



**BANCO ESPIRITO SANTO**

**Annual Report  
2001**



**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 no. 1 607 – Corporate Registration 500 852 367

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

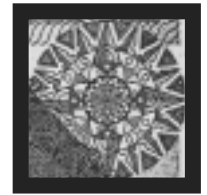
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BANCO ESPÍRITO SANTO



*Dear Shareholders,*

The year ended in December 2001 was characterized at the economic and financial level by a significant deterioration of both the international and the domestic situation, with the economic players' expectations slumping accordingly.

This deceleration was strongest in the USA, traditionally the driver of the world economy. Japan remains plunged in a recession, with GDP contracting by 0.5%. In Argentina, the situation is of a particularly deep economic crisis. In Europe, the latest estimates for Germany, France, Spain and the United Kingdom point to growth rates of respectively 0.7%, 2%, 2.8% and 2.1% in 2001. In Portugal, the economy posted negative growth in the third quarter of the year.

Turning now to the past year, and bearing in mind the challenges we will be facing in the coming years, it is important to recall the contribution given in 2001 in terms of our strategic growth drivers, and the measures taken to tackle an adverse economic situation, while reinforcing Group BES's financial strength.

Net income totaled Euro 197.7 million in 2001, corresponding to a ROE of 15.6%. In this context, the Board of Directors will submit to the BES General Meeting (to be held on March 27, 2002) a proposal for a dividend distribution of Euro 0.376 per

share, payable in full on existing shares as of December 31, 2001.

2001 was a positive year in terms of the commercial and retail banking performance – both in credit granted and in attracting customer funds – and our competitive position came out reinforced across the main business lines.

Loans to individuals exhibited a healthy growth rate (+15%), particularly mortgage credit (+18%), where BES continues to increase its market share. BES corporate centers played a crucial role in developing relations with the SMEs of better risk, making for an increase of 11% in corporate credit, notwithstanding our strict loan granting criteria.

In specialized credit, we should stress the activity of Besleasing (equipment and real estate leasing), Crediflash (consumer credit) and Euroges (factoring), which was largely the fruit of an increasingly coordinated action with the BES and BIC networks. These three companies posted net income growth of respectively 56%, 64% and 36%. Credibom (point of sale consumer credit) also made good progress, with earnings rising by 36% in the reporting year.

On-balance sheet customer funds were up by 17%, a particularly noteworthy result if we bear in mind that it was achieved in a period of lower liquidity in the economy and marked economic slowdown. By surpassing

credit growth, the increase in funding drove the transformation ratio of deposits into credit from 114% down to 110%.

In this context, net interest income grew by 12.3%, on the back of the good progress made by commercial and retail banking, net interest margin having slightly improved in the last quarter.

Fees and commissions on customer services remained flat, which we may consider quite positive in view of the current economic situation. BES customer loyalty was significantly enhanced, the number of products per customer rising from 3.4 to 3.9. For 2005 we have established an ambitious target, to reach 5 products per customer – this will place Group BES in a good position in terms of the equipment rate at European level.

On the other hand, the macroeconomic situation lived in 2001 strongly constrained the capital markets performance, the Portuguese market having been particularly affected, with the PSI 20 index falling sharply. Hence trading results fell by 40.4% over 2000. Underlying this drop, there were significant losses recognized at the equity area, which to some extent were softened by the results achieved through interest rate instruments and the operations carried out on minority lots of Group Tranquilidade shares.

If we exclude trading results, the commercial banking revenue (recurrent activity) displays a positive growth rate of 8.2%.

Operating costs were up 13.9% year-on-year, if considering non-comparable consolidation scopes. If we exclude the effect of new acquisitions and initiatives, the increase falls to 9.6%. The cost to income deteriorated, rising to 58.2%, largely as a result of the contraction in trading results, but also due to the change in the consolidation scope. Still, BES maintains its position amongst the most efficient banks at European level. In this respect, we should also add that important measures were taken in 2001 aimed at curbing costs in the coming years. The rationalization plan announced at the beginning of 2001 progressed at a good pace, 372 employees having retired during the year.

In this respect, we cannot but stress the impact of rationalization in terms of increasing responsibilities with pension funds and corresponding funding: in 2001 the contributions to BES pension funds totaled nearly Euro 220 million, of which Euro 100.6 million came out of reserves, with the Bank of Portugal's approval. This negative variation in assets, apart from reflecting on income tax, also caused a reduction in regulatory capital, therefore impacting on solvency ratios. At the end of the year the Group's pension funds (BES, BIC and other subsidiaries) reached total capitalization of Euro 926 million.

Within our rationale of ever-increasing operating efficiency and organizational streamlining, the completion in the last quarter of 2001 of the project involving the

integration of BES and BIC operating platforms deserves a special word, as it will afford significant gains in terms of both institutions' operating processes, investments in IT and internal processes.

The importance of direct channels as a means of carrying out low value added transactions was also greatly enhanced in 2001 (now accounting for 77% of the total). This was decisive in raising branch efficiency, if for no other reason because it permitted to release resources to commercial activities. The progress achieved in this area is perfectly aligned with the development of the multichannel strategy pursued by the Group. In this respect, our clear leadership in internet banking deserves special mention, as translated by the number of customers using electronic channels: 367 thousand individual customers and more than 13 thousand corporate customers, corresponding to penetration rates in the customer base with no parallel in Portugal, respectively 28% and 26%. In the past year BES was distinguished with the award for the "Most Digital" company in the Portuguese market, a joint initiative of Accenture and *Diário Económico*.

Within the scope of its partnership with Portugal Telecom, BES increased its stake in PT Multimédia from 3.04% in 8.13% by subscribing to its last capital increase and accepting to swap PTMCom for PTM shares.

Still in what concerns our activity in Portugal, we should also refer the launch in May 2001

of the PMELink, an online business center aimed at small and medium enterprises that resulted from a joint venture with Portugal Telecom and Caixa Geral de Depósitos. With 14,000 companies registered, and turnover of around 25,000 euros per day, this project is performing in line with expectations. June saw the start-up of Banco BEST, 66% owned by Group Banco Espírito Santo and 34% by Portugal Telecom, a customer centric institution focused on asset management that offers the best products and services available in the market.

Turning now to the financial strength, BES continued to display high levels of performance, with a solvency ratio in 2001 of 10.8% (BIS criteria) and 9.3% (Bank of Portugal criteria).

Asset quality continued to improve when compared to the previous year, remaining at very comfortable levels. The ratio of overdue loans (over 90 days) dropped to 1.5% (1.66% in 2000), the coverage ratio by provisions rising to 161.1% (155.3% in 2000). BES reaches the end of 2001 with some of the best rating classifications assigned to Portuguese private banks.

The Board of Directors approved this year and will submit to the General Meeting the creation of an Audit Committee at the level of the Board of Directors whose functions will be independent from the Executive Committee. Group BES's internal and external auditors will report to this Committee. This initiative is part of a new



Corporate Governance philosophy that we intend to implant, i.e., in line with the best international practices set on emancipating auditing from executive functions.

On the international front, we should highlight the integration of our three units in Spain – BESSA, Benito Y Monjardin and Espirito Santo Gestión – which are now operating from a single building, in Madrid. This integration will afford visible cuts in terms of operating costs. In France, the absorption of Via Banque by Espirito Santo et de la Vénétie and the integration of their operations were successfully completed, and should also have an impact in terms of reducing costs.

In Brazil, the partnership with Group Bradesco, started with the acquisition of 3.25% of its share capital, is proceeding smoothly. Bradesco currently has a 3% stake in BES share capital, as foreseen in the agreement between the two institutions. BESI Brasil has been most successful in the development of its business, particularly in the capital markets, treasury and advisory areas (Mergers and Acquisitions, Project Finance), having in 2001 ranked first among equity placers in the Brazilian market.

In Poland BES subscribed the capital increase of Kredyt Bank, maintaining its holding at 19.86%. This Bank continues to progress with great dynamism.

The General Meeting held on December 31, 2001 approved a new BES capital increase, from Euro 1,000 million to Euro 1,500 million. This capital increase comes as a sequence to the strategy we have pursued since the privatization, of endowing BES with the adequate means required by its sizeable expansion, and on the other hand it will permit to reinforce capital so as to meet the investment needed in the rationalization effort.

On the side of human resources management and the advancement and participation of all Group BES employees, we pursued this year our share allocation plan – the stock-based incentive system (SIBA) – allocating 0.9% of BES share capital to the entire staff of all the Group organizations.

We end by expressing the high esteem in which we hold the monetary and financial authorities and the audit board. We would also like to convey our appreciation to our clients, shareholders and employees for their priceless contribution to the progress of Group Banco Espirito Santo.

***Ricardo Espirito Santo Silva Salgado***  
***António Luís Roquette Ricciardi***

# Corporate Bodies and Qualifying Stakes

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BANCO ESPIRITO SANTO



## 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. Their present composition for the 2000-2003 four-year mandate is as follows:

### GENERAL MEETING

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

### BOARD OF DIRECTORS

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

NOTE: Mr. Pedro de Mendonça Queiroz Pereira, who had also been elected a member of the Board of Directors, handed in his resignation to the post in 2001. A request for his resignation to be registered has meanwhile been filed in the Lisbon Registrar of Companies.

## EXECUTIVE COMMITTEE

Ricardo Espírito Santo Silva Salgado – Chief Executive Officer  
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

## AUDIT COMMITTEE

Chairman	Jacques dos Santos
Executive Member	Rui Barros Costa
Official Auditors	Belarmino, Eugénio Ferreira e Associados — SROC, Sociedade de Revisores Oficiais de Contas, represented by César Abel Rodrigues Gonçalves
Deputy Official Auditors	Belarmino Gonçalves Martins
Substitute	José Manuel Macedo Pereira

## COMPANY SECRETARY

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







**BANCO ESPÍRITO SANTO**

*From Left to Right*

Joaquim Anibal Brito Freixial de Goes

António José Baptista do Souto

José Maria Espírito Santo Silva Ricciardi

Rui Manuel Duarte Sousa da Silveira

Patrick Gérard Daniel Coudène

Mário Mosqueira do Amaral

Ricardo Espírito Santo Silva Salgado  
(Chief Executive Officer)

José Manuel Pinheiro Espírito Santo Silva

José Manuel Ferreira Neto

Manuel António Gomes de Almeida Pinho

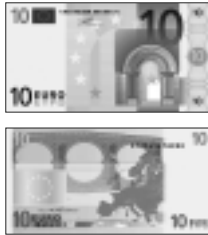
Jorge Alberto Carvalho Martins

Jean-Luc Louis Marie Guinoiseau

Pedro José de Sousa Fernandes Homem







## 2.2 – Shareholdings of the Members of the Corporate Bodies

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

### **António Luís Roquette Ricciardi**

At the start of the year owned 50,000 BES shares and BES/Cabaz DSL 2003 bonds.

On 28.02.2001 purchased BES – Cabaz 2003 bonds for euro 50,000.

On 04.05.2001 purchased Espírito Santo Investment PLC bonds for euro 50,000.

On 15.06.2001 purchased Espírito Santo Investment PLC/7.5% bonds for euro 100,000.

On 09.11.2001 sold the Espírito Santo Investment PLC bonds for euro 50,000.

On 07.12.2001 subscribed to BES – Cabaz 2004 bonds for euro 50,000.

On 31.12.2001 held 50,000 BES shares; BES/Cabaz DSL 2003 bonds in the amount of euro 26,000; BES – Cabaz 2003 bonds in the amount of euro 50,000; Espírito Santo Investment PLC/7.5% bonds in the amount of euro 100,000 and BES – Cabaz 2004 bonds in the amount of euro 50,000.

### **Ricardo Espírito Santo Silva Salgado**

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

The number of securities held did not change during the year.

### **Mário Mosqueira do Amaral**

At the start of the year owned 14,067 BES shares; 1 share of Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A. and 20 shares of Fiduprivate – Sociedade de Serviços, S.A..

On 28.02.2001 purchased BES – Cabaz 2003 bonds for euro 100,000.

On 31.12.2001 held 14,067 BES shares; 1 share of Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A.; 20 shares of Fiduprivate – Sociedade de Serviços, S.A. and BES Cabaz – 2003 bonds in the amount of euro 100,000.

### **José Manuel Pinheiro Espírito Santo Silva**

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

The number of securities held did not change during the year.

### **António José Baptista do Souto**

At the start of the year held 71,130 BES shares.

On 12.01.2001 sold 10,000 BES shares for euro 175,678.05 and on 06.03.2001 sold a further 5,000 BES shares for euro 89,142.56. On 17.09.2001 purchased 5,000 BES shares for euro 59,013.94. On 02.10.2001 sold 4,783 BES shares and on 03.10.2001 sold a further 217 BES shares for, respectively, euro 61,812.44 and euro 2,797.02. On 29 October sold 5,000 BES shares for euro 69,587.54.

On 31.12.2001 held 51,130 BES shares.

### **Jorge Alberto Carvalho Martins**

At the start of the year owned 12,016 BES shares.

On 31.12.2001 held the same number of shares.

### **Manuel António Gomes de Almeida Pinho**

At the start of the year held 11,384 BES shares.

On 31.12.2001 held the same number of shares.

### **Aníbal da Costa Reis de Oliveira**

At the start of the year held 70,529 BES shares and 5,000 BES/Índices Mundiais bonds.

On 24.08.2001 subscribed to BES – Euribor bonds for a total amount of euro 25,000.

On 19.09.2001 the BES/Índices Mundiais bonds were redeemed at par.

On 27.12.2001 subscribed to BES – Euribor bonds for euro 25,000.

On 31.12.2001 held 70,529 BES shares and BES – Euribor bonds for a total amount of euro 50,000.

### **José Manuel Ferreira Neto**

At the start of the year held 56,167 BES shares.

On 05.06.2001 sold 10,000 BES shares for euro 159,478.56; on 30.10.2001 sold 2,792 BES shares for euro 39,134.55 and on 31.10.2001 sold a further 7,208 BES shares for euro 99,856.28.

On 31.12.2001 held 36,167 BES shares.



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**Manuel de Magalhães Villas-Boas**

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At the start of the year owned 384 BES shares.  
On 31.12.2001 held the same number of shares.

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**Manuel Fernando Moniz Galvão Espírito Santo Silva**

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At the start of the year held 730 BES shares.  
On 31.12.2001 held the same number of shares.

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**Jackson Behr Gilbert**

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At the start of the year held 710 BES shares.  
On 31.12.2001 held the same number of shares.

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**Manuel António Ribeiro Serzedelo de Almeida**

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At the start of the year held 13,296 BES shares.  
On 31.12.2001 held the same number of shares.

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**José Maria Espírito Santo Silva Ricciardi**

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At the start of the year held 11,000 BES shares.  
On 31.12.2001 held the same number of shares.

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**Jean-Luc Louis Marie Guinoiseau**

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At the start of the year held 11,000 BES shares.  
On 31.12.2001 held the same number of shares.

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**Rui Manuel Duarte Sousa da Silveira**

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At the start of the year owned 11,811 BES shares.  
On 31.12.2001 held the same number of shares.

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**Joaquim Aníbal Brito Freixial de Goes**

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At the start of the year held 11,731 BES shares.  
On 31.12.2001 held the same number of shares.

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**Francisco Luís Murteira Nabo**

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At the start of the year held 800 BES shares.  
On 28.02.2001 purchased BES – Cabaz 2003 bonds for euro 50,000.  
On 07.12.2001 subscribed to BES – Cabaz 2004 bonds for euro 50,000.  
On 31.12.2001 held 800 BES shares; BES – Cabaz 2003 bonds in the amount of euro 50,000 and BES – Cabaz 2004 bonds in the amount of euro 50,000.

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**Pedro José de Sousa Fernandes Homem**

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At the start of the year owned 11,000 BES shares.  
On 04.05.2001 purchased Espírito Santo Investment PLC bonds for euro 50,000.  
On 09.11.2001 sold the Espírito Santo Investment PLC bonds for euro 50,000.  
On 31.12.2001 held 11,000 BES shares.

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**Rui Barros Costa**

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At the start of the year owned 10,672 BES shares and 1,000 BES/9 – Índices Mundiais bonds.  
The number of securities held did not change during the year.

Number of BES shares held as at December 31, 2001 by companies in which persons belonging to the Bank's corporate bodies exercise functions as directors and auditors (no.s 1 and 2, section d) of article 447 of the Commercial Companies Code).

**BESPAR – Sociedade Gestora de Participações Sociais, S.A.**

Held, directly, 83,952,780 shares, corresponding to 41.98% of BES share capital.

## POSITIONS HELD:

- **Ricardo Espírito Santo Silva Salgado**  
Chairman of the Board of Directors
- **António Luís Roquette Ricciardi**  
Vice-Chairman of the Board of Directors
- **Mário Mosqueira do Amaral**  
Member of the Board of Directors
- **José Manuel Pinheiro Espírito Santo Silva**  
Member of the Board of Directors
- **Manuel Fernando Moniz Galvão Espírito Santo Silva**  
Member of the Board of Directors
- **Patrick Gérard Daniel Coudène**  
Member of the Board of Directors
- **José Maria Espírito Santo Silva Ricciardi**  
Member of the Board of Directors

- **Gilles François Gramat**  
Member of the Board of Directors
- **Jacques dos Santos**  
Chairman of the Audit Committee

#### **CRÉDIT AGRICOLE, S.A.**

Held 17,613,140 shares corresponding to 8.81% of BES share capital.

##### POSITIONS HELD:

- **Jean Gaston Pierre Marie Victor Laurent**  
General Manager

#### **PORTUGAL TELECOM, SGPS, S.A.**

Held, directly, 2,800,000 shares, corresponding to 1.4% of BES share capital.

##### POSITIONS HELD:

- **Francisco José Murteira Nabo**  
Chairman of the Board of Directors
- **Manuel António Ribeiro Serzedelo de Almeida**  
Member of the Board of Directors
- **Joaquim Aníbal Brito Freixial de Goes**  
Member of the Board of Directors

#### **ESPÍRITO SANTO FINANCIAL GROUP, S.A. (Luxembourg)**

Held, directly, 641,685 shares, corresponding to 0.32% of BES share capital.

##### POSITIONS HELD:

- **Ricardo Espírito Santo Silva Salgado**  
Chairman of the Board of Directors
- **José Manuel Pinheiro Espírito Santo Silva**  
Vice-Chairman of the Board of Directors
- **António Luís Roquette Ricciardi**  
Member of the Board of Directors

- **Mário Mosqueira do Amaral**  
Member of the Board of Directors
- **Manuel de Magalhães Villas-Boas**  
Member of the Board of Directors
- **Manuel Fernando Moniz Galvão Espírito Santo Silva**  
Member of the Board of Directors
- **Manuel António Ribeiro Serzedelo de Almeida**  
Member of the Board of Directors
- **Jackson Behr Gilbert**  
Member of the Board of Directors
- **José Maria Espírito Santo Silva Ricciardi**  
Member of the Board of Directors
- **Aníbal da Costa Reis de Oliveira**  
Member of the Board of Directors
- **Rui Barros Costa**  
Member of the Board of Directors

#### **EUROP ASSISTANCE – Companhia Portuguesa de Seguros de Assistência, S.A.**

Held 1,641 shares corresponding to 0.00082% of BES share capital.

##### POSITIONS HELD:

- **José Manuel Pinheiro Espírito Santo Silva**  
Member of the Board of Directors

### 2.3 – List of Shareholders of Qualifying Stakes

Information on shareholders of qualifying stakes, as calculated under the terms of article 20 of the Stock Exchange Code and in compliance of section e) of no. 1 of article 6 of the Securities Exchange Commission Regulation no. 11/2000, as amended by Securities Exchange Commission Regulation no. 24/2000.

– **BESPAR, SGPS, S.A.** — holds directly 83,952,780 shares of Banco Espírito Santo, S.A. corresponding to 41.98% of share capital and voting rights.

Under the terms and for the purposes of section b), no. 1 of Article 20 of the Stock Exchange Code, the 6.14% that corresponds to the 12,278,755 shares of Banco Espírito Santo, S.A. held by Companhia de Seguros Tranquilidade-Vida, S.A., a company controlled by BESPAR, SGPS, S.A. is also included in its voting rights.

Under the terms and for the purposes of section d), no. 1 of Article 20 of the Stock Exchange Code, the voting rights of BESPAR, SGPS, S.A. also include a further 0.11% corresponding to the Banco Espírito Santo, S.A. shares that are held by the following members of its corporate bodies:

- Ricardo Espírito Santo Silva Salgado  
(Chairman of the Board of Directors): 130,318 shares;
- António Luís Roquette Ricciardi  
(Vice-Chairman of the Board of Directors): 50,000 shares;
- Mário Mosqueira do Amaral  
(Director): 14,067 shares;
- José Manuel Pinheiro Espírito Santo Silva  
(Director): 20,444 shares;
- Manuel Fernando Moniz Galvão Espírito Santo Silva  
(Director): 730 shares;
- José Maria Espírito Santo Silva Ricciardi  
(Director): 11,000 shares.

Accordingly, 96,458,094 shares, corresponding to 48.23% of the voting rights, are directly and indirectly attributable to BESPAR, SGPS, S.A..

– **CRÉDIT AGRICOLE, S.A.** holds directly 17,613,140 shares of Banco Espírito Santo, S.A., corresponding to 8.81% of equity and voting rights.

– **COMPANHIA DE SEGUROS TRANQUILIDADE-VIDA, S.A.** holds directly 12,278,755 shares of Banco Espírito Santo, S.A., corresponding to 6.14% of equity and voting rights.

– **BANCO BRADESCO, S.A.** holds directly 4,030,871 shares of Banco Espírito Santo, S.A., corresponding to 2.02% of equity and voting rights.

– **PORTUGAL TELECOM, SGPS, S.A.** holds directly 2,800,000 shares of Banco Espírito Santo, S.A., corresponding to 1.4% of equity and voting rights.

The pension funds whose associates are companies of the PT Group and which are managed by Previsão - Sociedade Gestora de Fundos de Pensões, S.A., hold 5,243,164 shares of Banco Espírito Santo, S.A., corresponding to 2.62% of equity and voting rights.

Under the terms and for the purposes of section d), no. 1 of Article 20 of the Stock Exchange Code, the voting rights of PORTUGAL TELECOM, SGPS, S.A. also include a further 0.02% corresponding to 43,602 Banco Espírito Santo, S.A. shares that are held by the members of the PT Group corporate bodies.

Under the terms and for the purposes of sections b) and d), no. 1 of Article 20 of the Stock Exchange Code, the following are also included in the voting rights pertaining to **ESPIRITO SANTO FINANCIAL GROUP, S.A. (Luxembourg)**:

- the voting rights corresponding to 641,685 shares of Banco Espirito Santo, S.A. which it holds directly (0.32% of the voting rights);
- the voting rights corresponding to the shares of Banco Espirito Santo, S.A. held, directly and indirectly, by BESPARGPS, S.A. (whose detail is given above) – via ESFG, S.A. (Luxembourg) holding of 100% of the share capital of Espirito Santo Financial (Portugal), SGPS, S.A., which in turn has a 58.17% stake in the share capital of BESPARGPS, S.A.;
- the voting rights corresponding to the shares of Banco Espirito Santo, S.A. held by members of the corporate bodies of the following companies:

*First:* Espirito Santo Financial Group, S.A. (Luxembourg);

*Second:* Espirito Santo Financial (Portugal) SGPS, S.A., PARTRAN, SGPS, S.A. and Companhia de Seguros Tranquilidade, S.A., the first controlling directly or indirectly the second; the total number of shares held is 1,115,989, corresponding to 0.56% of the voting rights.

- Accordingly, and under the terms of article 20 of the Stock Exchange Code referred above, 98,215,768 shares, corresponding to roughly 49.11 of the voting rights, are directly and indirectly attributable to Espirito Santo Financial Group, S.A. (Luxembourg).



Under the terms and for the purposes of article 448 of the Commercial Companies Code, the shareholders owning at least one tenth, one third or half of the share capital of BES, S.A. as of December 31, 2001 were the following:

Shareholders	No. of Shares	% Share Capital	Voting rights (%)
BESPAR — Sociedade Gestora de Participações Sociais, S.A. (*)	83,952,780	41.98	41.98

(\*) Under the terms and for the purposes of sections b) and d) of no. 1, article 20 of the Stock Exchange Code, a further 6.25% of the voting rights, corresponding to 12,505,314 shares, are also included in BESPAR-SGPS, S.A.'s voting rights.

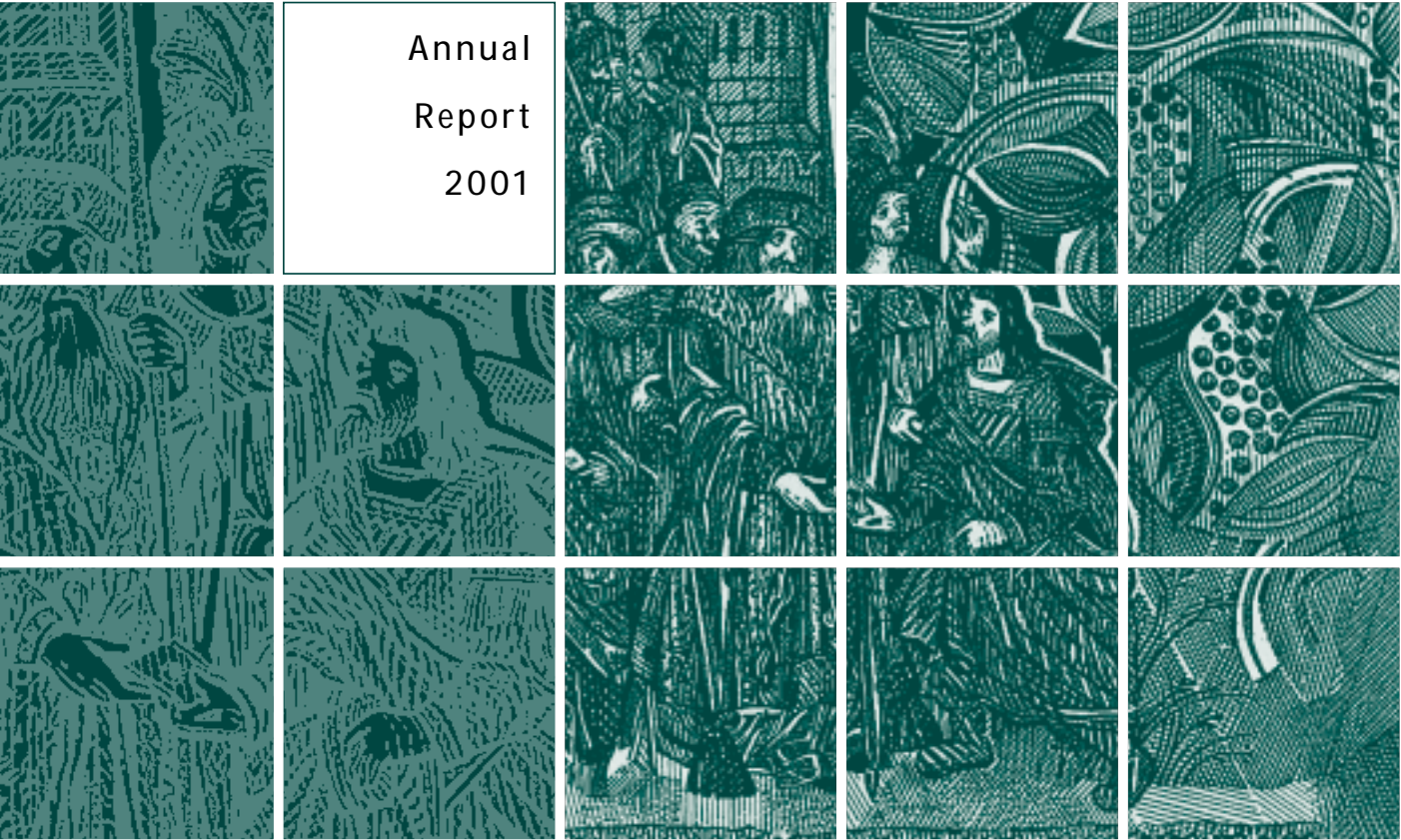
Information on transactions of own securities presented under the terms of article 66 of the Commercial Companies Code.

Transactions of own shares	Number (,000)	Unit Value (e)	Total (10 <sup>3</sup> euro)
<b>Balance at Dec 31, 2000</b>	<b>4,094</b>	<b>17.90</b>	<b>73,283</b>
Transactions during the period			
– Purchases	1,278	16.69	21,334
– Sales	5,372	15.70	84,326
<b>Balance at Dec 31, 2001</b>	<b>0</b>	<b>-</b>	<b>0</b>

According to Bank of Portugal's regulations, own shares in portfolio are deductible to Tier 1 capital for purposes of the solvency ratio. Hence the disposal of these assets aimed at automatically increasing eligible regulatory capital and consequently at improving the respective ratio at both individual and consolidated level.

# Financial Highlights and Business Indicators of Group BES

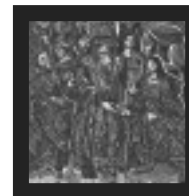
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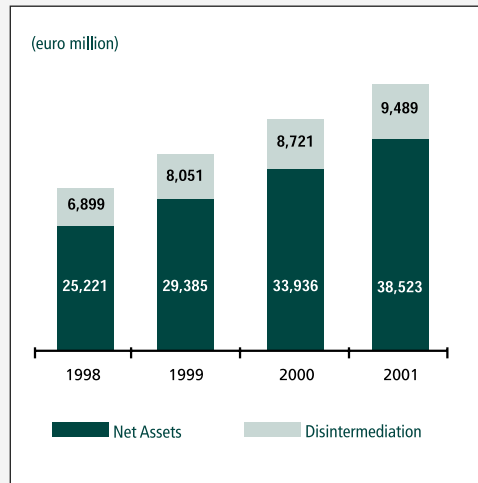
BANCO ESPIRITO SANTO



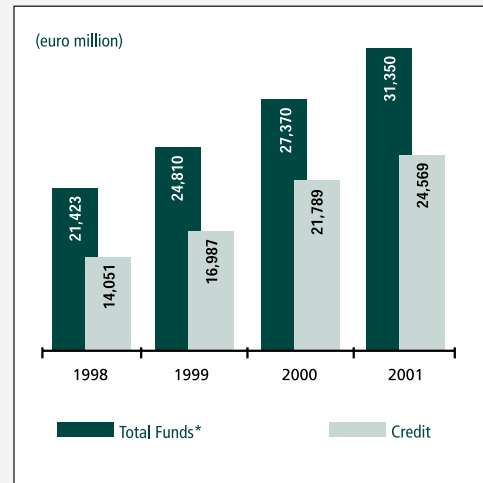
Variables	Symbol.	1998	1999	2000	2001
<b>BALANCE SHEET (euro thousand)</b>					
Total assets (1)	TA	32,120,255	37,445,780	42,657,723	48,011,952
Net assets	NA	25,221,466	29,384,792	33,936,292	38,522,630
Financial assets (average values)	$\overline{FA}$	20,177,492	24,169,331	27,482,577	33,025,468
Capital and reserves (average values)	$\overline{KP}$	831,386	972,047	1,038,967	1,269,571
<b>INCOME STATEMENT (thousand Euros)</b>					
Net Interest Income	NII	482,357	568,999	640,237	718,636
+ Fees and Commissions	FC	273,466	300,266	377,848	382,547
= Commercial Banking Revenues	CBR	755,823	869,265	1,018,085	1,101,183
+ Capital Markets Results	CMR	150,278	160,643	210,966	125,847
= Operating Banking Revenues	BR	906,101	1,029,908	1,229,051	1,227,030
+ Extraordinary Results	XR	3,656	58,315	9,286	-11,421
- Other Operating Costs	OOC	11,721	55,510	7,376	12,004
= Total Banking Revenues	TBR	898,036	1,032,713	1,230,961	1,203,605
- Operating Costs	OC	499,148	547,197	627,010	714,120
- Provisions and Taxes	PVT	196,022	216,389	321,432	243,390
- Minority Interests	MI	34,507	63,612	54,526	48,386
= Net Profit	NP	168,359	205,515	227,993	197,709
<b>PROFITABILITY (%)</b>					
Net Interest Margin	$NII / \overline{FA}$	2.39	2.35	2.33	2.18
+ Return on Fees and Commissions	$FC / \overline{FA}$	1.36	1.24	1.37	1.16
+ Return on Capital Markets Results	$CMR / \overline{FA}$	0.74	0.66	0.77	0.38
= Business Margin	$BR / \overline{FA}$	4.49	4.26	4.47	3.72
- Weighting of Operating Costs	$OC / \overline{FA}$	2.47	2.26	2.28	2.16
- Provisions and Taxes	$PVT / \overline{FA}$	0.97	0.90	1.17	0.74
- Minority Interests and Other Costs	$(MI+OOC-XR) / \overline{FA}$	0.21	0.25	0.19	0.22
= Return on Financial Assets	$NP / \overline{FA}$	0.83	0.85	0.83	0.60
x Weighting of Financial Assets	$\overline{FA} / \overline{NA}$	0.89	0.91	0.91	0.92
= Return on Assets (ROA)	$NP / \overline{NA}$	0.74	0.77	0.76	0.55
x Placements Multiplier	$\overline{NA} / \overline{KP}$	27.20	27.35	29.01	28.38
= Return on Equity (ROE)	$NP / \overline{KP}$	20.25	21.14	21.94	15.57
<b>EFFICIENCY</b>					
Operating Costs/Total Assets (%)	OC / TA	1.55	1.46	1.47	1.49
Assets per Employee (10 <sup>3</sup> Euro)	TA / NE	4,390	4,859	5,438	5,949
Cost to Income %	OC / BR	55.1	53.1	51.0	58.2
Branches no.	NB	574	608	629	645
<b>RATING</b>					
Short-term					
STANDARD AND POOR'S		A 1	A 1	A 1	A 2
MOODY'S		P 1	P 1	P 1	P 1
Long-term					
STANDARD AND POOR'S		A	A	A	A -
MOODY'S		A 2	A 2	A 1	A 1

(1) Includes disintermediation

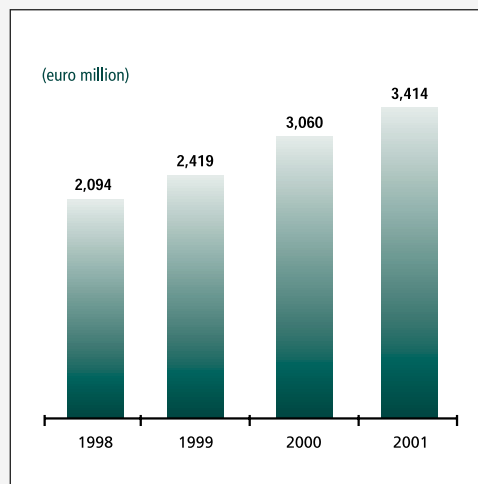
### Total Assets



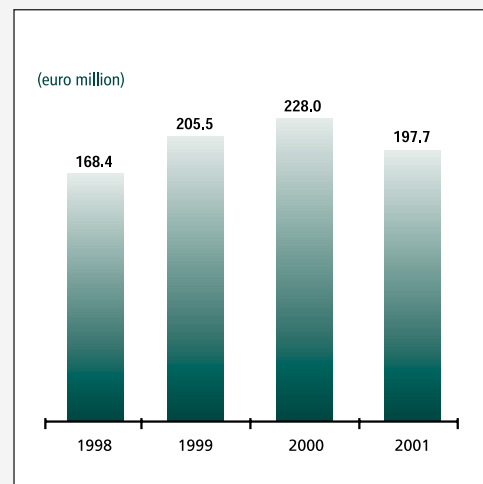
### Customer Loans and Funds



### Regulatory Capital

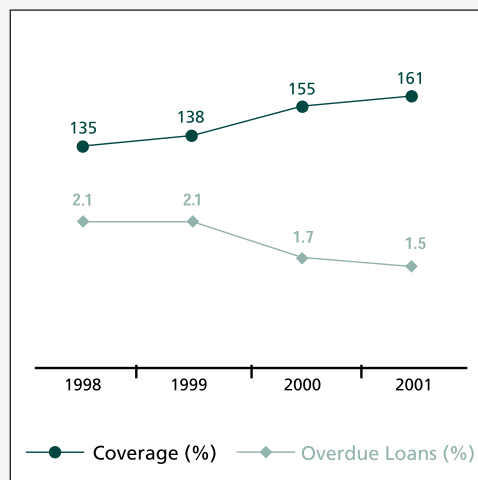


### Net Profit

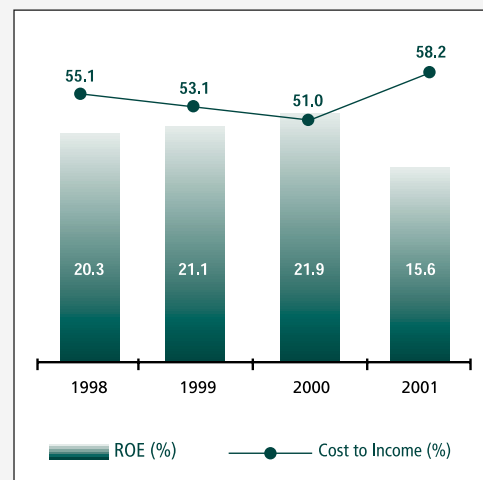


### Asset Quality

#### Overdue Loans (> 90 days) and Coverage Ratios



### Profitability and Efficiency



\* Includes: customer deposits, debt securities and disintermediation



## Per Share Data and Stock Market Indicators

Stock Market Data			2000	2001	$\Delta$ (%) 00 / 01
1. No. of shares outstanding	(thousand)		200,000	200,000	0.0
2. Last price	(euro)		17.90	14.47	-19.2
3. Stock market capitalization	(euro million)		3,580	2,894	-19.2
Consolidated Financial Data					
4. Book Value	(euro million)		1,211	1,206	-0.4
5. Net Profit	(euro million)		228.0	197.7	-13.3
6. Gross dividend	(euro million)		86.4	75.2 <sup>(1)</sup>	-13.0
Per Share Data					
7. Book Value	(euro)	(4/1)	6.06	6.03	-0.5
8. Net Profit	(euro)	(5/1)	1.14	0.99	-13.2
9. Gross Dividend	(euro)	(6/1)	0.432	0.376	-13.0
Price as Multiple of					
10. Book Value	PBV	(2/7)	2.95	2.40	-
11. Net Profit	PER	(2/8)	15.70	14.62	-
Price Return on					
12. Net Profit	(%)	(8/2)	6.37	6.84	-
13. Dividend	(%)	(9/2)	2.41	2.60	-

<sup>(1)</sup> Proposal submitted to the Annual Shareholders Meeting of March 27, 2002

# Strategic Guidelines of Group Banco Espírito Santo

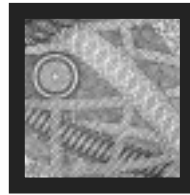
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BANCO ESPIRITO SANTO



## 4.1 – Strategic Basics

Giving satisfaction to the different players – Customers, Shareholders and Staff – that impact and determine the Group's activity has been the core element in the management policy pursued since the reprivatization (1992).

Group BES has therefore focused its medium and long-term strategy on four strategic drivers:

- GROWTH – leveraging BES brand and franchise for market share gains;
- ADDED VALUE FOR CUSTOMERS – Maximizing value for the customer by conducting the business based on a relationship marketing approach and on a multi-channel distribution;

– INNOVATION AND EFFICIENCY – drawing on the opportunities created by the digital economy to promote new forms of commercial approach and better productivity levels;

– INTERNATIONALIZATION – sustained and balanced development of the international presence in markets having affinities with Portugal;

As a natural corollary to this set of guidelines is the ultimate goal of achieving sustained and above-average profitability, supported by: a number of measures that will lead to higher profitability levels; a customer segmentation and commercial approach such as set Group BES apart from its competitors; banking on the potential and advantages afforded by the new technologies; constantly improving quality

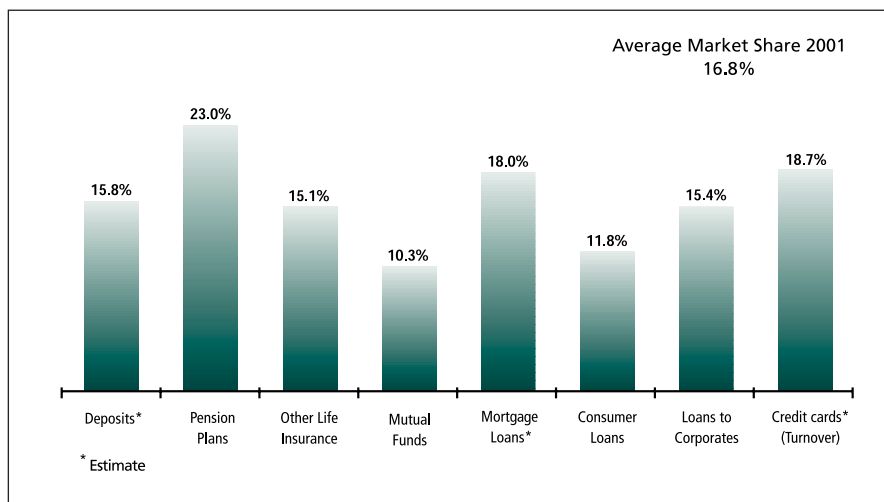
standards; a judicious risk management; and a multi-specialist organizational philosophy.

## 4.2 – Rationalization and Efficiency

Over the last few years Group BES has taken various streamlining initiatives to improve efficiency levels. Specifically in 2001, should be highlighted point out the measures taken to equip the workstations across the branch network with advanced technological capabilities that permit to obtain significant efficiency gains by standardizing and improving the usability of the computer applications available to the different information system users.

The use by all the Group's institutions of shared service units was given a start in June with the launch of Banco BEST, which shares its back office units with BES. In October the BIC systems were finally integrated in BES's system, and since then the two institutions share the same basic information and operating system, with clear advantages in terms of investment and maintenance costs when compared to using two distinct application platforms.

Group BES is thus pursuing the strategy followed in the last few years, i.e., of implementing the operational integration of the various structures to optimize the management of operating resources and means. The newly integrated operating areas will be managed under a single division, thus allowing economies of scale to develop.



## Euro Changeover

At Group BES, the final changeover to the Euro was a process developed throughout the whole year and focused on four fundamental areas:

- i. Converting deposit accounts and all bank products and services from escudos into euros;
- ii. Replacing escudo notes and coins by euro notes and coins (cash changeover);
- iii. Training the staff; and
- iv. Informing the customers and the public in general.

Although most products and services had already been made available in escudos and euros since January 1999, all the contracts expressed in escudos were translated into euros at the end of 2001. After converting, in April 2001, all the accounts of BES's employees, retirees and pensioners, between October and 31 December 2001 Banco Espirito Santo converted its roughly three million deposit contracts, according to the legislation issued on this matter. The conversion of all bank products and services was carried out according to plan, involving the business, organization and information systems areas.

As regards the process of replacing escudo notes and coins by euro notes and coins, the working party set up by the Bank of Portugal, where BES participated, defined three priority areas of intervention:

- a) planning the logistics and delivery of euro notes and coins to the banks and retailers, in close collaboration with credit institutions and security transport firms;
- b) planning the logistics and collection of escudo notes and coins;
- c) planning the process of adapting/converting the ATMs to work in euros, in collaboration with SIBS.

With regard to the ATMs, on 1 January 2002 the Group had prepared its entire internal network of machines (MultiBES) to dispense euros, and approximately 60% of the SIB's network of machines installed in the Bank's branches and in customer premises.

Training initiatives on this matter, already developed in 1998 and 1999, were intensified in 2001. Specifically, the staff having direct contact with the public, at the branches or through telephone banking, were subject to a number of training sessions on the euro.

To prevent the apprehension and uncertainty that such an historic and unprecedented step – a single currency shared by twelve European countries was about to go into circulation – might cause to the customers, a number of communication initiatives were launched in the media (TV, radio and newspapers), as well as through outdoors, mailings, brochures and leaflets (some of these were published by the Bank of Portugal within the scope of its "The EURO – our currency" campaign).

Group BES also participated in information activities on the Euro, carried out in commercial associations, schools and local councils, as well as through special sessions for corporate customers.

In tandem with the initiatives described, BES also expanded the scope of action of the Zero Back Office program. Hence, while at the beginning it merely aimed at eliminating back office tasks in the retail network, it has now been extended to the centralization of operations in the corporate network and the rationalization of central services' processes.

The work developed within the Zero Back Office project in 2001 will permit to implement an important set of measures during the first quarter of 2002 that will yield significant efficiency gains, namely through the dematerialization of paper documents and the application of workflow solutions to mortgage credit and discounts contracting.

As regards securities custody, processes aimed at modernizing and automating this service were implemented and continued to advance in terms of technological and IT developments. This area was also reorganized, adapting functioning flows to the new systems to increase operating efficiency and place BES in a good competitive position at international level.

### 4.3 – Human Resources

Aware that the market increasingly relies on a knowledge-based economy, the Group has embarked on a continuous process of improving its staff's skills and capabilities. With this aim in view and in the pioneering role on

the technological front, the e-learning concept was adopted as the core tool of training and skill development training policy.

In 2001, training based on the e-learning platform occupied 67% of the total days dedicated to training, this process having met with a high level of involvement and participation by the users. Complementarily, a skill certification process based on the same methodology was initiated.

As regards the executive staff, the Group took several steps to create a management policy for executive staff and to develop the concept of being an executive working for Group Banco Espírito Santo. Among others, the measures taken were concerned with the following:

- Planning and implementing a Group-wide job induction rationale whereby new employees pass through and gain experience in different group companies according to the functions they will be carrying out;
- Implementing a performance-management process for all the executives of all the companies;
- Making monthly meetings of the Human Resources Committee attended by all the persons in charge of human resources across the Group, to facilitate synergies in this area and the harmonization of policies.

The work developed so far has been crucial in the pursuit of these objectives, and has made it possible to accomplish the mission established: to attract, motivate and retain talent.

Finally, in what concerns the advancement and participation of all Group BES employees, was pursued this year the share allocation plan – the stock-based incentive system (SIBA) – allocating 0.9% of BES share capital to the entire staff of all the Group organizations.

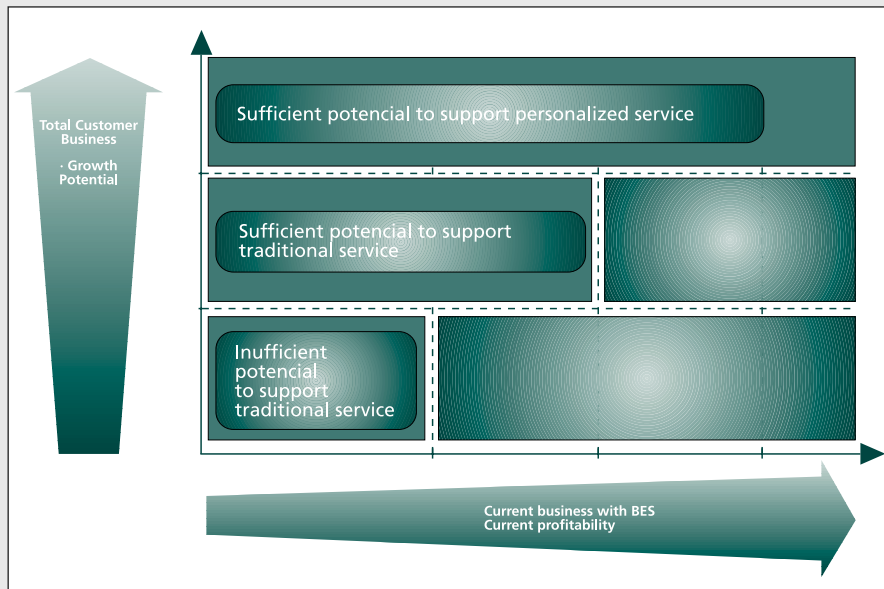
## 4.4 – Basis of Commercial Performance

### 4.4.1 - Segmentation

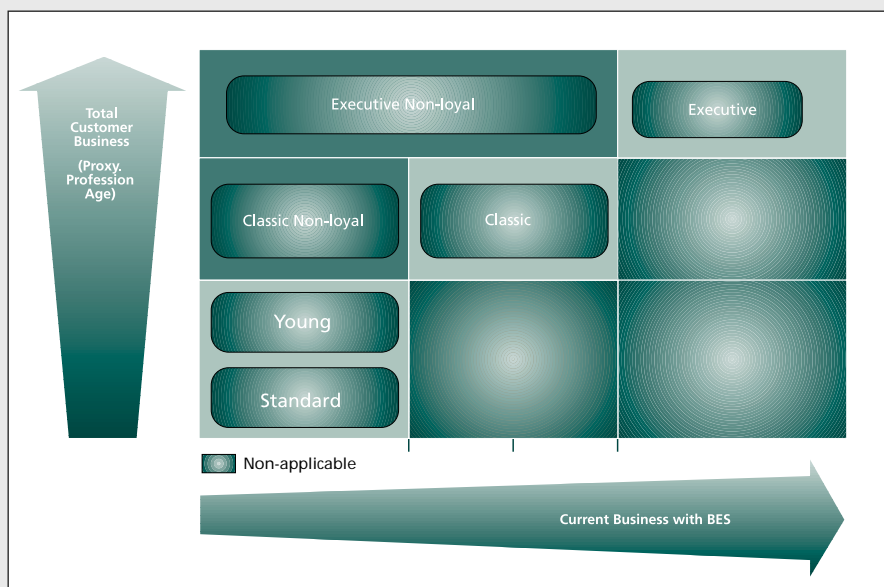
As a multi-specialist organization, Group BES has defined its business strategy according to the specific needs and desires of the different customer segments. Hence, to maximize the effectiveness/efficiency of the relationship with the customer through the right channel, with the right product, the segmentation model used is a cornerstone in the definition of the marketing strategy. BES's customer segmentation is as follows:

- Large corporates
- Medium-sized companies
- Private Banking
- Retail (includes small companies)

### Customer Potential



### Segmentation Around Two Axis for Individuals (Current Business Done With the Bank and Total Customer Business)



More than six years after the implementation of the retail organization model – the Excellence Project – new challenges arise that the Group has to face in order to maximize profitable business growth against a climate of aggressive competition.

It was against this context that the Proximity Banking Project was developed during the second half of 2001 and implemented in December, at the retail level. This project developed a new segmentation model based on the existing data concerning the customers. Under this model all retail customers are classified according to the following two parameters, which represent the customer's value:

- The current value that the customer brings to BES.
- The customer's current degree of loyalty, as represented by BES's share of his total financial assets.

This new segmentation model necessarily called for a new commercial approach model that privileges the dedication of resources to higher-value customers. This shift in the commercial approach model in turn translated into a new sales and commercial dynamics, naturally implying a new organization model at branch level.



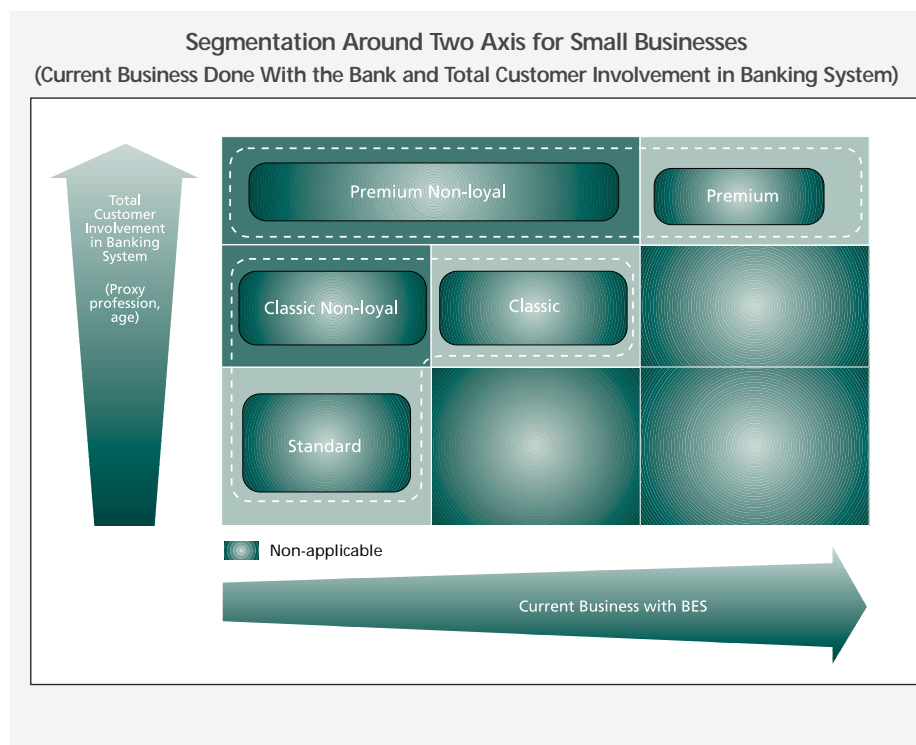


In a word, the Proximity Banking Project will permit to fine-tune the commercial approach to the retail customer through:

- a differentiated commercial approach to the affluent customer segment, based on a sales force specialized in financial advice and oriented towards value creation;
- greater standardization in the approach to mass customers, seeking to maximize the number of products sold to each customer through a dynamic cross-selling policy;
- the reduction in the transactional flow to the branches, using current account packages that stimulate the transfer of low added-value operations to automatic channels; and
- the development of a multi-channel approach oriented to the relationship with the customer and aimed at maximizing his value.

#### 4.4.2 - Digital Economy and Internetization

During the past year the Group made further progress in the multi-channel distribution strategy, with particular emphasis on direct banking areas. The different actions developed through direct channels permitted a more effective response to demand for convenience of use, availability and high quality service, on the one hand, and to the permanent need to obtain efficiency gains, on the other.



The bet on the massified use of direct channels allowed the Group to develop initiatives that permitted to externalize a very significant part of low-value operations out of the branches and to exploit the cross-selling opportunities arising from the customers' increasing interaction with the different channels. The branch network is thus more and more oriented towards providing high added-value services – sales and financial advice – within an increasingly segmented commercial approach.

The wisdom of the strategic orientation in this field has been recognized by the market, as proven by the awards that distinguished BES's performance in 2001: that of "2001 Most

Digital" company, and the JETnet 2001 (BES had already been awarded the JETnet 2000).

Throughout the year BES kept enriching the transactional and commercial functionalities available to individual customers, offering them a fully remote management solution for their financial needs. BESnet ended 2001 with 367 thousand customers, of which 188 thousand are frequent users. This is thought to represent a share of nearly 30% of the online banking market in Portugal – again confirming Banco Espírito Santo's clear leadership in this area. Noteworthy is also the fact that the number of frequent BESnet users has for the first time surpassed that of BES Directo (telephone banking) users.

The customers' wide acceptance of this channel is shown by the number of logins to the service – more than 5 million this year. Service levels (up-time and efficiency) deserved particular attention and, taking as

a reference the value of 98%, BESnet became a benchmark in the market.

By making available the full range of low value-added transactional operations

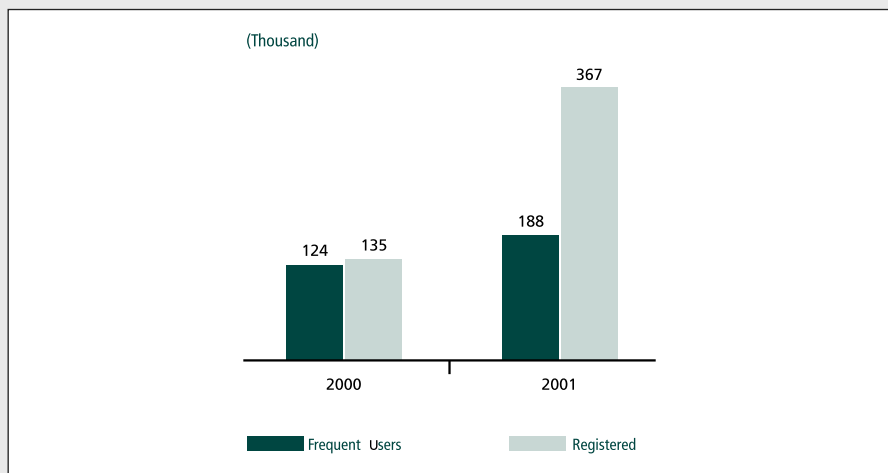
(transfers, payment of services and checkbook requests) BESnet gave a strong contribution to the externalization of these operations – which reached 10% of the total. This shows that BESnet has become a firmly-established reality in the customers' relationship with the Group. Also worth mentioning is the fact that 49% of all stock exchange orders given this year were executed through BESnet.

The fast growth in the number of customers was only made possible through the full involvement of the branch network in the presentation, demonstration and proactive sale of this service.

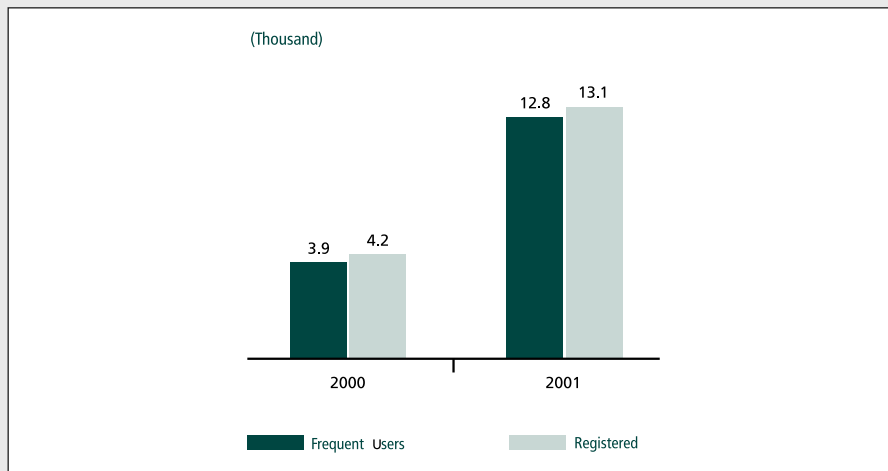
As a quality benchmark in the provision of services by the Group, with customers showing a high level of satisfaction, BESnet pioneered the introduction in Portugal of a price schedule for bank operations carried out through this channel. This is a trend already observed at international level, and no negative impacts were perceived either in the growth pace of users or in the level of service utilization.

In turn, the number of companies using the BESnet Negócios service (Internet banking for companies) continued to grow at a fast pace, reaching 13 thousand companies at the end of the year, i.e., a penetration rate in Group BES's corporate customer base of 26%.

**BESnet – Evolution of Number of Clients**



**BESnet Negócios – Evolution of Number of Clients**





The new BESnet Negócios application was launched in September, fully supported by the multi-channel rationale. This permitted to significantly expand this value proposal in terms of the basic functionalities available to both SME and Large Companies. The payment of salaries and suppliers and electronic transfers are some of the innovating functionalities introduced, of high-value for the companies and enhancing process efficiency.

As happened with the online service for individual customers, a price schedule for the BESnet Negócios service was also successfully introduced.

2001 also confirmed the role of telephone banking (BES Directo) in the relationship with the customers, now in a stage of maturity. Despite the increasing migration of customers to BESnet, those actively using this service continued to grow significantly, reaching 181 thousand at the end of the year, with 2.7 million inbound calls. The fact that since August it became mandatory for customers to identify themselves when using this service, and that the price of a personalized service discourages its use, permitted to leverage the use of the automatic service. This should permit to reduce the Call Center's staff costs by roughly 15% next year.

At the same time, and linked to TV Cabo Portugal's launch of interactive TV in July of this year, Group BES again showed its pioneering role, making available a new channel for remote relationship with its customers.

EasyBES, an initiative launched in partnership with Bankinter, relies on a remote relationship model that offers the customers the logistics functionalities and services that meet their needs without them having to go physically to the bank.

#### **4.4.3 - Service Quality**

Group BES continued to implement the new cycle of service quality guidelines initiated last year, as a distinguishing feature of both its activity in the market and in customer preference.

Aware of this fact, quality service management focused on five crucial aspects: service recovery, monitoring the customer's experience, customer service, the internal service chain and the incentives scheme.

In 2001 Group BES gave decisive steps in the implementation of a service recovery system. Having further centralized complaint management, BES now has a team that responds in an integrated fashion to the complaints originating from the retail network, direct channels, corporate centers and private banking.

Complaints represent significant incidents with potentially negative consequences on the customers' relationship with their bank, but, on the other hand, they also represent opportunities to prove to the customers the bank's determination and commitment to service excellence.

The creation of a Customer Satisfaction Line permitted to facilitate the complaint process, by phone and e-mail, through a permanent dedicated line to receive and acknowledge the customers' complaints or dissatisfaction.

Another key benefit brought by this centralized response to complaints was the establishment of a unified vision of the main problems that affect the operating and distribution processes. Today, the failure database, which is classified and accessible to all the organic units, constitutes an indispensable asset for the continuity of the cross-section process of improving quality service.

Though still quite recent, the actions taken have already yielded results that are clearly perceived by the customers, who, in independent surveys, elect BES amongst the best in service failure recovery. The quality of the service provided by the branch network and the BESdirecto telephone service agents continues to be one of the critical elements of the value proposal.

The introduction in 2001 of a set of quality indicators in the organic units' incentives systems, from the commercial network to the central support and operating services, was one of the most important measures taken by the Executive Committee within the new framework of total quality policy. Today, quality service weighs more in the organization's incentives systems than any other operating, efficiency or commercial factor. Still in this context, a customer

service excellence award has been set up to distinguish the branches and corporate centers that reach superior levels of customer satisfaction.

#### 4.4.4 - Communication and Image

For Group BES, communication is the blueprint of its identity, translated into a strategic asset that builds up and strengthens the relationship with the market and the customers – the BES brand. Hence one of the goals for 2001 was to consolidate a brand whose features are differentiating, strong and aligned with strategic guidelines.

Boasting a strong position in this field – in quantitative terms BES ranks first in brand awareness amongst Portuguese private banks (BASEF/Banca 2001 data) – in 2001 BES committed itself to the qualitative side of consolidating a communication territory – the BES brand DNA blueprint and its intrinsic values, which are capable of sustaining differentiation and are aligned with the Bank's vision and mission.

The brand's most distinguishing features – permanence, longevity and solidity – synthesized in the concept of “knowing how to do”, led to an association of these values under what was designated as “knowledge territory”. A new signature thus emerged, legitimated by 130 years of experience, which was launched through the first institutional film since the reprivatization. This signature provided the motto for the communication that followed during the rest of the year.

Besides building up and consolidating the BES DNA, the next priority went to communication actions effectively supporting commercial action. BES invested with a view to obtaining a commercial return, in the belief that the communication policy impacts, in a virtuous cycle, the market, the customer and the internal customer.

On the quantitative communicational front, BES witnessed a significant improvement in campaign effectiveness indices (Publivaga, Markttest). The qualitative analysis is equally positive, with three films ranking in the Top 10 of Satisfaction and Recall (financial services advertising).

As to the organizational side, it must be pointed out the full adoption of an integrated approach concept to the communication function that permits to take consistent action across the board – internal communication, corporate identity and brand management, advertising, financial communication, sponsorships and public relations – and is in turn mirrored in the coordination of competencies and structures at Group level. Also worth mentioning is the high level of coherence/consistency achieved in the various communicational areas between the offline and the online, bearing in mind that non-traditional means are increasingly influential in the transmission of images and in the creation of image elements.

#### 4.4.5 - Social Responsibility

As a benchmark institution in the Portuguese financial system and one with a particularly

strong association to the values of “Portugueseness”, Group BES is fully aware of its social responsibility and its duty to contribute towards the country's economic, social and cultural development.

This attitude has taken shape through the patronage and support given to various cultural and sports activities, where the role as main sponsor of the Ricardo Espírito Santo Silva Foundation and patron of welfare institutions such as the Novo Futuro Association and Acreditar is of a particular importance.

“Novo Futuro – Associação de Lares e Famílias para Crianças e Jovens” (providing a home and a family to children and young people) has since 1998 developed a number of fund raising activities targeted at Portuguese private individuals and companies to help the more needy children. Group BES joined this Association as a benefactor and donor – the most recent example is the fund raising campaign, “Last Escudos”.

The support given to the “Associação dos Pais e Amigos das Crianças com Cancro – Acreditar”, to build a home for children who, though having cancer, may be treated out of hospital, and for their families, was a particularly significant project undertaken by the Group in 2001.

As a sponsor, also worth mentioning is the support given to the Ricardo do Espírito Santo Silva Foundation (FRESS). With a Portuguese Decorative Arts Museum-School, the foundation hosts some of the most important and consistent art collections that exist in Portugal in painting,



furniture, silver, porcelain and tiles. FRESS has eighteen workshops that train craftsmen in the traditional arts of woodcarving and inlaying, artistic metalwork, bookbinding and decoration, decorative painting and furniture restoration, providing an ideal environment to promote new Portuguese talent.

Along the same lines, BES provided financial help to the Ajuda Palace, sponsoring the restoration of the King's Atelier (presently the D. José chamber), which was completed in 2001. Considered one of the palace's most beautiful rooms, this chamber is now used to receive high foreign dignitaries that visit our country.

In the musical arena, we note the annual contribution given to RDP since the first edition of the "Young Musicians Award" whose purpose is to select and reward young talents.

Sponsored by the Group, the International Medical Association (AMI) established a journalism award, the "AMI Award – Journalism against Indifference" that since 1998 rewards a piece of journalistic work disclosing intolerable situations otherwise concealed under the indifference of public opinion and established powers.

Also concerned with the field of research, BES has since its first edition lent its name to the "Banco Espírito Santo Rheumatology Award", which every year rewards the best work in research and scientific progress carried out by general practitioners in the field of rheumatology.

The links to the universities assume particular importance in this context of social awareness, reflecting the Group's continuous commitment to training and educational issues. A number of protocols with the best Portuguese universities were signed, also developing several initiatives to help students in the beginning of their studies and when starting working life. The Awards for Best Pupil in the areas of Management, Taxation and others are some of the initiatives through which BES seeks to recognize the merit and show confidence in the future managers of our economy.

Equally important are the study grants awarded not only to universities but also to other levels of education, namely to AR.CO, and the support to a vast program of remodeling premises and teaching programs.

Recently, BES has agreed with the Ilidio Pinho Foundation – an organization that promotes scientific development as a factor for human development – to set up a partnership aimed at creating a Program of Study Grants to be awarded to higher education students taking their degree in Portugal.

#### 4.5 – Multispecialist Perspective

The multispecialist dimension in the Group's organization and commercial strategy has exposed a number of benefits that crystallized against a context of decelerating economic growth and rising uncertainty.

The year now ended thus confirmed the wisdom of having in good time built up a

multispecialist philosophy associated to a universal banking rationale, which over the time has permitted to strengthen cross-selling and up-selling to BES current customer base. In this respect the target set for the year, of reaching 3.8 products per customer was exceeded. In the current economic environment diversifying revenue sources plays a crucial role in sustaining the increase in revenues, and hence in profitability, and for this reason multispecialization will continue to be the keynote of Group BES's practice and discourse.

#### 4.5.1 - Corporate and Retail Banking

From the standpoint of multispecialization, the approach to the individual customer segment made remarkable progress last year.

In the area of residents abroad was reinforced the proactive commercial action undertaken by the representation offices, in close collaboration with the domestic network. The commercial strategy defined for retail, where the campaigns on the integrated savings management should be highlighted, gave a decisive contribution to this performance by introducing products that are quite aggressive for this segment.

Within the scope of this new approach to retail, the post of regional manager of residents abroad in the Regional divisions where emigration is more important, was created as well as a remote relationship central service to monitor customers that are emigrants in countries where the Group is not present.

Group BES Specialization							
Entity	Activity	Market	Business Area / Segment				
			Individual Customers and Emigrants	Large Customers and Private	SMEs	Large Corporates and Institutional Clients	Money and Capital Markets
BES	Banking	Portugal	→	→	→	→	→
BIC	Banking	Portugal	→	→	→		
BESI	Banking	Portugal Brazil				→	→
BEST	Banking	Portugal	→	→			
BESSA	Banking	Spain	→	→	→		
BESOR	Banking	Southeast Asia			→	→	→
ES BANK	Banking	USA Latin America	→	→	→		
BES VÉNÉTIE	Banking	France	→	→	→		
ESAF	Asset Management	Portugal Spain	→	→	→	→	
ES GESTION	Asset Management and Brokerage	Spain	→	→	→	→	
ES DEALER	Brokerage	Portugal					→
BESLEASING	Leasing	Portugal			→	→	
EUROGES	Factoring	Portugal			→	→	
CREDIFLASH	Credit / /Debit Cards	Portugal	→	→	→	→	
CREDIBOM	Point of Sale Credit	Portugal	→	→			
ES SEGUROS	Non-Life Insurance	Portugal	→	→			
ES CAPITAL	Venture Capital	Portugal			→	→	
BES.com	e-business	Portugal	→	→	→	→	
ES FINANCIAL CONSULTANTS	Advisory	Europe America	→	→			

As to the private banking segment, the approach was enhanced, developing and undertaking a number of measures aimed at guaranteeing the segment's sustained growth. The private banking customer portfolio was further segmented and these customers' differentiated needs in terms of products and services were identified with precision. This permitted to strengthen the product range from the standpoint of diversification and specialization, and to offer customers, at every moment, the best there is in the domestic and international markets.

By gradually redefining the image and layout of spaces reserved for private banking customers, the enhanced specialization in the approach to this segment should be recognized and perceived. It should be stressed that this segment is covered in the entire country, with local customer service centers and managers specializing in selling private banking products and services, supported online by all the technical information required to provide correct responses and carry out operations.

The full reorganization of the medium-sized enterprise segment, started around the middle of 2000, has now been concluded and was consolidated in the first quarter of last year. With 23 Corporate Centers now providing coverage to the entire country, this reorganization, combined with solid penetration in the Portuguese business fabric, made for a significant increase in the flow of financial transactions done with this segment.

As a next step to enhancing the multispecialist strategy, an integrated approach was further reinforced, promoting cross-selling amongst

Group BES companies, namely Besleasing, ES Capital, Crediflash, Euroges and PMELink. The relationship with the customer is centered around the corporate manager, who ensures that the best solutions are delivered by coordinating and introducing experts on each business area.

Service quality is a top priority in every action undertaken and for this reason a system that measures customer satisfaction levels was set up. 2,200 interviews were already made, with good results, namely in terms of identifying aspects that can be improved. Along these lines, is also being implemented a training and capability development program that involve all corporate managers.

In the segment of large Portuguese corporates, Group BES pursued its effort to improve service quality and enhance monitoring and advice. The measures taken in this area and the establishment of a broad-based and closer contact with the customer permitted to achieve very significant results, reinforcing the Group's prominent position in terms of involvement and relationship with the large Portuguese companies.

The range of products and solutions worked out by the Group's different business areas was also enriched, a task where the coordinated team work supporting the activity of the Large Corporates area was particularly important.

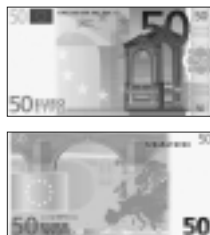
Turning now to the multinational companies, the Group developed a specialized approach – international corporate – based on a rationale that relies on international

standards and local expertise. The aim is to promote and intensify not only a global relationship with the branches and subsidiaries of multinational companies operating in Portugal, but also with the respective parent companies and their operations in countries where the Group is present, with particular focus on the Iberian market.

Group BES already maintains a privileged relationship with its more than 1,100 customers in the segment of Portuguese municipals and institutionals, which translates into a financial flow in excess of euro 1,500 million. With a view to further improving the standard of service provided to this segment, the Group will continue to broaden the range of services provided, with particular emphasis on direct channels, namely electronic banking, so that the needs felt by these customers will be met in the most different areas.

In the approach to foreign institutional customers, a particular emphasis was placed on widening and specializing the range of products targeted at the segment's specific needs, giving the relationship a keener edge. Particularly noteworthy this year was the work developed to intensify cash management and securities sub-custody services, with a view to fueling investments in the cash and securities area.

It should also be mentioned that another two large foreign financial institutions (one French and the other American) have awarded cash management mandates to BES, as their privileged bank in Portugal to provide cash management services to the large companies that are customers of these institutions.



As regards sub-custody services, BES was elected by one of the largest global custodians to act as its sole sub-custodian in Portugal. Besides reflecting the recognition of the service quality, this choice further contributes to boost the Bank's image amidst the various international operators.

The Global Investor magazine's annual survey on the Portuguese custody market classified BES as the second best sub-custodian in the country.

#### 4.5.2 - Investment Banking

The main aspects that characterize the Group's strategy in investment banking are: a systematic approach to the Iberian market, where the presence in Spain is increasingly strong, paying close attention to any opportunity for partnerships permitting to speed up business growth, and keeping a strong involvement in the Brazilian market, in terms of both people and resources.

During the reporting year the number of high-value operations was not significant, with competition both at home and abroad being increasingly keen to an increasingly small number of such major operations. A possible solution could be to focus on cross-border operations with Spain as well as on operations in the Spanish market itself with companies classified as medium-sized in that market.

Current conditions in equity markets being unfavorable for capital increases, companies are increasingly resorting to debt to expand their businesses, and therefore the debt and risk management area deserves particular attention.

To tackle the institutional investors' recoil from the stock market, the Group's strategy banked on the delivery of a quality service and the provision of products, simple or structured, from various markets.

New opportunities have meanwhile arisen, namely in the venture capital area, which the Group with its current structure is fully prepared to take advantage of, in both the Portuguese and the Spanish market, in addition to occasional possibilities of entering into agreements in other European markets.

It is never too much to stress that the full development of this business area relies on the coordination of activities such as brokerage, asset management, the capital markets, private banking and research. Pursuing and coordinating these activities has been the basis of Group BES's business practice.

#### 4.5.3 - Asset Management

2001 was a particularly bad year for the asset management business, both in terms of the market and respective performance and in terms of net volumes under management. On the other hand, with investors taking refuge in more conservative and less volatile placements, the Group benefited from the growth in real estate investment funds and pension funds and was able to reach the end of the year with a higher volume of assets under management than last year.

With a view to rationalizing the activity in Spain, the two asset management companies purchased in 2000 were merged into a single company called Espirito Santo Gestión. This

new company is aligned to the investment discipline of ESAF, the Group's main specialized unit in this business area, and shares its macro policies on investment. Another important step was the centralization of the risk monitoring in the portfolios under management, bearing in mind the less favorable economic conditions in which the activity was conducted.

Finally, and with the aim of obtaining maximum efficiency in terms of economies of scale, a SICAV in Luxembourg called Caravela was set up. Basically this is a fund of alternative investment funds targeted at absolute return. In 2001 this fund was sold to institutional customers in Portugal and Spain. In 2002 it is planned to be offered to high net worth customers, in close collaboration with the Group's private banking area.

Rationalizing the product offer at Iberian level, and working in close collaboration with Group BES's distribution companies in areas such as training and information has been a key component of the strategy that permitted to act with top efficiency during the difficult moments the market went through, while at the same time ensuring a strong position when the stock markets started to rebound.

#### 4.5.4 - Bancassurance and Assurfinance

The distribution of financial products has undergone considerable changes over the last few years. As happened in the rest of Europe, the practice of resorting to external agents to complement the action developed at the branch level has gained increased weight in Portugal. Within the scope of its multi-channel

distribution strategy, Group BES has had a pioneering role in taking advantage of synergies between bank and insurance distribution networks.

The number of products sold by the assurance channel (the best agents of Companhia de Seguros Tranquilidade) has risen considerably, with service accounts and credit cards placed increasing three-fold. The share of mortgage loans canvassed by this channel continued to grow, reaching nearly 10% of the total, which is quite unprecedented in the national panorama.

In bancassurance, the Group maintained its position as one of the market leaders. This strong position is clearly shown by the increase in production and the ever-expanding number of customers buying this type of products. Broadening the customer base is in fact considered as a mainstay of the customer loyalty strategy that was implemented. The competitive offer provided by Tranquilidade-Vida and Espírito Santo Seguros, specialist and benchmark companies in the respective business areas, greatly contributed to the results achieved.

In non-life bancassurance, 2001 constituted an historical peak in terms of production, which increased by roughly 24%, corresponding to sales of more than 71,000 policies. The success of health insurance should be pointed out, a more recent business area that again experienced exponential growth, proving both its competitiveness and the correctness of the strategy adopted vis-à-vis the market's growing demand for this type of product.

As to life bancassurance, the continuous enhancement of cross-selling should be pointed out – the mainstay of this business area – essentially based on two families of products: retirement/education savings plans and health insurance. As regards the first, the fact that, besides maximizing tax savings was increasingly promoted, this product permits to gradually build up savings. The success of this strategy can be gauged by the fact that production became less seasonal, and by the market share achieved, 26%.

Particularly prominent in the massification and cross-selling strategy pursued in life bancassurance was the launch, in September, of the new BES Proteção Vida insurance, which surpassed all expectations by closing the year with sales of nearly 14,000 policies.

#### 4.5.5 - Other Specialized Units

Group BES has other specialized structures that supplement the range of products and services to provide full coverage to customers' financial needs.

**Euroges**, the unit specializing in factoring, has evolved towards a fine-tuned interpenetration with Group BES's networks. The turnover posted this year allowed Euroges to maintain its second place in the national ranking.

**Besleasing** remains among the top domestic companies in both financial and real estate leasing, to a large extent thanks to the commercial coordination with Group BES's networks.

**Credibom**, is a point of sale consumer credit company focusing on car and home loans segment. The company's use of the internet, through the B2B platform, has displayed remarkable growth, with points-of-sale being able not only to submit credit applications online but also to obtain an immediate reply to these applications.

As to **Crediflash**, the specialized unit in the management of bank cards, the various value proposals devised which seek to translate the specificity of customers' expectations and needs regarding the different types of cards should be pointed out. The development of the card offer has been based on a three-fold matrix combination: brands/networks, (BES, BIC, PME Link), segments (companies, private banking, affluent private customers, classic, young people and residents abroad) and transactional environment (physical world, internet).

#### 4.5.6 - Involvement in the Financial Markets

Although the turnover that flows from and to the customers (funding and credit) is a key element in the Group's activity, it is no less certain that in the present era of globalization of the economy and modern financial management the involvement of banks in the financial markets, both domestic and international, is increasingly vital.

In this context the Group has set out to reinforce its operating structure of support to the operations carried out in the various markets – capital, interbank, derivatives and

foreign exchange – so as to benefit from the advantages that can be obtained from expectations of overall economic trends, and in particular of interest rate trends.

Speaking first about the capital markets, Group BES has increasingly internationalized its securities portfolio, in particular by expanding investments to the Euro Area, USA and United Kingdom capital markets. On the other hand and, within the scope of a balanced liquidity management, the involvement in international markets was stepped up, either by issuing debt, namely under the Euro Medium Term Notes (EMTN) programme or by organizing securitization operations.

As regards the derivatives market, and besides the trading activities, the management of market risks hedging, particularly interest and foreign exchange rate risk, was particularly important in 2001 in view of the aggressive policies of interest rates cutting conducted by the USA and Euro Area monetary authorities in an attempt to put a brake on their economies' decline.

Still in this area and complementarily to the involvement in the financial markets, we should stress both the research activities – which provided an essential contribution to the formulation and sustainment of strategies pursued in the domestic and the international markets and supported the Group's increasing internationalization – and the control exercised by the risk management structures to ensure that actual risk levels conform with established risk limits.

Within the scope of the strategic partnership with Portugal Telecom, BES increased its stake in PT Multimédia, by subscribing to this company's capital increase on 03.12.01 and accepting to swap PTM.Com for PTM shares. Hence BES's shareholding of PTM increased from 3.04% to 8.13%, an investment of euro 62 million. The PTM share's average balance sheet cost fell from euro 61.3 on 31.12.00 to euro 23.20. Although on 31.12.2001 PTM shares were trading at euro 7.69, this company has displayed strong development and therefore the Group believes there are good prospects for a rebound in its share price.

#### 4.6 – International Activity

In the course of 2001 the Group continued to consolidate its presence abroad.

In Eastern Europe, BES fully subscribed to Kredyt Bank's capital increase (by 50% over its previous value), therefore maintaining its holding at 19.86%. In this context, the Group started to consider establishing with this bank a platform for cooperation and transfer of know-how in the areas of Investment Banking and Project Finance.

In France, Banco Espírito Santo et de la Vénétie successfully steered the acquisition of Via Banque and respective operational integration, expected to have an impact in terms of reducing costs, and also made another capital increase.

In Brazil, following Crédit Agricole's withdrawal from IASA's shareholder structure, which is still pending the Brazilian Central Bank's approval, BES became the sole

shareholder of this holding company, which also holds part of the stake in Bradesco and other interests in the country. Within the scope of the partnership with Bradesco, a Portuguese desk was set up in the Brazilian bank to give assistance to Group customers with businesses in Brazil.

With regard to the presence in Africa, BES Angola was finally set up. This subsidiary, which should soon start to operate, will permit to foster the Group's presence in this country, till now limited to representation activities through a representative Office in Luanda. As a universal bank, BES Angola will be able to give a significant contribution to modernize the Angolan financial system.

It should also be mentioned that, following the restructuring of this country's debt at the end of 2000, Angola has so far complied with the agreements that were established and fully complied with the service of the debt. Finally, BES also signed a protocol on technical cooperation and senior staff training with the Angolan Banco Comércio e Indústria.

As to the activity of the external branches (London, New York and Lausanne), it must be stressed the good results achieved this year despite the adverse macroeconomic environment in which business was conducted.

In Spain, following the acquisitions made in 2000, the operational and commercial integration of the brokerage, asset management and banking units were concluded. Also worth noting was the creation in the first half of 2001 of a pension fund management



company, making for a more comprehensive offer of own products in this country. Banco Espírito Santo (BESSA) now has 32 branches and Espírito Santo Gestión develops its business in the individual customer segment through 23 investment centers.

Finally, in the U.S.A., the positive performance of Espírito Santo Bank, in Florida, a bank that operates essentially in the private banking area with customers of Portuguese origin based in Latin America, must be pointed out.

## 4.7 – The Integrated Risk Management

Always considered as a key competitive element, Group BES clearly assumes that an integrated and multi-dimensional risk management is one of the strategic pillars that support its balanced and sustained development.

### 4.7.1 - Organizational Structure

At organizational level, besides reinforcing the technical staff of the Global Risk Department (GRD), the gradual process of unifying the risk management structures formerly dispersed through various Group institutions was also pursued.

Hence, within the scope of Group BES's organizational structure, monitoring and managing risk continues to be included in the function of support to the Executive Committee, with direct reporting to an Executive Member of the Board.

On the other hand, and to ensure that risk is adequately monitored and managed at all stages and across the whole Group, the risk management function remains organized in two broad areas: Global Risk, and Company Monitoring and Credit Recovery (CMCRD).

The Global Risk Department (GRD) is organized according to a rationale based on specialization, on the one hand, and the integrated management and control of all risks (credit, market, operational), on the other. Hence it includes four specialized functional areas: strategic risk management, credit risks, market risks and operational risks.

The CMCRD is a specialized structure whose mission is to efficiently manage situations of significant delays or definitive non-performance of contractual obligations. It is organized into two different areas: Company Monitoring and Credit Recovery.

### 4.7.2 - Credit Risk Management

The identification, quantification, integration, monitoring and control of risk exposures from a multi-dimensional perspective are some of the tasks involved in credit risk management.

The development of the credit risk management process (methodologies, tools, policies and processes) varies according to the characteristics of each segment but is always conducted based on the underlying principle that there must be continuity throughout all the stages of the credit granting process (analysis, approval or rejection, monitoring and recovery, if

necessary). This is done by assigning precise management responsibilities to whomever at each moment in the process has the best conditions to do it successfully and in such a way as to bring in value for the Group. It's therefore a dynamic form of management that is sustained by a broad and efficient interaction between the various teams involved in risk management throughout the successive and different phases of its life. On the other hand, this process is continuously supplemented by the revision and introduction of improvements both at the policies, standards and methodologies level and in terms of the procedures, decision circuits and tools used in assessing and controlling risk.

In this respect, the following developments should be referred: **(i)** the implementation, on an experimental basis, of a new rating model specifically devised to make an assessment based on standardized and more efficient criteria that are applicable to the majority of the business sectors included in the medium-sized companies segment (which we decided to call Consistent Sectors); **(ii)** the implementation, now in the initial phase of testing and final validation, of a new rating model aimed at the segment of Large Corporates; **(iii)** the establishment of a Rating Board composed of specialized technical staff, specifically geared to monitor and rate companies and operations included in the Top Corporates, Project Finance segment, and also those customers in the segment of Large Corporates whose characteristics justify a more complex type of analysis and monitoring; and **(iv)** the development and optimization of the predictive capacity of two scoring models

for consumer credit, so as to improve quality discrimination based on the cost of estimated risk and the optimization of value creation.

The results of the statistical analysis carried out with the help of a reputable and specialized team of international consultants and based on international standards, namely in terms of predictive capacity, revealed that the models for medium-sized and large corporates are robust instruments for the risk qualification and assessment, presenting a high degree of granularity (both cases identify 18 distinct rating categories) and also the fact that they have been gauged for default probabilities. This last issue is absolutely crucial in a quantitative credit risk management (calculation of expected losses, economic capital requirements and cost of credit risk) and will also be essential to apply in the future for regulatory certification under the Internal Rating System within the scope of the New Capital Adequacy Framework currently under discussion in the Basel Committee (BIS).

To permit an easier comparison between rating and/or scoring classifications produced by different models or methodologies, a master scale was created permitting the fast consolidation of all transactions' exposures to credit risk and the periodic quantification of expected losses and economic capital, by contract, product, customer and institution – a fundamental basis for any value creation diagnosis as well as for planning actions aimed at optimizing the risk / return relationship.

#### **4.7.3 - Market Risk Management**

Generally speaking, market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or share prices, or from changes the markets liquidity.

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

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

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

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

Finally, the market risks incurred by the Group are subject to limits periodically updated by the Executive Committee.

#### **4.7.4 - Operational Risk Management**

Bearing in mind the importance of operational risk as one of the largest sources of costs for financial institutions, and also the guidelines on economic capital allocation to operational risk, presently under discussion in the Basel Committee (BIS) within the scope of the New Capital Adequacy Framework, the Group has initiated a diagnosis project that, when concluded, will enable a better identification of this risk's various indicators (transactional, human, technological, legal and fiscal, disaster and regulatory) and also to extend to the entire organization a set of actions aimed at optimizing the initiatives already taken or under way in this area.

The purpose when taking these actions is to optimize the relationship between risk and return, reinforcing the Group's competitive advantage and fueling added value creation for the shareholders.



# Macroeconomic Environment in 2001

Annual  
Report  
2001



PTE 2.000 - Note's Detail





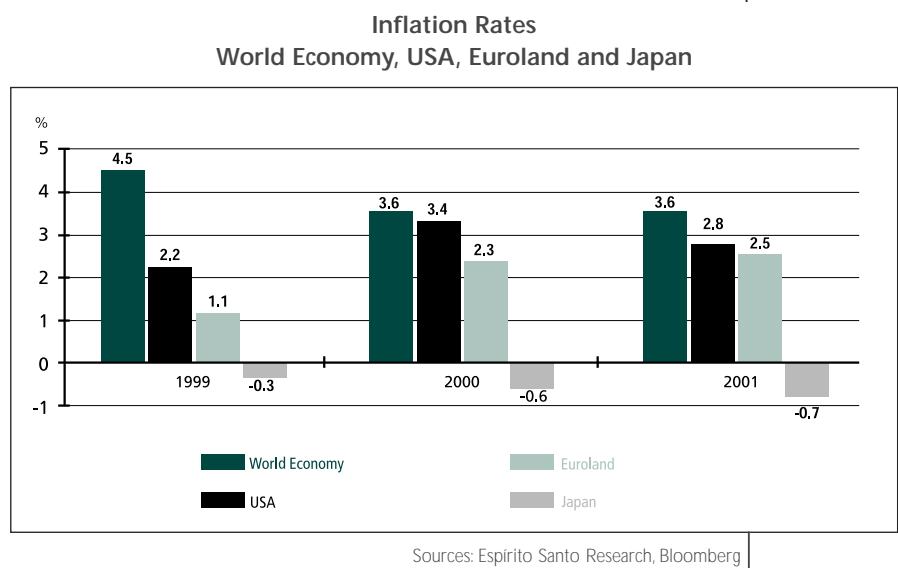
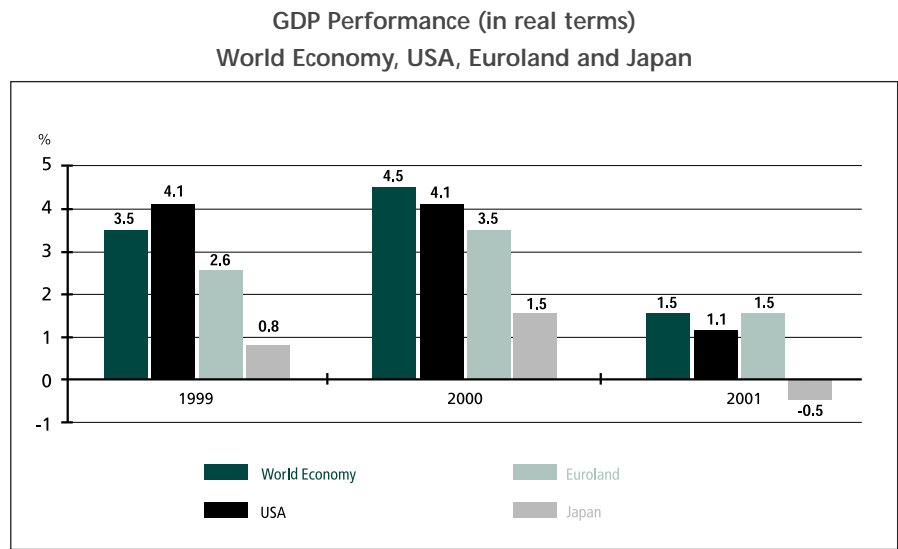
## 5.1 – International Economic Situation

2001 was characterized by the strong deceleration of the global economy, with GDP growing by just 1.5% <sup>(1)</sup> after rising by more than 4.5% in 2000. The tragic events of September 11 opened a breach in confidence and caused the already weakening international economy to slide even further. Despite this situation, prices overall performed at the same pace as last year, thought not evenly across the main economic areas, while world unemployment slightly deteriorated.

This deceleration was strongest in the USA – from 4.1% in 2000 to close to 1% in 2001 – this country having in previous years been the driver of the world economy. Still, a technical recession (two consecutive quarters of negative growth) seems to have been avoided, with GDP resuming its growth path in the last quarter of the year, thanks largely to the Federal Reserve's easing policy (the fed-funds rate was cut eleven times last year, from 6.5% to 1.75%).

In the European Union, GDP is thought to have grown by 1.5% in 2001, a strong deceleration compared to 2000, with Germany growing by 0.7% only due to the steep fall in external demand. At the same time private consumption grew weaker and investment less dynamic.

Japan, in turn, was the only major economy experiencing contraction in 2001 (0.5%), in so far as recession had already settled in when the global economy started to cool down. Emerging



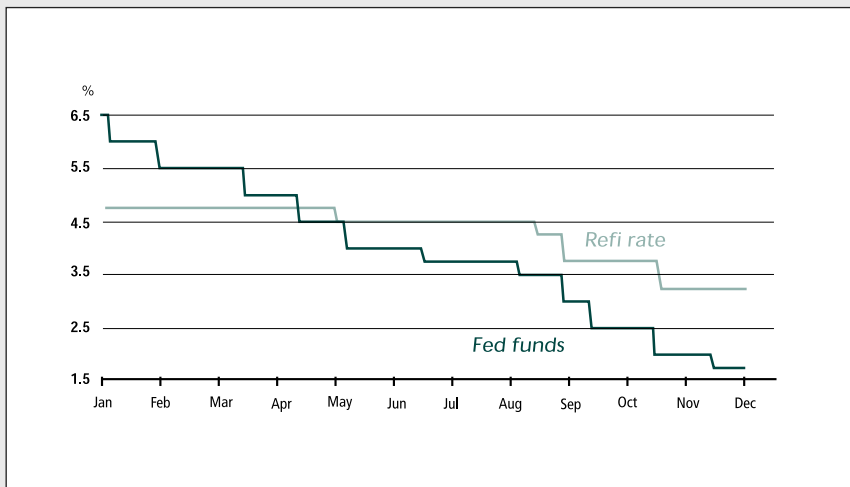
Asian countries also suffered this impact, their GDP being affected by the drop of investment in new technologies in the United States.

From amongst the emerging countries, we note Latin America, where the year was

particularly critical and GDP is thought to have suffered a negative change. This was chiefly the result of the very sharp deterioration of the economy in Argentina, where recession stretched out for the third consecutive year. Brazil, on the contrary,

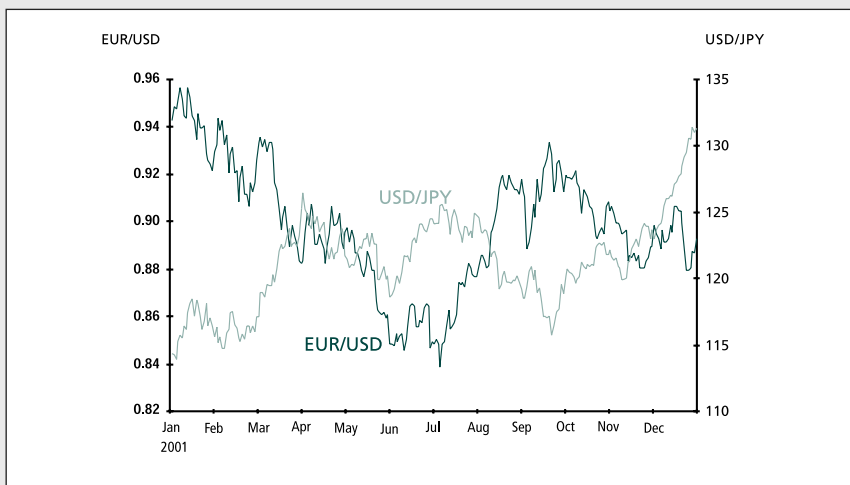
<sup>(1)</sup> Figures for a group of countries representing about 90% of the world GDP.

**Fed Funds Rate and Refi Rate**



Sources: Espirito Santo Research, Bloomberg

**EUR/USD and USD/JPY Exchange Rates**



Sources: Espirito Santo Research, Bloomberg

stands out for its positive performance, though having also slowed down.

Despite the world economy's enfeebled dynamism, inflation still stood at around 3.6%, globally, the same as in 2000. In the United States, the global price index fell to 2.8% in 2001, contrasting with the European Union where inflation increased versus the previous year, reaching 2.5%. In Japan the scenario is quite different, as the downward trend in prices is framed by a persistent deflationary framework that lingers on for the third consecutive year: in 2001 the price index fell by 0.7%, once again driving consumers to hold back on expenditure.

As to monetary policy, the less favorable performance of the United States economy, combined with the moderate increase in prices during the year, pushed the North-American Federal Reserve into an expansionist cycle in monetary policy – one of the fastest ever and the fastest in the Greenspan era – with interest rates falling by 475 basis points in just 12 months and driving the fed-funds rate to 1.75% at the end of 2001. The ECB, on the other hand, under the inflationary pressures that built up in the Euro Area, particularly in the first half of the year, kept the refi rate unchanged till May, after which it decided on a 25 basis points cut, to 4.5%. This was the only cut in the first half of the year, notwithstanding the market's rising hopes for a more expansionist monetary policy. In the second half of the year the European monetary policy became relatively more aggressive and the year ended with the refi rate at 3.25% (a spread of 150 basis points vis-à-vis the fed-funds rate).

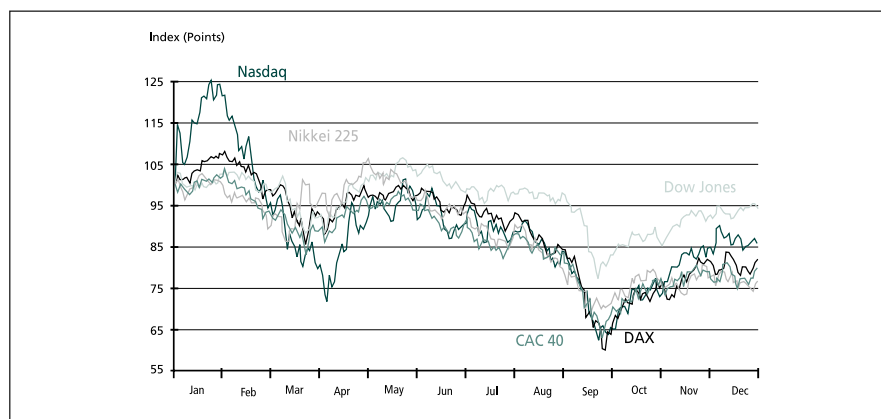
In Japan, against a backdrop of deflation and recession, the Bank of Japan became more aggressive in its monetary policy, placing the main reference rate – the overnight call rate target – at practically 0%, and extending similar measures to the discount rate, in September.

In terms of exchange rates, 2001 was another negative year for the euro, which lost 5.2% against the dollar and at the end of December trended at below 0.9 against the dollar. The fact that, although the economic situation was more recessive in the USA than in Europe, expectations of a faster recovery on the other side of the Atlantic continued to play for the dollar, mainly explain this performance. As to the yen, it fell against both the dollar and the euro, a drop that reached 13% vis-à-vis the North-American currency.

In 2001, the world economy's strong deceleration and its heavy repercussions in terms of companies' results caused a sharp correction in stock markets for the second year in a row. In the United States it was once again the Nasdaq – the new technology stocks index – that registered the sharpest drops, falling by roughly 21%, while at a more general level (as measured by the Dow Jones and S&P 500 indices) the descent was more moderate. In the year to September the markets had fallen to the lowest level of three years ago, starting a remarkable rebound during the third quarter of the year.

In Euroland, two of the main stock market indices, the Frankfurt DAX and the Paris CAC 40, registered sharp falls – respectively 20% and 22% – with the year lows being reached in the third quarter.

**Stock Market Indices**



Sources: Espirito Santo Research, Bloomberg

The recessive situation lived by the Japanese economy in 2001 had a strong impact on the country's stock market's performance, with the Nikkei 225 index dropping by roughly 24% in the year.

As a final note on the international economic situation in 2001, some more should be said about the deterioration of the economic situation in Argentina, and its strong political and social repercussions. The loss of competitiveness of the Argentinean economy first stemmed from having maintained the peso fixed at parity with the dollar and further deteriorated with the real's weakening vis-à-vis the dollar. The spiral created – "falling exports – shrinking output – dwindling foreign currency inflows", and its impact in terms of the money supply in circulation in turn led to new production cuts. Finally, for lack of resources (foreign currency), the government was forced to announce a default on its foreign debt and severe restrictions on most economic agents' access to their bank accounts (the "corralito"). With the economy in dire straits, the country had

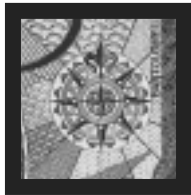
to abandon the peso's parity with the dollar, redenominating into pesos all bank accounts and contracts in dollars, and announcing, already in 2002, the peso's full floating against the dollar.

## 5.2 – Domestic Economic Situation

Against an unfavorable climate at international level, the Portuguese economy's performance could not be wholly positive in 2001. GDP progressed at a modest pace, inflation rose sharply, the trade deficit remained excessively high and public accounts displayed sharp imbalances. The labor market in turn remained quite lively, unemployment actually standing close to virtual full employment – with the economy growing at a slower pace this has induced a loss of productivity.

GDP is thought to have grown by around 1.5%, contrasting with the 3.4% observed in 2000. In fact, both the Portuguese and the





## Main Economic Indicators

Real change rates (%), except as otherwise indicated

	1998	1999	2000	2001 (e)
Private Consumption	5.1	4.8	2.6	1.0
Public-Sector Expenditure	3.8	4.5	2.5	1.5
Gross Fixed Investment	12.4	7.7	4.2	0.1
Exports of Goods and Services	9.2	3.2	8.1	4.8
Imports of Goods and Services	14.2	8.7	6.0	2.3
<b>Gross Domestic Product (GDP)</b>	<b>4.5</b>	<b>3.4</b>	<b>3.4</b>	<b>1.5</b>
Current Balance (% of GDP)	-6.9	-8.3	-10.4	-9.7
Government Deficit (% of GDP)	-2.2	-2.0	-1.5	-2.2
Public-Sector Debt (% of GDP)	54.7	54.5	53.7	53.2
Unemployment (% of working population) <sup>(1)</sup>	5.0	4.4	4.0	4.1
Inflation (CPI)				
Average Annual Rate (%)	2.8	2.3	2.9	4.4
Interest Rates <sup>(2)</sup>				
Short-term (IMM 3 months. %)	4.2	3.0	4.5	4.3
Long-term (10-year TB. %)	4.7	4.8	5.6	5.2

(e) Estimated.

(1) In strict sense: only those individuals actively seeking a job in the 30 days immediately preceding the survey are included as unemployed.

(2) Annual average

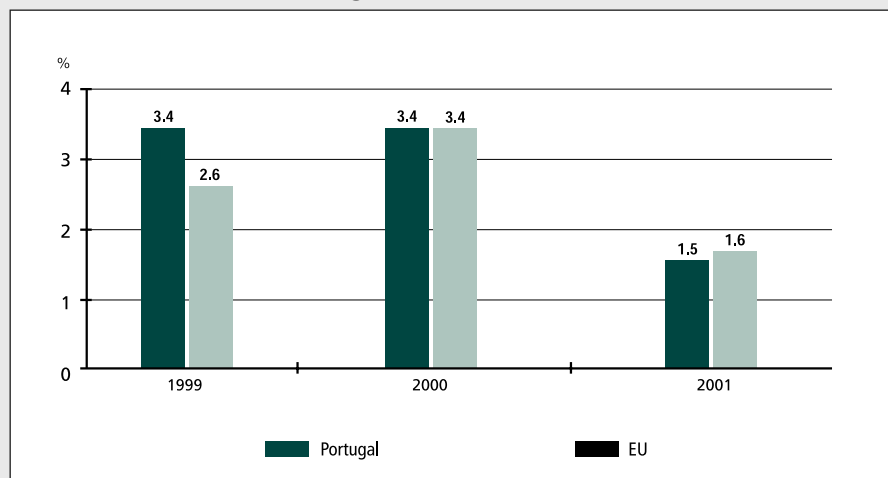
Sources: Espirito Santo Research, Bank of Portugal, INE (Portugal), Finance Ministry, European Commission, OECD, Bloomberg.

European Union's GDP registered the lowest growth rate since the recession occurred in the first half of the nineties. Moreover, this makes it the second consecutive year since the Portuguese economy interrupted the real convergence process with the European partners.

The growth pace of internal demand fell to half its value in 2000, reflecting the strong deceleration registered by its two components, private consumption and investment. Exports also slowed down markedly, though continuing to represent the more buoyant element in GDP.

Despite the slowing down of economic activities, the labor market remained quite lively, with unemployment reaching just 4% of the working population, i.e., roughly the same as in 2000. Though positive in itself, the fact that the labor market remains in a situation considered as of full employment exposes on the other hand one of the central problems of the Portuguese economy: its low productivity. A flat unemployment growth rate with GDP rising at half the previous year's pace brings to the surface the declining productivity of labor.

**GDP**  
Portugal and EU, 1999 – 2001



Sources: Espirito Santo Research, Bloomberg

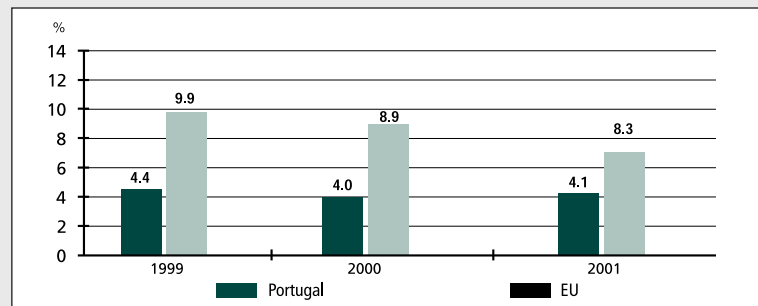


In terms of inflation, 2001 was not a good year. The average increase in prices reached 4.4%, stemming essentially from the rise in some food products, particularly in the first half of the year, due to the crisis provoked by the BSE and foot and mouth disease crisis, and also the poor weather conditions in the period, to which we could add the pressure on prices of rising labor costs (above the EU rise).

External accounts also performed poorly, a strong imbalance persisting between the balance on current account and the balance on capital account. The trade balance is thought to have run a deficit of 9.7% of GDP, after reaching a peak of 10.4% in 2000, i.e., the highest level in seventeen years, and this despite the fact that the economy has slipped into a clearly decelerating path.

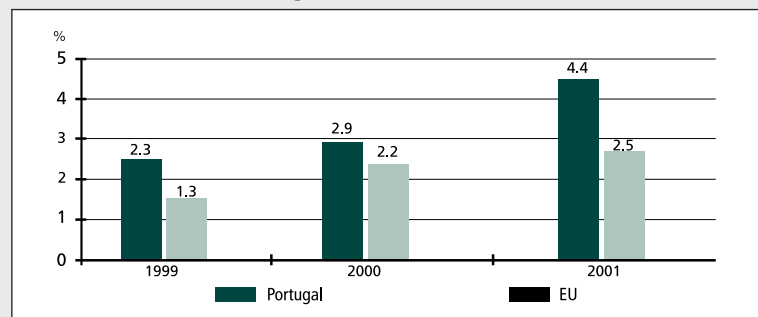
In Portugal present situation of being part of a monetary zone such as the Euro's, the risk of financial turmoil is not an issue. Nevertheless, it becomes increasingly urgent to implement as soon as possible such economic policy measures as will put back the external deficit in acceptable levels and the volume of the national debt into a plane that is consistent with the country's wealth.

**Unemployment (% of working population)  
Portugal and EU, 1999 - 2001**



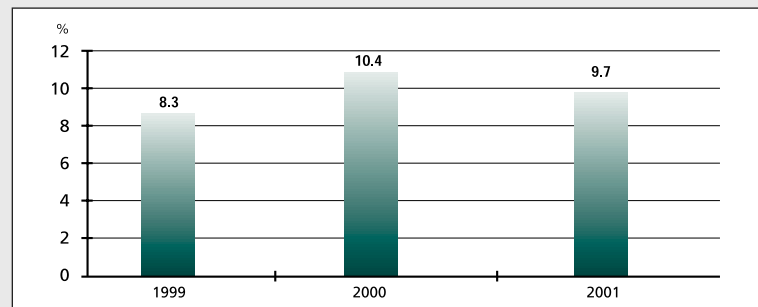
Sources: INE, European Commission

**Inflation (annual average)  
Portugal and EU, 1999 - 2001**



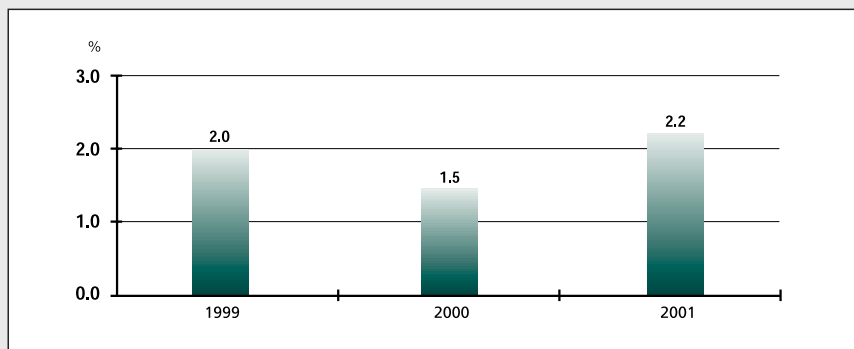
Sources: Espirito Santo Research INE, European Commission

**External Accounts: Current account deficit (% of GDP)  
1999 - 2001**



Sources: Espirito Santo Research INE, European Commission

**Public accounts: Government deficit (% of GDP)  
1999 – 2001**



Sources: Espírito Santo Research INE, European Commission

**PSI 20 Index (Lisbon and Oporto Stock Exchange)**



Source: Bloomberg

Public accounts did not perform well either, the Government deficit sliding to around 2.2% of GDP, well above the Stability and Growth Program's estimated target of 1.1%. Besides the fact that revenues grew less than expected, this performance is essentially explained by the behavior of public expenditure, particularly staff costs, which greatly surpassed the budgeted figure. The heavy imbalance in budgetary execution that gradually surfaced during the year led the Government to submit to the Portuguese Parliament two amending budgets for 2001, and, at the beginning of 2002 deserved from the European Commission a proposed early warning addressed to the Economic and Financial Affairs Council (Ecofin) advising the Portuguese authorities to place local finances back on the path to consolidation. This early warning, which in the end was not approved by Ecofin, was also extended to Germany, though Portugal was the one more severely called to order.

Finally, and turning to the capital markets, 2001 was not a favorable year for the Lisbon and Oporto Stock Exchange (BVL), indeed as happened with the main stock markets worldwide. The Lisbon market's reference index, the PSI 20, fell by nearly 25%, one of the steepest drops amongst leading stock market indices. In this regard a word should also be said about the decision taken in 2001 and subsequent implementation of a merger between the BVL and the Euronext, which opened the way for the internationalization of the BVL.

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

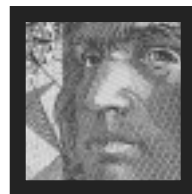
Annual  
Report  
2001



PTE 2,000 - Notes Detail



BANCO ESPIRITO SANTO



The benchmark objectives which Group BES has set out to reach are ambitious: to ensure a minimum return on equity of 15%, to reach a Cost to Income of 50% in 2003 and to hold an average market share of 20% in 2005.

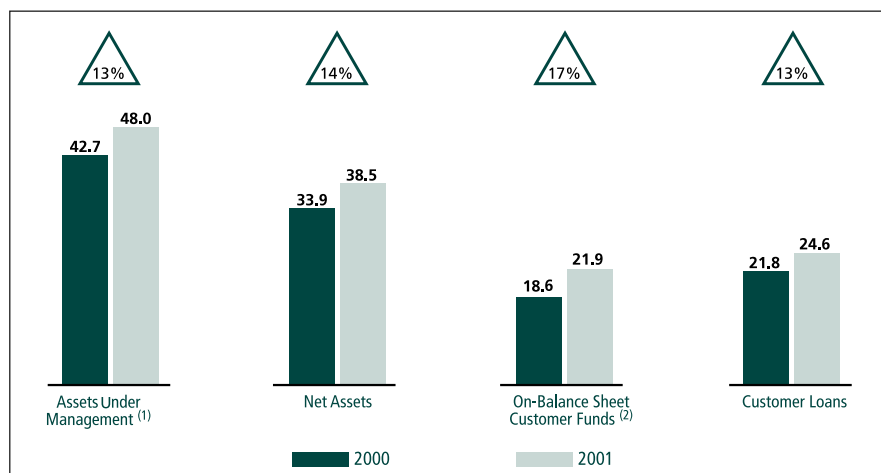
## 6.1 – Activity

In 2001 Group BES was not immune to the adverse economic situation lived both in Portugal and abroad, and the results were strongly influenced by the drop in investment banking, trading and brokerage operations, which in 2000 had shown excellent performance.

Nevertheless business made good progress and BES competitive position was strengthened across the main business lines: total consolidated assets, including disintermediation, reached euro 48 billion, which represents an overall increase of 13% over the previous year; loan portfolio, though strongly decelerating, was up by 13%; and total on-balance sheet funds grew by 17%. The fact that on-balance sheet funding was more buoyant than credit granted permitted an improvement in the transformation ratio of customer funds into credit, from 114% in 2000 to 110% in 2001.

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

## Business Progress (euro billion)



<sup>(1)</sup> Net assets and disintermediation

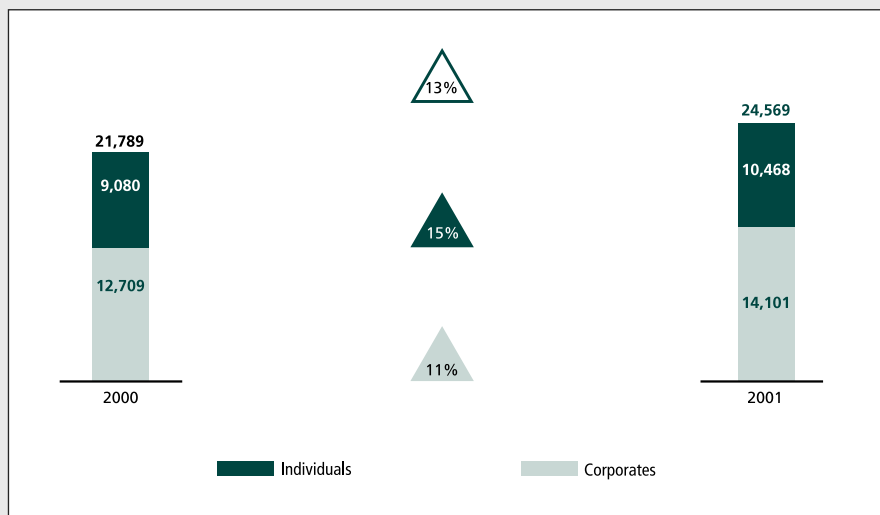
<sup>(2)</sup> Customer deposits, and debt securities placed with customers

(euro million)

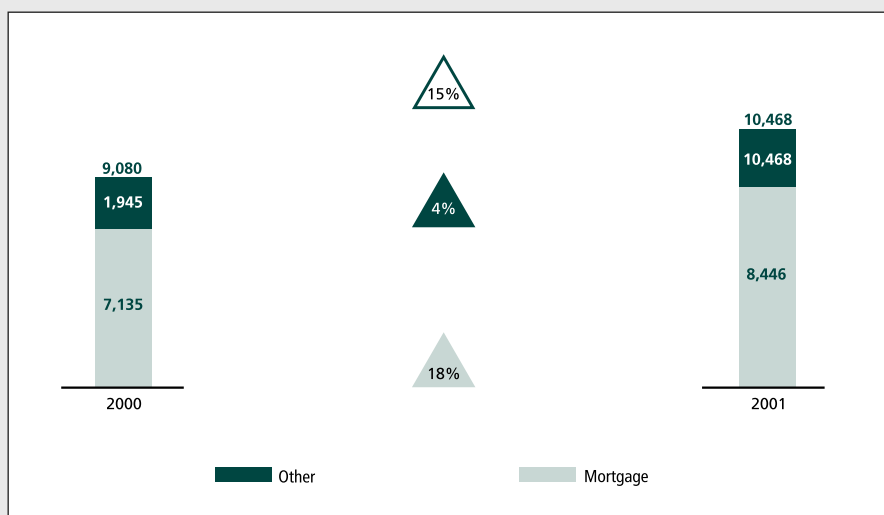
Business Areas	Net Assets		Business Done With Customers			
			Credit (Gross)		Funds <sup>(1)</sup>	
	Value	Δ (%)	Value	Δ (%)	Value	Δ (%)
Banking	46,060	9	22,603	12	22,345	11
Commercial	43,866	7	22,305	13	22,115	10
Investment	2,194	96	298	-23	230	150
Specialized Consumer Credit	540	25	531	24	0	-
Mutual Funds	78	32	-	-	9,489	9
Factoring	418	45	380	37	1	-
Leasing	1,089	19	1,065	19	122	0
Others / Eliminations	-9,662	-	-10	-	-607	-
<b>Total</b>	<b>38,523</b>	<b>14</b>	<b>24,569</b>	<b>13</b>	<b>31,350</b>	<b>14</b>

<sup>(1)</sup> Includes customer deposits, debt securities placed with customers and disintermediation

### Customer Loans (euro million)



### Loans to Individuals (euro million)



The Group's business is concentrated on commercial banking (which accounts for 91% of credit and 70% of funding) and supplemented, on the funding side, by mutual funds, and on the credit side, by the specialized consumer credit, factoring and leasing units.

The strongest segments this year were specialized consumer credit, factoring and leasing. Asset management, notwithstanding the poor performance of capital markets, maintained the growth pace of last year, to which the consolidation of asset management in Spain gave a vital contribution.

#### 6.1.1 - Credit

Credit granting was characterized throughout 2001 by a decelerating growth pace: loans increased by 13%, which compares with 28% in 2000. This behavior reflects the less favorable economic situation lived during the year, which led to a drop of demand for credit by individuals and to a retraction of investment by companies, most particularly after the tragic events of September 11.

In terms of loans to individuals, which account for 43% of total credit, the unequal behavior shown by mortgage loans and other loans to individuals should be noted. In the first the Group grew 18% (25% in 2000), surpassing nevertheless the prospects for lower production that existed at the start of the year, but in other loans to individuals the rise was more modest, 4% only. This behavior is essentially explained by the heavy debt burden of families and also by the stricter criteria imposed on consumer

credit granting, namely by reinforcing scoring processes and further broadening and systematizing their application. In terms of personal loans, we note the Group's launch of an innovating and unique product in the Portuguese market – the Flexible Personal Loan – which allows the customer, under certain conditions, to delay payment of a loan installment. The car loans area was reinforced by the introduction of Formula BES, a package of specific solutions for each customer's needs that includes personal loans, flexible personal loans and leasing at fixed and variable rate.

Mortgages – representing roughly 81% of loans to individuals and 34% of the overall credit portfolio – has been one of the strategic vehicles and one of the most successful for the Group's performance in commercial banking. The fine-tuned coordination and complementarity between BES, BIC and Tranquilidade has been critical to this success. In this respect, we should also refer the role played by BESCasa, a reference real estate web portal in the Portuguese market, whose offer currently covers around 660 real estate brokers (383 in 2000) and nearly 88 thousand properties (an increase of 140% versus the previous year).

In consumer credit and credit for other purposes, and in addition to the banking units, the companies operating in specialized consumer credit have achieved increased recognition and weight, namely Credibom, whose portfolio grew by roughly 29%.

## 6.1.2 - Funding

BES Group's funding is conducted based on the integrated development of the following activities:

- Obtaining on balance sheet funds through traditional products;
- debt issuance in the domestic and external markets,
- asset management,
- funds obtained through the sale of bancassurance products and, to a lesser extent
- the issuance of subordinated debt.

The fact that BES presents one of the best ratings amongst Portuguese banks, the continued improvement in quality standards, a renewed offer of products, the reinforcement

of cross-selling and the benefits derived from a multi-channel organization, all contributed to allow Group BES a significant funding growth.

The increase achieved in total customer funds, 14.5%, was supported by the traditional on balance sheet products in so far as the markets' overall negative performance constrained the growth of off-balance sheet funds, namely mutual funds, causing a small drop in the weight of off balance sheet funding in total funding. However, the funding profile maintains the trend seen in recent years for a gradual reduction in the weight of time deposits in favor of sight deposits and particularly debt securities. As regards this last group, it is worth mentioning the vigor displayed in the issuance of innovating bonds.

(euro million)

Customer Funds	2000	2001	Change (%)
Sight Deposits	6,377	6,880	7.9
+ Time Deposits	9,783	10,515	7.5
+ Debt Securities	5,178	8,805	70.0
<b>= On-Balance Sheet Funds</b>	<b>21,338</b>	<b>26,200</b>	<b>22.8</b>
– EMTN and Commercial Paper	2,689	4,339	61.4
<b>= On-Balance Sheet Customer Funds</b>	<b>18,649</b>	<b>21,861</b>	<b>17.2</b>
<b>+ Off-Balance Sheet Funds</b>	<b>8,721</b>	<b>9,489</b>	<b>8.8</b>
Mutual Funds	3,438	3,420	-0.5
Real Estate Funds	930	1,161	24.8
Pension Funds	1,117	1,289	15.4
Discretionary Portfolio	2,880	2,977	3.4
Venture Capital and Other	356	642	80.3
<b>= Total Customer Funds</b>	<b>27,370</b>	<b>31,350</b>	<b>14.5</b>



In the sale of mutual funds, the Group's commercial policy was conditioned by the markets' overall performance, which caused a shift in demand to savings products with guaranteed rate and/or capital. ESAF continued to have an active role in this business area, namely in rationalizing the offer of domestic funds and in adapting them to the customers' needs.

In bancassurance, despite the market's scarce liquidity, the Group remained quite active in selling this type of products, namely Retirement Savings Plans (RSP), where the considerable marketing effort made during the year permitted to reduce the traditional seasonal tendency for higher sales at the year-end. New products in the life/ /protection area were launched with specific characteristics permitting massified sales. In this respect, we should point out the remarkable growth achieved by sales of the Health Insurance to individual customers, which proves this range of products' capacity to meet a real need felt by the market. The

non-life bancassurance business ended the year with a portfolio of 209 thousand policies, corresponding to a penetration rate in the customer base in excess of 14%.

Debt issuance, which is directly linked to the need for increasingly flexible and diversified sources to finance operations, continued to grow at a good pace, mainly supported by the issuance of bonds under the Euro Medium Term Notes programme (EMTN). The balance of outstanding bonds thus increased by euro 1,660 million, substantially reducing the short-term funding needs.

## 6.2 – Financial Strength

Financial strength, a constant concern in Group BES's strategy, remains high; the assets profile continues to show a good quality level, as shown by low overdue loans ratios and high provisioning levels; additionally, liquidity has displayed considerable improvement.

### 6.2.1 - Asset Quality and Risk

The consolidated balance sheet as at December 31, 2001 continues to bear Group BES's distinctive stamp, i.e., although loans and advances to customers represent the largest component of total assets, low risk high liquidity assets continue to feature prominently.

The aggregate of cash and cash equivalents, current accounts with credit institutions and securities of public issuers, continues to be a strong component in the Group's assets (20%), which means that low risk high liquidity assets remain the second most important category of assets.

Having diminished their growth pace, loans and advances to customers, the category of assets featuring more prominently in the balance sheet, reduced their weight in assets by 0.3 percentage points. In terms of the distribution by business sectors and in line with previous years, this category continues to display a healthy dispersion, whose positive effects remain quite clear, namely in terms of the low overdue loans levels recorded.

Excluding a few exceptions that will be described in more detail, there were no significant changes in the portfolio's breakdown by business sectors when compared to the past year.

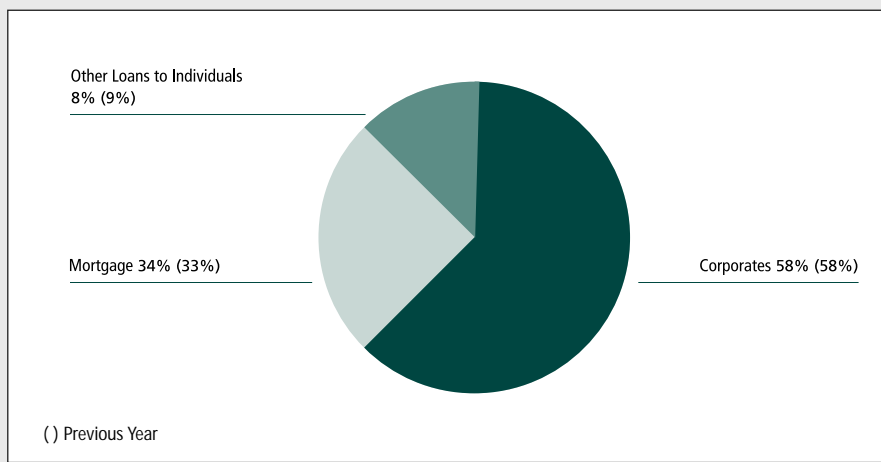
(euro million)

Categories of Net Assets	2000		2001	
	Value	(%)	Value	(%)
Cash and Cash Equivalents	1,668	4.9	1,965	5.1
Current Accounts with Credit Institutions	3,612	10.6	3,888	10.1
Loans and Advances to Customers	21,483	63.3	24,264	63.0
Placements in Securities	4,339	12.8	5,356	13.9
(Public Issuers)	(1,559)	(4.6)	(1,955)	(5.1)
Fixed Assets	1,375	4.1	1,511	3.9
Other Assets	1,459	4.3	1,539	4.0
<b>Total</b>	<b>33,936</b>	<b>100.0</b>	<b>38,523</b>	<b>100.0</b>

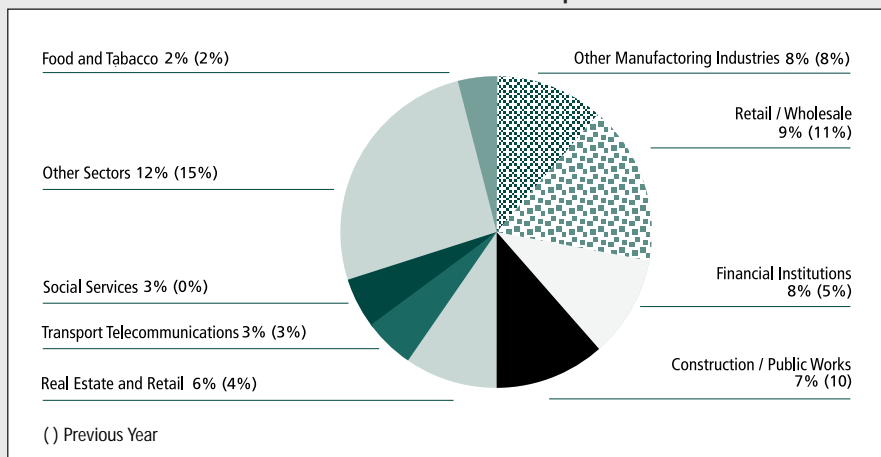


Hence, apart from the significant weight of loans to individuals, in terms of loans to corporates we should note the fact that the highest level of concentration does not exceed 9% - it concerns credit to the wholesale/retail sector, which, though scattered amongst a great number of borrowers, remains the most representative in the portfolio (even though its relative weight dropped by 2 percentage points when compared to 2000). As had already happened in 2000, credit to the financial sector again increased its importance, from 5% to nearly 8%, rising to the second place in the portfolio and swapping places with the construction and public works sector. This last sector, though remaining quite strong, shrank considerably when compared to 2000, its share of the total dropping by close to 3 p.p. (from nearly 10% to 7%). In contrast, the real estate and rentals sector advanced its position by roughly 2 p.p., reaching 6%. Hence these two sectors together practically did not budge when compared to last year – 13% in 2001 against 14% in 2000. The remaining business sectors did not register any changes worthy of note, except for social services, which saw its relative weight rise to 3%. As a last note, manufacturing industries maintained their individual positions practically unchanged, some of them showing perfectly marginal values of credit exposure.

### Breakdown of Total Credit



### Breakdown of Loans to Corporates





(euro million)

Variables	2000	2001	Δ
Loans to Customers (Gross)	21,789	24,569	12.8%
Overdue Loans	408.2	450.1	10.3%
Overdue Loans > 90 days	360.8	368.1	2.0%
Credit Provisions	560.4	593.1	5.8%
Overdue Loans / Total Loans	1.87	1.83	-0.04 p.p.
Overdue Loans > 90 days / Total Loans	1.66	1.50	-0.16 p.p.
Credit Provisions / Overdue Loans	137.3	131.8	-5.4 p.p.
Credit Provisions / Overdue Loans > 90 days	155.3	161.1	5.8 p.p.

(euro thousand)

Categories of Overdue Credit	Seniority Categories					Total
	I < 3 m	II 3 to 6 m	III 6 to 12 m	IV 1 to 3 Years	V > 3 Years	
<b>Collateralized Credit</b>						
Gross Value	18,966	10,505	8,412	87,020	25,906	150,809
Specific Provision	2,397	2,013	2,112	44,426	24,005	74,953
<b>Non-Collateralized Credit</b>						
Gross Value	63,013	17,688	28,021	84,120	106,455	299,297
Specific Provision	990	5,272	15,030	84,075	106,448	211,815
<b>Total Overdue Credit</b>						
Value	81,979	28,193	36,433	171,140	132,361	450,106
Percentage Breakdown	18%	6%	8%	38%	30%	100%
Specific Provisions	3,387	7,285	17,142	128,501	130,453	286,768
Provision for Doubtful Credit and Country Risk						18,264
<b>Total Specific Provisions</b>						<b>305,032</b>
Specific Provisions / Total Overdue Credit (%)	4.1	25.8	47.1	75.1	98.6	67.8

Driven by the economy's deterioration, overdue loans increased by 10.3%, although the overdue loans ratio registered a small decline. The coverage by provisions of loans more than 90 days overdue improved considerably, from 155.3% to 161.1%.

Looking at the breakdown of overdue loans by seniority categories and respective specific provisions, it can be noted, besides the fact that minimum regulatory levels are observed, that overdue credit more than three years old accounts for roughly 30% of the total and is covered at nearly 100%, even though close to 20% of credit ranking in this category is collateralized; in overall terms, the weight of collateralized loans is higher (34%) and the provisioning level to cover potential losses stands around 68%.

The Group's credit risk management is based on the principle that risk should be managed at all stages of its life, which means the assignment of precise responsibilities in all the phases of the credit granting process: analysis, approval, monitoring, and recovery. Thus the Group ensures that all credit is managed by those who are better qualified to do it successfully, a process that goes from the customer manager – the first who takes responsibility for the risk originated – to the Financial and Credit Committee, up to the Executive Committee - which decides the Group's risk strategy and profile. This organization, based on a matrix structure, allows risk management to keep very close to the daily management of business activities without losing sight of independence criteria.

As to the second most important category of assets in the balance sheet, placements in securities, and more specifically, the bond portfolio, we should note the high quality of the issuers, 26% of the portfolio being rated Aaa, and nearly 48% being linked to issuers rated higher than A3.

The portfolio's quality is higher for derivatives, where 87% of the equivalent credit risk (based on replacement cost) is associated to counterparties with ratings above A3.

In terms of market risk, the Group's value at risk (VAR) is euro 31 million, for its trading positions in equities and interest rate as well as for its global foreign exchange position. This VaR assumes a confidence level of 99% and an investment period of 10 days.

Throughout the entire year the price correlation between the interest rate market and the equity market was very low, creating a very large diversification effect between the two positions.

### Bonds And Ratings

(euro million)

Ratings	Per Bracket		Accumulated	
	Value	(%)	Value	(%)
Aaa	1,324	26.4	1,324	26.4
Aa1 - A3	1,072	21.4	2,396	47.9
Baa1- B3	292	5.8	2,688	53.7
Caa1- C	31	0.6	2,719	54.3
N.R.	2,287	45.7	5,006	100.0

Note: Ratings with equivalence to Moody's ratings

Source: Bloomberg

### Derivatives and Ratings (Credit Risk)

(euro million)

Ratings	Per Bracket		Accumulated	
	Value	(%)	Value	(%)
Aaa - A3	623	87.0	623	87.0
Baa - B3	1	0.2	624	87.2
N.R.	92	12.8	716	100.0

Note: Ratings with equivalence to Moody's ratings

Source: Bloomberg

### Value at Risk 99% at 10 days

(euro million)

Interest Rate	21.25
Exchange Rate	2.76
Equity	26.44
Diversification effect	-19.23
<b>Total</b>	<b>31.22</b>

(euro million)

Countries	2000	2001				Total	(% Total)
		Securities	Loans to Credit Institutions	Customer Loans	Others and Off-BS Items		
<b>Latina America</b>	<b>306</b>	<b>242</b>	<b>72</b>	<b>236</b>	<b>46</b>	<b>596</b>	<b>66.4</b>
Argentina	12	6		5		11	1.2
Brazil	209	230	63	103	45	441	49.1
Mexico	3	6		7		13	1.4
Panama	42		6	27		33	3.7
Uruguay	0			23		23	2.6
Venezuela	2			29		29	3.2
Others	38		3	42	1	46	5.1
<b>Eastern Europe</b>	<b>20</b>	<b>13</b>	<b>6</b>	<b>3</b>	<b>0</b>	<b>22</b>	<b>2.4</b>
Hungary	4	4				4	0.4
Poland	12	7	4			11	1.2
Others	4	2	2	3		7	0.8
<b>Asia — Pacific</b>	<b>91</b>	<b>21</b>	<b>8</b>	<b>10</b>	<b>22</b>	<b>61</b>	<b>6.8</b>
South Korea	38	16	5		21	21	2.3
Hong-Kong	28	4		7	21	32	3.6
Turkey	14				0	0	0.0
Others	11	1	3	3	1	8	0.9
<b>Africa</b>	<b>184</b>	<b>6</b>	<b>92</b>	<b>113</b>	<b>8</b>	<b>219</b>	<b>24.4</b>
South Africa	6			40		40	4.5
Angola	123		92	5	5	102	11.4
Cape Verde	4			14	1	15	1.7
Morocco	51	6		52	2	60	6.7
Others				2		2	0.2
<b>Total</b>	<b>601</b>	<b>282</b>	<b>178</b>	<b>362</b>	<b>76</b>	<b>898</b>	<b>100.0</b>
Provisions	35	4	11	3		18	
<b>Net Total</b>	<b>566</b>	<b>278</b>	<b>167</b>	<b>359</b>	<b>76</b>	<b>880</b>	
<b>% Net Assets</b>	<b>1.7%</b>						<b>2.3%</b>

Lastly, and as far as the asset quality of Group BES, we note the low degree of involvement with emerging economies, which, excluding equity holdings, accounts for only 2.3% of consolidated assets.

Among the various exposures shown in the table, the following deserve particular mention: the Angolan risk is to a large extent covered by guarantees; in Latin America, the major involvement naturally continues to be in 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, where the increase in the Group's overall exposure in 2001 is mainly linked to the partnership established with Banco Bradesco.

## 6.2.2 - Liquidity and Transformation Ratio

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

The centralization of the main business units' treasuries permitted to reinforce the consolidated liquidity management, an essential step in a context of strong commercial dynamics, which in the past had led to a negative trend in the transformation ratio.

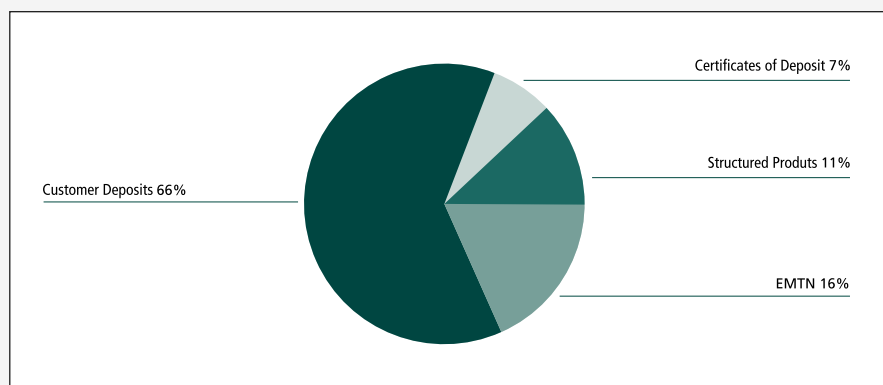
In 2001 the Group was able to reverse the trend of previous years and the transformation ratio of on balance sheet customer funds (deposits and debt securities) into credit decreased to 110%, a significant improvement versus the previous year (114%). However, the fact that the transformation ratio stood above 100% did not present any constraint to growth as the liquidity needs generated by the commercial balance sheet were met by resorting to the issuance of medium/long-term debt, to structured products sold to customers and to a securitization operation.

These issues made for a significant reduction in the short-term funding needs, as shown by the performance of the treasury gap/total liabilities ratio (from 9.4% in Dec/00 to 4.6% in Dec/01) and the public debt portfolio/treasury gap ratio, which reached 116% in 2001 against 39% last year.

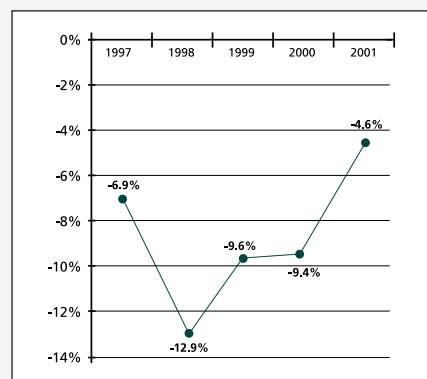
(euro million)

Variables		2000	2001
<b>Loans to Customers</b>			
Loans to Customers (gross)		21,789	24,569
Specific and Generic Provisions		560	593
Loans to Customers (net)	A	21,229	23,976
<b>On Balance Sheet Customer Funds + Debt Securities</b>			
Customer Deposits	B	16,160	17,395
Debt Securities		2,489	4,466
On Balance Sheet Customer Funds	C	18,649	21,861
Euro Medium Term Notes + Commercial Paper		2,689	4,339
Total On-Balance Sheet Funds	D	21,338	26,200
<b>Transformation Ratio</b>			
Deposits into Credit	A / B	131	138
Customer Funds into Credit	A / C	114	110
Total Funds into Credit	A / D	99	92

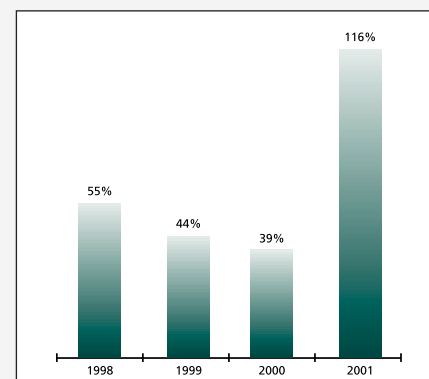
### Funding Structure



### GAP (net interbank deposits) as % of Total Liabilities



### Public Debt Portfolio / Interbank GAP



### 6.2.3 - Capitalization Level

Regulatory Capital totaled Euro 3,414 million at the year-end, up by euro 354 million on the previous year, an increase that reflects essentially the issuance of subordinated debt.

The proposed capital increase was approved in the following terms:

- 50 million new shares awarded to Shareholders as bonus shares through the incorporation of reserves available for the purpose, with a ratio of one bonus share for each 4 four shares held,

means that it was approved by 66.79% of the votes corresponding to the Bank's entire share capital.

It is public knowledge that the company Sky Holdings Limited, which holds only 72 votes, and Mrs. Sigfredo Ventura Costa Campos and Miguel Angel Ximenez de Sandoval e Gomez, whose names are not included in the list of shareholders supplied by the Central Securities Depository for the purposes of the General Meeting of December 31, 2001, filed a lawsuit contesting the resolutions taken by this meeting, alleging faults in the respective convening notice.

Although the Bank's Board of Directors is absolutely convinced that the referred lawsuit has manifestly no cause for action, its pendency may cause harm to the Shareholders and to the Bank itself.

Considering that article no. 62 of the Commercial Companies Code allows the renewal of company resolutions, even when void under paragraphs a) and b) of no. 1 of article no. 56 of this Code, or voidable, the Board of Directors of Banco Espirito Santo, SA has asked the Chairman of the General Meeting's Table to convene a new General Meeting so that the shareholders may deliberate on the renewal, with retroactive effects, of the resolutions taken by the referred General Meeting of December 31, 2001.

Once the proposed renewal of the resolutions is approved, the annulment of the referred contesting lawsuit will be immediately required.

(euro million)

Regulatory Capital	2000	2001	Chg
<b>Share Capital</b>	<b>1,000</b>	<b>1,000</b>	<b>0</b>
<b>Reserves and Similar</b>	<b>212</b>	<b>206</b>	<b>- 6</b>
Legal and Others	-82	13	95
Share Premium	294	193	- 101
Retained Earnings	0	0	0
<b>Subordinated Debt</b>	<b>1,083</b>	<b>1,443</b>	<b>360</b>
<b>Preference Shares</b>	<b>537</b>	<b>567</b>	<b>30</b>
<b>Net profit</b>	<b>228</b>	<b>198</b>	<b>- 30</b>
<b>Total</b>	<b>3,060</b>	<b>3,414</b>	<b>354</b>

Capital Increase	No. Shares Issued (thousand)	Price (euro)	Proceeds (euro)
Incorporation of Reserves	50,000	-	-
Shareholder Preference	50,000	11.00	550,000
<b>Total</b>	<b>100,000</b>		<b>550,000</b>

With a view to maintaining the pattern of high financial strength that always characterized BES, and endow it with the financial resources required for development, the General Meeting held on December 31, 2001, approved a capital increase from Euro 1,000 million to Euro 1,500 million, through the issue of 100 million new dematerialized registered common shares, at nominal value of 5 euros each.

- 50 million new shares to be subscribed by current Shareholders at the price of euro 11.00, each shareholder being entitled to subscribe one new share for each four shares held.

This capital increase was approved by 99.94% of the votes cast in the referred General Meeting, with 1,335,932 votes of approval and 752 dissenting votes, which

The period for subscription is between 11 and 25 February 2002. It is expected that the capital increase will permit a cash inflow of euro 550 million.

The negative change in the share premium account resulted from the charge of extraordinary costs relative to liabilities for early retirements and the coverage of actuarial losses registered in the value of the funds' assets in previous years, which was dully authorized by the Bank of Portugal.

As regards changes in the remaining components, the increase in subordinated debt stemmed from BES Finance debt issuance, and the rise in the euro value of preference shares was due to the valuation of the currency in which they are denominated, the USD.

Group BES carried subordinated debt totaling euro 1,443 million, an increase over the previous year almost exclusively explained by BES Finance euro 400 million debt issuance.

Although the issuance of subordinated debt will be covered with greater detail in the explanatory notes to the financial statements, we should draw attention to its main features at this point. For this purpose, operations between Group companies are eliminated.

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

(euro thousand)

Subordinated Debt	Issuer	Issue Terms				
		CCY	Value (€th)	Issue Date	Maturity	Listing
Subordinated Bonds	BES	EUR	34,997	Nov.93	10 Years	BVLP
Subordinated Bonds	BES	EUR	59,857	Apr.96	10 Years	BVLP
Subordinated Bonds	BES	EUR	99,760	Jun.97	10 Years	BVLP
Subordinated Bonds	BES	EUR	99,760	Jun.97	-	BVLP
Subordinated Bonds BIC 93	BIC	EUR	9,553	Mar.93	10 Years	BVLP
Subordinated Bonds BIC 95	BIC	EUR	24,940	Oct.95	7 Years	BVLP
Subordinated Perpetual Bonds BIC 97	BIC	EUR	47,430	Nov.97	-	BVLP
Subordinated Perpetual Bonds BIC 98	BIC	EUR	17,843	Nov.98	-	-
Subordinated Perpetual Bonds	BES Finance	USD	226,938	Jun.97	-	Lux
Subordinated Bonds	BES Finance	USD	56,735	Nov.99	10 Years	Lux
Subordinated Bonds	BES Finance	EUR	300,000	Mar.00	10 Years	Lux
Subordinated Bonds	BES Finance	EUR	400,000	May.01	10 Years	Lux
Subordinated Perpetual Bonds	CREDIBOM	EUR	6,100	Nov.99	-	-
Subordinated Bonds	BESLEASING MOB.	EUR	2,500	Dec.99	10 Years	-
Subordinated Bonds	BESLEASING IMOB.	EUR	7,000	May.01	10 Years	-
Subordinated Bonds	BESI	PTE	29,928	Dec.96	10 Years	BVLP
Subordinated Bonds	BESI	EUR	19,952	Dec.98	10 Years	BVLP
<b>Total</b>			<b>1,443,293</b>			

During the reporting year BES fully reimbursed the participation securities issued in the eighties that were still shown on the balance sheet.

The increase of preference shares, to euro 567 million, is explained by the strengthening of the US dollar during the reporting year in so far as all the issues were made in this currency by ESOL and BESOL.



## 6.2.4 - Solvency

The euro 360 million increase in subordinated debt was crucial to maintain Group BES's financial strength, bearing in mind that business growth was not matched by any significant change in tier I capital.

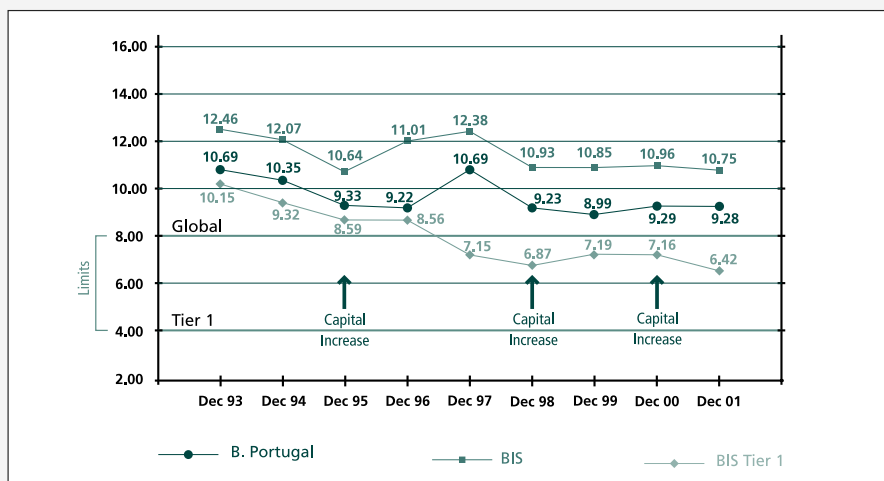
The decision taken to increase BES's capital at the beginning of 2002 should be seen in the light of the Group's regular practice of promoting sustained development at compatible solvency levels.

The consolidated solvency ratio stood quite close to its value in 2000, remaining clearly above minimum levels, either those required by the Bank of Portugal or those recommended by the Bank of International Settlements (BIS).

A closer look at the evolution of the ratio's various components as calculated in accordance with the Bank of Portugal's rules shows an increase of nearly 14% in risk weighted assets, supported by a 4.3% rise in tier I capital, notwithstanding the fact that a sizeable sum was used to fund liabilities for pension funds. The change in tier II was more noticeable (an increase of 33.1%) due to the issuance of 400 million subordinated bonds incorporated as Lower Tier II.

Under BIS regulations, the total ratio is 10.8% (11.0% in 2000), while the 6.4% Tier I ratio compares very well with the minimum of 4% recommended by this institution.

Solvency Ratio Evolution (%)



(euro million)

Variables		2000	2001	Change	
				Abs.	Rel. (%)
Net Consolidated Assets	(1)	33,936	38,523	4,587	13.5
Risk Weighted Assets	(2)	26,665	30,364	3,699	13.9
Risk Weight (%)	(2) / (1)	79	79	0	
Regulatory Capital Requirements	(3)	2,133	2,429	296	13.9
Risk Weighted Assets		1,913	2,214	301	15.7
Trading Portfolio		220	215	-5	-2.3
Existing Regulatory Capital	(4)	2,476	2,817	341	13.8
Core		1,699	1,772	73	4.3
Complementary		965	1,284	319	33.1
Deductions		188	239	51	27.1
Surplus	(4) - (3)	343	388	45	
<b>Solvency Ratio (%)</b>		<b>9.29</b>	<b>9.28</b>		

In a coeteris paribus context, the approved capital increase will allow a positive evolution in the solvency ratio under both the Bank of Portugal and the BIS criteria, i.e., it should rise to respectively 11% and 12%.

Financial strength can also be valued through the coverage of fixed assets by regulatory capital. As the following table shows, with permanent capital accounting for more than double the value of fixed assets, Group BES capitalization remains strong.

### 6.2.5 - Investments

In 2001 major expenditure went to the modernization of the information system and the refurbishing of premises, totaling on the whole euro 143 million. Net financial investments amounted to euro 85 million.

The most significant financial investments concerned the underwriting of the capital increases of Kredyt Bank (euro 47 million), PT Multimédia (euro 62 million) – this one carried out within the strategic partnership established with the Portugal Telecom Group – and Pararede (euro 9 million).

In addition to self-financing, investment was funded by the issuance of subordinated debt.

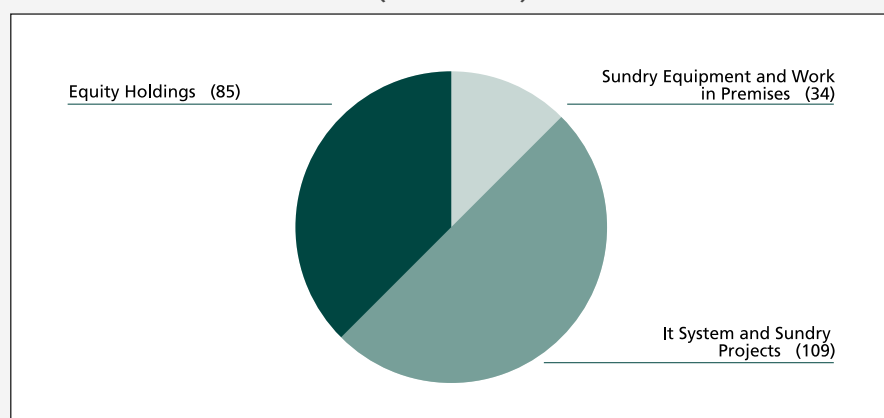
### Coverage of Fixed Assets

(euro million)

Variables	2000	2001	Δ (%)
<b>Fixed Assets (FA)</b>			
Net Tangible & Intangible Assets	603	620	2.8
Equity Holdings	772	891	15.4
	<u>1,375</u>	<u>1,511</u>	<u>9.9</u>
<b>Regulatory Capital (RC)</b>			
Capital and Reserves	1,211	1,206	-0.4
Subordinated Debt	1,083	1,443	33.2
Preference Shares	537	567	5.7
	<u>2,831</u>	<u>3,216</u>	<u>13.6</u>
<b>Coverage Ratio (%) (RC / FA)</b>	2.1	2.1	

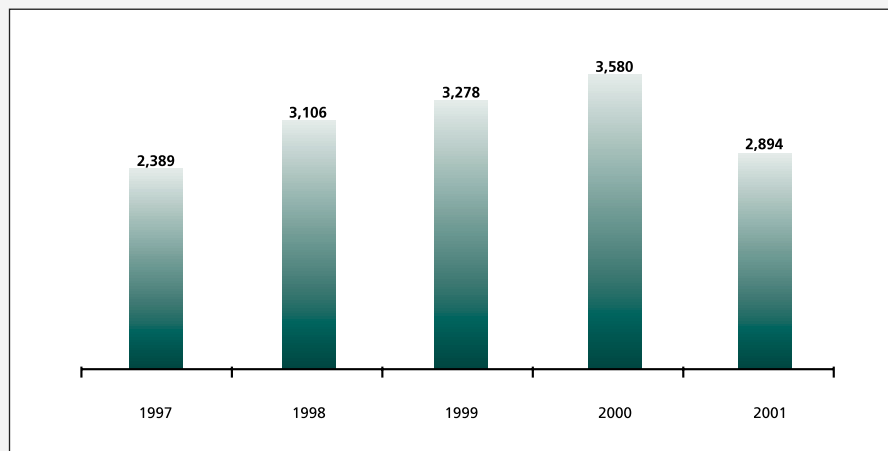
### Major Investments

(euro million)

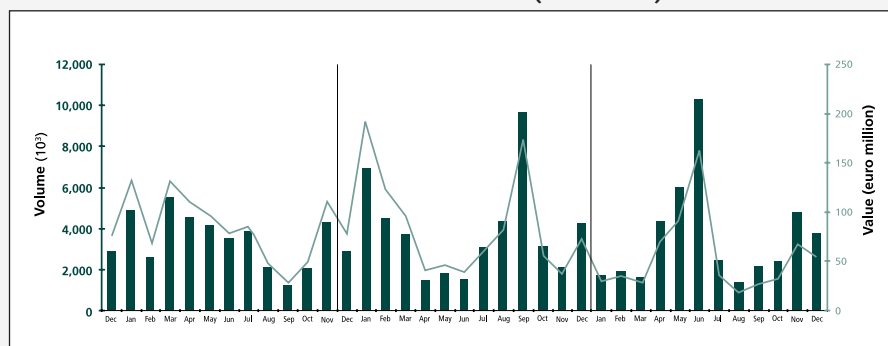




Market Capitalization (euro million)

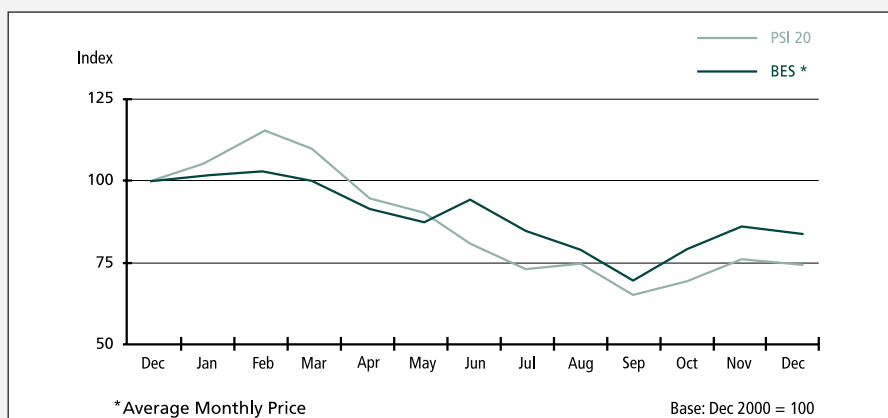


Evolution of Transactions (1999-2001)



	1997	1998	1999	2000	2001
Annual volume (euro million)	808	1,804	1,022	1,020	652
Turnover (%)	34	58	31	28	23

Evolution of Share Price in 2001



### 6.3 – Bes Shares and the Market

The capital market's sagging performance during the year – of which the most visible face was the 25% annual fall in the PSI 20 index – also reflected on BES's stock market capitalization. Hence, although BES shares performed relatively well in comparison, the Bank's market value decreased 19%, to euro 2,894 million at the year-end.

BES nevertheless continues to feature prominently in terms of the equity market capitalization, with a share of 3% that corresponds to the fifth highest stock market capitalization amongst Portuguese companies listed in the Lisbon and Oporto Stock Exchange.

Reflecting the adverse economic situation, the Stock Exchange trading volume shrank and the volume of BES shares traded fell accordingly.

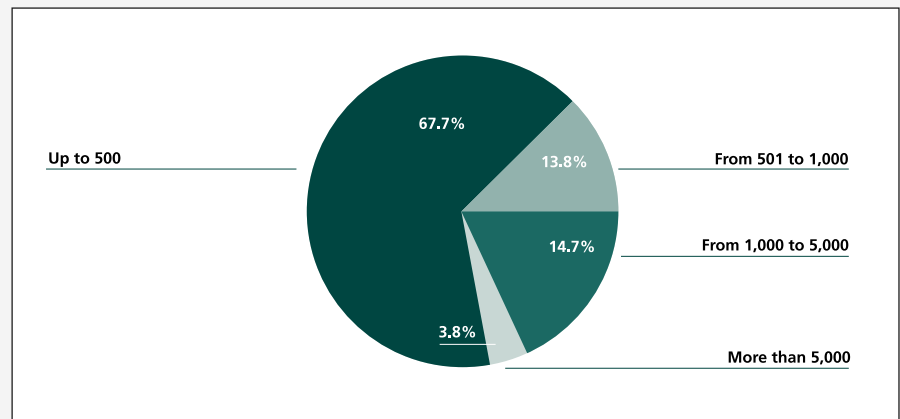
Investing in BES shares has always represented a safe bet and one yielding a good return, and in this respect it is quite interesting to look at the trend in turnover, even though it has tended to decline.

Bearing in mind the main indicators used to analyze the stock market performance of BES shares, it can be observed that: the Pay Out Ratio – i.e., the percentage of profits paid out to shareholders in the form of dividends – remained flat versus the previous year; the Price Earnings Ratio, progressed well, as did the Dividend Yield, which is now higher. These indicators' positive evolution once again illustrates the fact that the BES share price does not incorporate speculative elements, reflecting only the institution's intrinsic values.

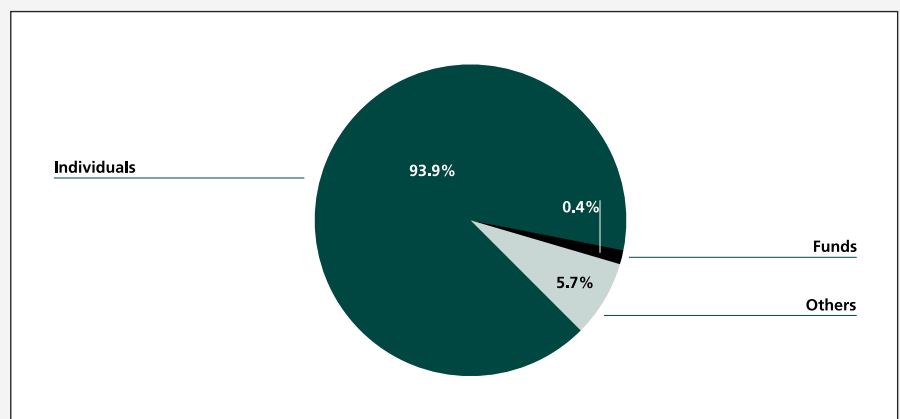
The breakdown by categories reveals the predominance of individual shareholders, who see in the BES share a safe investment with an attractive return.

Main Stockmarket Indicators		2000	2001
Price Book Value	(PBV)	2.96	2.40
Price Earnings Ratio	(PER)	15.70	14.64
Dividend Yield	(%)	2.41	2.60
Pay Out Ratio	(%)	37.90	38.04

Shareholders (number) – by no. of shares held



Shareholders (number) – by legal status



(euro million)

Breakdown of Banking Revenues	2000	2001	Change (%)
Net Interest Income	640	719	12.3
+ Fees and Commissions	378	382	1.2
= Commercial Banking Revenues	1,018	1,101	8.2
+ Capital Markets Results	211	126	-40.4
= Operating Banking Revenues	1,229	1,227	-0.2

## 6.4 – Operating Conditions

The operating conditions of Group BES in 2001, which are implicit in the financial statements, reflect very clearly the strength of the commercial activity based on a multispecialist organization.

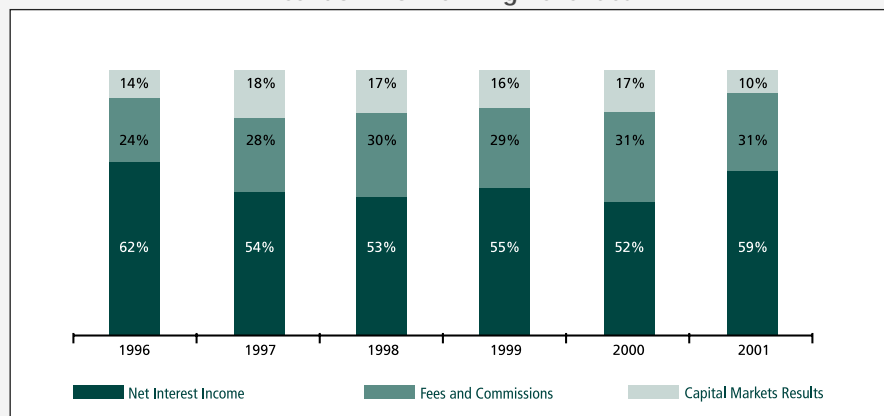
In effect, and in clear contrast to the capital market's behavior, it must be highlighted the good performance of commercial and retail banking: net interest income was up by 12.3% and banking revenues, excluding markets, increased by 8.2%.

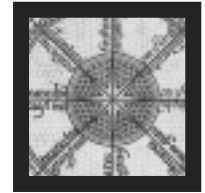
Against an adverse macroeconomic environment, Group BES still achieved a small increase in fees and commissions on customer services, particularly services to corporate and individual customers, thanks largely to the vigor of cross-selling activities.

It was largely thanks to Group BES's multispecialization that the effects of the economic deterioration were somewhat lessened. The good progress made in specialized credit, with Crediflash increasing net profits by 64%, Besleasing by 56% and Credibom by 36% must be particularly highlighted.

Strategic guidelines, which seek to foster the sustained increase in the contribution of revenues from services (fees and commissions) to the Group's overall revenues, came out reinforced, the slide in trading results being offset by the increase in net interest income.

Breakdown of Banking Revenues





#### 6.4.1 - Net Interest Income and Margin

Results of intermediation increased euro 79 million, up by 12.3% on the previous year.

Factors that most influenced this important business area during the reporting year are described below.

The increase in net interest income stemmed from a 328 million rise in intermediation revenues against a 249 million increase in interest expense. While the increase in interest income originated in customer loans, the deterioration in the cost of funding came essentially from customer funds.

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

Average interest rates in the business done with customers are slightly higher than in the previous year. On the one hand this reflects the scarcity of funding and therefore the Group's effort to rebalance the transformation ratio, and, on the other, the realignment of the interest rate policy in credit operations to make them also incorporate the slimming down also occurred on this side of the business.

(euro million)

Intermediation	2000	2001	Change
<b>Revenues</b>	<b>1,692</b>	<b>2,020</b>	<b>328</b>
Customer Loans	1,243	1,537	294
Placements in Securities	240	242	2
Other Placements <sup>(1)</sup>	209	241	32
<b>Costs</b>	<b>1,052</b>	<b>1,301</b>	<b>249</b>
Customer Funds	636	849	213
Other Funds <sup>(1)</sup>	416	452	36
<b>Results of Intermediation</b>	<b>640</b>	<b>719</b>	<b>79</b>

<sup>(1)</sup> Includes net interest from swaps

(euro million)

Variables	2000			2001		
	Average Volume	Rate (%)	Revenues/ /Costs	Average Volume	Rate (%)	Revenues/ /Costs
<b>Placements</b>	<b>27,483</b>	<b>6.158</b>	<b>1,692</b>	<b>33,025</b>	<b>6.116</b>	<b>2,020</b>
Customer loans	19,301	6.443	1,243	23,297	6.596	1,537
Securities	3,916	6.119	240	4,809	5.029	242
Other placements <sup>(1)</sup>	4,266	4.909	209	4,919	4.907	241
<b>Borrowed Funds</b>	<b>27,359</b>	<b>3.846</b>	<b>1,052</b>	<b>32,485</b>	<b>4.006</b>	<b>1,301</b>
Customer Funds	18,962	3.356	636	23,098	3.676	849
Other funds <sup>(1)</sup>	8,397	4.953	416	9,387	4.816	452
<b>Result / Spread Margin</b>		<b>2.312</b>	<b>640</b>		<b>2.110</b>	<b>719</b>
<b>Regulatory Capital and spread</b>	<b>124</b>	<b>0.018</b>		<b>540</b>	<b>0.066</b>	
<b>Result/Global Margin</b>		<b>2.330</b>	<b>640</b>		<b>2.176</b>	<b>719</b>

<sup>(1)</sup> Includes net interest from swaps

(euro million)

	Volume Effect			+ Spread Effect			Total
	Rate (%)	Change in Volume	Change in Interest	Volume	Change in Interest Rate	Change in Interest	Change in Interest
<b>Financial Assets</b>	<b>6.210</b>	<b>5,542</b>	<b>345</b>	<b>33,025</b>	<b>-0.051</b>	<b>- 17</b>	<b>328</b>
Customer Loans	6.443	3,996	258	23,297	0.153	36	294
Placements in Securities	6.119	893	55	4,809	-1.090	- 53	2
Other Placements	4.909	653	32	4,919	-0.002	0	32
<b>Financial Liabilities</b>	<b>3.846</b>	<b>5,126</b>	<b>188</b>	<b>32,485</b>	<b>0.188</b>	<b>61</b>	<b>249</b>
Customer Funds	3.356	4,136	139	23,098	0.320	74	213
Other Funds	4.953	990	49	9,387	-0.137	- 13	36
<b>Difference</b>			<b>157</b>			<b>- 78</b>	<b>79</b>

The increase in the absolute margin (up by Euro 79 million) can be explained by the effect of the rates and business volumes changes, as shown in the table.

As can be seen, the increase in net interest income lies solely in the volume effect, since the spread effect made for a reduction of euro 78 million.

The coordination between the markets area and the balance sheet management, carried out by the Asset/Liability Committee (ALCO), which functions at the institution's highest level, permitted to adjust the balance sheet to the forecasted trend in the yield curve. Some of the most important measures defined by the ALCO concerned the price schedules for both credit and deposits.

Anticipating the drop in market interest rates, the ALCO adjusted in good time the price schedule for deposits, and increased credit spreads in accordance with the trend observed abroad in most business sectors. On the other hand, the reading since the beginning of 2001 of the economic situation in the USA and the European Union – a clear slowing down of the economy – led the Group to brace itself for falling interest rates. To this effect, operations at the beginning of the second quarter of the year aimed at protecting the balance sheet against this decline in interest rates were carried out.

Additionally, the maturity of funding was extended, both through structured products for customers and by issuing debt at indexed rates in the international market. These issues permitted a significant reduction in short-term funding needs and also benefited net interest income by fully incorporating the drop in market interest rates, while simultaneously improving the Group's liquidity ratios.

The actual drop in interest rates, which reached the bottom in November, permitted to obtain significant trading results during the fourth quarter of the year, in part making up for the less good results obtained in equity markets.

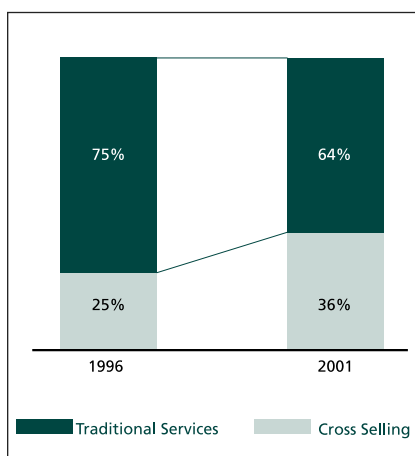
### 6.4.2 - Customer Services

Customer service income (fees and commissions) totaled euro 382 million, an increase of euro 4 million when compared to the previous year. This performance originates essentially in cross-selling products which mirror the drop in commissions charged by mutual funds. In what concerns traditional products and services, income from securities also declined due to the drop in sale and purchase commissions and the capital market's negative performance.

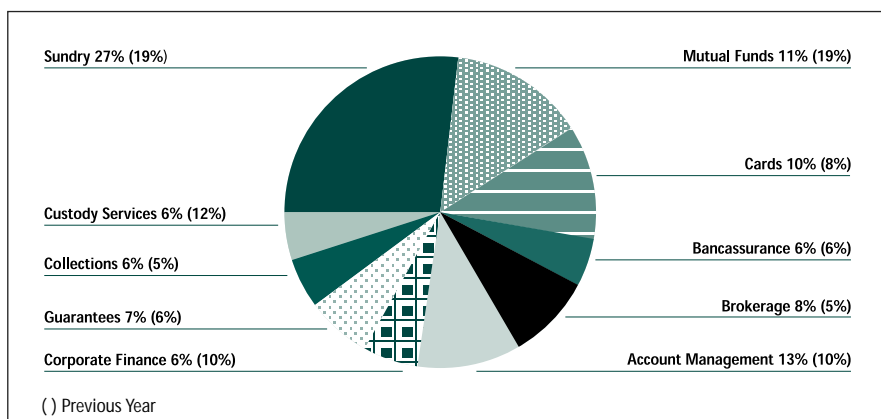
Among the main fee-generating areas, those related to cross-selling are of particular note, representing 36% of the total (which compares with 25% in 1996). Traditional services continued to make a strong contribution.

As far as electronic customer services are concerned, it should be noted the

**Breakdown of Fees and Commissions**



**Breakdown of Fees and Commissions**



consolidation of BESnet as an alternative channel allowing individual customers to fully manage their financial needs through a remote solution. In turn, the number of companies using BESnet Negócios service continued to grow at a fast pace, reaching a penetration rate of 26% at the end of the year. This vigor is explained by the high quality of the services available through this channel, which it did not make sense to keep free of charge.

In the international payments area, which generate an attractive level of fees, the Group's significant progress brought it on line with the highest international standards. A particular emphasis was placed on widening and specializing the range of products targeted at the institutional segment's specific needs and gave a new boost to cash management services. In this respect, it should be mentioned that BES obtained the mandate from another two large foreign financial institutions (one French and the other American) to act as their privileged bank in Portugal to provide cash

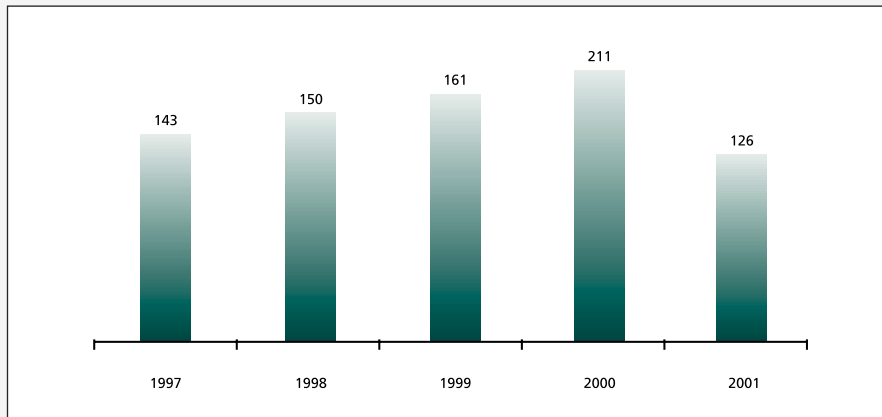
management services to the large companies that are customers of these institutions.

As regards fees obtained from securities services, the Portuguese market behaved in tandem with all the financial markets in general, its poor performance affecting directly the custody business. Despite this adverse environment the number of portfolios increased, and the effort made to improve securitization services was particularly noteworthy. The operations were made more autonomous and the connection online to international stock exchanges now permits to submit and process Portuguese and foreign customers' orders in real time.

As regards sub-custody services, BES was elected by one of the largest global custodians to act as its sole sub-custodian in Portugal. Besides reflecting the recognition of service quality, this choice further contributes to boost the Bank's image amidst the various international operators.



Capital Markets Results  
(euro million)



### 6.4.3 - Investment Banking and Capital Markets

Capital markets results reflect the overall slump across the main international stock exchanges, and the Portuguese one in particular, equity trading being the main factor inducing this poor performance.

The most significant gains were obtained in the interest rate risk management in derivatives and bonds portfolios, which to a certain extent permitted to offset the negative impact of equity markets in the generation of value. The results achieved stem, on the one hand, from the confirmation of the expectations in terms of interest rate trends, and on the other from the strict monitoring of the interest rate risk.

However, the equity market's poor performance had a strongly negative impact on this area's results, leading to the recognition of significant losses. Still, these losses were in part mitigated by the results obtained from the negotiation of sale options on minority blocks of shares in insurance companies included in Group Tranquilidade.

#### 6.4.4 - Efficiency and Operating Costs

The breakdown of operating costs underlines the results of the cost contention and rationalization policy followed by the Group, with each of their components growing more modestly than in previous years. This is all the more significant bearing in mind that the Group has continued to modernize the information systems and to integrate new technologies in the operating structure.

Moreover, these values are influenced by other factors, namely the costs of the subsidiaries operating in the new technologies sphere, and in BESSA's case, by the effect of new acquisitions. Without these effects operating costs would have grown by roughly 9.6%.

Although the economic situation was strongly penalizing for the financial sector, BES Group was still able to achieve productivity gains, namely in terms of the number of employees versus turnover. Conversely, the Cost to Income deteriorated, mainly as a result of the drop in capital markets revenues.

Several initiatives were taken to advance strategic guidelines and enhance the Group's operating efficiency: the application of workflow technology to operating processes; extending the use of the e-procurement platform to a large number

of purchase categories; using e-learning to provide continuous training to staff; and adopting the Intranet as Group BES's main internal communication platform (a large part of the documents of support to the operations have already been dematerialized).

Finally, it should be referred the completion of the project involving the integration of BES and BIC operating platforms, which will permit significant gains in terms of both institutions' operating procedures, investments in IT and internal processes.

(euro million)

Variables	2000	2001	Change		Like-for-Like (%)
			Abs.	Rel. (%)	
Staff Costs	285	321	36	12.6	5.8
+ Other Administrative Costs	233	271	38	16.3	13.6
= Total Administrative Costs	518	592	74	14.3	9.3
+ Depreciation	109	122	13	11.9	11.0
= Operating Costs	627	714	87	13.9	9.6

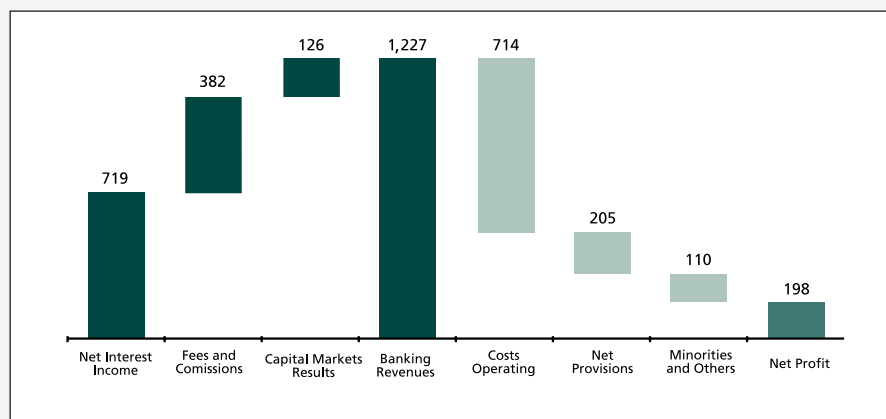
Indicators		2000	2001
Administrative Costs/Net Assets	(%)	1,53	1,53
Employees per Branch	(no.)	12,5	12,5
Total Assets per Employee	(euro th)	5.438	5.949
Cost to Income	(%)	51,0	58,2



(euro million)

Variables	2000	2001	Change	
			Abs.	Rel. (%)
Net Interest Income	640.2	718.7	78.5	12.3
+ Fees and Commissions	377.9	382.5	4.6	1.2
= Commercial Banking Revenues	1,018.1	1,101.2	83.1	8.2
+ Capital Markets Results	211.0	125.8	-85.2	-40.4
= Banking Revenues	1,229.1	1,227.0	-2.1	-0.2
- Operating Costs (Depreciation)	627.0	714.1	87.1	13.9
- Net Provisions Credit	257.4	204.8	-52.6	-20.4
Securities	135.8	144.4	8.6	6.3
Others	67.2	27.5	-39.7	-59.1
- Minorities and Others	54.4	32.9	-21.5	-39.5
- Minorities and Others	116.7	110.4	-6.3	-5.4
= Net Profit	228.0	197.7	-30.3	-13.3

Breakdown of Banking Revenues and Costs (euro million)



## 6.5 – Results and Profitability

As was amply illustrated, 2001 was a very demanding year, both in terms of competitiveness and as regards the improvement of internal processes. The issues specifically affecting the Group and the domestic market combined with the exceptional constraints experienced during the year to cause a drop in results and profitability.

On the other hand, provisioning was substantially reinforced, both in terms of provisions for credit (which rose by 6.3% over 2000) and in terms of the securities portfolio, equity holdings and country risk.

A qualitative analysis of the results, i.e., relating them to the equity employed, leads to the observation that although continuing to display attractive levels of return, it was not possible to prevent ROE from dropping from 21.9% to 15.6%.

The table shows the breakdown of ROE using average financial assets as the coefficient of the various income statement items.

To summarize the main aspects of the reporting year, Group BES, in spite of the adverse economic conditions, was able to maintain attractive profitability levels, with ROE standing above 15%. Moreover, and considering the activity developed, efficiency continued to make good progress; the competitive position was reinforced across the main business lines, and the transformation ratio of customer funds into credit was substantially improved.

(figures in %)

	2000	2001	Change p.p.
Rate of Financial Assets	6.158	6.116	-0.042
- Rate of Financial Liabilities	3.846	4.006	0.160
= Spread Margin	2.312	2.110	-0.202
+ Balance Sheet Management	0.018	0.066	0.048
= Global Margin	2.330	2.176	-0.154
+ Fees and Commissions	1.375	1.156	-0.219
+ Capital Markets Results	0.768	0.381	-0.387
= Gross Return on Financial Assets	4.473	3.714	-0.759
- Operating Costs	2.281	2.161	-0.120
= Net Return on Financial Assets	2.192	1.552	-0.640
+ Others	0.010	-0.070	-0.080
- Minority Interests	0.198	0.145	-0.053
- Net provisions	0.937	0.621	-0.316
= Pre-tax Return	1.067	0.717	-0.350
- Income Tax	0.233	0.086	-0.147
= ROFA (Return on Financial Assets)	0.834	0.631	-0.203
x Weighting of Financial Assets	90.83	87.06	-3.77
= ROA (Return on Assets)	0.756	0.549	-0.207
x Capital Leverage	29.04	28.37	-0.69
= ROE (Return on Equity)	21.94	15.57	-6.37

# Activity and Results of Banco Espírito Santo (BES)

Annual  
Report  
2001



PTE 1.000 - Note's Detail



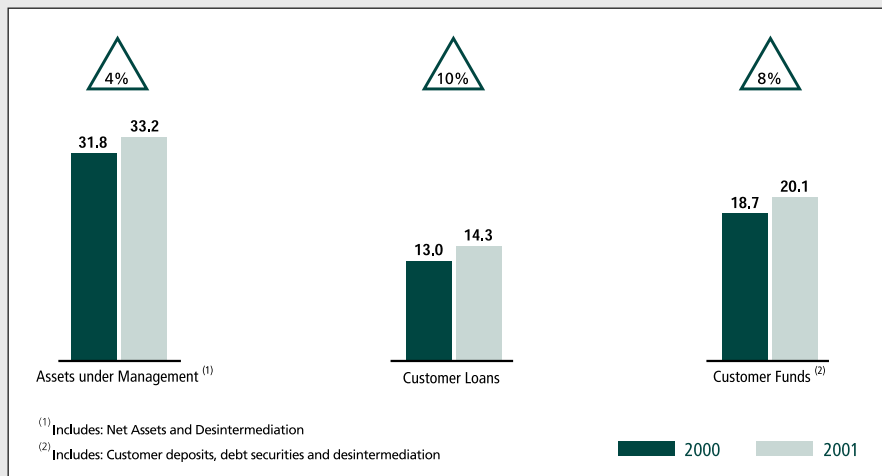
BANCO ESPIRITO SANTO



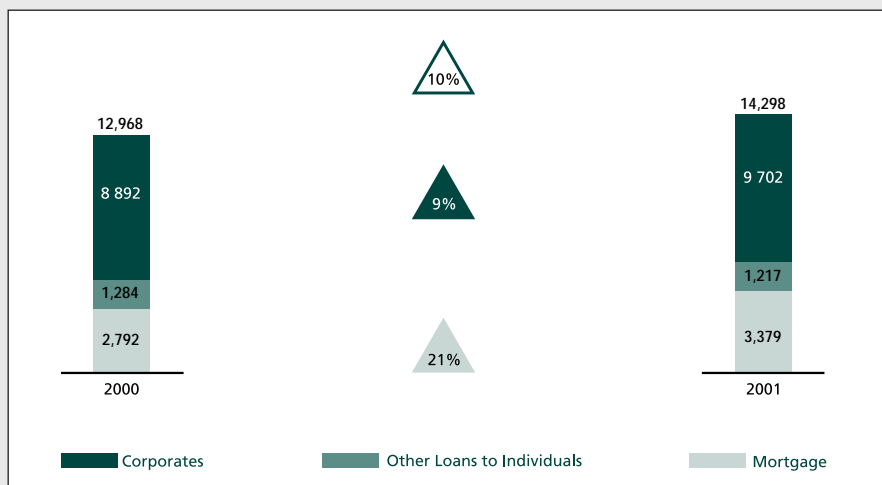
Variables	Symbol	1998	1999	2000	2001	
<b>BALANCE SHEET (euro thousand)</b>						
Total assets <sup>(1)</sup>	TA	23,927,494	27,221,011	31,767,654	33,173,476	
Net assets	NA	20,297,966	22,732,992	26,816,824	27,589,834	
Financial assets (average values)	$\overline{FA}$	15,288,425	18,274,334	20,438,075	23,789,637	
Capital and reserves (average values)	$\overline{KP}$	838,579	1,015,732	1,130,333	1,365,107	
<b>INCOME STATEMENT (euro thousand)</b>						
Net Interest Income	NII	303,883	344,903	373,206	417,052	
+ Fees and Commissions	FC	158,727	196,026	213,747	205,433	
= Commercial Banking Revenues	CBR	462,610	540,929	586,953	622,485	
+ Capital Markets Results	CMR	148,678	144,376	201,304	123,803	
= Operating Banking Revenues	BR	611,288	685,305	788,257	746,288	
+ Extraordinary Results and Other Costs	XR-OOC	-5,561	11,169	-1,783	-14,506	
= Total Banking Revenues	TBR	605,727	696,474	786,474	731,782	
- Operating Costs	OC	351,787	387,918	418,107	448,539	
- Provisions and Taxes	PVT	120,487	145,993	233,992	142,103	
= Net Profit	NP	133,453	162,563	134,375	141,140	
<b>PROFITABILITY (%)</b>						
Net Interest Margin	$NII / \overline{FA}$	1.99	1.89	1.83	1.75	
+ Return on Fees and Commissions	$FC / \overline{FA}$	1.04	1.07	1.05	0.86	
+ Return on Capital Markets Results	$CMR / \overline{FA}$	0.97	0.79	0.98	0.52	
= Business Margin	$BR / \overline{FA}$	4.00	3.75	3.86	3.14	
- Weighting of Operating Costs	$OC / \overline{FA}$	2.30	2.12	2.05	1.89	
- Provisions and Taxes	$PVT / \overline{FA}$	0.79	0.80	1.14	0.60	
- Extraordinary Results and Other Costs	$(OOC-XR) / \overline{FA}$	-0.04	0.06	-0.01	-0.06	
= Return on Financial Assets	$NP / \overline{FA}$	0.87	0.89	0.66	0.59	
x Weighting of Financial Assets	$\overline{FA} / \overline{NA}$	0.85	0.87	0.87	0.87	
= Return on Assets (ROA)	$NP / \overline{NA}$	0.74	0.77	0.57	0.52	
x Placements Multiplier	$\overline{NA} / \overline{KP}$	21.45	20.70	20.88	20.05	
= Return on Equity (ROE)	$NP / \overline{KP}$	15.91	16.00	11.89	10.34	
<b>EFFICIENCY</b>						
Operating Costs/Total Assets	(%)	OC/ TA	1.47	1.43	1.32	1.35
Assets per Employee	(10 <sup>3</sup> euro)	TA / NE	4,578	5,024	5,916	6,372
Cost to Income	%	OC / BR	57.5	56.6	53.0	60.1

<sup>(1)</sup> Includes disintermediation

### Business Progress (euro billion)



### Customer Loans (euro million)



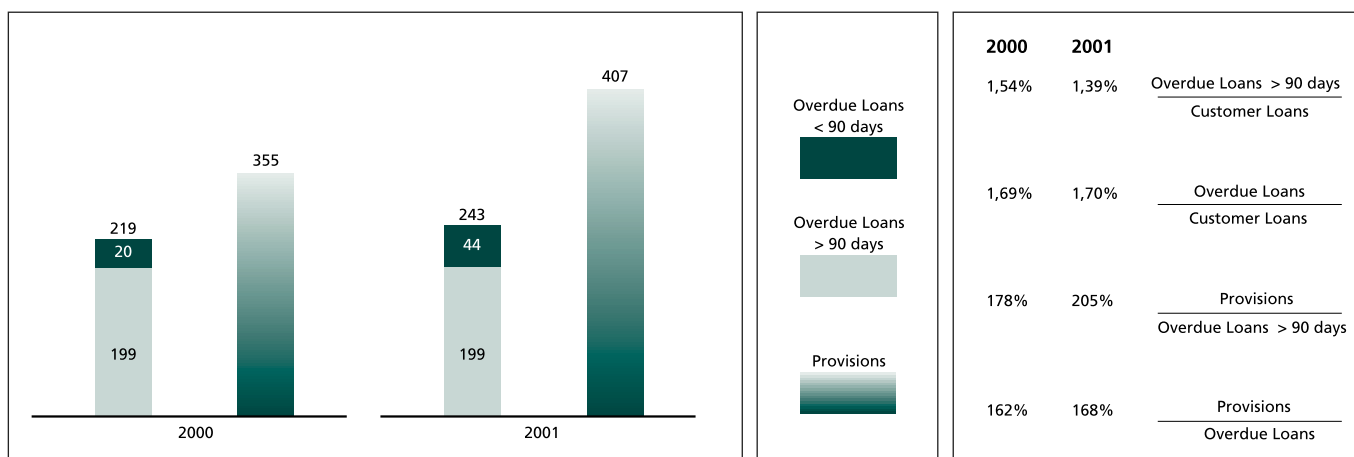
## 7.1 – Activity

Continuing the trend of previous years, 2001 was lived in a climate of strong commercial dynamism. Major structural transformations were consolidated while at the same time opening up new and challenging paths aligned with the perspective of being a multi-specialist financial Group.

The vigor displayed by the business more directly involving customers remained one of the key features of BES's activity, with credit continuing to expand (rising by 10% year on year) and funding (including disintermediation) maintaining the same growth pace as in the previous year (approximately 8%).

Customer loans continued to show that there is room for expansion, mortgage lending again proving the most active component of credit, having risen by roughly 21% against the previous year, while other loans to individuals remained practically flat. At the end of the year loans to individuals represented roughly one third of the Bank's total credit portfolio.

The progress made in loans to corporates – an increase of 9% - continues to reflect BES's firm implantation in the Portuguese corporate fabric. In fact, within the scope of the strategy of enhancing the multispecialization model by promoting an integrated and specialized approach to the various segments, a specific commercial structure and a marketing component were created to autonomize the treatment of medium-sized enterprises.



Thanks to the systematic fine-tuning of issues such as the methods used by the Global Risk Management area or the model for decentralizing decision powers, combined with the good capacity shown by all those intervening in the process to assess credit risk from a commercial standpoint, one of BES's strong points is indeed the quality of its credit portfolio.

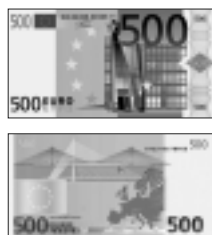
However, the Bank continued to conduct its activity with the concern of maintaining a balance between, on the one hand, the offer of products such as mutual funds and bancassurance, and on the other its need to finance customer loans through on-balance sheet funds, including debt securities, which remained the most vigorous component of intermediation.

This quality may be gauged by the low loan loss level recorded, which remained at around 1.7%, and by the good level of coverage by provisions, where the reference ratio rose by 6 p.p. (168% in 2001 against 162% in 2000).

The increase in funding, though more moderate than that of credit, is nonetheless quite meaningful considering that it occurred in a context of rising indebtedness of families and an ever-increasing array of disintermediation products available.

(euro million)

Variables	2000	2001	Change	
			Abs.	Rel. (%)
<b>On-Balance Sheet Funds</b>	<b>13,737</b>	<b>14,513</b>	<b>776</b>	<b>5.6</b>
Sight Deposits	5,325	5,696	371	7.0
Term Deposits	6,061	6,242	181	3.0
Debt Securities	2,351	2,575	224	9.5
<b>Off-Balance Sheet Funds</b>	<b>4,951</b>	<b>5,584</b>	<b>633</b>	<b>12.8</b>
<b>Total Funds</b>	<b>18,688</b>	<b>20,097</b>	<b>1,409</b>	<b>7.5</b>



## 7.2 – Banking Revenues and Productivity

(euro thousand)

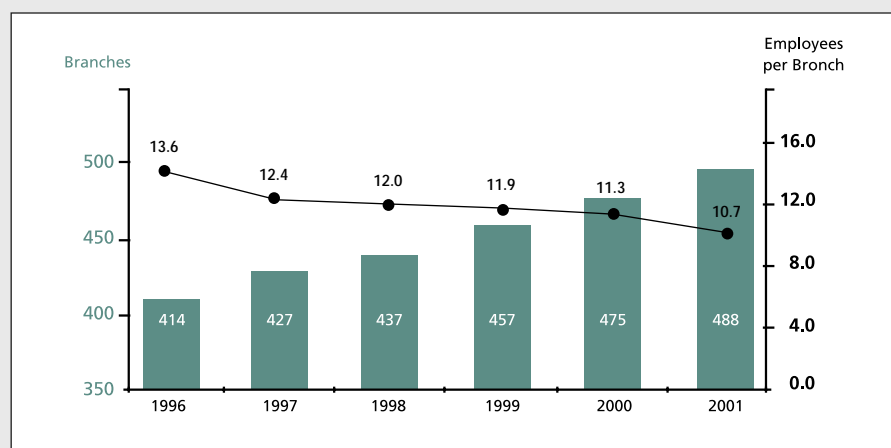
Variables	2000	2001	Chg (%)
Net Interest Income	373,206	417,052	11.7
+ Fees and Commissions	213,747	205,433	-3.9
+ Capital Markets Results	201,304	123,803	-38.5
= Banking Revenues	788,257	746,288	-5.3
+ Extraordinary Results and Others	-1,783	-14,506	-
- Administrative Costs	331,699	354,781	7.0
- Depreciation	86,408	93,758	8.5
- Net Provisions	207,200	142,103	-31.4
= Pre-tax Profit	161,167	141,140	-12.4
- Income Tax	26,792	0	-100.0
<b>Net Profit</b>	<b>134,375</b>	<b>141,140</b>	<b>5.0</b>

The Bank's performance from the standpoint of its capacity to generate income by developing the various business components was strongly affected by the capital markets' negative situation, with trading results falling by 38.5%. However, the good progress made by net interest income (+ 11.7%) permitted to lessen this negative impact on the banking revenue, whose drop did not exceed 5.3%.

Indicators		2000	2001	Change
Operating Costs / Total Assets	(%)	1.32	1.35	0.03 p.p.
Assets per Employee	(euro th)	5,916	6,372	7.7 %
Employees per Branch	(no.)	11.3	10.7	-0.6
Cost to Income	(%)	53.0	60.1	7.1p.p.

The increase in operating costs was consistent with business growth, besides integrating non-recurrent factors (namely the introduction of the euro) and the impact of regulatory changes (new regulations on retirement pensions). In effect, although the Cost to Income increased due to the drop in trading results, physical productivity was improved, as measured either by the number of employees per branch or by the ratio of assets under management per employee, which improved by 7.7%.

### Network Expansion / Organization Efficiency



The reduction of BES's staff, a constant feature over the last few years, did not neglect the indispensable effort to arrive at a younger and overall better qualified workforce.

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

Liabilities for retirement pensions thus increased euro 82 million and were funded through contributions to the pension funds totaling euro 219.8 million. Hence the coverage level improved significantly, from 84% to 91%.

### 7.3 – Profitability

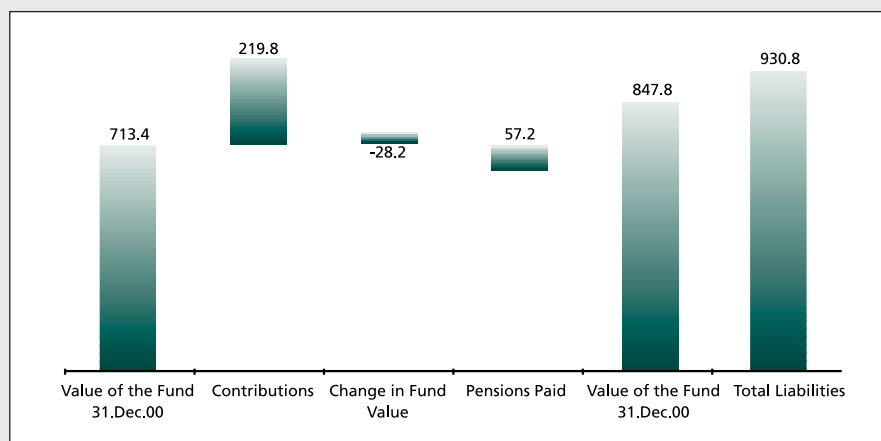
2001 was characterized by a decline in profitability, in terms of both return on equity and on assets. This behavior resulted from the combination of various factors that were explained throughout this report. Hence return on average equity dropped from 11.9% in 2000 to 10.3% in 2001 while return on assets stood at 0.52% against 0.57% in the previous year.

### 7.4 – Distribution of BES Net Profit

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

The proposed dividend on the 2001 earnings corresponds to a gross value per share of euro 0.367.

Annual Change in BES Pension Funds (euro million)



(euro)

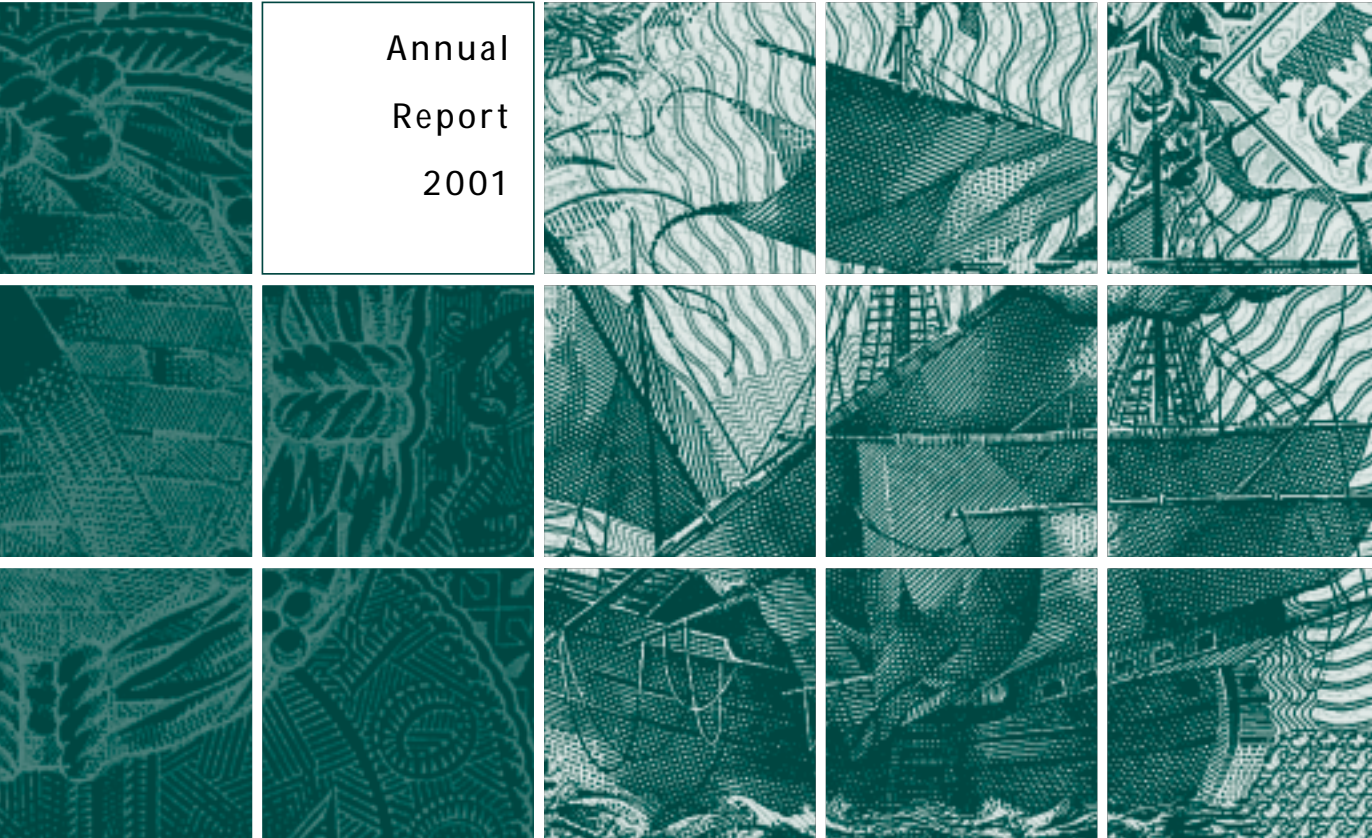
#### Proposed Distribution of Net Profit

For legal reserve	14,115,000.00
For distribution to the members of the Board of Directors	1,400,000.00
For distribution to the employees	13,000,000.00
For distribution to the shareholders	75,200,000.00
For other reserves	37,425,219.00
	<b>141,140,219.00</b>



# Main Business Units – Activity and Results

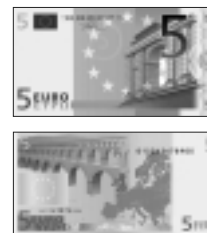
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BANCO ESPIRITO SANTO



## 8.1 – Banking

### BIC – Banco Internacional de Crédito, S.A.

In 2001 the Bank pursued its business strategy focused on mortgage lending and attracting customer funds in specialized segments. During the year BIC implemented its expansion strategy based on multi-channel distribution, developing the Internet for individual customers – BICnet Particulares – and companies – BICnet Empresas – and creating a specialized telephone banking service for the corporate market to enhance the relationship with the customer – TeleBIC Empresas. We should also note the continued success of TeleBIC Particulares (telephone banking for private individuals).

Despite the slowing down of the economy, the Bank achieved remarkable progress across the main balance sheet items: net assets were up by 18%, to euro 8,158 million, customer

funds grew 7%, reaching euro 4,002 million and net customer loans, at euro 6,652 million, registered a 17% rise. Net interest income stood at euro 145,6 million while the strong growth of banking income, driven by the progress achieved in fees and commissions on customer services, allowed net banking revenue to reach euro 168 million. Thanks to this business growth and the continued high efficiency levels displayed by operating costs, BIC posted a net profit of euro 52 million. We should also refer the good performance shown by the structural costs/average assets and Cost to Income ratios, the first standing at 0.82% against 0.86% in 2000 and the second dropping from 47.42% to 40.75%.

Finally, the completion of the project involving the integration of BES and BIC operating platforms deserves a special word as it will permit significant gains in terms of both institutions' operating procedures, investments in IT and internal processes.



**BANCO** GRUPO BANCO ESPÍRITO SANTO  
**INTERNACIONAL DE CRÉDITO**  
*O seu banqueiro particular*

Registered Office:  
Av. Fontes Pereira de Melo, 27  
1050-117 Lisboa – Portugal  
Registered Share Capital: euro 150,000 thousand  
BES holding: 100%

(euro million)

Variables and Indicators	2000	2001	Change (%)
Net Assets	6,904	8,158	18.2
Capital and Reserves	182	205	12.6
Customer Funds	3,741	4,002	7.0
Customer Loans (Net)	5,686	6,652	17.0
Net Profit	45.6	52.0	14.0
Turnover per Employee (euro thousand)	9,931	12,307	23.9
Employees per Branch (No.)	7.9	7.8	-0.1
Return on Equity (ROE) (%)	24.3	33.3	9.0 p.p.



## Espírito Santo Investment

Registered Office:  
Rua Alexandre Herculano, 38  
1250-011 Lisboa – Portugal  
Registered Share Capital:  
euro 70,000 thousand  
BES holding: 100%

### BESI – Banco Espírito Santo de Investimento, S.A.

BES Investimento closed the year with a consolidated net profit of roughly euro 2.1 million, which compares with euro 25 million in the previous year. The profound crisis that pervaded the capital markets had a deep impact on the bank's business in so far as it did not permit to make any significant operations in the primary market while leading to substantial losses in the trading portfolio.

BES Investimento saw its activity rewarded in the Mergers and Acquisition's area by ranking seventh in Dealogic's League Table for the Iberian Peninsula and fourth in Thomson Financial's 1st half 2001 League Table for the Brazilian market. In Project Finance, the Privatisation International magazine, in its Annual Infrastructure League Table, ranked BES Investimento fourth by number of mandates and seventh by value, in Eastern Europe, and fifth by number of mandates in Latin America.

In the primary equities market, the bank's lead role in the rights offering of PT Multimedia, the share swap in PT – Multimedia and PT – Multimedia.com and the offering of Benfica, S.A.D. should be noted. In Spain, through its subsidiary Benito y Monjardin, BES Investimento was co-manager in the public offerings of Inditex and Iberia. In the Brazilian market, BESI coordinated Bradespar's Initial Public Offering.

As regards the debt markets, the bank lead or co-lead a number of issues, namely of bonds, commercial paper and syndicated loans, in both the Iberian market and Latin America. Particularly worth noting in the Iberian market was the bank's role in BES Finance, Ltd's issue of Eurobonds, as well as that of co-lead manager in Sol Meliá's issue of Eurobonds and lead-manager in the five-year syndicated loan to Avanzit, TMT. In the Brazilian market BESI was lead or co-lead manager in the issue of Eurobonds by the Federal Republic of Brazil, in the issue of bonds by Globopar and CESP (C<sup>a</sup> Energética de São Paulo) and also in the Commercial Paper issues launched by TelespCelular, GloboCabo, Telet, Splice and CP – Cimento e Participações.

Consolidated Figures

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	852,170	850,503	-0.2
Capital and Reserves	97,085	160,352	65.2
Banking Revenues	52,741	49,749	-5.7
Net Profit	25,102	2,088	-91.7

## BEST – Banco Electrónico de Serviço Total, S.A.

BEST \_ Banco Electrónico de Serviço Total was officially launched on June 26, 2001. The bank targets affluent customers, characterized by their need for sophisticated financial advice and the substantial value of their financial assets.

The campaign that launched the Bank, "Try doing this with your everyday bank" is emblematic of its positioning and value proposal, also symbolized in the motto InPEC, which stands for Independence, Performance, Specialist, Customer centric.

With BEST, the customer is the one who chooses how to interact with the Bank: through the WEB and WAP channels, the BEST Investment Centers or using the Contact Service, which is available 24 hours per day, 365 days per year. A commercial network has also been created – the CAF – Consultores de Activos Financeiros (Financial Assets Advisors). Using innovative advice tools, the CAF assists the customer when taking investment decisions and has actively contributed to place the financial products marketed by Banco BEST.

Finally, Banco BEST has also launched joint initiatives with Group PT, taking advantage of this group's capacity for technological innovation and leadership.



Registered Office:  
Rua Alexandre Herculano, 38  
1250-011 Lisboa – Portugal  
Registered Share Capital: euro 32,422 thousand  
BES holding: 66.0%

(euro thousand)

Variables and Indicators	2001
Net Assets	149,442
Customer Deposits	118,072
Equity	32,422
Net Profit	-3,374



## Banco Espírito Santo, S.A. Espanha

Registered Office:  
Calle Serrano, 88  
28006 Madrid – Spain  
Registered Share Capital:  
euro 86,500 thousand  
BES holding: 100%

### Banco Espírito Santo, S.A. (Espanha)

The contraction in interbank market operations essentially explains the drop in the Bank's net assets. Credit growth proceeded at a more modest pace, on the one hand due to the economic situation lived during the year which called for a more conservative credit risk management, and on the other as a result of the application, for the first time during a full year, of the new system of anti-cyclical provisions. In addition the business was redirected to focus preferentially on the medium-high and high net worth customers, and major efforts went to attracting customer funds and delivering higher return and value added products. Briefly, the credit portfolio grew by 10.4%, above the sector's average increase of 7.5%.

Thanks to the efforts developed to meet these targets, funding was up by 18.6% – which compares with the sector's growth rate of 8.5% – and the marketing of mutual funds was broadened, benefiting from joint action by

the various business components – banking, asset management and brokerage. In this context, and despite the depreciation occurred in the financial markets, the value of assets under management increased 2.5% – again outperforming the sector, where the value of assets under management fell on average by 3.7%.

The fact that the consolidated result turned out to be a loss is explained by the amortization of goodwill in BESSA's subsidiaries (euro 3.3 million), the introduction of the anti-cyclical provisioning system and the poor performance of market activities. Nonetheless, and if we consider that the amortization of goodwill is eliminated in the consolidation of Group BES accounts, we may conclude that BESSA gave a positive contribution to the 2001 results.

In terms of revenues, fees and commissions increased by 47% over the previous year, which means that they now account for 50% of banking revenues.

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	3,098,153	2,355,586	-24.0
Capital and Reserves	91,407	93,016	1.8
Customer Loans (Gross)	914,954	1,010,359	10.4
Customer Funds	808,602	959,406	18.6
Banking Revenues	55,239	62,311	12.8
Net Profit	1,759	-1,724	-198.0

## Espirito Santo Bank, S.A.

In 2001 ES bank focused on extending its customer base, having obtained a 19% increase in assets under management. This performance was achieved despite the adverse conditions in the USA and Latin America, the main markets where the Bank operates.

The bank's objectives continued to concentrate on delivering high-quality products and services in the private banking area, supported by selective commercial loan and mortgage credit granting in Southern Florida.

During the year the Bank supplemented its traditional offer of private banking services by starting to offer broker dealer services. ES Bank's customers now have access to the USA's sophisticated securities markets.

The fact that the year's results are slightly lower than in 2000 is explained by the absorption of the broker dealer's start-up costs.

ES Bank remains strongly capitalized, financially stable and boasting high liquidity, significantly contributing to the development of Group BES.



## Espirito Santo Bank

Registered Office:  
1395 Brickell Avenue  
Miami, Florida, 33131 – U.S.A.  
Registered Share Capital: \$US 16,973 thousand  
(euro 18,375 thousand)  
BES holding: 98.45%

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Assets under Management <sup>(1)</sup>	772,168	918,118	18.9
Net Assets	308,724	465,992	50.9
Customer Loans (Gross)	143,135	189,174	32.2
Customer Deposits	159,595	350,276	119.5
Equity	31,042	35,526	14.4
Net Profit	3,855	4,863	26.1

<sup>(1)</sup> Net assets and disintermediation



## Espírito Santo Oriente

Registered Office:

Av. Dr. Mário Soares, n.º 323

Edifício Banco da China, 28<sup>t</sup>º E-F

MACAO

Registered Share Capital: MOP 200 million  
(euro 28,255 thousand)

BES holding: 99.75%

### Banco Espírito Santo do Oriente, S.A.

The strong deceleration in the world growth pace, namely the negative performance of the United States of America economy, reflected on the main global economies, particularly in the European Union, Latin America and Asia Pacific region.

Along with the economic recession in Japan, most of the Asian economies, which rely heavily on exports, saw their GDP real growth rate decline in 2001, some of these countries or regions actually going into recession, as was the case of Hong Kong, Singapore and Taiwan. China, assuming an increasingly important role in the league of world economies, detached itself from this scenario with a GDP growth rate that is thought to have reached 7.3%, in real terms.

Against this backdrop, BES Oriente, whose business is targeted at the corporate and institutional segments and the money and capital markets, followed a conservative policy based on a judicious selection of risk. At the same time the Bank sought to diversify its assets, namely in terms of geographical areas, sectors and products. It should also be referred that at the beginning of the fourth quarter of the year Group BES centralized its information systems, a key step for the permanent development and updating of information and management control systems, and one that should lead to optimum levels of operating efficiency.

BES Oriente closed the year with net assets of euro 172 million. The Bank's prudent policy of provisioning the risk inherent in its portfolios at levels that exceed the minimum required by the supervision authorities penalized net profits, which stood at euro 162 thousand.

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	195,523	171,646	-12.2
Customer Loans (Gross)	45,092	35,821	-20.6
Placements in Securities	101,656	106,346	4.6
Capital and Reserves	27,398	29,887	9.1
Net profit	902	162	-82.0

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

In France 2001 was a year of clear decelerating economic growth, particularly during the last quarter, with heavy consequences in terms of unemployment. Inflation was kept under control. The number of bankruptcies, which till then had been regressing, increased 50% and actually affected some of the major companies.

The financial markets were highly volatile, on both the bond and the equities fronts, while the main stock market indices tumbled down.

Within this scenario the French banking sector's results were strongly affected by the drastic reduction in revenues from trading operations and asset management.

For BESVénétie this was a year of preparation for the integration of Via Banque, and of intense work in the restructuring of the information system and the reorganization of the accounting system. This integration, should produce a significant improvement in the capacity to respond to the customers' needs and the strengthening of synergies with the different units of Group BES.



**Banque Espírito Santo  
et de la Vénétie**

Registered Office:  
45, Avenue Georges Mandel  
75116 Paris – France  
Registered Share Capital: euro 52,154 thousand  
BES holding: 21.00%

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	784,252	402,731	-48.6
Customer Loans <sup>(1)</sup>	215,665	202,448	-6.1
Customer Deposits <sup>(1)</sup>	127,655	122,523	-4.0
Equity	31,378	53,477	70.4
Net Profit	760	53	-93.0

(1) Except Financial Customers





## Espírito Santo Activos Financeiros

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

### 8.2 – Asset Management

#### ESAF – Espirito Santo Activos Financeiros, SGPS, S.A.

At the end of 2001 the volume of assets under management surpassed euro 8,506 million, an increase of 7% when compared to 2000 largely generated in the real estate fund Gespatrimónio Rendimento. This fund maintained its lead as the largest open-end real estate fund in Portugal, with assets under management rising by 24% over the previous year, to more than euro 1,126 million.

Within the scope of Group BES's expansion project in Spain, we should point out the creation of Espírito Santo Pensiones, a company dedicated to pension fund management, where ESAF-SGPS, together with BESSA, has a stake of 50%. This company ended the year with more than euro 12 million under management. On the other hand, the merger of the two Spanish fund management companies – GES-BM and GES Capital – that had been purchased in 2000 was the natural outcome of an evolutionary process. The new company was called Espírito Santo Gestión.

To enlarge its range of products, ESAF promoted the creation of a SICAV in Luxembourg, the Caravela Fund. Basically, this is an innovative three-fold fund – defensive, balanced and aggressive, according to the different risk profiles – that invests in alternative funds, i.e., funds that aim at obtaining absolute performances. It is essentially directed to institutional customers and in 2002 will be offered to high networth customers. Finally, the effort made to rationalize the range of mutual funds permitted to redeem the ES All Stars and ES Acções Rendimento funds.

As to the drop in consolidated profits for the year, it may be explained by the combination of two factors: the fall in certain volumes under management, namely in those funds that most contribute to the income statement, and a considerable increase in costs with the distribution channels. However, the most expressive change concerns the fact that the profits obtained in 2000 in financial operations were not repeated in 2001.

Consolidated Figures

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	59,532	60,067	0.9
Equity	8,418	16,092	91.2
Net Profit	17,416	11,257	-35.4
Assets under Management (euro million)	7,939	8,506	7.1

### 8.3 – Leasing

#### Besleasing Mobiliária – Sociedade de Locação Financeira, S.A.

In 2001 the Portuguese equipment leasing industry's production remained practically flat when compared to the previous year, reflecting the decelerating growth pace of the economy. The company saw the number of contracts diminish, as well as the production value, dropping to fourth place in the national ranking of equipment leasing companies, with a market share of 12.7%. This trend in production after a six-year span of continued growth resulted essentially from the intense competition felt, particularly in the last quarter of the year. Still, equipment and real estate leasing together posted business growth of 2.1%, increasing their joint market share to 14.4%.

Supported by BES and BIC commercial networks, the company received applications for approximately euro 469.6 million, of which euro 365.3 million were approved and contracted. Production was essentially channeled to the manufacturing industries, retail/hotel, transport and communications and construction and public works sectors. Vehicles and equipment specific for the industry were the most sought after category of goods.

Lower business did not prevent net assets from growing, reaching euro 50.7 million. The company posted a significantly higher net profit than in the previous year, while leasing revenues rose to roughly euro 12.3 million, up by 4.5%. Credit granted showed good progress, and despite the unfavorable economic situation the level of past due loans remained below the average for the sector, with the ratio of overdue loans/total credit standing at 1.4%.



#### Besleasing Mobiliária

Registered Office:  
Av. Álvares Cabral, 27 – 4.º  
1269-140 Lisboa – Portugal  
Registered Share Capital: euro 21,650 thousand  
BES holding: 83.22%

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	576,472	627,166	8.8
Customer Loans	563,716	614,204	9.0
Equity	24,893	25,020	0.5
Net Profit	126	1,089	764.3
New Contracts			
Number	8,799	7,823	-11.1
Amount	379,759	365,281	-3.8



Registered Office:  
Av. Álvares Cabral, 27 – 1.º  
1269-140 Lisboa – Portugal  
Registered Share Capital:  
euro 12,900 thousand  
BES holding: 82.07%

### Besleasing Imobiliária – Sociedade de Locação Financeira, S.A.

The weakening pace of economic growth in 2001 affected the real estate leasing industry, which retracted by 1.6% versus the previous year. Even so, Besleasing Imobiliária posted very positive growth, gaining a considerable share of the market (3.1%) and maintaining its third position in the national ranking of leasing companies with a share of 19.8% of a strongly competitive market.

Supported by BES and BIC commercial networks, the company received applications for euro 385.4 million (+ 24.5%), having signed contracts for euro 179.9 million – an overall increase of 16.8% against the previous year. Production was essentially channeled to retail, manufacturing industries and the construction

and public works sector. Construction being the main purpose of these operations, the chief categories of leased goods were land, and also commercial premises, warehouses and industrial facilities.

The Company posted very positive net profit and cash flow figures, thanks essentially to the growth of leasing revenues which in absolute value exceeded euro 7.9 million (+ 24.0%). Credit granted also progressed quite well, and despite the negative economic situation the level on overdue loans remained way below the sector's average, accounting for just 0.64% of total credit.

The business's strong development – it is still in a phase of growth – called for, as one of its funding sources, an issuance of subordinated bonds, at 10 years, in the amount of euro 7 million.

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	338,095	462,459	36.8
Customer Loans	330,129	451,459	36.8
Capital and Reserves	14,785	15,035	1.7
Net Profit	2,494	3,002	20.4
New Contracts			
Number	561	545	-2.9
Amount	154,023	179,856	16.8

#### 8.4 – Specialized Consumer Credit

##### Crediflash – Sociedade Financeira para Aquisições a Crédito, S.A.

During the year the cards managed by Crediflash – Gold, Classic and Electron – grew by respectively 12.7%, 3.9% and 12.8%, while turnover was up by 22.7%.

Based on the prime objectives set by the Group for credit card management – to encourage their use and to expand the number of cards – several campaigns were launched, namely:

- the National Geographic promotion – under a protocol established between Crediflash and Lusomundo Editores, this campaign aimed at raising credit card use and turnover;

- the BES Travel campaign - launched during the summer months, it offered a direct cumulative prize aimed revitalizing the use of the *BES Premier Duo* and *BES Classic Duo* cards;

- a monthly prize draw named “This summer don’t leave your card in your pocket” with prizes offered to holders of the *BES Ritmo* card during the summer months (August, September and October);

- the year-end campaign (running till the end of January 2002), named “BES cards will take you to the euro capitals”, aims at stimulating the use of BES credit and debit VISA cards while making for an easier integration in the new economic context introduced by the euro; and

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



## Espírito Santo Crediflash

Registered Office:  
Alameda António Sérgio,  
22-2º – Miraflores  
1495-132 Algés – Portugal  
Registered Share Capital: euro 7,500 thousand  
BES holding: 97.47%

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	112,011	122,175	9.1
Customer Loans (Net)	98,681	110,871	12.4
Capital and Reserves	9,949	11,421	14.8
Net Profit	1,729	2,841	64.3



Registered Office:  
 Av. General Norton de Matos,  
 71-3º – Miraflores  
 1495-148 Algés – Portugal  
 Registered Share Capital:  
 euro 10,000 thousand  
 BES holding: 59.98%

### Credibom – Sociedade Financeira para Aquisições a Crédito, S.A.

The main issues that marked the year were, on the one hand, the operating system's full conversion to the Euro, which engaged all the company's operating areas as well as all the existing interfaces with its different business partners (BES, Besleasing, Tranquilidade, Tranquilidade-Vida and ES Cobranças) and was successfully completed in October, and on the other the increasing use made of the Internet channel, through the B2B platform, which allows points-of-sale not only to submit credit applications online but also to obtain an immediate reply to these applications.

A firm pledge to quality was one of the key aspects of Credibom's strategic action. In this context the Company carried out a survey addressed to the points of sale and final

customers to assess their level of satisfaction and gauge the quality of service. The results of this survey were quite positive.

Production reached euro 245.6 million, up by 21.3% over the previous year. This growth resulted from the negotiation of approximately 66 thousand new contracts, increasing the figures obtained in the car loan segment and significantly boosting the home loan and services business, where the new and innovating Flexibom product (direct credit) obtained remarkable success. Net assets reached euro 417.9 million with customer loans amounting to euro 398.4 million (28.5% over 2000 figures), to total customers numbering 192 thousand. The coverage of total overdue loans by provisions was 112.1%. The Company posted net profits of euro 8.1 million, an increase of 35.8% versus the previous year

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	321,051	417,896	30.2
Customer Loans (Net)	310,032	398,419	28.5
Capital and Reserves	13,506	18,450	36.6
Net Profit	5,991	8,133	35.8
ROE	44.4%	44.1%	-0.3 p.p.
Cost to Income	35.7%	38.5%	2.8 p.p.
Coverage of Total Overdue Loans	111.1%	112.1%	1.0 p.p.
New Contracts			
Number	52,569	66,127	25.8
Amount	202,470	245,563	21.3

## 8.5 – Brokerage

### Espirito Santo Dealer – Sociedade Financeira de Corretagem, S.A.

2001 was a bad year across the board, for all the economic sectors' stock market performance and for international indices, with the domestic market naturally following suit.

The Lisbon and Oporto Stock Exchange turnover dropped substantially, falling by 48% in that which constituted the sharpest loss in the universe of European stock markets. At the end of the year the stock market capitalization of shares listed in the official market of the Lisbon and Oporto Stock Exchange was euro 96 billion, having fallen by 16.2% against the end of 2000.

At the same time competition in the sector increased sharply, with new operators entering the segment of foreign brokers and individual customers. The new services available, namely discount broking (the low-cost routing of orders to the Portuguese market) caused a significant drop in intermediation fees.

As a result, ES Dealer's intermediation fees suffered a sharp fall, dropping by approximately 44% to euro 10.2 million. The company ended the year ranking second in the sector, with an accumulated market share of 11.5%.

All the Broker's activities suffered from the markets' bad performance, namely its own portfolio which accumulated losses totaling roughly euro 900 thousand. This, combined with the need to pursue investment within the scope of the strategy outlined at Iberian level for interconnection with the company's Spanish peer, and the inherent costs of moving premises plus extraordinary losses, translated into a net loss of around euro 1.3 million.



## Espírito Santo Securities

Registered Office:

Rua Alexandre Herculano,38

1250 - 011 Lisboa – Portugal

Registered Share Capital: euro 2,500 thousand

BES holding: 100%

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	64,197	33,755	-47.4
Capital and Reserves	6,679	7,822	17.1
Net Profit	6,364	-1,353	-121.3
Brokerage Fees	18,077	10,190	-43.6



## Espírito Santo Euroges Factoring

Registered Office:  
Rua Castilho, 44 – 3º  
1250-071 Lisboa – Portugal  
Registered Share Capital:  
euro 12,000 thousand  
BES holding: 100%

### 8.6 – Factoring

#### Euroges – Aquisição de Créditos a Curto Prazo, S.A.

The continued effort to improve interpenetration with Group BES's network proceeded according to plan. Turnover reached euro 1,505 million, up by 25.4% on the previous year, allowing the company to remain in second place in the ranking of companies operating in this sector.

The portfolio grew by more than 37%. Net profit reached euro 3.4 million, up by 36%, and cash flow, at euro 6.7 million, registered an increase of 37% versus the previous year.

Thanks to the strategy outlined, it remained possible to contain costs without jeopardizing growth. Bearing in mind the company's very strong growth pace since 1998 – in 2000 and 2001 it grew by 55.8% and 37.1%, respectively – in 2001 it became imperative to increase the number of employees. However, this increase was achieved simultaneously with a contraction in the Cost to Income, which dropped from 38% to 33%. Still in this context, it should be pointed out that non-financial revenues have permitted to fully cover operating costs.

In view of the great dynamism and excellent results achieved, it was with great satisfaction that Euroges received for the second year in a row the prize for “Best Factoring Company” awarded by the Exame magazine, for its performance in 1999 and 2000.

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	287,610	415,712	44.5
Capital and Reserves	12,736	15,240	19.7
Net Profit	2,504	3,398	35.7
Portfolio of gross receivables purchased	277,101	380,355	37.3

## 8.7 – Venture Capital

### ES Capital – Sociedade de Capital de Risco, S.A.

ES CAPITAL's activity in the course of 2001 consisted essentially in promoting the investment of the funds placed at its disposal, monitoring its subsidiaries' performance and analyzing new venture capital funds, together with IAPMEI and the EIB.

During the year there was no significant change in the financial instruments available, which total euro 108 million, broken down as follows: equity (euro 31 million), FRIE-PEDIP II/BES (euro 12 million), FRIE-IMIT/BES (euro 22.5 million), lines agreed with the IAPMEI (euro 6 million), FUNGEPI/BES (euro 35 million) and EIB line (euro 2 million).

In terms of venture capital operations in the full meaning of the expression, approval was obtained for thirteen equity holdings (for a total of euro 18 million) of which eight were

acquired, totaling euro 9 million. These operations were financed through the FRIE-IMIT/BES (three of them totaling euro 2.6 million) and one, for euro 3.3 million, was refinanced by the EIB.

These operations closed the lines agreed with the IAPMEI and the EIB line, significantly increasing investment through the FRIE-IMIT/BES.

During the year ES CAPITAL sold, fully or partially, thirteen equity holdings for a total amount of euro 13.4 million – of these, three were included in the FRIE-PEDIP II/BES (euro 2 million) and another three in the FRIE-IMIT/BES (euro 5.2 million). With regard to the FUNGEPI/BES fund, it carried out three transactions, totaling euro 8.5 million, reaching the end of the year with euro 35 million.

The company posted net profits of euro 2.1 million.



## Espírito Santo Capital

Registered Office:

Rua Mouzinho da Silveira, n.º 32 – 7.º  
1250-167 Lisboa – Portugal

Registered Share Capital: euro 25,000 thousand  
BES holding: 99.75%

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	31,803	37,260	17.2
Capital and Reserves	25,857	28,969	12.0
Net Profit	3,611	2,170	-39.9
Equity Holdings Portfolio (*)	37,033	36,072	-2.6

(\*) Includes FRIE – PEDIP II/BES and FRIE – IMIT/BES



## 8.8 – Insurance

### ES Seguros – Espírito Santo Companhia de Seguros, S.A.

In 2001 the Portuguese market of non-life insurance for private individuals, though continuing to show a tendency for growth, could not but be affected by the decelerating pace of the economy. Despite this background ES Seguros maintained a remarkable performance, both in terms of market penetration and in terms of results. Total production during the year, obtained through the BES and BIC networks, was in excess of 81 thousand contracts – distributed through home, auto and health insurance – raising the company's portfolio to 209 thousand effective contracts. The strong progress made confirms the real need felt by our individual customers for competitive products that meet their requirements, be it at the level of safety, price, personalized service or quality.

On the technical side, there was a natural deterioration in the loss ratio that originated essentially in the home insurance product as a result of the bad weather conditions during the first quarter of the year. Nonetheless the technical balance of direct insurance progressed well, rising by 4.3% against the previous year. The good technical results achieved in the last few years permitted to renegotiate reinsurance treaties under advantageous conditions, with a direct impact on this year's results. On a different front, ES Seguros was involved during the year in the project aimed at preparing itself for the transition to the single currency. This project proceeded smoothly and according to plan, without in any way inconveniencing the customers.

The strong increase in production and in gross premium volume, the fact that technical results were maintained at good levels, the renegotiation of reinsurance treaties, and operating costs kept under control permitted to post a net profit of euro 1,211 thousand, which corresponds to 4.1% of the gross premium volume and an increase of 138.9% over the previous year.

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Gross premium volume	19,238	29,448	53.1
Cost of claims <sup>(1)</sup>	8,167	15,769	93.1
Direct insurance technical balance	6,629	6,915	4.3
Operating Costs <sup>(2)</sup>	5,612	6,515	16.1
Gross tangible assets	8,605	8,874	3.1
Net profit	507	1,211	138.9

<sup>(1)</sup> Amounts paid and change in provision for claims

<sup>(2)</sup> In 2001 includes euro 702 million resulting from the introduction of the euro

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

In 2001 Europ Assistance stepped up its growing trend, maintaining and consolidating its lead of the assistance insurance market, with a share of roughly 28%.

Total premiums issued amounted to euro 16 million, an increase of 22% against the previous year. This growth was achieved thanks to the market's good response to both the traditional products and to the new ones that have been developed, also reflecting the success of the specialization and market segmentation strategy followed over the last few years.

More than 500 thousand calls were taken during the year and assistance was provided to approximately 270 thousand casualty victims, placing business growth at more than 30%. The accident record continued to increase as the assistance concept became more widely known, and also as a result of the considerable enlargement of the insured customer base and the poor weather conditions affecting Portugal last year, particularly in the first quarter.

Despite the significant drop in financial results, driven by the great instability felt in the financial markets and the already referred increase in the accident record, the company was able to improve profitability thanks to a strict cost control with claims and a strong discipline on fixed costs. Hence the year was closed with a significant increase in net profits, which rose by 26% over the previous year.

On the international front, we should draw attention to the results achieved by the Brazilian subsidiary (581 thousand reais) and to the consolidation of its market presence, with sales growing by close to 30%. In Argentina, notwithstanding the deep economic crisis in which the country is plunged, our subsidiary closed the year with a profit (55 thousand pesos) for the first time since it went into business.



Registered Office: Avenida Álvares  
Cabral, 41 – 3.º  
1250-015 Lisboa – Portugal  
Registered Share Capital: euro 5,000 thousand  
BES holding: 23.00%

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	15,757	17,179	9.0
Equity	6,454	6,614	2.5
Net Profit	628	793	26.3
Production	13,198	16,051	21.6



## Espírito Santo Tech Ventures

Registered Office:  
Rua Alexandre Herculano, n.º 38 - 4.º  
1250-011 Lisboa – Portugal  
Registered Share Capital:  
euro 50,000 thousand  
BES holding: 100%

### 8.9 – e-Business

#### BES.COM, SGPS, S.A.

2001 was the first full year in operation for BES.com., a year which the company dedicated to launching initiatives that had been incubated in the previous year, namely the pmelink.pt and Banco BEST.

The pmelink.pt, first Online Business Center in Portugal, resulted from a joint venture with the CGD and PT Groups and was launched in May 2001. It provides a wide and increasing array of products, services and management information aimed at supporting the business of SME (small and medium enterprises). The portal's trading volume in 2001 exceeded by approximately 30% the business plan's target.

Banco BEST, carrying an innovating value proposal aimed at the affluent segment, was launched at the end of June with an aggressive marketing campaign thanks to which, six months later, it already boasted high levels of recognition.

The terms of the investment in Clarity Incentive Systems – a company that manages incentive programs based on VISA debit cards – were renegotiated, BES.com having increased the stake held jointly with another company of Group BES to 30%. Under the terms of the strategic agreement on which the Group based its investment, the company started work on business incubation in Portugal, having already established contacts that will shortly permit to extend its activity to other countries. Other equity holdings were acquired, namely in Milcom Technologies, a company based in Florida that invests in entities specializing in detecting opportunities in the fields of telecommunications and new information technologies presented by the main suppliers of technology to the US Department of Defense that may be used in the commercial market place. BES.com, together with ESTurismo, also acquired a 2.5% stake in HotelnetB2B, an Iberian procurement portal for the hotel and tourism industry. Finally, BES.com purchased a 42% stake in ES Contact Center, a Group BES company that manages call centers, by subscribing to its capital increase.

(euro thousand)

Variables and Indicators	2000	2001	Change (%)
Net Assets	53,331	59,161	10.9
Equity	49,599	49,661	0.1
Equity Holdings Portfolio	26,950	49,835	84.9
Net profit	-338	-2,509	-

## 8.10 – Issuers of Securities

Within the universe of companies included in the consolidation, some specialize in obtaining, mostly in international markets, the funds required for the balanced development of Group BES's businesses. Such entities, located in financial centers that are advantageous from the investors' point of view, may often be found in the organization of the major international financial groups.

From amongst these companies, BES Finance, Ltd., headquartered in the Cayman Islands and fully owned by BES, assumes a particularly important role, as it through this company that notes are issued in the international markets under the Euro Medium Term Notes programme (EMTN). It should be reminded that BES Finance, Ltd. set up this EMTN programme in February 1997, the programme being updated every year through the respective Offering Circular. The EMTN allows the issuance of ordinary subordinated bonds in any currency and for any maturity, up to a nominal aggregate value of US\$ 6,000 million. The bonds are guaranteed by BES.

In 2001, and as detailed in the explanatory notes to the financial statements, BES Finance made the following issues:

Type of security	Month of issue	Value (euro million)
Senior bonds	Jan. 01	550
Senior bonds	Jun. 01	600
Senior bonds	Sep 01	600
Subordinated bonds	May 01	400
Total		2,150

As of December 31, 2001 the bonds in circulation, totaling euro 5,022 million, were entirely placed with international investors and the funds obtained were fully invested in BES to finance its activities.

This subsidiary's financial statements are fully consolidated in Group BES's accounts and are subject to the Bank of Portugal supervision on a consolidated basis.

(euro thousand)

BES FINANCE, Ltd	2000	2001	Change (%)
Net Assets	3,103,865	5,162,375	66
Placements with Credit Institutions	3,091,840	5,104,661	65
Bonds Issued	3,068,603	5,021,655	64
Net Profit	52	152	192



## 8.11 – Outsourcing and Ancillary Service Units

Group BES's commitment to progressive concentration in a business that is essentially financial and the externalization of tasks not directly related to this activity naturally ensued from the Group's chosen path of organic growth and development of a global financial group.

A number of outsourcing and ancillary service units have therefore emerged as the Group redefined its organizational and functional structure. These units, while providing services to the Group's companies and therefore permitting to release human and technological resources, have also started to act in the markets where they are located.

The following are the business units engaged in outsourcing:

### **ESDI – Espírito Santo Data Informática, S.A.**

*(Registered Share Capital:  
euro 7,000 thousand)*

In 2001 ESDI initiated an internal restructuring process involving the redefinition of its organizational model, fine-tuning articulation with BES, reinforcing competencies and reformulating its structure. ESDI will be made into a holding company, bringing together four subsidiaries: ES Interaction (web technologies and direct channels), ES Tecnologias de Informação (production and development of information systems), Oblog and Participadas (identification of possibilities for partnerships or acquisitions).

### **ESGEST – Espírito Santo Gestão de Instalações, Aprovisionamento e Comunicações, S.A.**

*(Registered Share Capital:  
euro 100 thousand)*

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

### **Esumédica – Prestação de Cuidados Médicos, S.A.**

*(Registered Share Capital:  
euro 1,500 thousand)*

ESUMÉDICA, a company held in joint participation with Companhia de Seguros Tranquilidade-Vida, is primarily a provider of medical care in the work place extending health care to the employees of Group BES companies.

### **ES Cobranças – Espírito Santo Cobranças, S.A.**

*(Registered Share Capital:  
euro 798 thousand)*

ES Cobranças specializes in providing debt-collection services to Group companies, namely BES, BIC, Credibom and Crediflash. It also operates in the functional area linked to research, pledges and safe-keeping of valuables.

In addition to its outsourcing subsidiaries, the Group also has the following ancillary service companies:

### **Cêntimo – Sociedade de Serviços, Lda.**

*(Registered Share Capital:  
euro 249 thousand)*

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

### **Gesfinc – Espírito Santo Estudos Financeiros e de Mercado de Capitais, S.A.**

*(Registered Share Capital:  
euro 399 thousand)*

Gesfinc develops research work in close coordination with the Group's brokerage house (ES Dealer) and with Banco Espírito Santo de Investimento, this joint work having been crucial to assert the Group's position in the capital markets.

### **Fiduprivate – Sociedade de Serviços, Consultadoria e Administração de Empresas, S.A.**

*(Registered Share Capital:  
euro 125 thousand)*

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

**Espirito Santo Contact  
Center – Gestão de Call  
Centers, S.A.**

*(Registered Share Capital:  
euro 3,600 thousand)*

This company operates exclusively in the management of the call centers that support the telephone banking activity of BES, BIC, Crediflash and BES.com.

**Esegur, Empresa  
de Segurança, S.A.**

*(Registered Share Capital:  
euro 2,750 thousand)*

This company, where BES has a 29% stake, specializes in private security. Originally stemming from the outsourcing process, it rapidly started extending services to a wide number of companies from the most different areas of activity. In 2001, under a partnership established with CGD and the CTT, these two institutions acquired stakes in Esegur.

**ES Interaction – Sistemas  
de Informação Interactiva, S.A.**

*(Registered Share Capital:  
euro 500 thousand)*

This company designs, develops and markets interactive information systems, also providing advisory, training and project management services and services linked to the development, implementation and support of information and communication services.

Lisbon, February 21, 2002

**The Board of Directors**

António Luís Roquette Ricciardi  
Ricardo Espirito Santo Silva Salgado  
Jean Gaston Pierre Marie Victor Laurent  
Mário Mosqueira do Amaral  
José Manuel Pinheiro Espirito Santo Silva  
António José Baptista do Souto  
Jorge Alberto Carvalho Martins  
Manuel António Gomes de Almeida Pinho  
Yves Henri Camille Barsalou  
Anibal da Costa Reis de Oliveira  
José Manuel Ferreira Neto  
Manuel de Magalhães Villas-Boas  
Manuel Fernando Moniz Galvão Espirito Santo Silva  
Jackson Behr Gilbert  
Jean-Luc Marie Perron  
Manuel António Ribeiro Serzedelo de Almeida  
José Maria Espirito Santo Silva Ricciardi  
Jean-Luc Louis Marie Guinoiseau  
Gilles François Gramat  
Rui Manuel Duarte Sousa da Silveira  
Joaquim Anibal Brito Freixial de Goes  
Francisco Luis Murteira Nabo  
Pedro José de Sousa Fernandes Homem  
Ilídio da Costa Leite de Pinho  
Herman Agneessens  
Patrick Gérard Daniel Coudène

**Excerpt from the minutes  
no. 62 of the Annual General  
Shareholders' Meeting  
of Banco Espirito Santo, S.A.  
of March 27, 2002**

(...)

The number of shares held by shareholders present or represented at the meeting was 140,185,000 corresponding to 1,401,850 votes, or 70.09% of the share capital.

(...)

The meeting then proceeded to analyze item three in the Agenda – to decide on the Proposed application of the year's earnings.

(...)

Upon discussion, the meeting approved by a majority of 1,401,549 votes the following proposal submitted by the Bank's Board of Directors:

"Under the terms of section b) of article 376 of the Commercial Companies Code, and in compliance with the Management Report, the Board of Directors of Banco Espirito Santo, S.A. proposes that the Company's net earnings for the year, in the amount of Euro 141,140,219.00 have the following application:

	euro
For Legal Reserve:	14,115,000.00
For Distribution to Members of the Board of Directors:	1,400,000.00
For Distribution to the Employees:	13,000,000.00
For Distribution to Shareholders:	75,200,000.00
For Other Reserves:	37,425,219.00
	<b>141,140,219.00</b>

(...)