with a partner with large international experience in the sector.

5 - 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.

The internationalization of the Portuguese public debt market has been an important goal, and the group has sought to promote it by developing several initiatives addressed to foreign institutional investors. BES Group continues to figure 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.

On the other hand and as per financial management, the Group continues to be actively involved in the international markets, by issuing hybrid capital executing asset securitization transactions and through debt issuance, mainly under the Euro Medium Term Notes (EMTN) program.

The Group also continued to diversify its securities portfolio, privileging investments in low credit risk sectors in the Euro Area, USA and UK markets.

Proprietary trading involves both debt securities and derivative instruments. Besides trading, the market risk management, particularly of interest rate risk, permitted to seize opportunities offered by the decline of interest rates in 2003, which reached historically low levels. This trend in interest rates coincided with a general squeezing of credit spreads and a recovery, even if moderate, of the stock markets, in the second half of the year.

As will be shown further down in this report, the strategy pursued in this area permitted to obtain significant gains in the various markets where the Group operated.

6. - Risk Management

6.1 - The Function of Risk Control

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

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

- to identify, quantify and monitor the different types of risk, progressively applying uniform and consistent principles and methodologies to all the Group's entities;

- to help achieve BES Group's value creation objectives by fine-tuning tools to support the structuring of transactions and by developing internal techniques of performance assessment and core capital optimization;

- to assume a pro-active attitude in the management of events of significant delay or definitive non performance of contractual obligations.

> **The New Capital Accord**

The challenges and opportunities arising from the New Capital Accord (Basel II) have continued to deserve close attention of the Group. The approach closer to the economic perspective undertaken by the Basel Committee's new regulatory framework - whose principles corroborate the Group's founding guidelines and practices - creates new opportunities and constitutes a stimulus to the effort developed in the risk management area.

At the end of the reporting year, BES Group launched a diagnosis project, which seeks to assess the degree of preparedness to face the challenges implicit in the New Capital Accord.

Based on this diagnosis, the Group established as a target to adopt the "Internal Ratings-Based Approach" for Credit Risk, and the "Standardized Approach" for Operational Risk.

This objective is supported by the results of the diagnosis, as well as by an action plan, which aims to pursue the efforts undertaken by BES Group in the risk management area.

6.2 - Credit Risk

Credit risk represents the potential financial loss arising from the failure of an obligor or counterparty to honor its contractual obligation.

a) Management Practices
Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the management of risk during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools, and in procedures and decision circuits.

Internal Risk Rating Systems

In line with BES Group's intents in terms of credit risk management, and with the guidelines of the New Capital Accord (BIS II), the internal rating systems have been continuously developed and fine-tuned. Hence, these models now play a key role, not only in the credit analysis, but also in the approval process and in the credit risk control.

Internal rating systems fall into two large categories according to their specific characteristics in terms of development and use:

• Internal Rating Models for Corporate Credit Portfolios

Corporate Credit portfolios are approached differently, according to the characteristics, size and complexity of the customers and/or transactions.

For the segment of medium-sized companies, the Group uses statistical rating models, which combine financial information with qualitative data. The disclosure of risk ratings requires previous validation by a team of risk analysts.

In the small businesses segment, ratings are determined not only based on financial and qualitative analysis, but also based on the track record of behavior of the company and partners. The new models developed for this segment are being implemented as a pilot project and will be rolled out in 2004.

As regards the large companies, institutional clients, financial institutions and specialized finance, namely project and acquisition finance, credit ratings are assigned by a rating board. This unit is organized by industry sectors and is composed of highly specialized credit analysts. To assign internal risk ratings, this team uses principles and processes that are similar to those followed by international rating agencies.

Notwithstanding the overall effort undertaken by the Group to contain costs, the risk analysts' teams were significantly reinforced in 2003, which, among other factors, attests to the important role of internal ratings in BES Group's management practices.

• Internal Scoring Models for Individual Customers Credit Portfolios

In the segments of individual customers, product scoring models are used at the origination of consumer credit operations and credit cards. A scoring model for mortgage loans is being developed, and should be implemented before the end of the first half of 2004. This model will substantially increase the sophistication level of the rules currently in place.

Finally, all the risk ratings obtained through these models rely on a default probability. The models' discriminative and predictive capacities are periodically revised and tested.

Loan granting

Over the last few years loan granting processes had considerable developments, aiming at the deployment of ratings/scorings and risk-adjusted return metrics in the credit decision process, insofar as to optimize the return on the risks incurred.

To this end, the global project involving the redesign and differentiation of analysis processes, delegation of powers and credit approval has been definitively implemented for the medium-sized companies segment.

This methodology, duly set out under a specific regulation, establishes that the risk analysis processes, credit lines approval and price definition are differentiated according to the internal rating, type of product, risk mitigation instruments (i.e., collateral or guarantees received), amount of exposure and maturity. Credit decisions thus rely, on the one hand, on a commercial opinion, and on the other on independent risk assessment. In turn, this risk assessment, depending on the referred criteria, may fall under the following categories: a simple, a standard or a complex analysis. Except for the simple analysis, all other risk evaluations require an expert opinion.

The credit process for the retail segments has started to be fully redesigned based on the same principles of the credit process for medium-sized companies. This process will be gradually fine-tuned as the new internal risk-rating models for the retail segments are implemented.

Credit Risk Monitoring

The monitoring and control activities aim to quantify and control credit risk, so that it may be possible to define in advance and implement specific measures to deal with specific situations, as well as to outline global strategies concerning credit portfolio management.

Hence, the credit risk monitoring function basically comprises the following processes:

• Detecting warning signals

One of the main developments of 2003 was the implementation of a Web based application to support the detection of warning signals and make a pre-emptive monitoring of potentially problematic loans. This function is under the responsibility of the Credit Risk Monitoring Committee, which is composed of representatives from the Commercial Divisions, Global Risk Department, Company Monitoring and Credit Recovery Department and Audit and Inspection Department. The daily control of credit risk events in customers/operations is performed by the business units, using online tools and information systems developed by the Global Risk Department for the purpose.

• Control of credit limits

In addition to the system for approval of credit lines that frames the day-to-day activity of the commercial areas, the daily system to control limits on money market and derivatives with Financial Institutions was revised in 2003.

• Global analysis of the risk profile of credit portfolios

The traditional risk indicators, namely overdue loans, provisioning coverage ratios, and the evolution of major risks and country risk, are monitored on a monthly basis.
As a complement, and for internal management purposes, the credit risk profile is monitored using economic metrics. This permits to analyze the evolution of expected losses and economic capital, the migration of internal ratings, risk concentration (by customer, economic group, sector of activity and country) and the simulation of extreme scenarios.

The Recovery Process

In 1998 BES Group set up Espírito Santo Cobranças, a company specialized in the recovery of loans to individual customers. The recovery process thus follows different circuits depending on whether it applies to loans to individuals or to corporate loans.

• Loans to individuals

The default is detected directly when an amount is charged to a customer's account; failure to charge that amount immediately alerts Espírito Santo Cobranças, which then takes the necessary steps for recovery, including legal action.

• Corporate Loans

In corporate credit, defaults are detected through on-line information systems. During the first ninety days of default, the branches monitor the contract and take action for recovery; following that period, the responsibility for recovery is transferred to the Company Monitoring and Credit Recovery Department. Legal procedures are in charge of the Legal Department.

b) Credit Risk Analysis

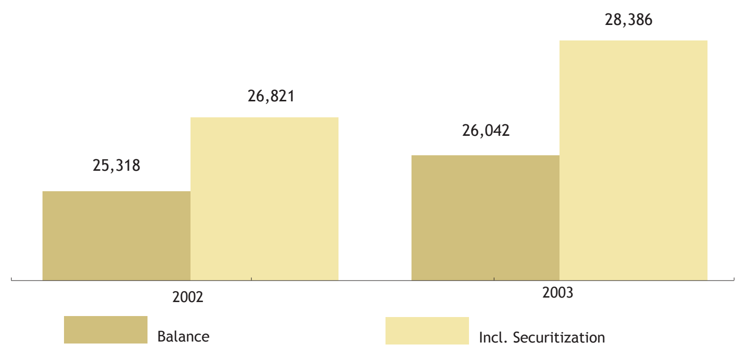
As in previous years, the consolidated balance sheet maintains its traditional structure i.e., loans and advances to customers represent the largest component of total assets, and low-risk high-liquidity assets - cash assets, current accounts with credit institutions and securities of public issuers - continue to hold an important position.

Customer Loan Portfolio

Customer loans, reflecting the adverse economic environment in Portugal and internationally, posted a moderate growth of 2.9%. However, including securitized credit, the growth is 5.8%.

Loan Portfolio Evolution

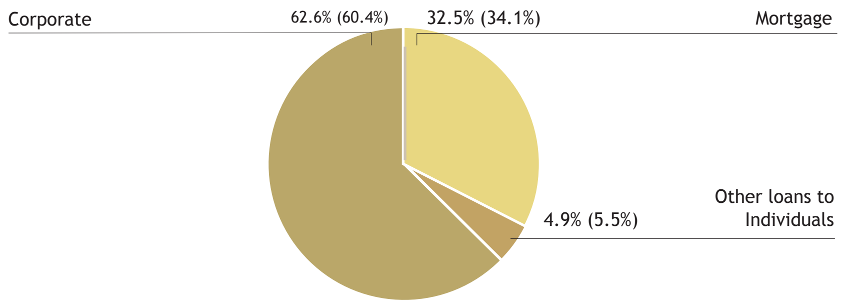
euro million



Loans and advances to customers remain the category of assets featuring more prominently in the balance sheet, although its weight has dropped by 2.5 percentage points (from 61.7% in 2002 to 59.2% in 2003). Loan portfolio profile has not changed significantly, although corporate loans continued to advance against loans to individuals.

The increase of corporate loans' weight in the loan portfolio is explained by the mortgage securitization transaction at the end of 2003. Adjusting from this effect, mortgage loans remained the most dynamic item overall. Other loans to individuals decreased 8.3%, reflecting an increased selectivity criteria in this segment.

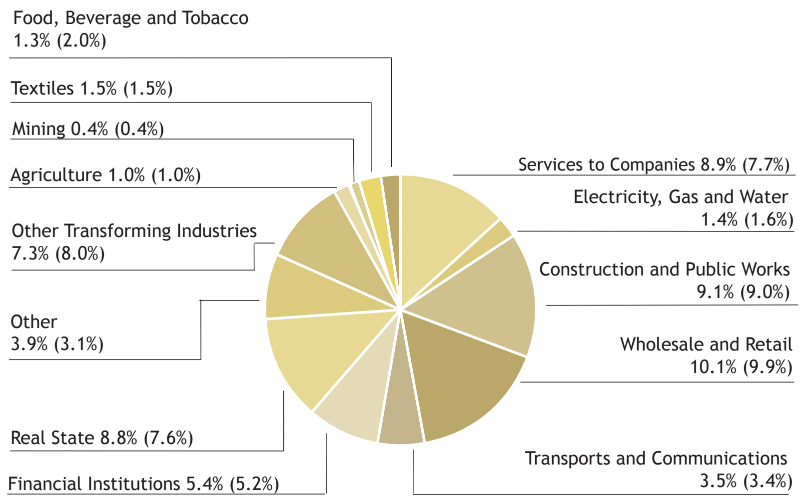
Loan Portfolio Breakdown



( ) previous year excluding Credibom

The corporate loan portfolio remains highly diversified, both in terms of sectors of activity and in terms of the highest exposures (by company and/or economic group), while ensuring that concentration levels remained within prudent and comfortable limits.

Corporate Loan Portfolio (% of Total Loan Portfolio)

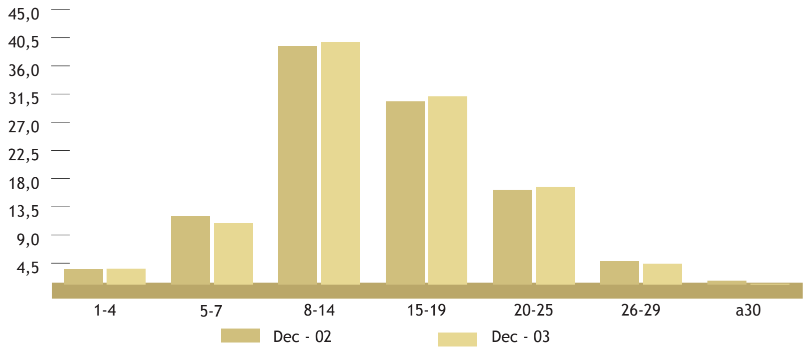


( ) previous year excluding Credibom

The highest level of concentration per sector on the corporate loan portfolio - 10.1% - 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 9.1%, (increasing 3.8% year-on-year in absolute terms); the sector of Services to Companies became the third more representative sector in the whole portfolio, with a share of 8.9% (against 7.7% in 2002). Finally, the Other Manufacturing Industries sector dropped by 6.2%, although in terms of relative weight this only represented a decline of 0.7 p.p. The remaining business sectors did not evidence changes worthy of note, and overall, their weight in the credit position is quite negligible.

As regards internally rated companies, the breakdown of exposures (loans and guarantees) kept the same profile, with 51% falling within the range of 1 to 14, which is considered very low/low risk.

Internal Rating: Exposure per Risk Class



Bond Portfolio

The bond portfolio totaled euro 4,291 million at the end of the year, of which euro 946 million, or 22%, correspond to public debt securities. 45% of these assets are rated by international rating agencies (Moody's and/or S&P), and 95% are classified as "investment grade".

Bonds and Ratings

External Ratings		S & P		Moody's	
		2002	2003	2002	2003
AAA	Aaa	23.3%	10.5%	25.7%	12.3%
[AA+; AA-]	[Aa1;Aa3]	6.5%	7.4%	5.0%	8.7%
[A+; A-]	[A1;A3]	8.3%	7.2%	12.8%	13.7%
[BBB+; BBB-]	[Baa1;Baa3]	12.0%	10.8%	7.6%	7.5%
[BB+; BB-]	[Ba1;Ba3]	0.2%	1.7%	0.6%	0.1%
[B+; B-]	[B1;B3]	1.0%	0.3%	0.8%	1.9%
[CCC+; CC]	[Caa1;Ca]	0.1%	0.0%	0.5%	0.1%
SD/D	C	0.3%	0.0%	0.0%	0.0%
N.R.	N.R.	48.2%	62.0%	47.1%	55.6%
Total		100.0%	100.0%	100.0%	100.0%

Note: Excludes own securities

Derivatives Portfolio (Counterpart risk)

The credit risk of derivatives, calculated in accordance with the replacement cost (sum of the transactions positive replacement values) arises mainly from exposures to entities rated by international rating agencies. The portfolio's sound quality is revealed by the fact that 85% of current exposures fall between ratings of AAA/Aaa and A-/A3.

Derivatives and ratings (Counterpart risk)

External Ratings		S & P		Moody's	
		2002	2003	2002	2003
AAA	Aaa	3.4%	4.9%	2.4%	4.4%
[AA+; AA-]	[Aa1;Aa3]	60.5%	72.8%	51.6%	70.1%
[A+; A-]	[A1;A3]	20.8%	7.3%	32.5%	9.5%
[BBB+; BBB-]	[Baa1;Baa3]	0.3%	0.0%	0.7%	0.3%
[BB+; BB-]	[Ba1;Ba3]	0.0%	0.0%	0.1%	0.0%
[B+; B-]	[B1;B3]	0.0%	0.0%	0.0%	0.1%
[CCC+; CC]	[Caa1;Ca]	0.0%	0.0%	0.0%	0.0%
SD/D	C	0.0%	0.0%	0.0%	0.0%
N.R.	N.R.	15.0%	15.0%	12.7%	15.5%
Total		100.0%	100.0%	100.0%	100.0%

Note: Excludes own securities

Exposure to Emerging Markets

The low involvement with emerging economies deserves a note, as it accounts, net of guarantees and deductions and excluding equity holdings, for only 0.8% of consolidated assets. Moreover, of the euro 399 million net exposure, euro 160.2 million correspond to exposures in local currency.

Among the various exposures to the emerging economies, 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 within the scope of investment banking; and Angola, where the Group's net exposure of euro 136 million results from the recent incorporation of BES Angola. Both the overall and the individual exposures are considerably below the maximum limits allowed by Bank of Portugal.

Exposure to Emerging Markets

euro million

Countries	Risk Weight BoP	2002 Net Exposure	2003 Gross Exposure	2003 Guarantees and Deductions (*)	2003 Net Exposure Value	2003 Net Exposure Structure (%)
Latin America		**130**	**387**	**173**	**214**	**53.6**
Argentina	85%	4	4	1	3	0.8
Bahamas	10%	0	26	26	0	0.0
Brazil	25%	106	229	76	153	38.3
Mexico	25%	10	11	3	8	2.0
Panama	25%	0	56	10	46	11.5
Uruguai	10%	1	32	31	1	0.3
Venezuela	50%	1	18	18	0	0.0
Other		8	11	8	3	0.8
Eastern Europe		**11**	**19**	**0**	**19**	**4.8**
Hungary	10%	0	19	0	19	4.8
Poland	10%	3	0	0	0	0.0
Chec Republic	10%	4	0	0	0	0.0
Other**		4	0	0	0	0.0
Asia-Pacific		21	28	9	19	4.8
South Korea	10%	10	4	0	4	1.0
Macao	10%	11	13	0	13	3.3
Other		0	11	9	2	0.5
Africa		**48**	**259**	**112**	**147**	**36.8**
South Africa	25%	1	26	25	1	0.3
Angola	50%	37	183	47	136	34.1
Cape Verde	25%	1	8	6	2	0.5
Morocco	10%	9	40	32	8	2.0
Other		0	2	2	0	0.0
Total		**210**	**693**	**294**	**399**	**100.0**
Provisions		**26**			**40**	
Net Total		**184**			**359**	
% Net Assets		**0.4%**			**0.8%**	

* includes Trade Finance < 1 year totalling euro 40 million

** in 2002 this value includes exposure to Slovenia , which risk weight became nill during 2003

Overdue Loans Portfolio

Driven by worsening economic conditions, overdue loans increased by 5.1%, while the ratio of overdue loans to total loans remained flat at 2.1%.

The total overdue loans coverage ratio increased to 132.5%, underpinned by the reinforcement of provisions for credit exceeding the increase in overdue loans. Moreover, the coverage ratios remain comfortably above 100%, stressing the financial strength that has always been one of the Group's strong assets.

Asset Quality

euro million

Variables	2002(*)	2003	Variações Absolute	Variações Relative (%)
Loans to customers (gross)	25,318	26,042	724	2.9
Overdue loans	521.4	548.1	27	5.1
Overdue loans > 90 days	457.2	475.6	18	4.0
Overdue and doubtful loans (B.Portugal) (a)	-	538.3	-	
Loan provisions	685.5	726.5	41	6.0
Overdue loans / Loans to customers (gross)	2.06%	2.10%	0.04 p.p.	
Overdue loans > 90 days / Loans to customers (gross)	1.81%	1.83%	0.02 p.p.	
Overdue and doubtful loans (a) / Loans to customers (gross)	-	2.07%	-	
Coverage of overdue loans	131.5%	132.5%	1.0 p.p.	
Loan provisions / Overdue loans > 90 days	149.9%	152.7%	2.8 p.p.	
Coverage of overdue loans and doubtful loans	-	135.0%		

(*) proforma excluding Credibom
(a) Calculated according to Bank of Portugal rules (Circular Letter no 99/03/2003)

The breakdown of overdue loans by seniority categories and respective specific provisions shows that overdue loans more than 48 months old account for only 16% of the total, and are covered at more than 92%. It should be noted that the increase in total overdue credit concerned mainly collateralized credit, which at the end of 2003 accounted for 47% of the total. The increase in specific provisions benefited the coverage ratio of total overdue loans, which rose to 73.5%, from 65.9% in the previous year.

Overdue Customer Loans - Risk Classes and Provisions

euro million

	2003						2002(*)
	Seniority Categories						
	I	II	III and IV	V to X	XI and XII		
Categories of Overdue Loans	< 3 m	3 to 6 m	6 to 12 m	12 to 48 m	> 48 m	Total	
Collateralized Credit							
Gross value	4,504	5,437	18,152	176,511	51,185	255,789	202,980
Specific provision	674	587	5,154	100,644	44,700	151,759	97,101
Non-collateralized Credit							
Gross value	60,348	26,012	56,058	113,052	36,858	292,328	318,392
Specific provision	981	7,816	36,037	111,183	36,855	192,872	221,817
Total overdue loans							
Value	64,852	31,449	74,210	289,563	88,043	548,117	521,372
Percentage breakdown	11.8%	5.7%	13.5%	52.8%	16.1%	100.0%	
Specific provisions	1,655	8,403	41,191	211,827	81,555	344,631	318,918
Provisions for doubtful loans and country risk	-	-	-	-	-	58,447	24,614
Total specific provisions	1,655	8.403	41,191	211,827	81,555	403,078	343,532
Specific provisions/Total overdue credit	2.6%	26.7%	55.5%	73.2%	92.6%	73.5%	65.9%

(*) Proforma excluding Credibom

6.3 - Market risk

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.

a) Management Practices

The market risk management is integrated with the balance sheet management through the Asset and Liability Committee (ALCO). This committee is responsible for defining policies for the structuring and composition of the balance sheet, and for the control of exposures to interest rate, foreign exchange and liquidity risk.

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 capabilities.

As a complement to the VaR model, stress testing was also developed, which permit to assess the impact of higher potential losses than those considered using VaR valuation.

b) Analysis of Market Risk

Consolidated value at risk (VaR) in December 2003, concerning trading positions in equities and interest rate instruments, as well as FX position, totaled euro 33.5 million, which compares with euro 23 million at the end of 2002. This value corresponds to 1.6% of consolidated tier I capital. The main change versus last year was an increase in the exposure to interest rate risk. Moreover, the portfolio's higher diversification this year is explained by its lower concentration.

euro million

Value at Risk 99% of 10 days	2002	2003
Interest rate	6.61	27.31
Exchange rate	1.24	4.99
Equity	19.76	14.39
Diversification effect	(4.70)	(13.21)
Total	**22.91**	**33.48**

As a complement to risk measurement, simulated extreme scenarios are also analyzed. The analysis of the worst extreme scenarios, based on 20% change in risk factors, and considering also the remote possibility of a perfect correlation between the worst possible scenarios for the various categories of risk, determines that the maximum loss in VaR of euro 33.5 million could, under the most extreme conditions, reach euro 130.9 million, which corresponds to 6.1% of consolidated Tier I Capital

VaR versus Extreme Scenarios

euro million

	Value at Risk	% Tier1	Extreme Scenario	% Tier1
Interest rate	27.31	1.3	61.36	2.9
Exchange rate	4.99	0.2	7,.89	0.4
Equity	14.39	0.7	61.68	2.9
Total	**33.48**	**1.6**	**130.93**	**6.1**

6.4 - Liquidity Risk

Liquidity risk derives from the possibility of abnormal losses occurring as a result of failure to fund assets while satisfying commitments on due dates.

a) Management practices

Liquidity risk management at BES Group aims to maintain adequate liquidity levels to meet short and medium and long term funding needs. Liquidity risk management is coordinated with the budgetary and investment policies, as part of the financial management.

To assess the overall exposure to liquidity risk, the Group makes use of liquidity tables, which not only identifies negative mismatches, but also allows for its hedging on a permanent and dynamic basis. The liquidity tables are built based upon:

- the specific characteristics of the products sold by the Group;

- the possibility of placing the various instruments, namely the number of days required to unwind a position; and

- the behavior of the available historical series.

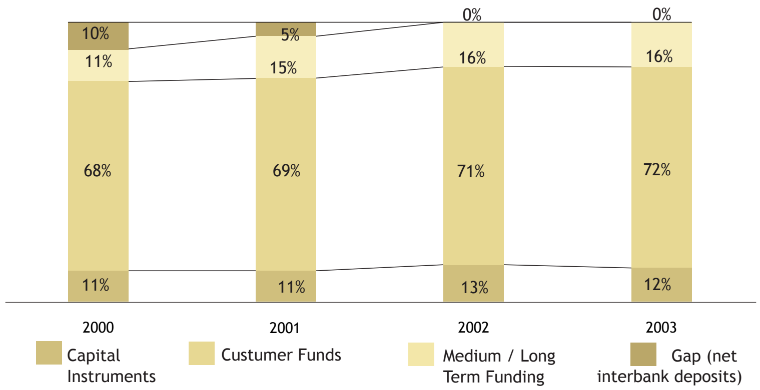
The funding policy is an important part of the overall liquidity management, which covers the domestic and the international markets and is established for all types of liabilities, from customer funding to the use of financing instruments in the financial markets, as well as ordinary and preferred capital.

The Group uses several short and medium/long term funding mechanisms available in the financial markets, namely interbank lines, commercial paper programs (ECP and USCP), the Euro Medium Term Notes program (issuance of senior and subordinated debt), medium and long term credit lines and asset securitization.

b) Analysis of Liquidity Risk

On-balance sheet customer funds represented by deposits and securities are the Group's most important source of funding, accounting for 72% of the total, followed by medium and long term funds, which remained flat at 16%, and own funds, whose relative weight is 12%.

Funding Structure



Several transactions conducted in the international markets contributed to this structure, namely:

- the securitization of a mortgage loan portfolio in the amount of euro 1,000 million (62.4% subsidized and 37.6% non-subsidized) in November 2003 (Lusitano Mortgages No. 2) greatly contributed to the short-term liquidity surplus at the end of the year;

- the medium and long term funding raised in the market, both through new issues of senior bonds under the EMTN program (euro 847 million), and through medium and long term loans from international financial bodies and institutions (euro 210 million). These funds exceeded by euro 319 million the amounts reimbursed during the year. However, the relative weight of medium and long term market funds remained flat when compared to the previous year;

- the issuance of preference shares (Tier I) amounting to euro 450 million, in July 2003, to replace the USD denominated preferred shares issued in 1993 and 1999 for an overall amount of euro 350 million, which were redeemable in 2003. Besides contributing to reduce the foreign exchange volatility of capital instruments, the funds raised totaled a net amount of euro 150 million.

Funding Sources

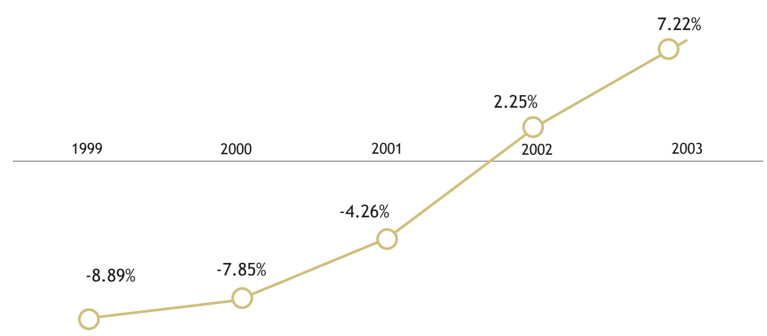
euro million

	2000	2001	2002	2003
Gap (net interbank deposits) (*)	**2,665**	**1,640**	**(927)**	**(3,125)**
Cash and equivalents with credit institutions	5,280	5,356	7,405	8,377
Short term deposits from credit institutions and commercial paper	7,945	6,996	6,478	5,252
Medium/Long term funds	**3,024**	**4,881**	**5,464**	**5,783**
Euro Medium Term Notes	2,605	4,265	4,234	4,493
Medium and long term deposits with credit institutions	419	616	1,230	1,290
Customer funds	**18,649**	**21,861**	**23,676**	**26,477**
Capital instruments	**3,146**	**3,522**	**4,246**	**4,492**
Total	**27,484**	**31,904**	**32,459**	**33,627**

(*) Liquidity GAP - immediate liquidity and interbank short term loans net of interbank liabilities up to one year. From the financing needs point of view, values in the table are symmetric to the Liquidity Gap. Therefore, a negative Gap indicates excess liquidity levels.

The prudent liquidity management policy of extending the maturity of funding sources initiated in 2001 permitted to substantially reduce short term financing needs. Hence the evolution of the Treasury Gap to Total Assets ratio has been very positive (-7.85% in 2000; - 4.26% in 2001, becoming positive in 2002 and again in 2003).

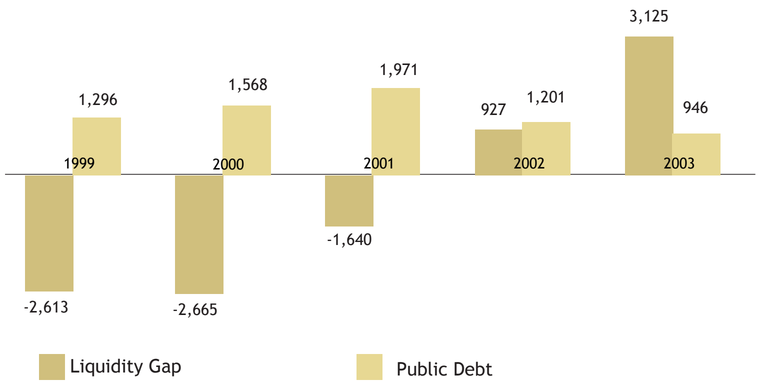
Treasury Gap (as % of Net Assets)



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

Public Debt Portfolio versus Treasury Gap

euro million



Up to 2001, the public debt securities portfolio discountable with the Central Bank covered the Treasury Gap, which was negative at the time. As from 2002, the Treasury Gap became consistently positive and the weight of public debt securities in the portfolio was reduced.

6.5 - Operational Risk

Operational risk represents the risk of loss resulting from failures in internal procedures, people, information systems, or external events.

During 2003, the organizational model and methods for the integrated management of operational risk continued to be gradually implemented in pre-established departments and subsidiaries, following previously defined guidelines.

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

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

• Assessment questionnaires
The assessment questionnaires are used to detect, in a massive top-level way, the main sources of operational risk in the business and support processes. This analysis instrument also helps to reinforce communication, and raise awareness to this matter.

• Detailed analysis of processes
The processes identified as being more critical are subject to a detailed analysis, based on the supporting documents, as a way to identify and subsequently control the main operational risks incurred. This analysis also permits to define possible mitigation measures to eliminate or minimize the risk(s) identified.

• Collection of events arising from operational risk
The purpose is to collect quantitative and qualitative information on events derived from operational risk, systematically loading them onto a database.

The conclusions obtained through the application of these methods are reported to the relevant areas and also to other areas transversally involved, specifically the Internal Audit.

The organizational model, as well as the above-mentioned methods, is documented in detail in the Handbook on the Integrated Management of Operational Risk, issued for the first time in 2003.

7. - Financial Analysis

7.1 - Financial Analysis of BES Group

In 2003 BES Group steered its activity to reach the following strategic objectives in the medium and long term:

· To reach a Cost to Income (before market results) of 53% in 2006

· To reach an average share of 20% in 2006 in the Portuguese market

Although quite ambitious, these goals represent a very motivating challenge, and are targeted at the creation of shareholder value.

Value creation involves significant and balanced growth levels, constant and sustained improvement in efficiency levels, maintaining high standards of financial strength, and adopting strict quality standards, the whole viewing a considerable increase in profits.

Prior Note to the Analysis of the Activity and Results

As announced in due time, Banco Espírito Santo sold to Banque Sofinco shares representing 45% of the capital of Credibom - Sociedade Financeira para Aquisição a Crédito S.A., reflected in the financial statements as from 30 June 2003. This transaction led to an extraordinary result of euro 65.3 million in the consolidated accounts and euro 74.3 million in BES' individual accounts, which was fully allocated to reinforcing, by a total of euro 112.9 million, the fund for general banking risks, thus cancelling the effects of the operation on the net income of the period.

As a result of this disposal, BES consolidated balance sheet as from 30 June 2003 excludes Credibom's assets and liabilities, while the income statement reflects Credibom's consolidation up to June 30, as, from the economic standpoint, this company contributed to BES Group first half-year results.

For purposes of comparability with previous periods and whenever justified by circumstances, the published financial and business data will also be presented proforma (excluding Credibom).

Activity

Notwithstanding the unfavorable economic situation in Portugal and internationally, BES Group has been able to pursue balanced growth. The commercial strategy adopted, which continues to rely on innovation, deepening of the segmentation and sustained improvement of service quality, was a determining factor in the growth achieved.

Hence good progress was made across the main business lines:

· Total consolidated assets, including off-balance sheet assets and liabilities, came close to euro 60 billion - corresponding to an overall year-on-year increase in business of 13.1%;

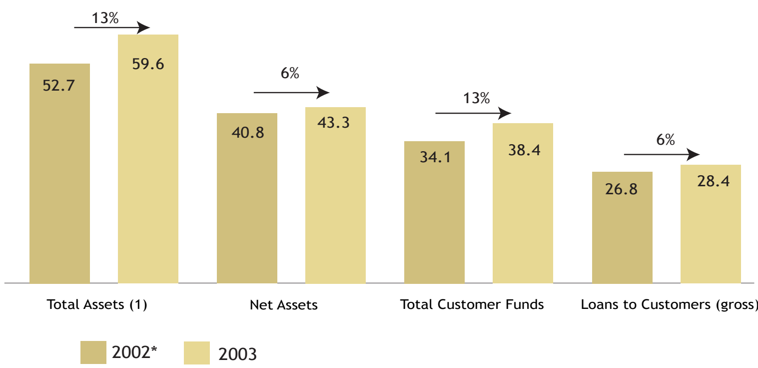
· Credit rose at a slower pace on a comparable basis (5.8% against 10.2% in 2002), in line with the economic difficulties in Portugal and internationally;

· total customer funds grew by 12.7%, reinforcing the Group's competitive position in this area.

The fact that funding grew at a faster pace than loans led to an improvement in the transformation ratio of on-balance sheet customer funds into credit, which dropped from 104% in 2002 to 96% in 2003.

Activity Growth

euro million



(1) Net assets + Asset Management + Other off-balance sheet liabilities + Securitized loans
** proforma excluding Credibom*

Credit

Credit granting continued to be developed in a scenario of decelerating growth. This behavior is due to conditioning factors, both external - the unfavorable economic situation during the year led to a drop in demand for credit by individuals and to a contraction in corporate investment - and internal, namely a policy of higher selectivity in credit granting. Moreover, the subsidiary Banco Internacional de Crédito carried out a new securitization transaction amounting to euro 1,000 million. Including outstanding securitized credit, loan portfolio grew by 5.8% (10.2% in 2002).

Loan Portfolio (including and excluding securitization amounts) (1)

euro million

	2002*		2003		Change (%)	
	Excluding securitization	Including securitization	Excluding securitization	Including securitization	Excluding securitization	Including securitization
Loans to customers (gross)	25,318	26,821	26,042	28,386	2.9	5.8
Mortgage	8,645	9,641	8,461	10,366	(2.1)	7.5
Other loans to Individuals	1,399	1,646	1,283	1,464	(8.3)	(11.0)
Corporate	15,274	15,534	16,298	16,556	6.7	6.6

(1) securitized amounts = outstanding amount of securitization transactions at the end of period
** proforma excluding Credibom*

In the segment of individual customers, which, including securitized credit, accounts for around 42% of the overall portfolio, mortgage loans and loans for other purposes behaved quite differently. In the first and also the most dynamic component, the Group grew by 7.5%. Indeed, mortgage credit, which represents roughly 88% of loans to individuals and 36% of the overall credit portfolio (including securitized credit), continues to stand as one of the strategic pillars of the Group's commercial performance, largely due to the fine-tuned coordination and complementarity between BES, BIC and Companhia de Seguros Tranquilidade. Moreover, the launch of new products aimed at young customers and senior customers (over 50 years old) also contributed to the success achieved in the placement of mortgage loans.

Other loans to individuals were down by 11%. This is linked, on the one hand, to the high indebtedness of households and consequent reduction in demand for credit, and on the other, to the tightening of selectivity criteria in lending.

Funding

Group BES's funding relies on an integrated action at the following levels:

- obtaining on-balance sheet funds through traditional products;

- issuance of bonds and medium-term capital guaranteed structured products for placing with customers,

- asset management;

- distribution of bancassurance products.

BES Group maintained a high level of funding growth, mainly in customer funds, driven by strong ratings, continued improvement in quality standards, renewed offering of products, reinforcement of cross-selling and the benefits derived from a multi-channel organization. This allowed for the indispensable balance between growth in lending and funds. Moreover, the increase in on-balance sheet customer funds (11.8%) was balanced with off-balance sheet funds growth (14.8%).

Customer Funds

euro million

	2002	2003	Change (%)
On-Balance Sheet Customer Funds	**23,676**	**26,477**	**11.8**
Repayable on demand	7,321	7,594	3.7
With agreed maturity date	11,347	12,543	10.5
Debt Securities placed with clients	5,008	6,340	26.6
Off-Balance Sheet Items	**10,383**	**11,924**	**14.8**
Mutual Funds	3,493	3,854	10.3
Real Estate Funds	1,405	1,505	7.1
Pension Funds	1,461	1,764	20.7
Bancassurance	3,656	4,082	11.7
Other	368	719	95.4
Total Customer Funds	**34,059**	**38,401**	**12.7**

The adoption of a commercial strategy based on the offering of funding products - with new integrated products being constantly added - permitted to maintain the vigor of funding growth against a recessive economic background.

The increase in the market share in asset management was based on the growth achieved in mutual funds. ESAF continued to play an active role in this business area, rationalizing the offer of domestic funds, better adjusting to the customers' needs and consolidating the offering of alternative products to institutionals (based on new credit risk or absolute return management techniques) and to individual customers whose portfolios are managed by the asset management area.

The success achieved in sales of bancassurance products (pension plans and Capitalization products) was the driver of market leadership in this business area (with a market share above 23%) whose role is crucial in securing long-term customer loyalty.

Transformation Ratio

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

Transformation Ratio

(euro million)

Variables		2002(*)	2003
Loans to Customers			
Loans to customers (gross)		25,318	26,042
Specific and generic provisions		685.5	726.5
Net loans	**A**	**24,633**	**25,316**
Customer Funds + Securities			
Deposits	B	18,668	20,137
Debt Securities placed with clients		5,008	6,340
On-Balance Sheet Customer Funds	**C**	**23,676**	**26,477**
Euro Medium Term Notes + Commercial Paper		4,263	4,566
Total On-Balance Sheet Funds	**D**	**27,939**	**31,043**
Transformation Ratio			
Deposits into Credit	A / B	132	126
Customer Funds into Credit	A / C	104	96
Total Funds into Credit	A / D	88	82

* proforma excluding Credibom

The policy pursued led the transformation ratio of customer funds (deposits and debt securities) into credit to drop to 96%, which represents a marked improvement versus the preceding years (114% in 2000, 110% in 2001 and 104% in 2002). Nevertheless, a transformation ratio above 100% did not constitute a constraint to growth in the past, as the liquidity needs generated by the commercial balance sheet were met by resorting to: (i) medium and long-term financing in international markets; (ii) the issuance of preferred shares; and (iii) securitization transactions.

Capitalization level

Regulatory capital totalled euro 4,492 million at year-end, up by euro 246 million on the previous year.

This increase reflects, on the one hand, the evolution of preference shares - a new issue of euro 450 million whose impact was in part cancelled through the redemption of another two, one for USD 250 million and the other for USD 100 million - and on the other, the euro 111 million increase in the fund for general banking risks, part of which (euro 65.3 million) through the allocation of the gain obtained in the sale of Credibom and the remainder (euro 45.7 million) through the allocation of current cash flow. This reinforcement of provisions is part of the Group's prudent stance vis-à-vis the Portuguese and international economic situation.

Capital Instruments

euro million

Regulatory Capital	2002	2003	Change
Share capital	**1,500**	**1,500**	**0**
Reserves and similar	**279**	**346**	**67**
Legal and other	- 21	46	67
Revaluation	0	0	0
Share premium	300	300	0
Retained earnings	0	0	0
Subordinated debt	**1,696**	**1,652**	**(44)**
Fund for general banking risks	**15**	**126**	**111**
Minority interests and preference shares	**535**	**618**	**83**
Net income	**222**	**250**	**28**
Total	**4,247**	**4,492**	**245**

Unrealized capital losses in equity holdings - Bank of Portugal Notice no. 4/2000 - show a considerable reduction, having dropped from euro 330.7 million on December 31, 2002 to euro 119 million on December 31, 2003, considering period-end prices and balance-sheet values.

Provisions for Equity Holdings

euro million

	Potential Capital losses (average prices)		Potential losses subject to provisioning and/or deduction from regulatory capital		Net potential losses (last price)	
Equity Holdings	Dec 02	Dec 03	Corridor (15% book value)	Excess	as of Dec 31, 02	as of Dec 31, 03
Portugal Telecom	114.6	80.5	49.1	46.0	99.8	44.2
PT Multimédia	182.2	82.7	44.4	63.9	152.9	74.0
Banco Bradesco	47.2	19.0	17.4	2.6	23.1	-24.2
Novabase	10.8	4.5	2.5	3.3	9.3	4.3
Banque Marrocaine Com. Ext.	9.8	6.9	3.6	4.6	8.8	7.0
Other	44.2	13.7	2.9	14.3	36.8	13.7
Total	**408.8**	**207.3**	**119.9**	**134.7**	**330.7**	**119.0**

Under Bank of Portugal regulations, only euro 134.7 million of the unrealized capital losses will be subject to prudential control up to 2006. Of this amount, part will be recognized as provisions (euro 54.3 million) and the remainder (euro 80.3 million) will be treated as deductible to regulatory capital. In 2003, an amount of euro 17.7 million was provisioned through the use of reserves and euro 1.9 million was reversed through results.

Provisions for Equity Holdings - Time frame

euro million

Years	Provisions (*)	Deduction to Regulatory Capital	Total Impact on Regulatory Capital
2002	31.9	45.4	77.3
2003	15.8	25.1	40.9
2004	4.7	7.0	11.7
2005	1.3	1.9	3.2
2006	0.7	0.9	1.6
Total	**54.4**	**80.3**	**134.7**
Dec 02	**118.3**	**171.1**	**289.4**
excess reduction vs. Dec 02	**-63.9**	**-90.8**	**-154.7**

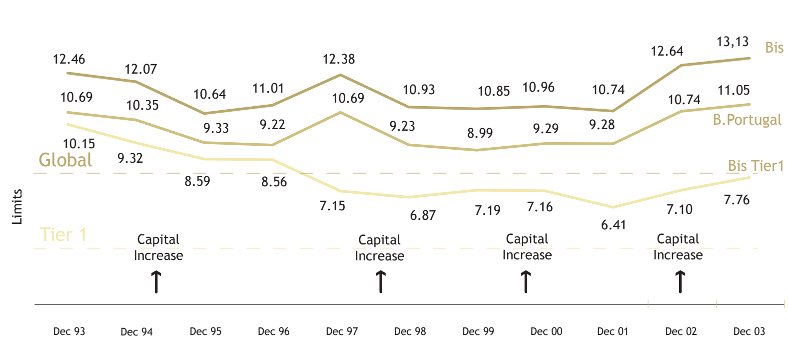
(*) n 2002 and 2003 provisions are charged against reserves; from 2004 will affect results

Solvency

The solvency ratio - the prime indicator of financial strength - denotes an improvement when compared to the previous year, rising from 10.74% to 11.05% and remaining clearly above minimum levels, either those required by the Bank of Portugal or those recommended by the Bank of International Settlements (BIS).

Solvency Ratio Evolution (%)

%



This improvement basically resulted from a reduction of euro 311 million in risk weighted assets (for which contributed the securitization of euro 1,000 million of mortgage loans), and also from the increase in own funds (+1.9%) through the reinforcement of the fund for general banking risks, and the increase in the outstanding amount of preference shares.

Risk Weighted Assets and Regulatory Capital (Bank of Portugal)

euro million

		2002	2003	Change Abs.	Change Rel. (%)
Net consolidated assets	(1)	41,234	43,283	2 049	5.0
Risk weighted assets	(2)	32,973	32,662	- 311	-0.9
Risk weight (%)	(2)/(1)	80	75	-5	
Regulatory capital requirements	(3)	2,638	2,613	- 25	-0.9
Risk weighted assets		2,504	2,471	- 33	-1.3
Trading portfolio		134	142	8	6.0
Existing regulatory capital	(4)	3,541	3,610	69	1.9
Core		1,998	2,139	141	7.1
Complementary		1,639	1,593	- 46	-2.8
Deductions		96	122	26	27.1
Surplus	(4) - (3)	903	997	94	
Solvency ratio total	**[4/(12.5 x3)]**	**10.7%**	**11.1%**	**0.31**	**p.p.**
TIER I Ratio		6.1%	6.6%	0.50	
Core TIER I		4.6%	4.8%	0.20	

Under BIS regulations, the solvency ratio is 13.1% (12.6% in 2002) whereas the Tier I ratio is 7.76%, which compares with the minimum recommended level of 4%.

Solvency Ratios - BIS Criteria

	2002	2003	Change
Total BIS ratio (%)	12.6%	13.1%	0.51 p.p.
TIER I Ratio	7.0%	7.8%	0.76 p.p.
Core TIER I	5.6%	6.1%	0.47 p.p.

Operating Conditions

The operating conditions of Group BES in 2003, which are implicit in the generation of banking income, reflect the strength of the commercial activity based on its multispecialist organization.

Breakdown of Banking Income

euro million

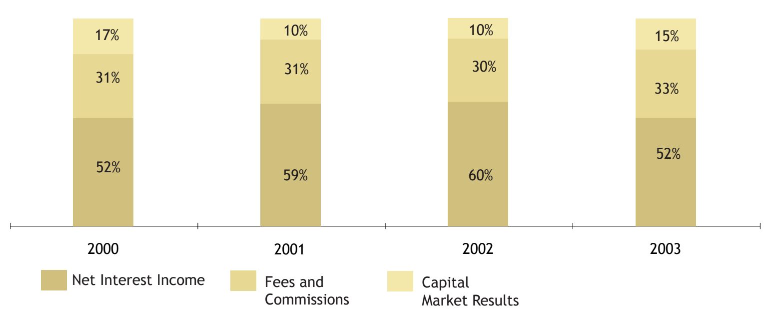
	2002 (*)	2003	Change (%)
Net Interest Income	786.3	749.3	- 4.7
+ Fees and Commissions	407.2	469.5	15.3
= Commercial Banking Income	1,193.5	1,218.8	2.1
+ Capital Market Results	138.5	213.4	54.1
= Banking Income	**1,332.0**	**1,432.2**	**7.5**

(*) proforma excluding Credibom

Although the factors that influenced the evolution of each of the components of banking income will be described in more detail further down, it is important to highlight at this point the strong performance of fees and commissions (+15%) and capital markets results (+54%). Net interest income, strongly conditioned by declining interest rates and a tight control of credit risk, is the only item showing a decline (-4.7%).

However, and on the whole, banking income maintained its traditional balanced structure, with fees and commissions continuing to increase its weight within revenue-generating sources.

Evolution of Banking Income Breakdown



Net Interest Income and Net Interest Margin

Net interest income declined by euro 37 million, or 4.7%, on the previous year.

The reduction in net interest income is explained by the reduction of intermediation revenues by euro 164 million whereas interest expense decreased by euro 127 million. The decline in interest income was originated mainly in customer loans, while the contraction in the cost of funding came as much from customer funds as from the funds obtained through debt issuance. 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.

Net Interest Income

(euro million)

	2002(*)	2003	Change
Revenues	**1,823**	**1,659**	**- 164**
Customer loans	1,406	1,277	- 129
Placements in securities	251	210	- 41
Other placements (1)	166	172	6
Costs	**1,037**	**910**	**- 127**
Customer funds	726	654	- 72
Other funds	311	256	- 55
Net Interest Income	**786**	**749**	**- 37**

(1) Includes net interest from swaps
* proforma excluding Credibom

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

Net Interest Income and Net Interest Margin

euro million

	2002(*)			2003		
	Average Volume	Rate (%)	Average /Cost	Avarage Volume	Rate (%)	Revenue/ /Cost
Placements	**35,350**	**5.157**	**1,823**	**37,072**	**4.475**	**1,659**
Customer loans	25,261	5.566	1,406	26,046	4.903	1,277
Placements in securities	5,243	4.787	251	4,288	4.897	210
Other placements (1)	4,846	3.426	166	6,738	2.553	172
Borrowed Funds	**35,089**	**2.955**	**1,037**	**36,968**	**2.462**	**910**
Customer funds	26,265	2.764	726	28,259	2.314	654
Other funds	8,824	3.524	311	8,709	2.939	256
Result/Business Margin		**2.202**	**786**		**2.013**	**749**
Own Funds and Spread	**261**	**0.023**		**104**	**0.008**	
Result/Global Margin		**2.225**	**786**		**2.021**	**749**

(1) Includes net interest from swaps
* proforma excluding Credibom

The net interest margin fell by 20 basis points, from 2.22% to 2.02%, due to the fact that the average rate of financial assets suffered a larger drop (68 basis points) than the average rate of borrowed funds (49 basis points). This smaller decrease in the average rate of borrowed funds in turn mirrors the scope of the relative weight of sight deposits in total borrowed funds, and the fact that it is increasingly difficult to fully pass on the decline in market rates to the price of deposits.

The reduction in net interest income can be explained by the price effect, the volume effect and the joint price/volume effect, as the table shows.

Price versus Volume Effect

euro million

	Volume Effect	Price Effect	Volume/Price Effect	Change
Financial assets	89	- 239	- 13	- 163
Financial liabilities	56	- 173	- 9	- 126
Net Interest Income	**33**	**- 66**	**- 4**	**37**

The price effect explains a reduction of euro 66 million in net interest income, which was in part offset by the positive impact of an increase in volume of euro 33 million.

In sum, the decline in interest rates (from the end of the third quarter of 2002 the European Central Bank cut the refi rate by 125 basis points) and the tight control over credit growth (and resulting contraction in the portfolio of consumer credit) both constrained the growth of net interest income during the year.

Net interest margin monitoring and balance sheet management are 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 line with the previous year's strategy, ALCO's response to prevailing market conditions in 2003 - the decline in interest rates to historically low nominal levels and a reduction in the private consumption, allowing for a marginal rise in their savings - was to establish:

- for borrowing operations, a policy of contention to the price schedule of deposits, while devising anchor products that permitted to secure the loyalty of customers in segments more price sensitive;

- for credit operations, and in line with the policy that had been initiated in 2001, an increase in the spreads of corporate lending, supported by sophisticated risk assessment models.

However, the extremely low nominal level of short-term interest rates reached in 2003 inevitably caused an erosion of the margin of customer funds, which was not fully compensated by the increase in the margin of corporate loans.

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 mid-2003, led the Group to brace itself for the fall of long term interest rates. To this effect, at the beginning of the first half of the year, operations aimed at protecting the balance sheet against a decline in long term interest rates were carried out.

In addition, although to a lesser extent than in the last two years, the Group pursued its policy of extending the funding maturity, both by issuing structured products for sale to the 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 the net interest margin by fully incorporating the drop in market interest rates.

Customer Services

Customer service income (fees and commissions) totaled euro 469.5 million, raising the previous year's figure by more than euro 62.3 million, which corresponds to an increase of 15.3%.

This performance is basically underpinned by the growth of fees and commissions charged for traditional products, specifically:

• fees and commissions on loans (+54%), which include corporate lending, consumer credit and mortgages;

• revenues from custody services, up by 37% (BES was elected "Best Portuguese Custodian" of 2003 by the Global Finance magazine on account of the high quality standards of these services);

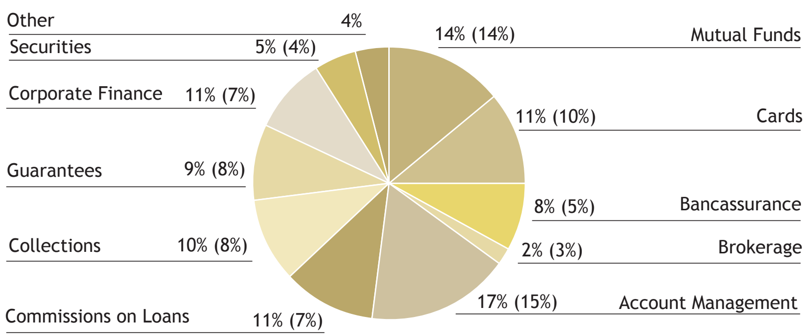
• collection of receivables (+20%), reflecting the introduction a new price schedule;

• management of payment means (+12%), which includes, among others, account management, transfers, payment orders and checks and reflects the buoyancy derived from the commercialization of service accounts (the enlargement of the range of offered products allowed for the percentage of retail customers buying this product to rise from 37.8% to 43.2%); and

• guarantees and endorsements (+12%), where the increase resulted essentially from an improved pricing policy that seeks to adjust price to the cost of risk.

This increase was only 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.

Breakdown of Fees and Commissions



( ) previous year excluding Credibom

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.

As per direct channels performance, internet banking (BESnet and BESnet Negócio) strongly contributed to enhance relations with the customer base, where its penetration rate reached 47%, leading to an increase of 42% in the fees and commissions originated through these channels.

Capital Markets

In 2003 capital markets results were up by 54% year-on-year, accounting for 15% of banking income.

Capital Markets Results

euro million

.	2000	2001	2002	2003
Interest Rate & Fx	**71,1**	**111,2**	**126,6**	**155,4**
Bonds	34,7	29,0	5,0	56,3
Derivatives and Other	36,4	82,1	121,5	99,1
Equity	**139,8**	**14,7**	**11,9**	**58,0**
Trading	128,4	4,8	1,2	41,5
Income from securities	11,5	9,9	10,7	16,5
Total	**211,0**	**125,8**	**138,5**	**213,4**

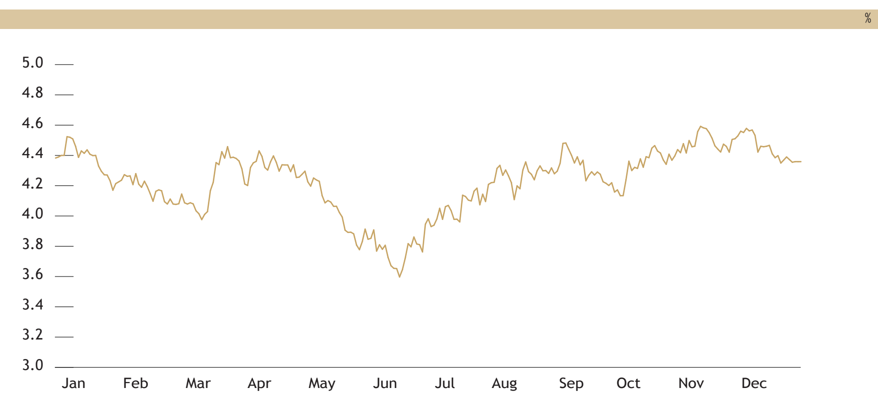
This good performance of capital markets results in 2003 stemmed from the alignment of several factors:

- The belief, at the beginning of 2003, that the slowing down of the economy in the European Union and the US would continue throughout the year, leading to cuts in long term interest rates. Based on this assumption, the Group took long interest rate risk positions at the beginning of the first and third quarters, taking advantage of the steep drops occurred until the end of the first half of the year.

- The narrowing of credit spreads in most of the sectors of the economy, mainly during the 2nd half of 2003, which allowed to obtain substantial trading gains, in both debt instruments and credit derivatives;

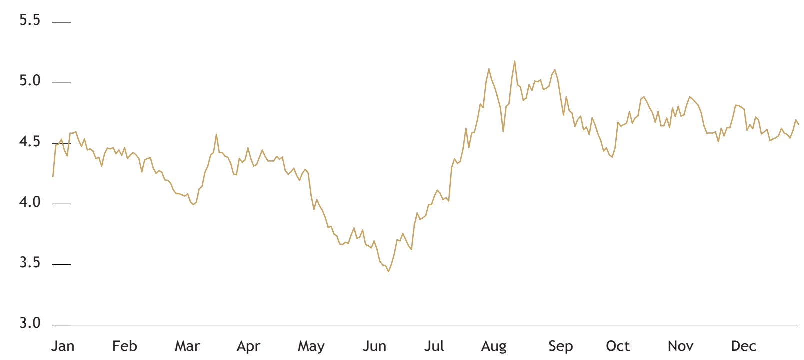
- the rally of equity markets, including the PSI-20, mainly as from the 1st half of 2003, which permitted to obtain gains in trading positions on Portuguese blue chips.

10-year Euro Swap - 2003



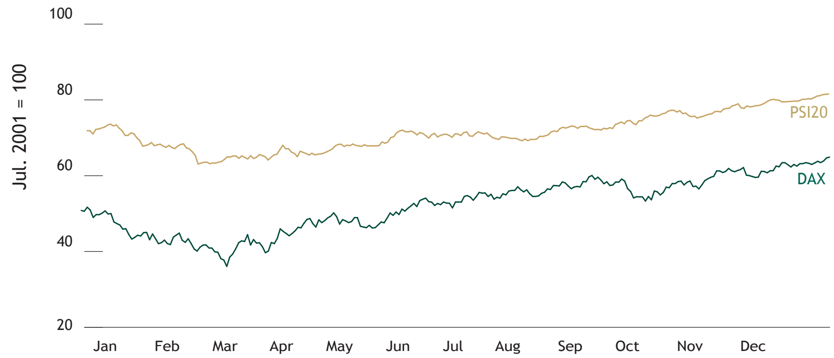
Source: Bloomberg

10-year USD Swap - 2003



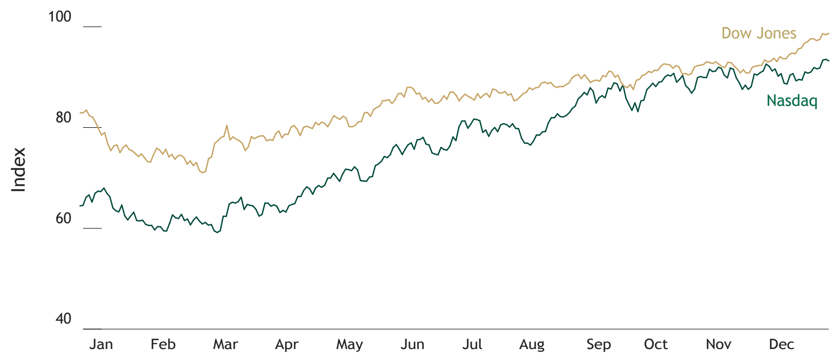
Source: Bloomberg

DAX and PSI20 evolution - 2003



Source: Bloomberg

DOW JONES and NASDAQ evolution - 2003



Source: Bloomberg

Efficiency and Operating Costs

The implementation of several projects and initiatives aiming at the reduction and/or costs control drove the performance of operating costs below planned limits, which increased 0.2% on a comparable basis. The iniciatives pursued comprised the integration of operating platforms, the optimization of the shared services area, the restructuring of subsidiaries and international branches, and the centralization of the negotiation of contracts with suppliers.

Operating Costs

euro million

	2002(*)	2003	Change Abs.	Change Rel. (%)
Staff costs	320.7	318.5	-2.2	-0.7
+ Other administrative costs	261.0	257.3	-3.7	-1.4
= Total administrative costs	581.7	575.8	-5.9	-1.0
+ Depreciation	133.6	140.8	7.2	5.4
= Operating costs	**715.3**	**716.6**	**1.3**	**0.2**

(*) Proforma excluding Credibom

The cost containment policy led to further improvements in the Cost to Income ratio, which reached 50%, reflecting full compliance with the objective set at by the Board of Directors at the end of 2001.

The remaining productivity ratios also continued to improve, in particular the Operating Costs / Average Net Assets and Total Assets per Employee. The rationalization projects implemented, which resulted in a reduction of 264 employees in 2003, contributed significantly to this performance.

Productivity Indicators and Efficiency

		2002(*)	2003
Cost to Income (including markets)	(%)	53.7	50.0
Cost to Income (excluding markets)	(%)	59.9	58.8
Operating Costs/Average Net Assets	(%)	1.90	1.75
Total Assets per Employee	(eur '000)	7,151	8,262

(*) Proforma excluding Credibom

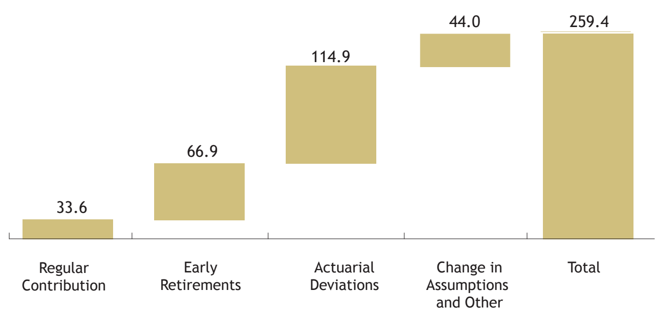
Within this context of improving efficiency, BES announced the merge of the specialized credit subsidiaries Besleasing Mobiliária, Besleasing Imobiliária and Euroges Factoring. This merge, concluded in February 2004, aims at capturing synergies in terms of both the business - impacting the banking income - and the costs - eliminating redundancies and optimizing processes.

The integration of Espírito Santo Dealer, Sociedade Financeira de Corretagem, into Banco Espírito Santo de Investimento was another step taken within the rationalization effort.

Early retirements affected the increase of pension liabilities, whereas actuarial deviations were softened by the rebound of the markets, which had a positive impact on the fund's return. Moreover, the actuarial assumptions used to calculate these liabilities were changed this year, leading to an extraordinary increase of euro 44 million. These effects, combined with current contributions, led to a total contribution to the Pension Fund of euro 259.4 million, raising the coverage level to 96% (94% in the previous year).

Contributions to the Pension Fund

euro million



Pension fund - Funding Levels

euro million

	2002	2003
Total liabilities	1,158	1,407
Fair Value of Plan Assets	1,089	1,357
Unfunded liabilities	69	50(*)

(*) To be amortized until 2014, in accordance with BoP notice 12/2001

Coverage: 96%

(2002: 94%)

Results and Profitability

Net consolidated profit reached euro 250.2 million, a year-on-year increase of 14.4%. 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, while also being strongly conditioned by an unfavorable economic scenario.

Income Statement

euro million

			Change	
	2002(*)	2003	Abs.	Rel. (%)
Net Interest Income	**786.3**	**749.3**	**(37.0)**	**(4.7)**
+ Fees and Commissions	407.2	469.5	62.3	15.3
+ Capital Market Results	138.5	213.4	74.9	54.1
= Banking Income	**1,332.0**	**1,432.2**	**100.2**	**7.5**
- Operating Costs	715.3	716.6	1.3	0.2
(Depreciation)	133.6	140.8	7.2	5.4
- Net Provisions	271.9	381.5	109.6	40.3
Credit	215.3	216.7	1.4	0.7
Securities	59.3	(0.2)	(59.5)	(100.3)
Other	(2.8)	165.0	167.8	.....
- Income Tax	36.2	55.0	18.8	51.9
- Minority Interests	89.9	28.8	(61.1)	(68.0)
= Net Income	**218.8**	**250.2**	**31.4**	**14.4**

(*) Proforma excluding Credibom

In addition to the good progress in the above mentioned areas, the provisioning also deserves a note - a net charge of euro 381.5 million, a 40.4% increase year-on-year.

New rules relating to provisions for doubtful loans came into force in the third quarter of the year (Notice 8/2003 of January 30). This new framework reduced the generic provisions for mortgage loans from 1% to 0.5% as from last February, resulting in a surplus of existing provisions in the balance sheet amounting to euro 39.6 million.

The released provisions were fully allocated to specific provisions for credit, as stated in the above mentioned Notice. However, that release did not impact positively the results for the year, as provision charge includes an additional amount of euro 57 million above minimum requirements, in line with the prudent stance that characterizes the Group.

Provision charge

euro million

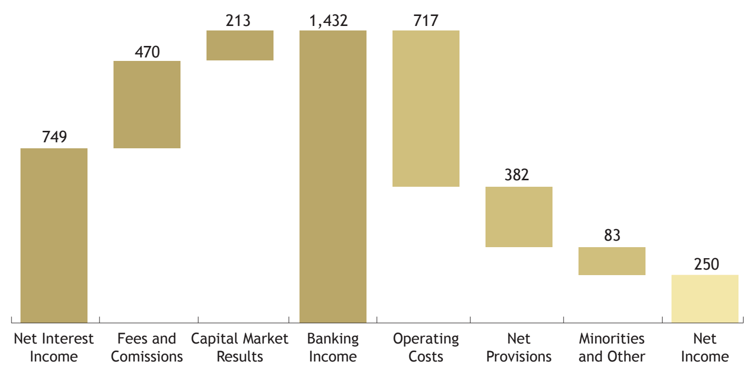
Provisions	2003	2002 Proforma	2002 Stated
Specific for Credit - Needs	205.7	143.1	151.7
(Transfer from generic provisions: Notice 8/2003)	(39.6)	-	-
Specific Provisions via Income Statement	**166.1**	**143.1**	**151.7**
Generic for Credit [1]	50.5	72.2	72.5
Total Provisions for Credit	**216.7**	**215.3**	**224.2**
For Securities	(0.2)	59.3	59.3
For Other Risks and Charges	31.6	(1.5)	(1.5)
Fund for General Banking Risks [2]	91.5	(19.9)	(19.9)
For Country Risk	19.1	12.4	12.4
For Equity Holdings and Other Purposes	22.8	6.3	6.3
TOTAL	**381.5**	**271.9**	**280.8**

[1] Includes euro 35.4 million above requirements.
[2] Charge reflecting a prudent stance vis-à-vis the national and international economic situation. Above the euro 91.5 million, the Fund for General Banking Risks was reinforced by euro 20.3 million, to euro 126.4 million, transferred from provisions for general credit risks in excess (December 2002: euro 14.6 million).

Credit provisions were reinforced by euro 216.7 million, while other provisions reached euro 164.8 million, including the charge for general banking risks. The balance of the fund for general banking risks (on the balance sheet) reached euro 126.4 million, from euro 14.6 million in December 2002, which shows Group BES's prudent stance vis-à-vis the Portuguese and international economic situation.

Breakdown of Banking Income and Costs

euro million



In a particularly tough year, the good performance achieved by BES Group's institutions in retail and corporate banking was quite noteworthy, specifically by BES and BIC's operating units, by BESI, in national and international investment banking, and by BES Açores.

Return on equity (ROE) achieved 13.4%. The following table shows the breakdown of ROE using average financial assets as the coefficient of the various income statement items.

Results and Profitability

figures in %

		2002	2003	Change p.p.
	Rate of Financial Assets	5.21	4.48	(0.73)
-	Rate of Financial Liabilities	2.96	2.46	(0.50)
=	Spread Margin	2.25	2.02	(0.23)
+	Balance Sheet Management	0.03	0.01	(0.02)
=	**Global Margin**	**2.27**	**2.02**	**(0.25)**
+	Fees and Commissions	1.15	1.27	0.12
+	Capital Market Results	0.39	0.58	0.19
=	**Gross Return on Financial Assets**	**3.81**	**3.86**	**0.05**
-	Operating Costs	2.03	1.93	(0.10)
=	**Net Return on Financial Assets**	**1.78**	**1.93**	**0.15**
-	Net Provisions	0.79	1.03	0.24
+	Other	(0.16)	0.02	0.18
-	Minority Interests	0.09	0.10	0.01
=	Pre-tax Return	0.73	0.82	0.10
-	Income Tax	0.11	0.15	0.04
=	**Return on Financial Assets**	**0.63**	**0.68**	**0.06**
x	Weighting of Financial Assets	90.93	89.75	(1.18)
=	**Return on Assets (ROA)**	**0.57**	**0.61**	**0.05**
x	Placements Multiplier	23.01	22.04	(0.99)
=	**Return on Equity (ROE)**	**13.11**	**13.44**	**0.33**

To sum up the main points in the year under review, BES Group was able to maintain an attractive profitability level, with ROE standing above 13%, to improve efficiency levels, to reinforce its competitive position in the main business lines, to improve the transformation ratio of customer funds into credit, to reinforce its financial strength, and to keep risks, particularly credit risk, under tight control, while a sizeable cash flow volume was allocated to provisions.

7.2 - Financial Analysis of Banco Espírito Santo

Main Activity Highlights and Business Indicators

	Symbol	2000	2001	2002	2003
BALANCE SHEET (euro million)					
Total Assets (1)	TA	32,007	33,526	36,035	38,316
Net Assets	NA	26,817	27,590	29,416	31,384
Financial Assets (average)	FA	20,438	23,790	23,322	24,627
Capital and Reserves (average)	KP	1,130	1,365	1,762	1,885
INCOME STATEMENT (euro million)					
Net Interest Income	NII	373.2	417.1	417.1	412.2
+ Fees and Commissions	FC	213.7	205.4	235.3	277.4
= Commercial Banking Income	CBI	586.9	622.5	652.4	689.6
+ Capital Market Results	CMR	201.3	123.8	153.7	247.2
= Operating Banking Income	OBI	788.2	746.3	806.1	936.8
+ Extraordinary Results and Other Costs	XR-OC	(1.7)	14.5	(32.0)	24.7
= Total Banking Income	TBI	786.5	731.8	774.1	961.5
- Operating Costs	OC	418.1	448.6	444.0	454.4
- Provisions and Taxes	Prov+T	234.0	142.1	200.7	315.3
= Net Income	NI	134.4	141.1	129.4	191.8
PROFITABILITY (%)					
Net Interest Margin	NII / FA	1.83	1.75	1.79	1.67
+ Return on Fees and Commissions	FC / FA	1.05	0.86	1.01	1.13
+ Return on Capital Market Results	CMR / FA	0.98	0.52	0.66	1.00
= Business Margin	BI / FA	3.86	3.14	3.46	3.80
- Weighting of Operating Costs	OC / FA	2.05	1.89	1.90	1.85
- Provisions and Taxes	(Prov+T) / FA	1.14	0.60	0.86	1.28
- Extraordinary Results and Other Costs	(OC-XR) / FA	(0.01)	(0.06)	(0.14)	0.10
= Return on Financial Assets	NI / FA	0.66	0.59	0.55	0.78
x Weight of Financial Assets	FA/ NA	0.87	0.87	0.85	0.85
= Return on Assets (ROA)	NI / NA	0.57	0.52	0.47	0.66
x Placements Multiplier	NA / KP	20.88	20.05	15.61	15.44
= Return on Equity (ROE)	NI / KP	11.89	10.34	7.34	10.18
PRODUCTIVITY/EFFICIENCY					
Operating Costs/Total Assets (%)	OC / TA	1.31	1.34	1.23	1.19
Assets per Employee (euro'000)	TA / NE	5,960	6,440	8,394	9,242
Cost to Income (%)	OC / BI	53.0	60.1	55.1	48.5

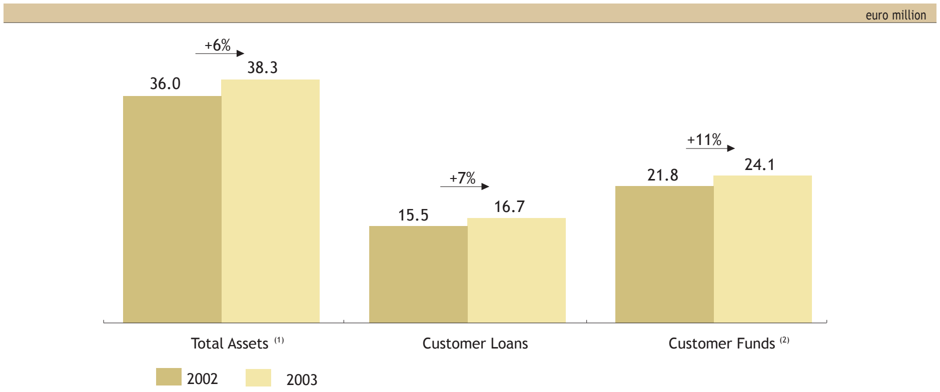
(1) Includes off balance sheet items

Activity

In line with previous years, 2003 was a year of strong commercial dynamism. Major structural transformations were consolidated, while at the same time new and challenging paths were opened through the reorganization and strengthening of a multispecialist financial Group.

Credit continued to grow (+7%), and funding, including off-balance sheet products, rose by 11%, which exceeds the previous year's growth.

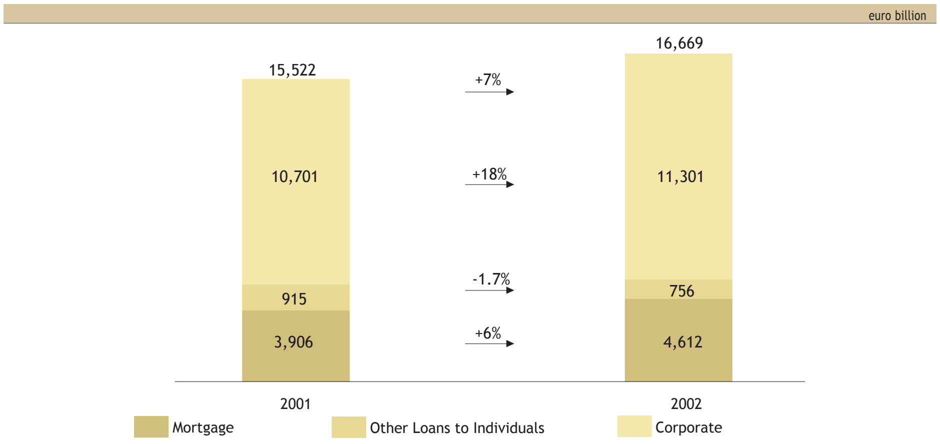
Activity Indicators



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

Customer loans continued to increase, mortgage lending again proving the most active component of credit, having risen by 18%; other loans to individuals were down by 17% year-on-year. 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 lending - an increase of 6% - once again confirmed BES's strong foothold in the Portuguese corporate fabric.

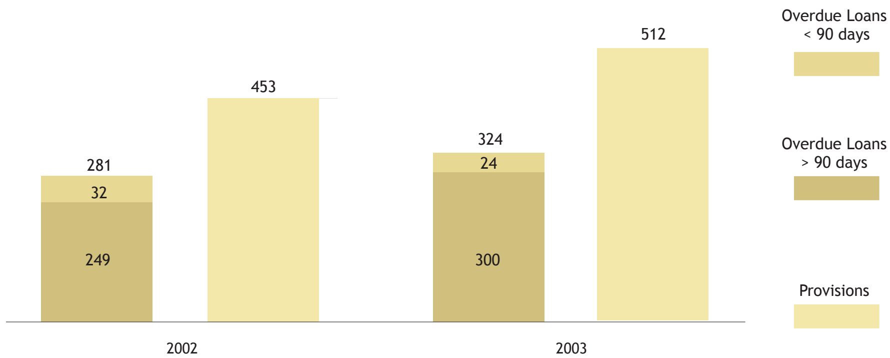
Loans to Customers



The quality of BES credit portfolio is underpinned by the systematic fine-tuning of integrated risk management, increasingly centralized decision powers, and the credit risk assessment capabilities from a commercial standpoint.

Asset Quality

euro million



	2002	2003
Total Overdue Loans / Customer Loans (Gross)	1.81%	1.94%
Overdue Loans > 90 days / Customer Loans (Gross)	1.60%	1.80%
Total Provisions / Total Overdue Loans	161%	158%
Total Provisions / Overdue Loans > 90 days	182%	171%

The overdue loans ratio stood at 1.9%, which, coupled with the high levels of provision coverage (158%) show the quality of the credit porfolio. The ratio of overdue and doubtful loans to total loans reached 2.09% at year-end 2003 (Bank of Portugal Circular-Letter no. 99/03/2003), with a provision coverage of 147.1%.

The increase in customer funds surpassed the growth of the loan portfolio. This performance was based on a balance between the offer of off-balance sheet products (mutual funds and bancassurance products) and of on-balance sheet funds, including debt securities, which remained the strongest component of intermediation, in order to finance lending growth.

Customer Funds

euro million

			Changes	
Variáveis	**2002**	**2003**	**Abs.**	**Rel. (%)**
Customer Funds	**15,398**	**17,334**	**1,936**	**12.6**
Sight Deposits	6,003	6,257	254	4.2
Term Deposits	6,187	6,811	624	10.1
Debt Securities	3,208	4,266	1,058	33.0
Off balance sheet funds	**6,373**	**6,751**	**378**	**5.9**
Total Customer Funds	**21,771**	**24,085**	**2,314**	**10.6**

Banking Income, Productivity and Profitability

Banking income growth of 16.2% was based on the strong performance of fees and commissions (+17.9%) and capital markets results (+60.8%). Despite the considerable increase in provisions (+ euro 111.6 million), which, as usual, reflects BES prudent stance in view of current economic conditions, net income increased 48% year-on-year.

Income Statement

euro million

		2002	2003	Change (%)
	Net Interest Income	417.1	412.2	(1.2)
+	Fees and Commissions	235.3	277.4	17.9
+	Capital Market Results	153.7	247.2	60.8
=	Operating Banking Income	806.1	936.8	16.2
+	Extraordinary Results and Other Costs	(32.0)	24.7	....
-	Administrative Costs	340.6	346.5	1.7
-	Depreciation	103.4	107.9	4.4
-	Net Provisions	199.0	310.6	56.1
=	Pre-tax Profit	131.1	196.5	49.9
-	Income Tax	1.7	4.7	....
=	**Net Income**	**129.4**	**191.8**	**48.2**

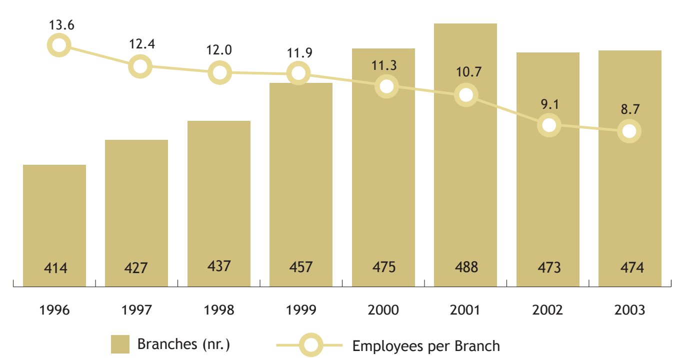
Although the increase in operating costs (+2.3%) somewhat exceeded the global objectives established for the Group (referred to above), efficiency improved, with the Cost to Income ratio decreasing over 6 p.p. from 55.1% to 48.5%. Productivity also improved, as measured by either the number of employees per branch, or by the ratio of assets per employee, which rose by 10.1%.

Productivity Indicators

		2002	2003	Change (%)
Operating Costs/Total Assets	(%)	1.23	1.19	(0.04) p.p.
Assets per Employee	(eur '000)	8,394	9,242	10.1%
Employees per Branch	(no.)	9.1	8.7	(0.4)
Cost to Income	(%)	55.1	48.5	(6.6) p.p.

These developments continue to be closely linked to the reduction in the number of employees in recent years, which has occurred in tandem with an effort to arrive at a younger and overall more qualified workforce.

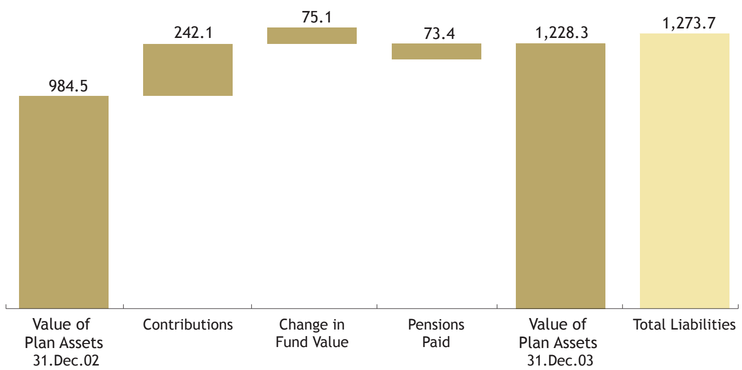
Network Expansion/ Organization Efficiency



The process of streamlining the Bank's human resources had an impact in terms of pension liabilities, as well as the corresponding funding needs.

Pension Funds

euro million



Liabilities for retirement pensions thus increased by euro 226 million and were funded through contributions totaling euro 242 million. Hence the coverage level improved significantly, from 94% para 96%.

2002 was characterized by a rise in profitability, in terms of both return on equity and return on assets. Hence return on average equity rose from 7.3% in 2002 to 10.2% in 2003, while return on assets reached 0.66% (0.47% in 2002).

Proposed Distribution of BES Net Income

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

Proposed Distribution of Net Income

	euros
• for legal reserve	19,200,000.00
• for distribution to the Board of Directors	1,918,350.00
• for distribution to employees	17,537,500.00
• for distribution to shareholders	99,000,000.00
• for other reserves	54,179,152.49
	191,835,002.49

The proposed dividend on the 2003 net income corresponds to a gross value per share of euro 0. 33, payable on all existing shares at the end of the year.

7.3 - Main Business Units - Activiy and Results

Banking

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

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

Registered Share Capital
euro 150 million

BES holding
100%

Business made good progress during the year, on both customer funds and customer loans. The Bank also pursued its mortgage lending activity, having in November concluded a mortgage credit securitization transaction in the amount of euro 1 billion.

Direct customer funding reached euro 4,301 million, corresponding to a year-on-year increase of 4.3%. The decrease in customer loans, down from euro 6,378 million to euro 5,648 million (-11.4% YoY), resulted from the securitization operation, as otherwise would have shown an increase of 4.0%. Mortgage loans, which account for 71.4% of total gross loans, reached euro 4,099 million. In December, the Bank sold an overdue mortgage loan portfolio in the amount of euro 37.7 million.

Net interest income reached euro 150.3 million, and commissions euro 27.3 million, which corresponds to a considerable increase versus the previous increase. Banking income totaled euro 179.5 million, and operating results came to euro 84.6 million. Net profit grew by 27.6% year-on-year to euro 63.3 million,.

Consolidated figures — euro million

Variables and Indicators	2002	2003	% Change
Net Assets	7,974	8,156	2.3
Capital and Reserves	223	240	7.6
Customer Funds	4,125	4,301	4.3
Customer Loans (net)	6,378	5,648	(11.4)
Net Income	49.6	63.3	27.6
Cost to Income (%)	40.5	38.9	(1.6) p.p.
Return on Equity (ROE) (%)	27.5	34.7	7.2 p.p.

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

Registered Office
Rua Alexandre Herculano, 38
1269-161 Lisboa

Share capital
euro 70 million

BES holding
100%

BES Investimento reached a consolidated net income of euro 26.8 million in 2003, which corresponds to a ten-fold increase on the 2002 result. The recovery of the main stock indices and the reorganization of the brokerage business had a strong impact on the Bank's activity, leading to a sharp rebound in the business of its associated companies, ES Dealer and Benito y Monjardin. This, combined with the good progress made in other investment banking activities, in particular debt placement and risk management products, as well as Project Finance Operations, permitted a strong rise in banking income.

Gross results, at euro 49.6 million, show a year-on-year increase of 113.6%. This increase stemmed mainly from fees and commissions, which grew from euro 11.9 million to euro 20.2 million (+69.3%), and also from fee income, which rose by 3.2%, from euro 25.6 million to euro 26.4 million.

Total assets increased by euro 1,267 million, mainly explained by loans and advances to credit institutions, which grew by euro 1,083 million. This heading is influenced by the consolidation of the associated company Benito y Monjardin, which has a strong public debt repos activity. Hence public debt securities purchased from several credit institutions under repurchase agreements totaled euro 1,086 million at the end of 2003, which are in turn sold these securities to customers (companies or credit institutions). The total amount placed at year-end, euro 1,057 million, had an important impact on customer funding.

Consolidated figures | euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	869,948	2,137,251	145.7
Capital and Reserves	153,756	152,547	(0.8)
Banking Income	54,933	82,115	49.5
Net Income	2,764	26,826	...

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

Registered Office	Share capital	BES holding
Rua Alexandre Herculano, 38 1250-011 Lisboa	euro 55 million	66.0%

During the year, Banco BEST reinforced and consolidated its distribution network. In addition to broadening the personal relationship channels launched in 2002, it fostered strategic synergies with the Portugal Telecom Group, having reached full coverage of the PT and TMN shops.

Following a decision taken at Group BES top-level, in 2003 Espírito Santo Financial Consultants started a process viewing its winding up. Banco BEST was considered a viable and attractive alternative to this company, and the process of allocating most of its commercial network and customer funds to the Bank was successfully concluded at the end of the year.

By consolidating and expanding its commercial distribution network, Banco BEST considerably reduced the average costs of canvassing customers, which dropped by more than 50% when compared to the previous year, despite a year-on-year increase of 100% in the customer base. Assets under management also grew considerably, reaching euro 340 million.

Banco BEST received the "Call Center 2003" trophy jointly awarded by the IFE (International Faculty for Executives) and the IZO System, in recognition of the effort developed during the year and the quality of the service provided.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	197,588	227,322	15.0
Capital and Reserves	39,626	40,947	3.3
Customer Deposits	153,724	182,631	18.8
Net Income	(10,679)	(10,192)	...

Banco Espírito Santo dos Açores, S.A.

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

Share capital
euro 17.5 million

BES holding
58.17%

BES dos Açores targets mainly the segment of residents in the Autonomous Region of the Azores, and naturally the important community of Azorean emigrants living mostly in the United States and Canada.

The Bank has been meeting the targets of its business plan, which will allow it to develop and expand its presence in the Azores, supported by the externalization of services and the development of products, and by strong synergies with Group BES.

In 2003 the Bank's links to socially-oriented institutions was further reinforced through the holdings acquired by another twelve Santa Casa das Misericórdias Açorianas. The Advisory Council of BES dos Açores, an important instrument of connection to the local society and culture, was also set up during the year, comprising thirty seven members, among whom businessmen and other personalities involved in the cultural life of the Azores.

Net assets reached euro 236.2 million by the end of the year and net income euro 3.8 million, corresponding to annualized year-on-year increases of respectively 15% and 67%.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	205,291	236,171	15.0
Capital and Reserves	24,181	24,601	1.7
Customer Loans (gross)	178,246	197,943	11.1
Customer Deposits	154,600	166,061	7.4
Banking Income (*)	4,607	9,500	....
Net Income (*)	1,151	3,794	....

(*) For 2002, corresponds to half year results

Banco Espírito Santo, S.A. (Spain)

Banco Espírito Santo Espanha

Registered Office
Serrano, 88
28006 Madrid Spain

Share capital
euro 86.5 million

BES holding
100%

In 2003, Banco Espírito Santo (Spain), which includes the bank and the asset manager, pursued its strategy of specializing in retail and private banking (fully meeting the objectives of the commercial plan outlined in the previous year), and doing business with companies with commercial relations with Portugal. The restructuring plan was completed at the end of October with the transfer of the stake held in Benito y Monjardin to Banco Espírito Santo de Investimento.

In the private banking business, assets under managed grew by 9.7%, to euro 1,213 million, the business originating in the company's own commercial networks being particularly relevant, having risen by 17.1%. Mortgage loans also made good progress, growing by 34%.

Loans to customers posted moderate growth (6.7%), which is lower than the overall rise posted by Spanish banks (10%), and is explained by the effort undertaken to improve risk quality.

Revenues were influenced by the weakness of financial markets during the war with Iraq, having remained low during the first half of the year, firmly rebounding during the second half. Hence the Bank posted a significant growth in net income, from the euro 2.1 million achieved last year to euro 5.2 million this year, to which the incorporation of the proceeds from the sale of Benito y Monjardin were the major contributor.

Consolidated Figures — euro million

Variables and Indicators	2002	2003	% Change
Net Assets	2,985	1,664	(44.3)
Capital and Reserves	77	67	(13.0)
Customer Loans (gross)	1,050	1,120	6.7
Customer Funds	1,406	1,046	(25.6)
Banking Income	70.5	59.5	(15.6)
Net Income	2.1	5.2	147.6

Espírito Santo Bank, S.A.

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

Share capital
$US 16,973 thousand
(euro 12,822 thousand)

BES holding
98.45%

In 2003 the Bank pursued its strategy of expanding its international private banking activity and enlarging the scope of the products and services offered. The result was an increase of 5% in assets under management.

The loan portfolio grew by 9%, based on a persistent seizing of business opportunities, namely in commercial and mortgage credit.

Net interest income was under strong pressure, whereas fees and commissions were up by 36%. Key to this performance was the significant contribution given by the broker dealer ES Financial Services, and also the upturn in the US and Latin American financial markets, which, by reinforcing customer confidence led to an increase in the volume of transactions. Some gains were also obtained in financial operations undertaken to dispose of the securities portfolio - in anticipation of a possible rise in the US interest rates.

Operating costs were tightly controlled, rising by 2%. The pre-tax profit increased 55% year-on-year.

The Bank continues to feature high liquidity and a strong financial positioning.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	497,068	402,628	(19.0)
Capital and Reserves	31,699	26,976	(14.9)
Customer Loans (gross)	199,747	179,015	(10.4)
Customer Deposits	383,376	308,356	(19.6)
Net Income	1,640	2,337	42.5

Banco Espírito Santo do Oriente, S.A.

Banco Espírito Santo
do Oriente
必利勝銀行

Registered Office
Av. Dr. Mário Soares, n.° 323
Edifício Banco da China, 28 dt°
E-F MACAO

Share capital
200 million MOP
(euro 19,804 thousand)

BES holding
99.75%

Several factors contributed to invigorate Macao's local economy: the positive impact from the strong expansion of the Chinese economy; the implementation of several major projects, namely the third bridge connecting the Macao peninsula to the Island of Taipa; the construction of new casinos and other tourism attractions permitted by the restructuring of the dominant sector of the local economy and the award, in 2002, of three new licenses to operate games of chance in casinos; and the construction of stadiums to host the East Asia Games, in 2005.

To take advantage of this favorable economic environment, it was approved in the second half of last year a plan aiming at shifting the Bank towards greater penetration in the local and regional markets. This plan will be put into practice by promoting the cross-selling of products and services offered, such as private banking, foreign trade, capital markets, etc.

Reflecting, among others, the policy outlined in 2003 of prudence and selectivity in loan granting, BESOR's total assets were reduced by euro 53.4 million, which corresponds to a drop of 44.9% on 2002. This reduction affected the gross operating result, which fell by 50.5%, to euro 1.8 million. Net profit, however, rose by 10.7% year-on-year, reaching euro 1.5 million. This performance is largely explained by the release of a substantial part of the specific provisions previously set up for doubtful debts, which were recovered throughout the year.

With a very comfortable solvency ratio and an effective control of costs, the Bank is reanalyzing its internal organization in order to duly prepare for the mission it has set out to achieve.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	118,845	65,458	(44.9)
Customer Loans (gross)	25,764	14,544	(43.5)
Capital and Reserves	25,251	21,798	(13.7)
Net Income	1,358	1,503	10.7

Banco Espírito Santo Angola, S.A.R.L.

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

Share capital
the equivalent of euro 7,918 thousand

BES holding
99.96%

In its second year in operation, the activity of BESA was characterized by a strong expansion in the Angolan financial market. The Bank's geographical coverage was extended through the opening of five branches in the city of Luanda, which will also permit to continue to provide a service of quality and excellence.

The real needs of its customers are at all times the main concern of the Bank, which, by creating innovative solutions in the Angolan market, not only meets these needs but also conveys an image of reliability, quality, innovation and modernity.

Notwithstanding a certain instability in terms of legal framework, BESA pursued its policy of offering profitable products in the local currency, complemented by financial products developed by its trading room.

The increase in net income, up by 34% on 2002, came mainly through the rise in customer loans and financial placements, mostly in Central Bank securities. Customer deposits grew by 38%, corresponding to a market share of 5%

Banking income registered an increase of 172%, a very steep rise that stemmed from all of its components. Nevertheless, net interest income maintained the previous year's weight in banking income (66%). Operating costs were up by 101%, a natural increase in view of BESA's current phase of expansion and investment. Net profit, at euro 2.6 million, rose by 273% versus 2002.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	67,232	90,041	33.9
Capital and Reserves	7,367	6,795	(7.8)
Customer Loans (gross)	4,502	16,691	270.7
Customer Deposits	50,059	69,037	37.9
Banking Income	4,135	11,260	172.3
Net Income	690	2,576	273.3

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

Banque Espírito Santo et de la Vénétie

Registered Office
45, Avenue Georges Mandel
75116 Paris France

Share capital
euro 52,154 thousand

BES holding
40.00%

2003 was the first full year in operation following the merge between BES Vénétie and Via Banque, in 2002.

The new bank that resulted from the merger continued to operate in the areas of commercial banking, structured finance and cash management, while also providing retail banking services to the Portuguese residents in France. Its results this year show a clear improvement on the 2002 results.

On the brink of a situation of economic recession, and with a growth rate of around 0.2%, the unemployment rate rose from 9.3% in the last quarter of 2002 to 9.8% at the end of 2003. The slight increase in economic activities stemmed from the resilience of private consumption, which permitted to offset the retreat in corporate investments.

Notwithstanding this difficult economic environment, operating banking income reached euro 23.4 million, a small reduction (0.8%) when compared to the previous year. This was due to the decline in interest rates in the money market and also to the rise in the cost of participating loans, while recurrent operating costs fell by 6.2%. Current operating results thus grew by 11.1%, to euro 8.2 million. Net profit after taxes was multiplied by 4.7, totaling euro 3.4 million.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	1,188,764	1,795,203	51.0
Customer Loans [1]	614,853	732,556	19.1
Customer Deposits [1]	230,514	219,130	(4.9)
Equity	61,910	62,629	1.2
Net Income	708	3,369	....

(1) Excluding financial clients

Asset Management

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

Registered Office	Share capital	BES holding
Av. Álvares Cabral, 41 1250-015 Lisboa	euro 11,750 thousand	85.00%

At the end of 2003 the overall volume of assets under management surpassed euro 12.6 billion, an increase of 39% when compared to 2002, largely explained by the increase in the discretionary management business. The growth driver was the strategy adopted of creating new products addressed to the segment of institutional customers, using new credit risk or absolute return management techniques.

After the success obtained by its Caravela Funds (funds of alternative funds), whose volume surpassed euro 317 million (a year-on-year increase of 20%), Espírito Santo Gestão de Patrimónios was chosen to manage two Collateral Debt Obligation (CDO) portfolios composed of a diversified range of Credit Default Swaps, for a total amount of euro 2 billion.

Gespatrimónio Rendimento real estate fund maintained its position of largest open real estate fund in the Portuguese market, with an amount under management exceeding euro 1.4 million - an increase of more than 6% versus 2002.

In Portugal, the volume of assets under management represented a market share of 16.6%.

Net income, boosted by an increase in volumes under management, posted a year-on-year increase of 42%.

Consolidated Figures — euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	60,698	55,821	(8.0)
Capital and Reserves	20,825	22,113	6.2
Net Income	7,735	10,983	42.0
Assets under management (euro million)	9,056	12,617	39.3

Leasing

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

Registered Office
Av. Álvares Cabral, 27 - 4.º
1269-140 Lisboa

Share capital
euro 21.65 million

BES holding
84.12%

The equipment leasing industry suffered the effects of the recession of the Portuguese economy, which naturally also extended to Besleasing Mobiliária.

As a result, and even with the contribution of BES Group's commercial network, the Company received less applications for leasing operations and consequently the number of contracts also declined. Besleasing Mobiliária has a market share of 12.7%, ranking in the third position in the domestic market. Production was mainly channeled to the manufacturing industry, retail trade, transport and communications, and construction and public works. Vehicles, specific industrial equipment and office equipment were the most sought after categories of goods.

Net income reached euro 13,000, a decline versus 2002, namely explained by the amount of provisions, particularly for securitized credit, the costs of the merger project, and costs incurred to purchase/develop the new information systems application.

In February 2004, the specialized credit units Besleasing Imobiliária (property leasing), Besleasing Mobiliária (equipment leasing) and Euroges (factoring) were merged into a single unit - Besleasing & Factoring - Instituição Financeira de Crédito, S.A.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	387,811	360,213	(7.1)
Capital and Reserves	25,773	26,520	2.9
Customer Loans	364,931	335,120	(8.2)
Net Income	931	13	(98.6)
New Contracts			
Number	6,625	5,722	(13.6)
Amount	326,785	283,135	(13.4)

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

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

Share capital
euro 12.9 million

BES holding
83.21%

The equipment leasing industry considerably expanded its business in 2003, despite the effects of the economic recession. Besleasing Imobiliária also increased production, largely due to the contribution of BES Group's network. The Company received fewer applications for leasing operations and therefore concluded a smaller number of contracts during the year, although with an average value higher than in 2002. In a fiercely competitive industry, Besleasing Imobiliária placed second in the national ranking of equipment leasing companies, with a market share of 21.7%. Production was mainly channeled to the retail trade, manufacturing industries, construction and public works and transport and communication sectors. The main categories of leased goods were land (backed by the large number of operations concluded in the construction sector), commercial property, warehouses, offices and industrial facilities.

Net income reached euro 3.8 million, a decrease year-on-year explained by the costs of the merger project, the expenses incurred to purchase/develop the new information systems application, and also by the provisions set up during the year, mainly for overdue credit, which started to deteriorate as a result of the adverse economic situation lived during the year.

In February 2004, the specialized credit units Besleasing Imobiliária (property leasing), Besleasing Mobiliária (equipment leasing) and Euroges (factoring) were merged into a single unit - Besleasing & Factoring - Instituição Financeira de Crédito, S.A.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	566,638	694,166	22.5
Capital and Reserves	15,342	17,294	12.7
Customer Loans	555,493	679,757	22.4
Net Income	4,197	3,802	(9.4)
New Contracts			
Number	470	462	(1.7)
Amount	177,793	228,295	28.4

Specialized Consumer Credit

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

Espírito Santo Crediflash

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

Share capital
euro 7.5 million

BES holding
98.41%

Net income increased 87% during the period based on the joint effect of three different factors: a 20% rise in net interest income, a 6% reduction in operating costs - as a result of the cost cutting policy implemented since 2002 - and a 16% improvement in the recovery of overdue loans.

The prime objectives that were set for credit card management were closely linked to the launch of the new image in the BES Silver, BES Gold and BES Electron cards and introduction of new functionalities, the incentives to card usage, and the increase in the number of cards, while maintaining tight risk control.

Several steps were taken, including the introduction of new functionalities and the extension of existing benefits, such as "special purchases", which are not subject to the card's credit ceiling, and "credit conversion", which consists in offering the customer the possibility of transferring to "special purchases" the amount due for payment in the last statement, providing that the card account is in a regular situation.

With regard to the initiatives aiming at increasing turnover, three major campaigns were launched: the summer 2003 campaign, under the motto "Summer Prizes", which permitted to accumulate points exchangeable for direct prizes; the "Golden Goal" campaign, which was truly innovative, and benefited from the Group's sponsorship of the Portuguese National Team and the three main Portuguese football clubs, offering the respective winners a number of prizes, including cars; and a third campaign which rewarded the more faithful customers with CDs containing music selected by EMI in an exclusive edition.

Several activation, reactivation and initialization campaigns were launched to promote the use of inactive cards, and encourage that of new cards.

A new card, the BES Platinum, was also launched in 2003, addressed to the segments of private banking and affluent customers, reinforcing the offer by including in it high prestige products.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	124,639	132,166	6.0
Capital and Reserves	11,706	12,110	3.5
Customer Loans (net)	115,128	121,379	5.4
Net Income	4,032	7,538	87.0

Factoring

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

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

Share capital
euro 12 million

BES holding
100%

The objectives established for 2003 included an increase in penetration in the factoring market, to achieve sustained profitability and efficiency gains, to improve service quality, to control the risk of the portfolio and to promote synergies with all the business units of BES Group.

These ambitious objectives were fully met:
- the portfolio under management grew from euro 625 million to euro 736 million (+18%);
- the market share rose by 3.6%, with turnover growing by 28%;
- the 1st place in the sector's ranking was maintained in what concerns profitability, accounting for 25% of the industry's revenues;
- the cost to income improved, on the back of flat costs and an increase of 30% in results;
- fees and commissions were up by 31%;
- the tight control of risk in the overdue credit portfolio permitted to reduce it by 34% in 2003, overdue credit being fully provisioned for;

The Company posted net income of euro 6.3 million, corresponding to an increase of 30% versus the previous year.

At the beginning of 2004 Euroges was merged with Besleasing Mobiliária and Besleasing Imobiliária into a single unit - Besleasing & Factoring - Instituição Financeira de Crédito, S.A.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	468,793	555,372	18.5
Capital and Reserves	17,077	19,205	12.5
Net Income	4,843	6,311	30.3
Portfolio of gross receivables purchased	457,153	535,590	17.2

Venture Capital

Espírito Santo Capital - Sociedade de Capital de Risco, S.A.

Registered Office
Avenida da Liberdade, 195
1250-142 Lisboa

Share capital
euro 25 million

BES holding
99.74%

During the year Espírito Santo Capital focused on the development of the various sides of the venture capital business, and on promoting its services with the economic agents, with a view to seizing new business opportunities. As far as fund raising was concerned, the Company entered an agreement with the Siparex Group to launch a new Fund dedicated to the Iberian market, for an estimated amount of euro 50 million, to be launched in the first quarter of 2004. This new fund will permit to increase funds under management from a current euro 80 million to euro 130 million.

Fifty-two new investment opportunities were analyzed. The overall amount was lower than in 2002, but the focus on the origination of core operations was much higher this year.

As regards the breakdown of the operations analyzed by industry sectors, the most relevant were services, construction materials, technological, textiles and food. Five operations were concluded in 2003, for an overall amount of euro 3.1 million, two of which concerned the acquisition of holdings in new companies.

In terms of divestments from the funds managed by Espírito Santo Capital, there were thirteen operations during the year: eight concerned the full sale of holdings in subsidiaries, and five corresponded to a reduction in the exposure to companies that were kept in portfolio. The overall amount of divestments was euro 4.1 million.

Net income reached euro 3.4 million, which compares with euro 2.9 million in 2002.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	38,789	40,518	4.5
Capital and Reserves	29,384	30,668	4.4
Net Income	2,926	3,453	18.0
Equity holdings portfolio [1]	24,393	23,447	(3.9)

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

Insurance

Espírito Santo Companhia de Seguros, S.A.

Registered Office
Avenida da Liberdade, 242
1250-149 Lisboa

Share capital
euro 15 million

BES holding
40.00%

The deceleration of economic activity felt at national and international level in 2003 naturally influenced the insurance industry, in particular the market of non-life insurance products for private individuals where Espírito Santo Seguros operates. Notwithstanding this context, BES Group's bancassurance business continued to perform well, in terms of both market penetration and results, and always steered by the need to provide a global quality service to the customer.

Total production during the year, obtained through the BES, BIC and BES Açores networks, exceeded 88,000 contracts - distributed through home, auto and health insurance -making up a total of 314,000 outstanding contracts at year-end, which corresponds to an increase of 17.4% versus the previous year. The gross premium volume exceeded euro 50 million, rising by 25.8% year-on-year.

Thanks to the strong rise in production and gross premia, the good level of the technical result, and the control of operating costs, Espírito Santo Seguros posted a net profit of euro 3.0 million, which corresponds to 6.0% of the gross premium value and represents a year-on-year rise of 221.3%. Equity, in turn, grew by 26.5% on 2002, reaching euro 14.4 million.

euro thousand

Variables and Indicators	2002	2003	% Change
Gross premia volume	40,004	50,325	25.8
Costs of Claims (*)	24,527	30,568	24.6
Net operating costs	9,343	11,461	22.7
Technical balance result	845	3,058	262.0
Net Income	937	3,009	221.3
Net Assets	38,148	48,920	28.2
Equity	11,359	14,368	26.5

(*) net of reinsurance

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

Registered Office	Share capital	BES holding
Avenida Álvares Cabral, 41 - 3.º 1250-015 Lisboa	euro 5 million	23.00%

Europ Assistance pursued a sustained growth, continuing to gain market share and consolidating its position in the assistance insurance market, with a share of 30%.

Total premiums issued increased to euro 17.9 million, even against a difficult economic situation, based on a commercial strategy of specialization and market segmentation that combines the sale of traditional products to the development of structured products, on the whole aiming to adapt to market trends and meet the customers' needs.

During the year, the Company assisted approximately 350,000 casualty victims and took nearly 700,000 calls, placing business growth at close to 17%. In line with previous years, the accident record continued to increase as the assistance concept became more widely know, and also as a result of the enlargement of the insured customer base. The bad weather conditions in the first quarter of the year and the abnormally high temperatures registered in August were also a major factor in the rise of the accident record.

The negative impact of this rising accident record was in part lessened by the good performance achieved in financial results - thanks to the reversal of the negative trend in the financial markets - and also by the application of measures intended to obtain efficiency gains through a strict control of costs with accidents and fixed structural costs. Net income for the year reached euro 975,000.

On the international front, Europ Assistance reinforced its presence in the Brazilian and Argentinean markets, raising turnover in both countries, even against the climate of turmoil still lived in the region.

euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	18,829	20,371	8.2
Equity	6,843	7,258	6.1
Net Income	1,004	975	(2.9)
Production	17,593	17,896	1.7

e-Business

ES Tech Ventures, SGPS, S.A.

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

Share capital
euro 50 million

BES holding
100%

At the beginning of 2003 the company adopted its current name Espírito Santo Tech Ventures SGPS, S.A.

Subsidiary companies continued to grow during the year. Among these, pmelink.pt, a joint venture with CGD and Portugal Telecom, reinforced its position as the first online business center in Portugal for small and medium-sized companies, posting a considerable rise in turnover to euro 7.8 million. It is also worth mentioning that pmelink.pt won the tender for the supply of the thirty-one hospital units of Hospitais, S.A., and is now developing a specialized platform for the hotel industry.

In the e-commerce area, Vortal, a company that owns a specialized portal for the construction and public works industry - econstroi.com - also deserves a note. A considerable volume of contracts were awarded through this portal (totaling more than euro 300 million), while the Company reached positive EBITDA. Today, econstroi.com has become a world reference in its business area.

The Company also provided financial support to its subsidiary in the United States, Clarity Payment Solutions, Inc., which has developed a sophisticated platform for processing payments on pre-paid debit cards, counting among its customers some of the largest companies in the world. Finally, ES Tech Ventures, together with its shareholder, continued to develop and introduce payment solutions in Portugal, based on Clarity licensed technology (e.g., the Yo!Card and the card-account program).

Consolidated Figures — euro thousand

Variables and Indicators	2002	2003	% Change
Net Assets	61,348	47,718	(22.2)
Capital and Reserves	35,100	32,636	(7.0)
Equity holdings portfolio	49,409	45,586	(7.7)
Net Income	(10,614)	(8,911)	...

Issuers of Securities

Within the universe of companies included in the consolidation, some units are specialized in obtaining funds in international markets. Such entities, located in financial centers where investors benefit from a tax-neutral system, may often be found in major international financial groups.

Espírito Santo Overseas, Ltd (ESOL), headquartered in the Cayman Islands, was established in October 1993 with ordinary share capital fully subscribed and paid up by BES. In 1993 it made its first issue of non-voting preference shares, in the amount of US$ 100 million, which was redeemed on December 1, 2003. On December 31, its second issue of non-voting preference shares, made in 1999, in the amount of US$ 150 million, entirely placed in the United States and guaranteed by BES, was still outstanding. These preference shares are listed on the New York Stock Exchange.

BES Finance, Ltd, headquartered in the Cayman Islands, was established in 1997, with ordinary share capital fully subscribed by BES. In February 1997 BES Finance set up a Euro Medium Term Notes program (EMTN), which is updated every year through the respective Offering Circular. The EMTN allows the issuance of senior or subordinated bonds up to a nominal aggregate value of euro 7 billion. Currently, and in addition to BES Finance, BES's branches in the Cayman Islands and in Madeira can also issue debt under this program. These bonds, which can be issued in any currency and for any maturity, are guaranteed by BES and listed on the Luxembourg Stock Exchange. Senior bonds issued under the EMTN program and outstanding as of December 31, 2003 totaled euro 4,277 million. Between 1999 and 2002 the Company issued subordinated bonds totaling euro 1,240 million at the end of 2003. In July 2003, BES Finance issued for the first time preference shares, totaling euro 450 million, guaranteed by BES, which were placed with European institutional investors and are listed on the Luxembourg Stock Exchange.

BES Overseas, Ltd (BESOL), headquartered in the Cayman Islands, was established in September 1996, with ordinary share capital fully subscribed and paid up by BES. In 1996 BESOL issued non-voting preference shares totaling US$ 250 million, redeemed in August 2003.

The securities issued were entirely placed with international investors and the funds obtained were fully invested in the Group to finance its activities.

8 - Transition to the International Financial Reporting Standards (IFRS)

Conversion Project to the International Financial Reporting Standards

According to Regulation no. 1606/2002 of the European Council and Parliament, companies having securities admitted to trading on a regulated market of any Member State should adopt the International Financial Reporting Standards as from 1 January 2005.

Considering that the adoption of the IFRS implies considerable changes in the accounting framework inherent in the current Portuguese Plan of Accounts for the Banking System (PABS) presently used by BES in the preparation of its individual and consolidated financial statements, in the second half of 2003 the Group decided to set up a working group made up of members from the main functional areas to make the necessary adaptations for application of the IFRS as from 2005, inclusive. This working group is supported by an external entity specializing in the interpretation of these accounting rules, and supervised by a Steering Committee that periodically reports to the Executive Committee on the main conclusions of the work carried out.

The accounting and disclosure matrices comparing the accounting and disclosure policies currently used by the Bank to IFRS were completed before the end of the year, identifying the principal gaps. Specific and general training initiatives were undertaken, which, among other issues, addressed business combinations, deferred taxes, employee benefits (including pensions) and financial instruments (IAS 39). Comprehensive training was also given on the IFRS 1 - First-time adoption of International Financial Reporting Standards.

The process involving the set up of the accounting requirements concerning the securities and derivatives portfolio, as well as the definition of the so-called impairment indications, with regard to the credit portfolio, was started at the beginning of 2004, so as to start the process of necessary changes in the accounting system.

Main Gaps Identified

The main purpose of this note is to present a brief summary of the differences identified so far between the accounting policies used by BES - which follow the PABS - and the IFRS, which may impact the consolidated financial statements.

This summary should not be taken as an exhaustive list of all differences between PABS and IFRS that potentially may have a significant impact upon the consolidated financial statements. No attempt was made to identify all disclosures, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Group has not completed the qualitative analysis or the quantification of the differences discussed below. The consolidated financial performance and financial position as shown in the consolidated financial statements as at 31 December 2003, which were prepared in accordance with the PABS, may be different if determined in accordance with IFRS.

The supervisory authorities and the International Accounting Standards Board (IASB) have significant on going projects that could affect the differences between the PABS and IFRS described below and the impact of these differences relative to the consolidated financial statements in the future. However, the main differences identified so far between the PABS and the IFRS that may give rise to a significant impact on BES's individual and/or financial statements are as follows:

a) Goodwill

In accordance with the PABS rules, the Group offsets the goodwill (or negative goodwill) calculated at the acquisition date against reserves. Under the IAS 22, which is still in force, goodwill is accounted for as an asset and is amortized. It is foreseeable that in the future, following the approval of the ED 3 Business Combination, goodwill will no longer be amortized but instead subject to impairment tests. Should an impairment loss occur, it will be charged against the statement of income.

b) Investment Securities

In accordance with the PABS rules, investment securities are valued at the lower of cost or market value. Any unrealized losses are fully provided for and charged to the statement of income, and unrealized gains are not recognized. In the case of reversals of unrealized losses provided for, both for shares or fixed-income securities, the provisions are written-back to the statement of income.

Under the IFRS, investment securities are marked to market and unrealized gains or losses are recognized under reserves, except if an impairment loss is determined, in which case it is taken to the statement of income. Impairment losses related with fixed-income securities are reversed against the statement of income, except for equity securities, in which case the reversal is recorded against equity.

c) Equity holdings

Equity holdings that are not consolidated or accounted for under the equity method, i.e., in principle, those where the percentage held is less than 20%, are recorded at cost and the related unrealized losses determined at balance sheet date, based on the average market price in the last 6 months, are provided for over a period of 5 to 10 years, as set forth in Banco de Portugal Regulation no. 4/2002. Unrealized gains are not recognized.

Under the IFRS, non-consolidated equity holdings are recognized in accordance with the same principles used for investment securities, as described in paragraph b) above.

d) Loan Portfolio Impairment

The Group sets up provisions for loans and advances to customers in accordance with Banco de Portugal Regulations nos. 3/95, 2/99 and 8/03. The criteria underlying current rules on the set up of provisions has therefore, an essentially regulatory nature. At the same time, Banco de Portugal has established the obligation of banks to submit, twice a year, a report analyzing economic provisions to cover the specific risk in the loan portfolio.

Under IAS 39, the loan portfolio will be valued at amortized cost and subject to impairment tests (performing and non performing portfolios). Impairment losses are determined as the difference between the carrying amount of the loan and the value of future expected cash flows discounted at the loan's original effective interest rate. This method considers two main aspects: i) the recoverable amount based on an economic analysis of the portfolio; ii) the present value of expected cash flows for the recoverable amount at the original effective interest rate.

e) Hedge accounting

Although the PABS establishes criteria on the eligibility of derivatives as risk hedging instruments, these are not recognized in the balance sheet. Under the IFRS, all derivatives, including hedging derivatives, must be recognized in the balance sheet at market value.

The IASB has not yet issued the final version of the standard covering macro hedge. However, it is expected that the rules in this standard will be restrictive, making their application difficult.

f) Derecognition of Assets and Special Purpose Entities (SPEs)
According to the PABS, assets, loans and securities assigned by the Group under securitization transactions are derecognized providing they meet the conditions for sales recognition. Securities purchased within the scope of such transactions are recognized as investment securities and provisioned in accordance with the rules set forth in Banco de Portugal Regulation no. 27/2000.

Under IAS 39, assets are only derecognized after the Group has lost control over the contractual rights underlying such assets, while the IFRS 1 establishes that local rules will apply to the operations carried out up to 1 January 2004.

Moreover, all SPEs with which the Group establishes relations must be analyzed under the light of the consolidation rules applying to such entities (and expressed in SIC 12), namely those which may have been set up within the scope of the securitization transactions carried out.

g) Retirement pensions and other employee benefits
Bearing in mind that the date of transition to the IFRS is 1 January 2004, on 31 December 2003 the Bank decided to change the actuarial assumptions so as to converge with the IAS 19 requirements.

Since Regulation no. 12/2001 already allows actuarial gains and losses to be deferred under the corridor method, the largest differences that may be found in retirement pensions should concern early retirements for disability and health benefits.

At present, and in accordance with Banco de Portugal rules, restructuring costs with early retirements are amortized over a 10-year period. Under the IFRS they will be fully recognized in the year when the retirements occur.

As regards health benefits granted to the employees reaching retirement age, it has been the practice in the market to recognize such benefits in the statement of income in the year when they are paid. The adoption of IAS 19 will imply that the liabilities incurred with such benefits will be recognized based on actuarial studies at balance sheet date.

h) Deferred taxes
According to the Banco de Portugal rules, deferred tax assets cannot be recognized. The IAS 12 permits the recognition of deferred tax assets, providing it is probable that tax profits will be available to absorb deductible temporary differences (including tax losses).

We end by expressing the high esteem in which we hold the monetary and financial authorities and the Supervisory Board. To our Customers, Shareholders and Employees, we also wish to express our recognition for their ever-valuable contribution to the progress of Group Banco Espírito Santo.

Lisbon, 20 February 2004

The Board of Directors