

Report and Accounts 2000

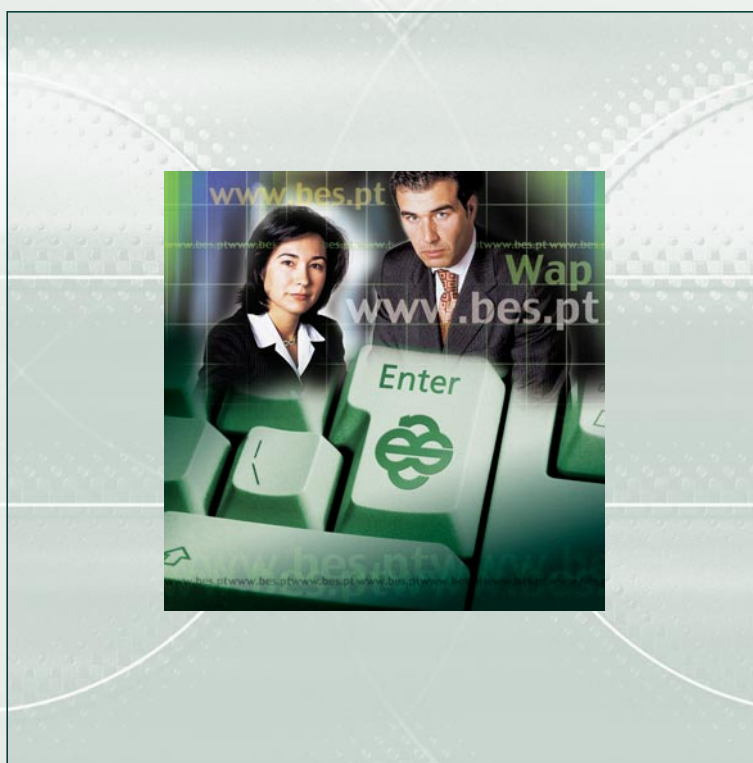


BANCO ESPIRITO SANTO



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Report and Accounts 2000



Banco Espírito Santo, S.A.

Registered Office: Av. da Liberdade, 195 - 1250-142 LISBON
Registered Share Capital: 1 000 000 000 Euros
Reg. With the Lisbon Reg. of Comp. under n° 1 607 - Corporate Registered 500 852 367

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Joint Message of the Chairman
of the Board of Directors
and the Chief Executive Officer



1 Joint Message of the Chairman of the Board of Directors and the Chief Executive Officer

Dear Shareholders,

In 2000 the Portuguese economy is thought to have registered a deceleration in the growth rate of its Gross Domestic Product, to 2.8%, which is less than in 1999 and below the average growth in the remaining economies of the European Union.

At the same time, inflation accelerated, the external accounts deficit deteriorated, and public accounts remained unbalanced, with current expenses growing at a faster pace than revenues. Unemployment was exceptionally low.

On the other hand, the activity of Group Banco Espírito Santo was marked in 2000 by the reinforcement of our policy of streamlining the structure of costs and increasingly basing our customer approach on a multi-specialist and multi-channel rationale, as the most adequate route towards ensuring a diversified structure of revenues and sustained growth.

In this context, net income grew by 11%, to Euro 228 million. Return on equity reached 22%, allowing the Board of Directors to submit to the BES General Meeting a proposal for a dividend distribution of 0.432 euros per share. This dividend will be paid in full on all shares, including those issued in the capital increase of 17 August 2000.

The increase of net interest income (+12.5%) is one of the main reflexes of the management policy pursued, stemming from the stabilization of the financial margin combined with the growth of business. The continued growth of this indicator was also made possible by reinforcing over the last few years the Group's multi-specialization concept, which permitted to increase the capacity to generate revenues from diversified sources.

Income from services, specifically, progressed very well (+25.8%), thanks to the successful diversification of activities combined with the good results achieved in cross-selling by the different specialized managers in their respective segments.

Our overall market share continued to rise, standing at around 16.1% at the end of 2000. From the business areas that most contributed to this performance, we note the retirement and education savings plans and Bancassurance Life, with market shares of 23.1% and 24.7%, and housing credit, with 17% at year-end.

On the other hand, the excellent performance of revenues from mergers, acquisitions and primary market operations in Portugal, Spain and Brazil, carried out by Banco Espírito Santo de Investimento (BESI), combined with stock and bond trading, made for a very significant growth in earnings from investment banking and market operations (+31.3%).

Net assets totalled Euro 33.9 billion, increasing considerably (+15.4%), with the vital contribution of housing credit (+25.2%) and corporate credit (+33.9%).

Driven by depreciation (+17.2%) resulting from continuous investment in the modernization of the information system and the integration of

new technologies in our operating structure, total costs increased (+14.6%), although clearly below net banking revenue growth (+19.3%).

Other exceptional factors also contributed to this acceleration, namely: consolidation of Benito Y Monjardin and GES CAPITAL acquisitions in Spain, and of Espírito Santo Bank in Florida, which resulted in a 3.7% increase in costs; the fact that in the second half of the year the Bank incurred in restructuring costs that totalled Euro 13.7 million, fully supported by the year's profits. Excluding these last two factors to allow a comparison with the previous year, costs grew 8.4% in annual terms.

On the other hand, the favorable development of net banking revenue, that grew above operating costs, is shown in the improvement of cost-to-income, to 51% if including trading (53.1% in 1999) and to 61.6%, if excluding these results (62.9% in 1999). Also in this area, this performance allowed us to strengthen our top-ranking position in the Portuguese financial sector. At European level, BES also compares very well with its peers in terms of this efficiency indicator:

We should also point out the increase by Euro 81 million in provisions for credit risks, which compares with a rise of Euro 19 million in credit due, once again bearing out our management policy focused on the preservation of a comfortable and higher than required level of credit risk coverage. The strict financial soundness policy, followed at all times by Group BES, translated in 2000 in a capital rise from Euro 587 million to Euro 1,000 million carried out in August 2000, which brought in proceeds of Euro 454 million. This fact had a favorable impact on both the Bank of Portugal and BIS solvency ratios, which reached respectively, 9.3% and 11.0% against 9.2% and 10.9% in the previous year:

In the light of the strategic goals of leadership set forth for the New Economy area in Portugal, Group BES is fully committed to integrating in its operations the new Web-based digital technologies, in order to improve in-house efficiency and business relationship with its customer base (individuals and corporate customers).

Over the past year the development of our strategy for the New Economy and electronic commerce gained further consistency within the Group's global strategy. BES.Com acted as a Group extension to carry forward the goal we had set out to reach: ensuring a pioneering and leading role in the incorporation of the new technologies in the business model of financial services in Portugal.

As far as electronic services to individual customers are concerned, we should emphasize the excellent acceptance of BESnet, translated in the number of users, which totalled more than 135,000 at the end of the year, and placed BES considerably ahead of its competitors as leader of the market of online banking users in Portugal. This success has extended to our internet banking service directed to Small and Medium-Sized Enterprises, BESnet Negócios, with an increasing number of customers using this service.

In 2000, Group BES significantly improved its operations abroad.

In Brazil, the partnership with Grupo Bradesco, which started with the assignment of Banco Boavista and the acquisition of 3.25% of Bradesco share capital, is progressing smoothly. The outline of this joint-venture is much wider; however, as it will involve the purchase by Bradesco of 3% of BES share capital, 20% of BESI (Brazil) share capital and 100% of Companhia de Seguros Inter-

Atlântico. Group BES was recently involved in the underwriting of the capital increase of Bradespar, the holding of the Bradesco Organization, which gathers important and diversified interests, and it will control 10% of its capital, with other investors. Our investments in Spain were consolidated through the integration of Benito Y Monjardin and GESCAPITAL in BESSA, BESI and ESAF activities. At international level, other important operations have taken place in 2000, namely, the rise to 19.9% (from 10%) in Kredybank's (Poland) share capital and the acquisition of 100% of the share capital of Espírito Santo Bank in Florida. Both banks have experienced considerable growth, the latter in the private banking area mainly, which is directed to customers of Portuguese origin based in Latin America.

On the side of human resources management and senior staff development, we created a stock-based incentive system (SIBA), an innovating scheme in the Portuguese financial system aimed at motivating and involving the Group's employees. From the start, the universal nature of this system together with its medium-term perspective regarding the employees' involvement with the institution's activity proved an efficient method of keeping hold of the most talented.

Already in 2001, it was announced that Mr. Patrick Marty had been appointed to occupy a position of high responsibility in Group Crédit Agricole. We are being nothing but fair in expressing our gratitude and recognition for his professional

competence and dedication to our institution over a number of years. We would remind that he followed closely the foundation of Banco Internacional de Crédito (BIC), in 1986. Later, though still based in Paris, he maintained close ties with the activities developed by CNCA in Portugal, and accompanied the privatization of BES, actively participating in the executive management of Group BES over the last five years. The whole Group owes much to his highly professional, rigorous and skilled work. To replace Mr. Patrick Marty in the Board of Directors and Executive Committee the nomination of Mr. Patrick Coudéne will be submitted for the approval of the next General Meeting.

It is therefore with a disposition of strong commitment to face the challenges ahead, and supported by the confidence bred out of the results obtained over the last years, that we will pursue in 2001 the always unfinished task of providing Group BES with tougher competitive advantages in an increasingly demanding environment.

We end by expressing the high esteem in which we hold the monetary and financial authorities and the audit board. We would also express our appreciation to our clients, shareholders and employees for their ever-valuable contribution to the progress of Group Banco Espírito Santo.

António Luís Roquette Ricciardi

Ricardo Espírito Santo Silva Salgado



Corporate Bodies



2 Corporate Bodies

2.1 Composition

In light of BES's statute as a public company, its corporate bodies are elected at General Meetings and are located in the Bank's registered office. They are made up as follows:

Table of the General Meeting

| | |
|----------------------|--|
| <i>Chairman</i> | Dr. Carlos Fernando Olavo Corrêa de Azevedo |
| <i>Vice-Chairman</i> | Dr. Eugénio Fernando de Jesus Quintais Lopes |
| <i>Secretary</i> | Dr. José Jácome da Costa Marques Henriques |

Board of Directors

| | |
|----------------------|---|
| <i>Chairman</i> | Comandante António Luís Roquette Ricciardi |
| <i>Chairman</i> | Dr. Ricardo Espírito Santo Silva Salgado |
| <i>Vice-Chairman</i> | Dr. Jean Gaston Pierre Marie Victor Laurent |
| <i>Member</i> | Dr. Mário Mosqueira do Amaral |
| <i>Member</i> | Dr. José Manuel Pinheiro Espírito Santo Silva |
| <i>Member</i> | Dr. António José Baptista do Souto |
| <i>Member</i> | Dr. Jorge Alberto Carvalho Martins |
| <i>Member</i> | Dr. Manuel António Gomes de Almeida Pinho |
| <i>Member</i> | Dr. Yves Henri Camille Barsalou |
| <i>Member</i> | Dr. Aníbal da Costa Reis de Oliveira |
| <i>Member</i> | Dr. José Manuel Ferreira Neto |
| <i>Member</i> | Dr. Manuel de Magalhães Villas-Boas |
| <i>Member</i> | Dr. Manuel Fernando Moniz Galvão Espírito Santo Silva |
| <i>Member</i> | Dr. Jackson Behr Gilbert |
| <i>Member</i> | Sr. Pedro de Mendonça Queiroz Pereira |
| <i>Member</i> | Dr. Patrick Henri Marie Marty-Ané |
| <i>Member</i> | Dr. Jean-Luc Marie Perron |
| <i>Member</i> | Eng. Manuel António Ribeiro Serzedelo de Almeida |
| <i>Member</i> | Dr. José Maria Espírito Santo Silva Ricciardi |
| <i>Member</i> | Dr. Jean-Luc Louis Marie Guinoiseau |
| <i>Member</i> | Dr. Gilles François Gramat |
| <i>Member</i> | Dr. Rui Manuel Duarte Sousa da Silveira |
| <i>Member</i> | Dr. Joaquim Aníbal Brito Freixial de Goes |
| <i>Member</i> | Dr. Francisco Luís Murteira Nabo |
| <i>Member</i> | Dr. Pedro José de Sousa Fernandes Homem |
| <i>Member</i> | Eng.º Ilídio da Costa Leite de Pinho |
| <i>Member</i> | Dr. Herman Agneessens |

Executive Committee (Composition and Areas of Supervision)

Dr. Ricardo Espírito Santo Silva Salgado – Chief Executive Officer – Chairman of the Daily Financial and Credit Committee and ALCO Committee (Assets and Liabilities Committee); Planning and Accounts; Audit and Inspection, Internal and External Communication, Management Information, Asset Management, Espírito Santo Segurança (ESEGUR) and holding BES.Com.

Dr. Mário Mosqueira do Amaral – International, External Transactional Banking, External Branches, Subsidiaries Office, International Holdings and Multinational Companies.

Dr. José Manuel Pinheiro Espírito Santo Silva – Private Banking (Group BES Coordination), Residents Abroad, Financial Consultants and Banco Espírito Santo, S.A. (Spain).

Dr. José Manuel Ferreira Neto – Banco Internacional de Crédito.

Dr. António José Baptista do Souto – Large Companies, Companies and Corporate Specialized Units, Municipalities and Institutionals, Espírito Santo Data Informática (ESDI), Besleasing Mobiliária e Imobiliária and Euroges.

Dr. Jorge Alberto Carvalho Martins – Northern Portugal Branch Network and Northern Companies, Consumer Credit, and Credibom.

Dr. Manuel António Gomes de Almeida Pinho – Group BES Financial Division.

Dr. Patrick Henri Marie Marty-Ané – Lisbon, Central and Southern Portugal, and Islands Retail Network; Mortgage

Dr. José Maria Espírito Santo Silva Ricciardi – Global Risk, Company Monitoring and Credit Recovery and Espírito Santo Cobranças.

Dr. Jean-Luc Louis Marie Guinoiseau – Organization and Quality, Operations and Crediflash.

Dr. Rui Manuel Duarte Sousa da Silveira – Legal and Fiscal Division.

Dr. Joaquim Anibal Brito Freixial de Goes – Strategic Marketing, Direct Banking and e-Business, Human Resources, Training and Competencies Development and Self-Service Network

Dr. Pedro José de Sousa Fernandes Homem – Private Banking (BES) and Coordination of the Madeira Offshore Branch.

Audit Committee

| | |
|--------------------------------|---|
| <i>Chairman</i> | Dr. Jacques dos Santos |
| <i>Executive member</i> | Sr. Rui Barros Costa |
| <i>Official Auditors</i> | Belarmino, Eugénio Ferreira e Associados – SROC, Sociedade de Revisores Oficiais de Contas, representada por Dr. César Abel Rodrigues Gonçalves |
| <i>Deputy Official Auditor</i> | Dr. Belarmino Gonçalves Martins |
| <i>Substitute</i> | Dr. José Manuel Macedo Pereira |

Company Secretary

| | |
|-------------------------|--|
| <i>Secretary</i> | Dr. Eugénio Fernando Quintais Lopes |
| <i>Deputy Secretary</i> | Dr. Paulo António Estima da Costa Gonçalves Padrão |



BANCO ESPIRITO SANTO

From Left to Right

Dr. Jean-Luc Louis Marie Guinoiseau

Dr. José Maria Espírito Santo Silva Ricciardi

Dr. Rui Manuel Duarte Sousa da Silveira

Dr. Manuel António Gomes de Almeida Pinho

Dr. José Manuel Ferreira Neto

Dr. Mário Mosqueira do Amaral

Dr. Ricardo Espírito Santo Silva Salgado

(Chairman)

Dr. José Manuel Pinheiro Espírito Santo Silva

Dr. Patrick Henri Marie Marty-Ané

Dr. António José Baptista do Souto

Dr. Jorge Alberto Carvalho Martins

Dr. Joaquim Aníbal Brito Freixial de Goes

Dr. Pedro José de Sousa Fernandes Homem







Corporate Governance



3 Corporate Governance

The Managing Board of the Portuguese Securities and Exchange Commission approved on 27 October 1999 a set of Recommendations on the Governance of Listed Companies. These recommendations are understood as making up the system of rules and procedures employed in the conduct and control of listed companies, and must be disclosed in the Annual Management Report.

Accordingly, we hereby present the level of BES conformity with these recommendations.

I – Disclosure of Information

1. Sharing of powers within the framework of the corporate decision process

Throughout the Report and Accounts the structure of Group BES, the way it is coordinated and systematized according to its specific business typology, and the table of equity holdings, are presented with a fair degree of detail. Our decision/coordination structures (ALCO, CARC, Global Risk Management, and others) are also referred in connection to the areas to which they relate.

2. Functions of each member of the board of directors and executive management and their positions in other companies

There is a specific chapter dedicated to the governing bodies and entire management

structure of Group BES. We also disclose the positions occupied by members of the Board of Directors in other companies of Group BES, and the areas under the supervision of each of the members of the Executive Committee.

3. Market behavior of the shares

The market behavior of BES shares is given in a specific chapter of the annual report.

4. Dividend policy correctly adopted by the company

The annual dividend distribution, as well as other stock market indicators are presented under a specific point in the report.

5. Shareholder agreements regarding the exercise of rights in the company or regarding the transferability of shares

There is no shareholder agreement bearing on Banco Espírito Santo or on any of the companies in which it has equity holdings and whose shares are listed on the stock exchange regarding the exercise of rights in the company or the transferability of shares.

6. The use of new information technologies for the disclosure of financial information and of preparatory documents for General Meetings

Group BES discloses quarterly, semi-annual and annual financial information (financial statements and brief synthesis of the activity) through the internet (<http://www.bes.pt>).

7. Creation of an investor information department

Group BES ensures the existence of permanent communication with the market, through regular and frequent contacts with the community of analysts and investors within a process of disclosing official and binding management positions. As regards analysts and

institutional investors, this activity is ensured by the Communication (Financial) Management, through the person in charge of this department, Mr. Paulo António Estima da Costa Gonçalves Padrão. Mr. Júlio André – the person responsible for Market Relations with the Securities and Exchange Committee - ensures all other investor relations, as well as the contacts with the authorities and the disclosure of information through announcements or relevant news.

We should also point out that for specific business areas, our investor relations and the disclosure of information to analysts is complemented on a regular basis through the contribution of

Dr. Amílcar Morais Pires
Financial Department, Markets and Surveys
Dr. Manuel José Dias de Freitas
Planning and Accounts Department

II – The Exercise of Shareholder Voting and Representation Rights

8. Stimulating the exercise of voting rights

The possibility of postal votes will be admitted at the Bank's general annual meeting, to be held no later than 29 March 2001, as informed in the notice convening the meeting.

The exercise of voting rights through representation and the form of exercising these rights are also ensured, as in previous general meetings, under the terms set forth in the notices convening these meetings.

9. Development of procedures related to requests for proxy voting

The Bank guarantees the availability of suitable information allowing the shareholder represented to give voting instructions, namely by providing him with the proposals to be submitted to the general meeting, for his consultation.

III – Institutional Investors

10. Responsibilities of institutional investors

11. The duty of providing information regarding the exercise of voting rights

As regards the above recommendations, the Bank's conduct has been the diligent, efficient and critical use of the rights conferred by the securities of which it is the holder or whose management has been entrusted to it.

As to the use of third party rights in the company, the Bank only accepts to do it providing it has previously been given voting instructions by the party represented, subsequently informing this party on the use made of such instructions.

IV – Company Internal Regulations

12. Establishment of specific regulations aimed at regulating situations of conflict of interest between members of the board and the company

The Bank is subject to compliance with the conduct rules specifically applying to its activity, which are set out in the General Law on Credit Institutions and Financial Companies, and in the Code of Conduct prepared by the Portuguese Association of Banks, and as such has no other codes of conduct or internal regulations on this matter.

13. Measures adopted to prevent the success of takeover bids should respect the interests of the company and its shareholders

Neither the Bank nor its shareholders have adopted any measures to prevent the success of takeover bids.

V – Structure and Role of the Board of Directors

14. Adequate number of members in the board of directors

According to this recommendation, the Board of Directors should **(i)** exercise effective control in its guidance of the company; **(ii)** meet at regular intervals; **(iii)** be duly informed at all times; **(iv)** ensure the supervision on the management of the company; **(v)** take into consideration that an excessive number of members may hamper the "desired cohesion" and the contribution of each member; **(vi)** ensure the diversity of opinions and the vitality of the deliberation process; **(vii)** ensure that "all members are present, participate in the discussions and make independent judgements when taking a stand".

BES believes that its Board of Directors as well as each of its members comply with the provisions of this recommendation.

15. The inclusion in the board of members who are independent in relation to the dominant shareholders

This recommendation determines that the composition of the board of directors should be planned so that during the management of the company not only the interests of the group of shareholders with a majority of shares are considered. Independent members should exercise a significant influence on collective decision taking and should contribute

to the development of the company strategy, thereby favoring the interests of the company.

BES Board of Directors has 27 members, only 10 of which occupy identical posts in the majority shareholder's board.

On the other hand, although the Board of Directors was elected on that shareholder's proposal, the isolated election of members by groups of shareholders whose shares represent more than 10% of BES share capital (Art. 322 of the Portuguese Companies Act) is guaranteed.

Under the law and the statutes, there is nothing to prevent any of the appointed members to vote against the majority's decision, or indeed from asking the supervising bodies to examine the deliberations taken, if they consider that these are contrary to the company's and the shareholders' interests.

The meetings are broad-based and widely participated, and all decisions are taken on the members' free will and awareness to the points in question.

16. The composition of the executive committee should reflect the balance existing in the board between directors linked to dominant shareholders and independent shareholders

At BES, the Board of Directors ratifies the deliberations of the Executive Committee, of which it is permanently kept informed.

In so far as Paragraph 5 of Article 404 of the Portuguese Companies Act establishes that the delegation of management powers to an Executive Committee does not exclude the board's power to take its own decisions on

the same issues, even when contradicting those taken by the Executive Committee, it is our belief that the recommended balance and transparency are duly guaranteed.

17. Creation of internal control committees to deal on matters in which there are potential situations of conflict

The Bank has no internal control committees with powers conferred for matters in which there are potential situations of conflict of interests, such as the nomination of directors and managers, the analysis of the remuneration policy and assessment of the corporate structure and governance, these matters being as a rule directly assessed by the shareholders in so far as they are included in the report and accounts.

