



**BES Finance Ltd.**

*(incorporated with limited liability in the Cayman Islands)*

**€150,000,000 Non-cumulative Guaranteed  
Step-Up Preference Shares Series A**

having the benefit of a subordinated guarantee of

**Banco Espírito Santo, S.A.**

*(incorporated with limited liability in Portugal)*

(forming a single series with the €450,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A issued on 2nd July, 2003)

**Issue price: €1024.68 per Preference Share**

(plus €6,220,327.87 representing an amount equal to 272 days accrued Preferred Dividend)

Unless expressly indicated otherwise, the terms and expressions used herein have the same meaning as given to them in the Description of the Preference Shares (the "Articles"). The €150,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A (the "New Preference Shares") each with a liquidation preference of €1,000 (the "Liquidation Preference") are proposed to be issued by BES Finance Ltd. (the "Issuer" or the "Company") on 30th March, 2004 (the "Closing Date").

The New Preference Shares form a single series with the €450,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A (the "Existing Preference Shares" and together with the New Preference Shares, the "Preference Shares") issued by the Issuer on 2nd July, 2003. Banco Espírito Santo, S.A. (the "Bank") (acting through its London branch) has unconditionally guaranteed the payment of dividends and payments on liquidation and redemption with respect to the Preference Shares to the extent described herein under ("Subordinated Guarantee").

Non-cumulative preferential cash dividends will be payable on the Preference Shares, when and if declared by the Directors of the Issuer, annually in arrear on 2nd July in each year, commencing on 2nd July, 2004 up to and including the First Call Date, and thereafter quarterly in arrear on 2nd January, 2nd April, 2nd July and 2nd October in each year, commencing on 2nd October, 2014. In relation to each Preferred Dividend Period falling in the period from 2nd July, 2003 and ending on the day before the First Call Date, the rate of Preferred Dividend shall be 5.58 per cent. per annum. In relation to a Preferred Dividend Period commencing on the First Call Date or any Preferred Dividend Payment Date thereafter, the rate of Preferred Dividend shall be 2.65 per cent. per annum above Three Month EURIBOR.

The Preference Shares are perpetual securities and have no fixed redemption date. However, the Preference Shares may be redeemed, at the option of the Issuer, in whole but not in part on the First Call Date and on any Preferred Dividend Payment Date falling thereafter, upon not less than 30 nor more than 60 days notice, each to be redeemed at the Redemption Price plus accrued and unpaid Preferred Dividends in respect of the most recent Preferred Dividend Period. Such redemption is subject to the consent of the Bank and the Bank of Portugal.

See "Investment Considerations" for a discussion of certain factors that should be considered by prospective investors.

Application has been made to list the New Preference Shares on the Luxembourg Stock Exchange.

The Preference Shares are expected to be rated "A3" by Moody's Investors Service Limited, "BBB" by Standard & Poor's Rating Services, a division of the McGraw Hill Companies Inc., and "A" by Fitch Ratings Ltd. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The New Preference Shares will be initially represented on issue by a single temporary global certificate in registered form (the "Temporary Global Certificate"). The Temporary Global Certificate will be registered in the name of Chase Nominees Limited as nominee for, and will be deposited with, a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear system ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or around the Closing Date. The Temporary Global Certificate will be exchangeable in whole for a single permanent global certificate (the "Permanent Global Certificate" and together with the Temporary Global Certificate, the "Global Certificates") representing the New Preference Shares on 10th May, 2004 whereupon the New Preference Shares will become fungible for trading purposes with the Existing Preference Shares.

**LEHMAN BROTHERS**

*Joint Bookrunners*

**MERRILL LYNCH INTERNATIONAL**

*Joint Lead Manager*

**BANCO ESPÍRITO SANTO DE INVESTIMENTO**

The date of this Offering Circular is 29th March, 2004.

The Issuer and the Bank accept responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer and the Bank (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Managers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer or the Bank in connection with the Preference Shares or their distribution.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Preference Shares and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Bank or any of the Managers (as defined under “*Subscription and Sale*” below).

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Bank or any of the Managers that any recipient of this Offering Circular should purchase any of the Preference Shares. Each investor contemplating purchasing Preference Shares should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Bank.

Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer, the Bank or the Group since the date hereof. This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, the Bank or the Managers to subscribe for, or purchase, any of the Preference Shares. This Offering Circular does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Preference Shares have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Preference Shares may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Preference Shares and on distribution of this Offering Circular, see “*Subscription and Sale*” below.

No offer shall be made to the public in the Cayman Islands to subscribe for any of the Preference Shares.

**IN CONNECTION WITH THE ISSUE OF THE PREFERENCE SHARES, LEHMAN BROTHERS INTERNATIONAL (EUROPE) OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE EXISTING PREFERENCE SHARES AND/OR THE NEW PREFERENCE SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER THERE IS BE NO OBLIGATION ON LEHMAN BROTHERS INTERNATIONAL (EUROPE) OR ANY AGENT OF ITS TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

All references in this Offering Circular to “euro”, “EUR” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25th March, 1957), as amended.

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### DOCUMENTS INCORPORATED BY REFERENCE

The audited consolidated financial statements of the Bank for the years ended 31st December, 2001 and 2002 and the unaudited consolidated financial statements of the Bank for the six months ended 30th June, 2003 are incorporated by reference in this Offering Circular. Copies of these financial statements are available free of charge at the specified office of each of the Paying and Transfer Agents as described in “*General Information*” below.

## SUMMARY OF THE OFFERING

*The following summary is qualified in its entirety by the more detailed information included elsewhere in this Offering Circular. Capitalised terms used but not defined in this summary shall bear the respective meanings ascribed to them under "Description of the Preference Shares". Prospective investors should also consider carefully, amongst other things, the factors set out under "Investment Considerations".*

**Issuer:** BES Finance Ltd., a wholly-owned subsidiary of the Bank incorporated as an exempted company under the Companies Law (Revised) of the Cayman Islands on 15th November, 1996.

**Guarantor:** Banco Espírito Santo, S.A., (acting through its London branch).

**Issue Size:** €150,000,000.

**Issue Details:** €150,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A each with a par value and a liquidation preference of €1,000, forming a single series with the €450,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A issued by the Issuer on 2nd July, 2003.

**Preferred Dividends:** Preferred Dividends on the Preference Shares will be paid by the Issuer out of funds legally available therefor if and when declared by the Directors of the Issuer, subject to certain limitations (see "*Limitations on Payments*" below).

For each Preferred Dividend Period before the First Call Date, Preferred Dividends on the Preference Shares will be payable annually in arrear on 2nd July in each year, commencing on 2nd July, 2004 up to and including the First Call Date, at a rate of 5.58 per cent. per annum.

For each Preferred Dividend Period after the First Call Date, Preferred Dividends on the Preference Shares will be payable, when and if declared by the Directors of the Issuer, quarterly in arrear on 2nd January, 2nd April, 2nd July and 2nd October in each year, commencing on 2nd October, 2014, at a rate of 2.65 per cent. per annum above Three Month EURIBOR.

**Subordinated Guarantee:** The Bank, acting through its London branch, will unconditionally guarantee payments on the Preference Shares in respect of payment of declared Preferred Dividends, payments on liquidation of the Issuer, and payments on redemption of the Preference Shares.

The Bank's obligations under the Subordinated Guarantee will be subordinated so that they rank junior to all Senior Creditors; *pari passu* with the Parity Obligations, if any, of the Bank; and senior to all Junior Obligations.

The Bank will not be required or permitted to make a payment under the Subordinated Guarantee in respect of the Preference Shares in circumstances where it could not have made the payment had the Preference Shares been issued directly by the Bank.

The Bank will undertake in the Subordinated Guarantee that, in the event that any Preferred Dividend is not paid in full to Holders, the Bank will not:

- (a) declare or pay any distribution or dividend and, where applicable, will procure that no distribution or dividend is declared or paid on any Junior Obligations, until after the following Preferred Dividend Payment Date or, after the First Call Date, the fourth consecutive

following Preferred Dividend Payment Date on which a Preferred Dividend is paid in full; or

- (b) (if permitted) repurchase or redeem Parity Obligations or Junior Obligations until after the following Preferred Dividend Payment Date, or after the First Call Date, the fourth consecutive following Preferred Dividend Payment Date on which a Preferred Dividend in respect of the Preference Shares is paid in full. (See “*Subordinated Guarantee*”).

**Limitations on Payments:**

The Issuer will not pay any Preferred Dividend on the Preference Shares:

- (a) to the extent that such Preferred Dividend, together with the amount of:
  - (i) any Preferred Dividends previously paid in respect of the Preference Shares and distributions previously paid in respect of Preferred Dividend Parity Obligations in the then current fiscal year; and
  - (ii) any Preferred Dividends proposed to be paid in respect of the Preference Shares and distributions proposed to be paid in respect of any Preferred Dividend Parity Obligations in the then current fiscal year, if on or before the First Call Date, or if thereafter, in the then current calendar quarter;is greater than Distributable Funds; and
- (b) even if Distributable Funds are sufficient, if the Issuer has been notified that in the judgement of the Board of Directors of the Bank after consultation with the Bank of Portugal, such payment would breach or cause a breach by the Bank of the Capital Adequacy Regulations.

References to Preferred Dividends includes additional amounts payable under the gross up provisions contained in the Preference Shares and in the Subordinated Guarantee (see “*Withholding Taxes and Additional Amounts*” below).

For the avoidance of doubt, the payment of the Preferred Dividends by the Issuer is at the discretion of the Directors of the Issuer.

**Partial Payments:**

In the event that the payments described above cannot be made in full by reason of any such limitation, such payments will be made *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitation.

**Preferred Dividends non-cumulative:**

If the Directors of the Issuer do not declare a Preferred Dividend payable on a Preferred Dividend Payment Date, then the entitlement of the holders of Preference Shares to such Preferred Dividend shall lapse. Accordingly no payment will need to be made at any time by the Issuer or the Bank in respect of any such missed payment.

**Withholding Tax and Additional Amounts:**

The Preference Shares will contain a gross up provision in respect of imposition of Cayman Islands, Portuguese or UK withholding taxes. The Subordinated Guarantee will contain a gross up provision in respect of imposition of Portuguese or UK withholding taxes. Each gross up provision will be subject to customary exceptions.

Under the gross up provisions, subject to customary exceptions, the Issuer, or the Bank pursuant to the Subordinated Guarantee, will pay to each holder of the Preference Shares such additional amounts as may be necessary in order that every net payment in respect of the

Preference Shares, after withholding for any taxes imposed by the Cayman Islands, Portugal or the UK, as the case may be, upon or as a result of such payment, will not be less than the amount otherwise required to be paid.

The obligations of the Issuer and the Bank to pay any such additional amounts will be subject to limitations described in “*Limitation on Payments*” above.

**Optional Redemption:**

The Preference Shares are redeemable at the option of the Issuer, in whole but not in part, on the First Call Date and on any Preferred Dividend Payment Date falling thereafter, at €1,000 per Preference Share plus an amount equal to any accrued and unpaid Preferred Dividends in respect of the most recent Preferred Dividend Period, whether or not declared, up to the date fixed for redemption, and any Additional Amounts.

Such optional redemption will be subject to the prior consent of the Bank and the Bank of Portugal.

**Capital Disqualification Redemption:**

If, at any time falling prior to but excluding the First Call Date, a Capital Disqualification Event occurs, the Preference Shares will be redeemable, in whole but not in part, at the option of the Issuer.

In these circumstances the Preference Shares may be redeemed at a price equal to €1,000 per Preference Share or, if higher, the Make Whole Redemption Price plus, in each case, an amount equal to any accrued and unpaid Preferred Dividends in respect of the most recent Preferred Dividend Period, whether or not declared, up to the date fixed for redemption, and any Additional Amounts,

Any such redemption will be subject to the prior consent of the Bank and the Bank of Portugal.

**Redemption for Tax Reasons:**

If, at any time falling prior to but excluding the First Call Date, a Tax Event occurs, the Preference Shares will be redeemable, in whole but not in part, at the option of the Issuer.

In these circumstances the Preference Shares may be redeemed at a price equal to: (i) in the case of a Tax Event described in paragraphs (a) or (b) of the definition of “Tax Event”, €1,000 per Preference Share; or (ii) in the case of a Tax Event described in paragraphs (c) or (d) of the definition of “Tax Event”, the Make Whole Redemption Price, plus in each case, an amount equal to any accrued and unpaid Preferred Dividends in respect of the most recent Preferred Dividend Period, whether or not declared, up to the date fixed for redemption plus Additional Amounts.

Any such redemption will be subject to the prior consent of the Bank and the Bank of Portugal.

**Rights upon Liquidation:**

In the event of any summary winding-up, voluntary liquidation or dissolution of the Issuer, Holders of Preference Shares will be entitled to receive the Liquidation Distribution per Preference Share held out of assets available for distribution to shareholders.

Notwithstanding the availability of sufficient assets of the Issuer to pay any Liquidation Distribution, if at the time such Liquidation Distribution is to be paid, proceedings are pending or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Liquidation Distribution per Preference Share paid to Holders of Preference Shares and the liquidation distribution per share paid to the holders of Liquidation Parity

Obligations shall not exceed the amount per share that would have been paid as the liquidation distribution from the assets of the Bank had the Preference Shares and Liquidation Parity Obligations been issued by the Bank and ranked:

- (x) junior to all Senior Creditors;
- (y) *pari passu* with the Liquidation Parity Obligations, if any, of the Bank; and
- (z) senior to all Junior Obligations.

In the event of liquidation, dissolution or winding-up of the Bank, the Directors of the Issuer shall convene an extraordinary general meeting of the Issuer for the purpose of placing the Issuer in liquidation and the amount per share to which Holders of Preference Shares shall be entitled as a Liquidation Distribution will be as described above.

The Bank has undertaken in the Subordinated Guarantee that, so long as any of the Preference Shares is outstanding, it will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer unless the Bank of Portugal has given its prior approval, or the Bank itself is in liquidation.

**Voting Rights:**

Generally Holders of the Preference Shares will not be entitled to vote at any general meeting of shareholders of the Issuer.

Holder of the Preference Shares (together with the holders of any other preferred or preference shares of the Issuer having the right to vote for the election of Directors in such event) are entitled to elect two additional Directors of the Issuer's board of Directors if, in respect of a Preferred Dividend Period or Preferred Dividend Periods amounting in each case to a period of not less than one year, Preferred Dividends on the Preference Shares have not been paid in full, or if the Bank breaches its payment obligations under the Subordinated Guarantee.

Such Directors will vacate their office if Preferred Dividends are resumed by the Issuer, or payments under the Subordinated Guarantee by the Bank in respect thereof are made in full.

**Form of the Preference Shares:**

The Preference Shares will be in registered form. The New Preference Shares will be initially represented on issue by the Temporary Global Certificate which will be registered in the name of Chase Nominees Limited as nominee for, and will be deposited with, a common depository for Euroclear and Clearstream Luxembourg on or around the Closing Date. The Temporary Global Certificate will be exchangeable in whole for the Permanent Global Certificate on 10th May, 2004 whereupon the New Preference Shares will become fungible for trading purposes with the Existing Preference Shares.

**Governing Law:**

The Preference Shares will be governed by, and construed in accordance with, Cayman Islands law.

The Subordinated Guarantee of the Bank will be governed by, and construed in accordance with, English law, save that the provisions concerning the ranking of the Subordinated Guarantee, as described above, will be governed by, and construed in accordance with, Portuguese law.

**Use of proceeds:**

The net proceeds from the issue of the Preference Shares will augment the Bank's tier 1 capital on a consolidated basis and will be used by the Bank for its general corporate purposes.

**Listing:**

Application has been made to list the New Preference Shares on the Luxembourg Stock Exchange.

**Rating:**

The Preference Shares are expected to be rated “A3” by Moody’s Investors Service Limited, “BBB” by Standard & Poor’s Rating Services, a division of the McGraw Hill Companies Inc., and “A” by Fitch Ratings Ltd. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

## INVESTMENT CONSIDERATIONS

*Prospective investors should consider carefully the following information in conjunction with the other information contained in this Offering Circular before investing in the Preference Shares.*

### **Risks Associated with the Bank's Financial Condition**

An investment in the Preference Shares will have substantially the same economic risks as an investment in non-cumulative perpetual preference shares issued directly by the Bank having the same liquidation preference and rate of distribution as the Preference Shares. The Preference Shares are guaranteed on a limited and subordinated basis by the Bank pursuant to the terms of the Subordinated Guarantee. Accordingly, if the Bank's financial condition were to deteriorate, the Issuer and the Holders may suffer direct and materially adverse consequences, including non-payment of Preferred Dividends on the Preference Shares or of payments under the Subordinated Guarantee.

### **Preferred Dividends not Cumulative**

The payment of Preferred Dividends on the Preference Shares by the Issuer will always be subject to the Memorandum and Articles of Association of the Issuer and Cayman Islands law.

Preferred Dividends on the Preference Shares are not cumulative. As set out in "*Description of the Preference Shares*", Preferred Dividends on the Preference Shares, when and if declared by the Directors of the Issuer, will be paid on each Preferred Dividend Payment Date unless the Bank has insufficient Distributable Funds to enable the Issuer to pay Preferred Dividends on the Preference Shares (and in respect of any Preferred Dividend Parity Obligations) or such payment would result in the Bank breaching the Capital Adequacy Regulations. If Preferred Dividends on the Preference Shares for any Preferred Dividend Period are not paid, the Holders will not be entitled to receive such Preferred Dividends (or any payment under the Subordinated Guarantee in respect of such Preferred Dividends) whether or not funds are, or subsequently become, available.

### **Perpetual Nature of the Preference Shares**

The Preference Shares have no fixed final redemption date and Holders have no rights to call for the redemption of the Preference Shares. Although the Issuer may redeem the Preference Shares in certain circumstances (including at its option on the First Call Date or any Preferred Dividend Payment Date thereafter or following the occurrence of certain Tax Events (as set out in "*Description of the Preference Shares*") or a Capital Disqualification Event, there is no obligation for it to do so and there are limitations on its ability to do so. Therefore, Holders should be aware that they may be required to bear the financial risks of an investment in the Preference Shares for an indefinite period of time. Any redemption or purchase of the Preference Shares by the Issuer or any payments on liquidation of the Issuer will be subject to general principles of Cayman Islands law in effect from time to time.

### **Subordination**

The obligations of the Issuer under the Preference Shares and of the Bank under the Subordinated Guarantee will rank junior as to payments to all liabilities to creditors of the Issuer and the Bank, as the case may be, (including without limitation depositors, general creditors and subordinated debt holders) and claims of holders of senior ranking securities. In the event that the Bank is wound-up, liquidated or dissolved, the assets of the Bank would be available to pay obligations under the Subordinated Guarantee only after all payments have been made on such senior liabilities and claims.

### **No Limitation on Senior Debt**

Neither the Issuer nor the Bank is prohibited from issuing, guaranteeing or otherwise incurring further debt ranking *pari passu* with, or senior to, its obligations under the Preference Shares or the Subordinated Guarantee, as the case may be.

### **Absence of Prior Public Markets**

The Preference Shares constitute a new issue of shares by the Issuer. Prior to this issue, there will have been no public market for the Preference Shares. Although application has been made for the Preference Shares to be listed on the Luxembourg Stock Exchange, there can be no assurance that an active public market for the Preference Shares will develop and, if such a market were to develop, the Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Preference Shares can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Bank and other factors that generally influence the market prices of securities.

## DESCRIPTION OF THE PREFERENCE SHARES

*The following summary sets forth the material terms and provisions of the Preference Shares. It is qualified in its entirety by reference to the terms and conditions of the Company's Articles of Association. Copies of the Company's Articles of Association and other documents relating to the Preference Shares are available as described under "General Information – Documents".*

### 1. Definitions and Interpretation

In this description of the Preference Shares, except to the extent that the context requires otherwise:

“**Additional Amounts**” means the additional amounts which may be payable in respect of the Preference Shares as described in Article 10;

“**Agency Agreement**” means the agency agreement dated 2nd July, 2003 relating to the Existing Preference Shares, as supplemented by the first supplemental agency agreement dated 30th March, 2004 relating to the New Preference Shares, in each case between the Bank, the Company, the Principal Paying and Transfer Agent, the Preference Shares Registrar and the other agents named therein;

“**Bank**” means Banco Espírito Santo, S.A. and its successors and assigns;

“**Business Day**” means any day on which commercial and foreign exchange markets settle payments in London, Lisbon and the Cayman Islands and on which the TARGET System, or any successor thereto, is operating;

“**Capital Adequacy Regulations**” means at any time, the regulations, requirements, guidelines and policies relating to capital adequacy of the Bank of Portugal or otherwise applicable to banks in Portugal then in effect;

“**Capital Disqualification Event**” means a change in any applicable law or regulation, or in the official interpretation or application thereof, as a result of which, for the purposes of the Capital Adequacy Regulations at that time, securities of the nature of the Preference Shares can no longer qualify for inclusion in the tier one capital of the Bank on a consolidated basis;

“**Cayman Islands Tax**” means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Cayman Islands or any political sub-division thereof or by any authority therein or thereof having power to tax;

“**Clearstream, Luxembourg**” means Clearstream Banking, société anonyme or its successor;

“**Closing Date**” means, in respect of the Existing Preference Shares, 2nd July, 2003 and, in respect of the New Preference Shares, 30th March, 2004;

“**Common Depositary**” means JP Morgan Chase Bank, London branch as common depositary for Euroclear and Clearstream, Luxembourg;

“**Company**” means BES Finance Ltd., the company incorporated as an exempted company under the Companies Law (Revised) of the Cayman Islands on 15th November, 1996 in respect of which the articles have been registered;

“**Distributable Funds**” means in respect of each fiscal year of the Bank, the aggregate amount, as calculated as of the end of the immediately preceding fiscal year, of:

- (a) the Bank's accumulated retained earnings and any other reserves and surpluses available for distribution as cash dividends to holders of the ordinary share capital of the Bank under the companies laws of Portugal, before deduction of the amount of any dividend or other distribution declared on the Bank's ordinary share capital in respect of such prior fiscal year;
- (b) increased by the amount of any profit or decreased by any loss from such prior fiscal year, net of any amounts required to be transferred to legal or other restricted reserves;
- (c) less any distribution of bonuses, pursuant to the Bank's bylaws to employees and directors or funds distributed to their pension funds approved at the annual general meeting of shareholders that approves the accounts in respect of such prior fiscal year.

“**Dividends**” means the Preferred Dividends and the Ordinary Dividends or either of them;

“**Euroclear**” means Euroclear Bank S.A./N.V., as operator of the Euroclear System;

“**Existing Preference Shares**” means the €450,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A issued by the Company on 2nd July, 2003;

“**First Call Date**” means 2nd July, 2014;

“**Group**” means the Bank together with its Subsidiaries;

“**Holder**” means, in relation to any Preference Share, the member of the Company whose name is entered in the Preference Shares Register as the holder of such Preference Share and in relation to any Ordinary Share the member of the Company whose name is entered in the ordinary register as the holder of such Ordinary Share;

“**Junior Obligations**” means (i) ordinary shares of the Bank, (ii) each class of preferred or preference shares or similar securities of the Bank that ranks junior to the most senior ranking preferred or preference shares or similar securities of the Bank and (iii) any preference share or preferred security of a Subsidiary or the Company (other than the Preference Shares) entitled to the benefit of a guarantee or support agreement or similar undertaking of the Bank that ranks junior to the Subordinated Guarantee or any such guarantees or support agreements or similar undertakings of the Bank;

“**Liquidation Distribution**” means the Liquidation Preference plus (i) any accrued and unpaid Preferred Dividends (whether or not declared) calculated from and including the immediately preceding Preferred Dividend Payment Date (or, if none, the Closing Date) to but excluding the date of payment, and (ii) any Additional Amounts, in each case in cash only;

“**Liquidation Parity Obligations**” means the most senior preferred or preference shares or similar securities qualifying as tier 1 capital of the Bank and all preferred or preference shares or similar securities of Subsidiaries or of the Company (other than the Preference Shares) qualifying as tier 1 capital of the Bank on a consolidated basis and entitled to the benefit of any guarantee, support agreement or other contractual undertaking of the Bank ranking *pari passu* with the Subordinated Guarantee as regards participation in the assets of the Bank, or all such guarantees, support agreements or contractual undertakings;

“**Liquidation Preference**” means the liquidation preference of €1,000 per Preference Share;

“**Margin**” means 2.65 per cent. per annum;

“**New Preference Shares**” means the €150,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A to be issued on 30th March, 2004 by the Company, forming a single series with the Existing Preference Shares;

“**Ordinary Dividends**” means the dividends in respect of the Ordinary Shares;

“**Ordinary Shares**” means the ordinary shares in the capital of the Company with a nominal or par value of Euro 1.00 each;

“**Parity Obligations**” means Liquidation Parity Obligations and Preferred Dividend Parity Obligations;

“**Paying and Transfer Agents**” means each of the Principal Paying and Transfer Agent and any other entity appointed as paying and transfer agent by the Company and notified to the Holders of the Preference Shares;

“**Portuguese Tax**” means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Portugal or any political sub-division thereof or by any authority therein or thereof having power to tax;

“**Preference Shares**” means the € Non-cumulative Guaranteed Step-Up Preference Shares Series A of the Company outstanding, each with a Liquidation Preference of €1,000, and including the Existing Preference Shares, the New Preference Shares and any further Preference Shares of the Company of the same series issued after the Closing Date and ranking *pari passu* with the Preference Shares then in issue;

“**Preference Shares Register**” means the register of holders of Preference Shares;

“**Preference Shares Registrar**” means J.P. Morgan Bank Luxembourg S.A. or such other entity appointed by the Company and notified to the holders of the Preference Shares;

“**Preferred Dividends**” means the non-cumulative dividends in respect of the Preference Shares as described under Article 2;

“**Preferred Dividend Parity Obligations**” means the most senior preferred or preference shares or similar securities qualifying as tier 1 capital of the Bank and all preferred or preference shares or similar securities of Subsidiaries or of the Company (other than the Preference Shares) qualifying as tier 1 capital of the Bank on a consolidated basis and entitled to the benefit of any guarantee, support agreement or other contractual undertaking of the Bank ranking *pari passu* with the Subordinated Guarantee as regards entitlement to distributions thereunder, or all such guarantees, support agreements or contractual undertakings;

“**Preferred Dividend Payment Date**” means each date on which a Preferred Dividend is payable in accordance with the provisions of Article 2(a);

“**Preferred Dividend Period**” means the period from and including 2nd July, 2003 to but excluding the first Preferred Dividend Payment Date and each successive period from and including a Preferred Dividend Payment Date to but excluding the next succeeding Preferred Dividend Payment Date;

“**Preferred Dividend Rate**” means the Fixed Preferred Dividend Rate or the Floating Preferred Dividend Rate;

“**Principal Paying and Transfer Agent**” means JPMorgan Chase Bank or such other entity appointed by the Company and notified to the Holders of the Preference Shares;

“**Redemption Date**” means the date on which the Preference Shares are redeemed by the Company;

“**Redemption Price**” means €1,000 per Preference Share;

“**Reference Banks**” means any four major banks in the euro-zone interbank market selected by agreement between the Principal Paying and Transfer Agent and the Bank;

“**Relevant Screen Page**” means Moneyline Telerate Screen Page 248 or such replacement page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to Three Month EURIBOR;

“**Senior Creditors**” means liabilities of the Bank (other than any liability expressed to rank *pari passu* with or junior to the Subordinated Guarantee);

“**Subordinated Guarantee**” means the amended and restated subordinated guarantee in favour of the Holders of the Preference Shares to be executed by the Bank on 30th March, 2004 as a deed poll;

“**Subsidiary**” means any corporation or other person or entity more than 50 per cent. of the voting shares or similar ownership interests of which are owned, directly or indirectly, by the Bank;

“**TARGET Settlement Day**” means any day on which the Trans-European Automated Real-time Gross settlement Express Transfer system, or any successor thereto, is operating;

“**Tax Event**” means that, as a result of a change in any law or regulation of Portugal, the Cayman Islands or the UK, or in any treaty to which Portugal, the Cayman Islands or the UK is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in Portugal, the Cayman Islands or the UK:

- (a) payments to Holders would be subject to deduction or to withholding tax or would give rise to any obligation of the Company or the Bank to account for any tax in the Cayman Islands, Portugal or the UK; or
- (b) the Bank would be unable for reasons outside its control to procure payment by the Company and in making payments under the Subordinated Guarantee, such payments by the Bank would be subject to deduction or to withholding tax in Portugal or the UK; or
- (c) the Company or the Bank would be subject to more than a *de minimis* amount of tax in respect of the Preference Shares or the Subordinated Guarantee in the Cayman Islands or Portugal; or
- (d) the Bank would not obtain relief for the purposes of Portuguese corporation tax for any payment of interest on any inter-company lending of the proceeds of the Preference Shares;

“**UK**” means the United Kingdom of Great Britain and Northern Ireland; and

“**UK Tax**” means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the UK or any political sub-division thereof or by any authority therein or thereof having power to tax.

## 2. Preferred Dividends on Preference Shares

### (a) *Preferred Dividend Payment Dates*

Preferred Dividends on the Preference Shares are non-cumulative and will be deemed to accrue on a day by day basis. The Preferred Dividends will be payable when and if declared by the Directors of the Company:

- (i) annually in arrear on 2nd July in each year, commencing on 2nd July, 2004 up to and including the First Call Date; and thereafter
- (ii) quarterly in arrear on 2nd January, 2nd April, 2nd July and 2nd October in each year, commencing on 2nd October, 2014, provided that if any such date would otherwise fall on a day which is not a Business Day, payment shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month in which event it shall be brought forward to the immediately preceding Business Day.

### (b) *Fixed Rate Preferred Dividends*

In relation to each Preferred Dividend Period falling in the period from 2nd July, 2003 and ending on the day before the First Call Date, the rate of Preferred Dividend shall be 5.58 per cent. per annum (the “**Fixed Preferred Dividend Rate**”).

Whenever it is necessary to calculate the amount of any Preferred Dividend in respect of a Preference Share for each Preferred Dividend Period ending prior to the First Call Date, the amount of such Preferred Dividend shall be calculated by multiplying the Fixed Preferred Dividend Rate by the Liquidation Preference and the Fixed Day Count Fraction and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

“**Fixed Day Count Fraction**” means the actual number of days in the period from and including the date from which the relevant Preferred Dividend begins to accrue for the relevant period of calculation (the “**Accrual Date**”) to but excluding the date on which it falls due, divided by the actual number of days from and including the Accrual Date to but excluding the next following Preferred Dividend Payment Date.

### (c) *Floating Rate Preferred Dividends*

In relation to a Preferred Dividend Period commencing on the First Call Date or any Preferred Dividend Payment Date thereafter, the rate of Preferred Dividend shall be the sum of Three Month EURIBOR and the Margin (the “**Floating Preferred Dividend Rate**”).

For the purpose of calculating the Floating Preferred Dividend Rate, “**Three Month EURIBOR**” means the rate for deposits in euro for a period of three months which appears on the Relevant Screen Page as of 11.00 a.m., Brussels time, (or such other time as may be customary for the daily reset of such rate) on the day that is two TARGET Settlement Days preceding the first day of the relevant Preferred Dividend Period.

If such rate does not appear on the Relevant Screen Page on the day that is two TARGET Settlement Days preceding the first day of the relevant Preferred Dividend Period, then Three Month EURIBOR for the relevant Preferred Dividend Period will be determined on the basis of the rates at which deposits in euro are offered by the Reference Banks at approximately 11.00 a.m., Brussels time, on the day that is two TARGET Settlement Days preceding the first day of the relevant Preferred Dividend Period to prime banks in the euro-zone interbank market for a period of three months commencing on the first day of the relevant Preferred Dividend Period and in an amount that is representative for a single transaction in the relevant market at the relevant time. The Principal Paying and Transfer Agent shall request the principal euro-zone office of each of the Reference Banks to provide a quotation of its rate. If at least two quotations are provided, the rate shall be the arithmetic mean of such quotations.

If fewer than two quotations are provided as requested, Three Month EURIBOR in respect of such Preferred Dividend Period shall be the arithmetic mean of the rates quoted by major banks in the euro-

zone selected by the Principal Paying and Transfer Agent, at approximately 11.00 a.m., Brussels time, on the day that is two TARGET Settlement Days preceding the first day of the relevant Preferred Dividend Period for loans in euro to leading banks in the euro-zone for a period of three months commencing on the first day of such Preferred Dividend Period and in an amount that is representative for a single transaction in the relevant market at the relevant time, except that, if the banks so selected by the Principal Paying and Transfer Agent are not quoting as mentioned above, the Floating Preferred Dividend Rate for such Preferred Dividend Period shall be either (i) the Floating Preferred Dividend Rate in effect for the last preceding Preferred Dividend Period to which one of the preceding paragraphs of this definition of Three Month EURIBOR shall have applied or (ii) if none, the Fixed Preferred Dividend Rate.

Whenever it is necessary to calculate the amount of any Preferred Dividend in respect of a Preference Share for each period beginning on or after the First Call Date, the amount of such Preferred Dividend shall be calculated by multiplying the Floating Preferred Dividend Rate by the Liquidation Preference and the actual number of days in the relevant Preferred Dividend Period divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

The Principal Paying and Transfer Agent shall, as soon as practicable after 11.00 a.m., Brussels time, on the day which is two TARGET Settlement Days prior to the first day of each Preferred Dividend Period, calculate the Preferred Dividend payable on the relevant Preferred Dividend Payment Date on each Preference Share for the relevant Preferred Dividend Period.

### **3. Limitations on Payments of Preferred Dividends on Preference Shares**

(a) Preferred Dividends on the Preference Shares will be paid by the Company out of funds legally available therefor if and when declared by the Directors. The Directors of the Company will not declare, and the Company will not pay, any Preferred Dividend:

(i) to the extent that such Preferred Dividend, together with the amount of:

(x) any Preferred Dividends previously paid by the Company in respect of the Preference Shares and distributions previously paid in respect of Preferred Dividend Parity Obligations in the then current fiscal year; and

(y) any Preferred Dividends proposed to be paid in respect of the Preference Shares and distributions proposed to be paid in respect of Preferred Dividend Parity Obligations in the then current fiscal year, if on or before the First Call Date, or, if thereafter, in the then current calendar quarter;

would exceed Distributable Funds; and

(ii) even if Distributable Funds are sufficient, if the Company has been notified that in the judgement of the Board of Directors of the Bank, after consultation with the Bank of Portugal, such payment would breach or cause a breach by the Bank of the Capital Adequacy Regulations.

(b) References to Preferred Dividends in this Article include Additional Amounts (as defined in Article 10).

(c) *Partial payments*

If, in any Preferred Dividend Period by reason of any limitations on payments described in Article 3(a), Preferred Dividends are not paid in full on the Preference Shares, all Preferred Dividends declared upon the Preference Shares will be payable *pro rata* with the dividends declared on any other Preference Shares or preference shares of the Company ranking *pari passu* as regards participation in profits with the Preference Shares in the proportion that the amounts available for payment on the Preference Shares and any such other Preference Shares or preference shares shall bear to the full amount that would have been payable on the Preference Shares and any such other Preference Shares or preference shares, but for such limitation.

Save as described in this Article and in Articles 4 and 5, after payment of the Preferred Dividend the Holders of the Preference Shares will have no right to participate in the profits of the Company.

(d) *Preferred Dividends non-cumulative*

If the Directors of the Company do not declare a Preferred Dividend payable on a Preferred Dividend Payment Date in respect of the Preference Shares then, subject to Articles 4 and 5 and subject to the rights

of the Holders of the Preference Shares under the Subordinated Guarantee, the right of Holders of the Preference Shares to receive such Preferred Dividend will be lost. The Company will have no obligation to pay the Preferred Dividend accrued for such Preferred Dividend Period or to pay any interest thereon, whether or not Preferred Dividends on the Preference Shares are declared in respect of any future Preferred Dividend Period.

#### 4. Redemption of Preference Shares

##### (a) *Optional redemption*

The Preference Shares are redeemable, at the option of the Company, in whole but not in part, on the First Call Date or on any Preferred Dividend Payment Date falling thereafter, upon not less than 30 nor more than 60 days' notice to the Holders of the Preference Shares (which notice shall be irrevocable). Upon the expiry of such notice, the Company shall be bound to redeem the Preference Shares accordingly. Upon the Redemption Date, each Preference Share will be redeemed at the Redemption Price plus (i) accrued and unpaid Preferred Dividends in respect of the most recent Preferred Dividend Period, whether or not declared, up to the Redemption Date and (ii) any Additional Amounts.

##### (b) *Redemption for tax reasons*

If, at any time falling prior to but excluding the First Call Date, a Tax Event occurs, then the Preference Shares will be redeemable, at the option of the Company, in whole but not in part, upon not less than 30 or more than 60 days' notice to the Holders of the Preference Shares (which notice shall be irrevocable). Upon the expiry of such notice, the Company shall be bound to redeem the Preference Shares accordingly.

Upon the Redemption Date, each Preference Share will be redeemed at a price equal to:

- (i) in the case of a Tax Event described in paragraphs (a) or (b) of the definition of "Tax Event", the Redemption Price; or
- (ii) in the case of a Tax Event described in paragraphs (c) or (d) of the definition of "Tax Event", the Make Whole Redemption Price,

plus in each case, an amount equal to any accrued and unpaid Preferred Dividends in respect of the most recent Preferred Dividend Period, whether or not declared, up to the Redemption Date plus any Additional Amounts remaining unpaid.

##### (c) *Redemption for Capital Disqualification Event*

If, at any time falling prior to but excluding the First Call Date, a Capital Disqualification Event occurs, the Preference Shares may be redeemed, in whole but not in part, at the option of the Company, upon not less than 30 or more than 60 days' notice to the Holders of the Preference Shares (which notice shall be irrevocable). Upon the expiry of such notice, the Company shall be bound to redeem the Preference Shares accordingly.

Upon the Redemption Date, each Preference Share will be redeemed at the higher of (i) the Redemption Price and (ii) the Make Whole Redemption Price, plus in each case accrued and unpaid Preferred Dividends in respect of the most recent Preferred Dividend Period, whether or not declared, up to the Redemption Date and any Additional Amounts remaining unpaid.

##### (d) *Precondition to redemption*

Any redemption under Article 4 (a), (b) or (c) will be subject to the prior consent of the Bank and the Bank of Portugal.

The notice to the Holders of the Preference Shares under Article 4 (a), (b) or (c) will specify the Redemption Date and the Redemption Price or the Make Whole Redemption Price, as the case may be.

##### (e) *Calculation of Make Whole Redemption Price*

For the purposes of paragraphs (b) and (c) above:

**"Make Whole Redemption Price"** means, in respect of each Preference Share, the price, as determined by the Calculation Agent three dealing days before the due date for redemption, equal to (i) the present value of the Liquidation Preference of the Preference Share discounted from the First Call Date, plus (ii)

the present values of scheduled non-cumulative Preferred Dividend payments from the date when the Preference Share is to be redeemed to and including the First Call Date. The present values calculated in (i) and (ii) above shall be calculated by discounting the relevant amounts to the date when the Preference Share is to be redeemed on an annual basis at the Adjusted Yield;

For the purposes of determining the Make Whole Redemption Price:

“**Adjusted Yield**” means the Bond Yield, plus 0.75 per cent.;

“**Bond Yield**” means the rate per annum equal to the annual yield to maturity of the Reference Bond;

“**Calculation Agent**” means an investment bank of international standing selected by the Company;

“**Reference Bond**” means the 4.5 per cent. Bundesobligationen due 2013, or if such Bond is no longer in issue, such other European government bonds as the Calculation Agent may, with the advice of three brokers of, and/or market makers in, European government bonds selected by the Calculation Agent, determine to be appropriate for determining the Make Whole Redemption Price.

## 5. Payments

Preferred Dividends declared on the Preference Shares will be payable on the relevant Preferred Dividend Payment Date (or where any Preferred Dividend Payment Date is not a Business Day on the next Business Day without interest in respect of such delay) by the Company to the Holders of record as they appear on the Preference Shares Register on the relevant record date, which will be five days prior to the relevant Preferred Dividend Payment Date.

*Whilst the Preference Shares are represented by a Global Certificate (see Article 11 below), payments in respect of the Preference Shares will be made to or as directed by the Common Depositary as the registered Holder of the Global Certificate representing the Preference Shares. Payments made to the Common Depositary shall be made by wire transfer, and Euroclear or Clearstream, Luxembourg, as applicable, will credit the relevant accounts of their participants on the applicable Preferred Dividend Payment Dates or Redemption Dates.*

Payments of Preferred Dividends on Preference Shares will be made at the agency of the Company maintained for such purpose, which initially will be the office of JPMorgan Chase Bank as Principal Paying and Transfer Agent in London, J.P. Morgan Bank Luxembourg S.A. as Paying and Transfer Agent in Luxembourg or, at the option of the Holder and subject to any fiscal or other laws and regulations applicable thereto, at the office of any other Paying and Transfer Agent (if any) appointed by the Company. Subject to any applicable fiscal or other laws and regulations, each payment in respect of Preferred Dividends on definitive Preference Shares may be made by euro cheque drawn on a bank in a principal financial centre in the euro-zone and mailed to the Holder of record at such Holder’s address as it appears on the Preference Shares Register on the relevant record date or by wire transfer if appropriate wire transfer instructions have been received by the Principal Paying and Transfer Agent.

If the Company does not pay a Preferred Dividend, a Holder’s right to receive payment of such Preferred Dividend will be satisfied if and to the extent that the Bank pays such Preferred Dividend pursuant to the Subordinated Guarantee.

If the Company gives a notice of redemption in respect of the Preference Shares, then, by 10.00 a.m. London time, on the Redemption Date, the Company will irrevocably deposit with the Principal Paying and Transfer Agent funds sufficient to pay the Redemption Price or the Make Whole Redemption Price, as the case may be, and will give the Principal Paying and Transfer Agent irrevocable instructions and authority to pay the Redemption Price, or the Make Whole Redemption Price, as the case may be, to the Holders of the Preference Shares. If notice of redemption shall have been given and funds deposited as required, then upon the date of such deposit, all rights of Holders of the Preference Shares will be extinguished, except the right of the Holders of Preference Shares to receive the Redemption Price or the Make Whole Redemption Price as the case may be, in respect of each Preference Share, but without interest, and the Preference Shares will cease to be outstanding.

In the event that payment of the Redemption Price or the Make Whole Redemption Price in respect of any Preference Share is improperly withheld or refused and not paid either by the Company or by the Bank pursuant to the Subordinated Guarantee, Preferred Dividends on such Preference Share, subject as described above, will continue to accrue, at the then applicable rate, from the Redemption Date to the date of actual payment of such Redemption Price or Make Whole Redemption Price.

## 6. Purchase of Preference Shares

Subject to the foregoing and to applicable law, (including, without limitation, Portuguese, Cayman Islands and Luxembourg securities and banking laws and regulations) and to the requirements of the Luxembourg Stock Exchange, the Company or the Bank or any of the Bank's other Subsidiaries may at any time and from time to time purchase outstanding Preference Shares by tender, in the open market or by private agreement. If purchases are made by tender, the tender must be available to all Holders of Preference Shares alike.

Any such purchase to be made by the Company shall be made in such manner and in such terms as the Company shall have approved in general meeting or by written resolution and shall be subject to the prior consent of the Bank of Portugal.

All Preference Shares redeemed or purchased by the Company shall be cancelled.

## 7. Liquidation Distributions

In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company, the Holders of the Preference Shares at the time outstanding will be entitled to receive the Liquidation Distribution in respect of each Preference Share held out of the assets of the Company available for distribution to shareholders.

Such entitlement will arise before any distribution of assets is made to holders of Ordinary Shares or any other class of shares of the Company ranking junior as regards participation in assets to the Preference Shares, but such entitlement will rank equally with the entitlement of the holders of any Liquidation Parity Obligations.

Notwithstanding the availability of sufficient assets of the Company to pay any Liquidation Distribution to the Holders of the Preference Shares, if, at the time such Liquidation Distribution is to be paid, proceedings are pending or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of the Bank, the Liquidation Distribution per Preference Share paid to Holders of the Preference Shares and the liquidation distribution paid to the holders of Liquidation Parity Obligations shall not exceed the amount that would have been paid as the liquidation distribution from the assets of the Bank (after payment in full in accordance with the Portuguese law of all creditors of the Bank, including holders of its subordinated debt but excluding holders of any liability expressed to rank *pari passu* with or junior to the Subordinated Guarantee) had the Preference Shares and all such Liquidation Parity Obligations been issued by the Bank and ranked:

- (x) junior to all Senior Creditors;
- (y) *pari passu* with Liquidation Parity Obligations, if any, of the Bank; and
- (z) senior to all Junior Obligations.

If the Liquidation Distribution and any other such liquidation distributions cannot be made in full by reason of the limitation described above, such amounts will be payable *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitation. After payment of the Liquidation Distribution, as adjusted if applicable, the Holders of the Preference Shares will have no right or claim to any of the remaining assets of the Company or the Bank.

In the event of the liquidation, dissolution or winding-up of the Bank, the Directors of the Company shall convene an extraordinary general meeting of the Company for the purpose of proposing a Special Resolution to put the Company into liquidation and the amount to which Holders of the Preference Shares shall be entitled as a Liquidating Distribution will be as set out above.

## 8. Voting Rights

Except as provided in this Article, Holders of Preference Shares will not be entitled to receive notice of or attend or vote at any general meeting of shareholders of the Company.

If in respect of a Preferred Dividend Period or Preferred Dividend Periods, in each case amounting to a period of not less than one year:

- (a) Preferred Dividends (whether or not declared) or any Additional Amounts in respect of such Preferred Dividends have not been paid in full by the Company; or
- (b) the Bank breaches any of its payment obligations under the Subordinated Guarantee in respect of such Preferred Dividends or Additional Amounts,

then the Holders of outstanding Preference Shares together with the holders of any other Preference Shares or preference shares of the Company having the right to vote for the election of Directors in such event, acting as a single class without regard to series, will be entitled, by written notice to the Company given by the holders of a majority in liquidation preference of such shares or securities or by ordinary resolution passed by the holders of a majority in liquidation preference of such shares or securities present in person or by proxy at a separate general meeting of such holders convened for the purpose, to appoint two additional persons to act as Directors of the Company, and to remove any such Director from office and to appoint another person in place of such Director.

Not later than 30 days after such entitlement arises, if the written notice of the Holders of outstanding Preference Shares and the holders of any other Preference Shares or preference shares of the Company having the right to vote for the election of Directors in the circumstances described in the preceding sentence has not been given as provided for in the preceding sentence, the Directors of the Company will convene a separate general meeting for the above purpose. If the Directors fail to convene such meeting within such 30 day period, the holders of not less than 10 per cent. by liquidation preference of the outstanding Preference Shares and such other Preference Shares or preference shares will be entitled to convene such meeting. The provisions of the Articles concerning the convening and conduct of general meetings of shareholders shall apply with respect to such meeting.

Subject to the terms of such other Preference Shares or preference shares, if, in respect of a Preferred Dividend Period or Preferred Dividend Periods, in each case amounting to not less than one year, Preferred Dividends and any Additional Amounts in respect of such Dividends have been paid in full on the Preference Shares by the Company and/or the Bank has made payment of all amounts guaranteed in respect of such Preferred Dividends (whether or not declared) and any Additional Amounts, any Director so appointed shall vacate the office.

Any variation or abrogation of the rights, preferences and privileges of the Preference Shares by way of amendment of the Company's Articles of Association or otherwise (including, without limitation, the authorisation or issuance of any shares of the Company ranking, as to participation in the profits or assets of the Company, senior to the Preference Shares) shall not be effective (unless otherwise required by applicable law) except with the consent in writing of the Holders of not less than two-thirds in nominal value of the outstanding Preference Shares or with the sanction of a resolution, passed by a majority of not less than two-thirds in nominal value of the Holders of the outstanding Preference Shares, present or represented at a separate meeting at which the quorum shall be Holders present or represented holding at least one-third in nominal value of the outstanding Preference Shares.

No such sanction shall be required if, as determined by the Directors, the change is solely of a formal, minor or technical nature or is to correct an error or cure an ambiguity, provided that any such change does not reduce the amounts payable to or impose any obligation on the Holders of the Preference Shares or adversely affect their voting rights or cause any modification of the terms of the Preference Shares pursuant to Article 9.

Notwithstanding the foregoing, no vote of the Holders of the Preference Shares will be required for the Company to redeem the Preference Shares in accordance with the Company's Articles of Association.

In addition to the voting rights referred to above, no resolution may be proposed for adoption by the Holders of the Ordinary Shares providing for the winding-up, liquidation or dissolution of the Company, unless the Holders of a simple majority by nominal value of the outstanding Preference Shares and holders of any other Preference Shares or preference shares ranking *pari passu* as regards participation in profits or assets with the Preference Shares have approved such resolution. Such approval may only be given by the consent in writing of the holders of at least a simple majority in nominal value of the outstanding Preference Shares and such other Preference Shares or preference shares or with the sanction of a resolution passed by not less than a simple majority in nominal value at a meeting of the holders of the Preference Shares and such other Preference Shares or preference shares present and voting at such meeting. Such approval shall not be required if the winding-up, liquidation or dissolution of the Company is proposed or initiated because of the winding-up, liquidation or dissolution of the Bank.

Notwithstanding that Holders of Preference Shares are entitled to vote under any of the limited circumstances described above, any Preference Share outstanding at such time that is owned by the Bank, or any entity of which the Bank, either directly or indirectly, owns 20 per cent. or more of the voting shares or similar ownership interests, shall not carry a right to vote and shall, for voting purposes, be treated as if it were not outstanding.

The Company will cause a notice of any meeting at which Holders of the Preference Shares are entitled to vote to be mailed to each Holder of a Preference Share. Each such notice will include a statement setting forth (a) the

date, time and place of such meeting, (b) a description of any resolution to be proposed for adoption at such meeting on which such Holders are entitled to vote and (c) instructions for the delivery of proxies.

## 9. Further Issues

Notwithstanding Article 8, provided that the most recent Preferred Dividend payable on the Preference Shares has been paid in full by the Company (or the Bank pursuant to the Subordinated Guarantee), the Holders of Ordinary Shares or, subject to Cayman Islands law, the Directors of the Company may, without the consent or sanction of the Holders of the Preference Shares, take such action as is required in order to amend the Company's Articles:

- (a) to increase the authorised amount of Preference Shares or to create and issue one or more other series of Preference Shares or preference shares of the Company ranking *pari passu* with the Preference Shares as regards participation in the profits and assets of the Company; or
- (b) to authorise, create and issue one or more other classes of shares of the Company ranking junior, as regards participation in the profits and assets of the Company, to the Preference Shares.

Thereafter, the Company may, without the consent of the Holders of the Preference Shares issue any such further securities either having the same terms and conditions as the Preference Shares in all respects (or in all respects except for the first payment of Preferred Dividends on them) and so that such further issue shall be consolidated and form a single series with the Preference Shares then in issue or upon such other terms as aforesaid.

Notwithstanding the foregoing, the Company may only issue further Preference Shares if, at the same time, the Bank issues in respect of the further Preference Shares a guarantee having terms and conditions that are substantially identical to the Subordinated Guarantee (or extends the Subordinated Guarantee to cover the further Preference Shares).

## 10. Additional Amounts

All payments in respect of the Preference Shares by the Company will be made without withholding or deduction for, or on account of, any Cayman Islands Tax, Portuguese Tax or UK Tax, unless the withholding or deduction of such Cayman Islands Tax, Portuguese Tax or UK Tax is required by law. In that event, the Company will pay as further dividends such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received by the Holders of Preference Shares after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Preference Shares in the absence of such withholding or deduction; except that no such Additional Amounts will be payable to a Holder of Preference Shares (or to a third party on his behalf) with respect to any Preference Share:

- (a) to the extent that such Cayman Islands Tax, Portuguese Tax or UK Tax is imposed or levied by virtue of such Holder (or the beneficial owner of such Preference Share) having some connection with the Cayman Islands, Portugal or the UK, other than being a Holder (or beneficial owner) of such Preference Share; or
- (b) to the extent that such Cayman Islands Tax, Portuguese Tax or UK Tax is imposed or levied by virtue of such Holder (or the beneficial owner of such Preference Share) not having made a declaration of non-residence in, or other lack of connection with, the Cayman Islands, Portugal or the UK, or other similar claim for exemption, such Holder (or beneficial owner) having been advised of the obligation to make such withholding or deduction,

and except that the Company's obligations to make any such payments are subject to the limitations on payments provisions under Article 3.

## 11. Form, Registration and Transfer of Preference Shares

The Preference Shares will be in registered form.

*On or about the Closing Date for the New Preference Shares, a single temporary global certificate (the "**Temporary Global Certificate**") initially representing the New Preference Shares will be deposited with JP Morgan Chase Bank, London branch (the "**Common Depositary**") as common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Certificate will be registered in the name of a nominee for the Common Depositary. The Temporary Global Certificate will be exchangeable in whole for a single permanent global certificate (the "**Permanent Global Certificate**") and together with the Temporary Global Certificate, the "**Global Certificates**") representing the New Preference Shares on 10th May, 2004 whereupon the New*

*Preference Shares will become fungible for trading purposes with the Existing Preference Shares. For so long as a Global Certificate is deposited and registered as described above, book-entry interests in the New Preference Shares will be shown on, and transfers of such interests will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg.*

*If (a) either or both of Euroclear and Clearstream, Luxembourg is or are closed for business for a continuous period of 14 days or more (other than for the purposes of a public holiday) or announces an intention permanently to cease business, or (b) as a result of a change in law, transfer duties or similar taxes become payable on transfers of the Preference Shares in Euroclear and/or Clearstream, Luxembourg, a number of Preference Shares corresponding to its book-entry interest in the Preference Shares represented by the certificate held by the Common Depositary referred to above will be transferred to each holder of an interest in the Preference Shares whose name is notified by Euroclear and/or Clearstream, Luxembourg and/or an agent thereof to the Preference Shares Registrar. Each such holder will be registered as a Holder in the Preference Shares Register and receive a certificate made out in its name. Other than in the circumstances referred to in this paragraph, definitive certificates will not be available to Holders.*

If definitive certificates are made available in respect of Preference Shares, they will be available from the Preference Shares Registrar and from the Paying and Transfer Agent in Luxembourg, and will be posted to the relevant Holders at the address shown in the Preference Shares Register or, as applicable, in the relevant instrument of transfer within three Business Days of issue, by uninsured post at the risk of such Holders. Transfers of Preference Shares if represented by definitive certificates may be effected by presentation of the relevant certificate (with the transfer certificate attached thereto duly completed on behalf of the transferor and transferee) at the specified office of the Preference Shares Registrar or any Paying and Transfer Agent. Where a Holder transfers some only of the Preference Shares represented by any such certificate he shall be entitled to a certificate for the balance without charge. For so long as any Preference Shares are outstanding, the Company will maintain a Preference Shares Registrar having its office outside the UK.

## **12. Paying and Transfer Agents**

The Principal Paying and Transfer Agent shall be permitted to resign as Principal Paying and Transfer Agent upon 30 days' written notice to the Company. In the event that JPMorgan Chase Bank shall no longer be the Principal Paying and Transfer Agent, the Company shall appoint a successor (which shall be a bank or trust company acceptable to the Company) to act as Principal Paying and Transfer Agent. For so long as the Preference Shares are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, the Company will maintain a Paying and Transfer Agent in Luxembourg and will give notice in the manner described under "Notices" below (see Article 13) when any new paying and transfer agent in Luxembourg is appointed. For so long as any Preference Shares are outstanding, the Company will maintain a Paying and Transfer Agent having a specified office in a European Union Member State (if available) that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained whether by the Reference Banks (or any of them), the Principal Paying and Transfer Agent or the Calculation Agent will (in the absence of wilful default, bad faith or manifest error) be binding on the Company, the Reference Banks, the Principal Paying and Transfer Agent, the Calculation Agent, the Preference Shares Registrar and all Holders of the Preference Shares and (in the absence of any such wilful default, bad faith or manifest error) no liability to the Company, the Preference Shares Registrar or the Holders of the Preference Shares shall attach to the Reference Banks, the Principal Paying and Transfer Agent or the Calculation Agent in connection with the exercise or non-exercise by them of their powers, duties and discretions.

## **13. Notices**

Any Notice to Holders of the Preference Shares will be given to them at their addresses set forth in the Preference Shares Register. In addition, for so long as the Preference Shares are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, all notices to Holders of Preference Shares will also be published in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such Luxembourg publication is not practicable, in one other leading English language newspaper being published on each day in morning editions whether or not it shall be published in Saturday, Sunday or holiday editions. Such notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication.

## **Other Provisions of the Issuer's Articles**

In addition, the Articles of Association of the Issuer contain, *inter alia*, provisions (with the exception of sections in italics) to the following effect:

### **(a) Ordinary Shares**

*All the Company's Ordinary Shares are owned by the Bank.* In any year, subject to Cayman Islands law, the Directors may, without the consent of the Holders of the Preference Shares, declare and pay Dividends on the Ordinary Shares to the Bank as the holder of the Ordinary Shares. Such Dividends will be paid out of the Company's funds, if any, lawfully available and after payment of the Preferred Dividends on the Preference Shares if and as due in accordance with the terms and conditions of the Preference Shares

### **(b) Prescription and Governing Law**

Any Dividend unclaimed after a period of ten years from its date of declaration shall be forfeited and shall cease to be owing by the Company. *The Preference Shares are governed by, and shall be construed in accordance with Cayman Islands law.*

## **Summary of Provisions Relating to the Preference Shares in Global Form**

### ***Initial Issue of New Preference Shares***

The New Preference Shares will be issued in registered form and will be initially represented by interests in the Temporary Global Certificate which will be registered in the name of Chase Nominees Limited, as nominee for, and will be deposited with, a common depositary for, Euroclear and Clearstream, Luxembourg on or about the Closing Date for the New Preference Shares. The Temporary Global Certificate will be exchangeable in whole for the Permanent Global Certificate on 10th May, 2004 whereupon the New Preference Shares will become fungible for trading purposes with the Existing Preference Shares. For so long as the New Preference Shares are deposited and registered as described above, book-entry interests in the New Preference Shares will be shown on, and transfers of such interests will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg.

### ***Exchange***

If (a) either or both of Euroclear and Clearstream, Luxembourg is or are closed for business for a continuous period of 14 days (other than for the purposes of a public holiday) or announces an intention permanently to cease business or (b) as a result of a change in law, transfer duties or similar taxes become payable on transfers of the Preference Shares in Euroclear and/or Clearstream, Luxembourg, a number of Preference Shares corresponding to its book-entry interest in the Preference Shares represented by the certificate held by the Common Depositary referred to above will be transferred to each holder of an interest in the Preference Shares whose name is notified by Euroclear and/or Clearstream, Luxembourg and/or an agent thereof of such interest to the Preference Shares Registrar. Each such holder will be registered as a Holder of the Preference Shares in the Preference Shares Register maintained by or on behalf of the Issuer and will receive a certificate made out in its name.

### ***Accountholders***

So long as the Preference Shares are registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the nominee for Euroclear and Clearstream, Luxembourg will be the sole registered owner or holder of the Preference Shares represented by a Global Certificate. Except as set forth under "*Description of Preference Shares – Form, Registration and Transfer of Preference Shares*" and under "*Transfers of Interests*" below, the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") as the Holders of the Preference Share evidenced by a Global Certificate (each an "**Accountholder**") will not be entitled to have Preference Shares registered in their names, will not receive or be entitled to receive physical delivery of definitive certificates evidencing interests in the Preference Shares and will not be considered registered owners or Holders thereof. Accordingly, each Accountholder must rely on the rules and procedures of Euroclear and Clearstream, Luxembourg, as the case may be, to exercise any rights and obligations of a Holder of Preference Shares.

### ***Payment***

Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made by the Issuer to the registered Holder of the Preference Shares and in relation to all other rights arising under a Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be. Such persons shall have no claim directly against the

Issuer in respect of payments due on the Preference Shares for so long as the Preference Shares are represented by such Global Certificate and such obligations of the Issuer will be discharged by payment to the registered Holder of the Preference Shares in respect of each amount so paid.

***Transfers of Interests***

Accountholders will only be able to transfer their beneficial interests in the Preference Shares in accordance with the restrictions described under “*Description of Preference Shares – Form, Registration and Transfer of Preference Shares*” and with the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be.

## SUBORDINATED GUARANTEE

*Set forth below is the text of the Subordinated Guarantee substantially in the form to be executed by the Bank:*

**THIS DEED OF GUARANTEE** (the “**Subordinated Guarantee**”), dated 30th March, 2004, is executed and delivered by **BANCO ESPÍRITO SANTO, S.A.** (the “**Bank**”) (acting through its London branch), a company incorporated under the laws of Portugal for the benefit of the Holders (as defined below).

**WHEREAS** the Bank desires to cause the Issuer to issue the New Preference Shares (as defined below) and the Bank desires to issue this Subordinated Guarantee, which amends and restates the deed of guarantee dated 2nd July, 2003 in respect of the Existing Preference Shares (as defined below), for the benefit of the Holders, as provided herein.

**NOW THEREFORE** the Bank executes and delivers this Subordinated Guarantee for the benefit of the Holders.

### 1. Definitions and Interpretation

As used in this Subordinated Guarantee, capitalised terms not defined herein shall have the meanings ascribed to them in the Issuer’s Articles of Association and otherwise the following terms shall, unless the context otherwise requires, have the following meanings:

“**Additional Amounts**” means, except where otherwise defined in relation to the Issuer, the additional amounts which may be payable in respect of the Preference Shares as described in paragraph 5;

“**Distributable Funds**” means in respect of each fiscal year of the Bank, the aggregate amount, as calculated as of the end of the immediately preceding fiscal year, of:

- (a) the Bank’s accumulated retained earnings and any other reserves and surpluses available for distribution as cash dividends to holders of the ordinary share capital of the Bank under the companies laws of Portugal, before deduction of the amount of any dividend or other distribution declared on the Bank’s ordinary share capital in respect of such prior fiscal year;
- (b) increased by the amount of any profit or decreased by any loss from such prior fiscal year, net of any amounts which are required to be transferred to legal or other restricted reserves;
- (c) less any distribution of bonuses, pursuant to the Bank’s bylaws to employees and directors or funds distributed to their pension funds approved at the annual general meeting of shareholders that approves the accounts in respect of such prior fiscal year.

“**Existing Preference Shares**” means the €450,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A issued by the Issuer on 2nd July, 2003;

“**Group**” means the Bank together with its Subsidiaries;

“**Guarantee Payments**” means (without duplication) payments under this Subordinated Guarantee in respect of (a) any unpaid Preferred Dividends declared by the Issuer on the Preference Shares for the most recent Preferred Dividend Period; (b) the Redemption Price or the Make Whole Redemption Price, as the case may be, payable with respect to any Preference Shares due to be redeemed by the Issuer; (c) the Liquidation Distributions due on the Liquidation Date; and (d) any Additional Amounts (as defined in the Issuer’s Articles of Association) payable by the Issuer, in each case subject to the limitations contained in paragraph 2 hereof;

“**Holder**” means, in relation to any Preference Share, the member of the Issuer whose name is entered in the Preference Shares Register as holder of such Preference Share;

“**Issuer**” means BES Finance Ltd., a wholly-owned Subsidiary of the Bank incorporated in the Cayman Islands;

“**Liquidation Date**” means the date of final distribution of the assets of the Issuer in the case of a liquidation, dissolution or winding-up of the Issuer (whether voluntary or involuntary);

“**Liquidation Parity Obligations**” means the most senior preferred or preference shares or similar securities qualifying as tier 1 capital of the Bank and all preferred or preference shares or similar securities of Subsidiaries or of the Company (other than the Preference Shares) qualifying as tier 1 capital of the Bank on a consolidated basis and entitled to the benefit of any guarantee, support agreement or other contractual undertaking of the Bank

ranking *pari passu* with the Subordinated Guarantee as regards participation in the assets of the Bank, or all such guarantees, support agreements or contractual undertakings;

“**New Preference Shares**” means the €150,000,000 Non-cumulative Guaranteed Step-Up Preference Shares Series A issued by the Issuer on 30th March, 2004, forming a single series with the Existing Preference Shares;

“**Parity Obligations**” means Liquidation Parity Obligations and Preferred Dividend Parity Obligations;

“**Preference Shares**” means the € Non-cumulative Guaranteed Step-Up Preference Shares Series A of the Issuer outstanding, each with a Liquidation Preference of €1,000, and including the Existing Preference Shares, the New Preference Shares and any further Preference Shares of the Issuer of the same series issued after the Closing Date and ranking *pari passu* with the Preference Shares then in issue;

“**Preference Shares Register**” means the register of Holders maintained outside the United Kingdom on behalf of the Issuer;

“**Preferred Dividends**” means the non-cumulative dividends in respect of the Preference Shares as described in the Articles of Association of the Issuer;

“**Preferred Dividend Parity Obligations**” means the most senior preferred or preference shares or similar securities qualifying as tier 1 capital of the Bank and all preferred or preference shares or similar securities of Subsidiaries qualifying as tier 1 capital of the Bank and entitled to the benefit of any guarantee, support agreement or other contractual undertaking of the Bank ranking *pari passu* with the Subordinated Guarantee as regards entitlement to distributions thereunder, and all such guarantees, support agreements or contractual undertakings;

“**Senior Creditors**” means liabilities of the Bank (other than any liability expressed to rank *pari passu* with or junior to the Subordinated Guarantee); and

“**Subsidiary**” means any corporation or other person or entity more than 50 per cent. of the voting shares or similar ownership interests of which are owned, directly or indirectly, by the Bank.

## 2. Guarantee

Subject to the limitations contained in the following paragraphs, the Bank irrevocably and unconditionally agrees to pay in full to the Holders the Guarantee Payments (except to the extent paid by the Issuer), as and when due, regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Subordinated Guarantee is continuing, irrevocable and absolute.

## 3. Limitations on Guarantee Payments

Notwithstanding paragraph 2 above, the Bank will not be obliged to make any Guarantee Payment in respect of Preferred Dividends (including accrued and unpaid Preferred Dividends relating to any payment due upon redemption or liquidation distribution and any Additional Amounts payable by the Issuer in respect of Preferred Dividends) on any Preference Shares:

- (a) to the extent that such Guarantee Payment, together with the amount of:
  - (i) any Preferred Dividends previously paid by the Company in respect of the Preference Shares and distributions previously paid in respect of Preferred Dividend Parity Obligations in the then current fiscal year; and
  - (ii) any Preferred Dividends proposed to be paid in respect of the Preference Shares and distributions proposed to be paid in respect of Preferred Dividend Parity Obligations in the then current calendar year, if on or before the First Call Date, or, if thereafter, in the then current calendar quarter;would exceed Distributable Funds; and
- (b) even if Distributable Funds are sufficient, if in the judgement of the Board of Directors of the Bank after consultation with the Bank of Portugal, such payment would breach or cause a breach by the Bank of the Capital Adequacy Regulations.

#### **4. Liquidation Distribution**

Notwithstanding paragraph 2 above, if, at the time that any Liquidation Distribution is to be paid by the Bank in respect of the Preference Shares, proceedings are pending or have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of the Bank, payment under this Subordinated Guarantee of such Liquidation Distributions and payment by the Bank in respect of any liquidation distributions payable with respect to Liquidation Parity Obligations, shall not exceed the amount per share that would have been paid as the liquidation distribution from the assets of the Bank (after payment in full in accordance with the Portuguese law of all creditors of the Bank, including holders of its subordinated debt but excluding holders of any liability expressed to rank *pari passu* with or junior to this Subordinated Guarantee) had the Preference Shares and all such Preference Shares or preference shares been issued by the Bank and ranked:

- (a) junior to all Senior Creditors;
- (b) *pari passu* with the Preferred Dividend Parity Obligations, if any, of the Bank; and
- (c) senior to all Junior Obligations.

#### **5. Additional Amounts**

All Guarantee Payments made hereunder in respect of the Preference Shares by the Bank will be made without withholding or deduction for, or on account of, any Portuguese Tax or UK Tax, unless the withholding or deduction of such Portuguese Tax or UK Tax is required by law. In that event, the Bank will pay such Additional Amounts as may be necessary in order that the net amounts received by the Holders of Preference Shares after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Preference Shares in the absence of such withholding or deduction; except that no such Additional Amounts will be payable to a Holder of Preference Shares (or to a third party on his behalf) with respect to any Preference Share:

- (a) to the extent that such Portuguese Tax or UK Tax is imposed or levied by virtue of such Holder (or the beneficial owner of such Preference Share) having some connection with Portugal, other than being a Holder (or beneficial owner) of such Preference Share; or
- (b) to the extent that such Portuguese Tax or UK Tax is imposed or levied by virtue of such Holder (or the beneficial owner of such Preference Share) not having made a declaration of non-residence in, or other lack of connection with, Portugal or the UK, or other similar claim for exemption, such Holder (or beneficial owner) having been advised of the obligation to make such withholding or deduction,

and except that the Bank's obligations to make any such payments are subject to the limitations contained in paragraph 3 above.

#### **6. Partial Payments**

- (a) In the event that the amounts described in paragraphs 2 and 5 above cannot be made in full by reason of any limitation referred to in paragraph 3 above, such amounts will be payable *pro rata* in the proportion that the amount available for payment bears to the full amount that would have been payable but for such limitation.
- (b) The determination of any such limitation of the Bank's obligations under this Subordinated Guarantee as set forth will be made two Business Days before the relevant Preferred Dividend Payment Date, Redemption Date or Liquidation Date, as the case may be.

#### **7. Continuing Guarantee**

The obligations, undertakings, agreements and duties of the Bank under this Subordinated Guarantee shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

- (a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer of any express or implied agreement, covenant, term or condition relating to the Preference Shares to be performed or observed by the Issuer; or
- (b) the extension of time for the payment by the Issuer of all or any portion of the Preferred Dividends, Redemption Price, Make Whole Redemption Price, Liquidation Distributions or any other sums payable

under the terms of the Preference Shares or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Preference Shares; or

- (c) any failure, omission, delay or lack of diligence on the part of Holders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Preference Shares, or any action on the part of the Issuer granting indulgence or extension of any kind; or
- (d) the voluntary or involuntary liquidation, dissolution, amalgamation, reconstruction, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganisation, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Issuer or any of the assets of the Issuer; or
- (e) any invalidity of, or defect or deficiency in, the Preference Shares; or
- (f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred.

There shall be no obligation on the Holders to give notice to, or obtain consent of, the Bank with respect to the happening of any of the foregoing.

#### **8. Deposit of Subordinated Guarantee**

This Subordinated Guarantee shall be deposited with and held by JPMorgan Chase Bank as Principal Paying and Transfer Agent until all the obligations of the Bank have been discharged in full. The Bank hereby acknowledges the right of every Holder to the production of, and the right of every Holder to obtain a copy of, this Subordinated Guarantee.

It is specifically agreed that the place of performance of any and all obligations of the Bank under this Subordinated Guarantee shall be London, England and consequently any and all payments of the Bank under this Subordinated Guarantee shall be made out of bank accounts maintained with banks legally operating and situated in London, England.

#### **9. Enforcement; Right of Remedy**

- (a) A Holder may enforce this Subordinated Guarantee directly against the Bank, and the Bank waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against the Bank. Subject to paragraph 10, all waivers contained in this Subordinated Guarantee shall be without prejudice to the right to proceed against the Issuer. The Bank agrees that this Subordinated Guarantee shall not be discharged except by payment of the Guarantee Payments in full and by complete performance of all obligations of the Bank under this Subordinated Guarantee.
- (b) Following a breach by the Bank of its payment obligations under this Subordinated Guarantee, a Holder may petition for the winding-up of the Bank and claim in the liquidation of the Bank but no other remedy shall be available to the Holder.
- (c) No Holder shall, following any breach by the Bank of any of its obligations under this Subordinated Guarantee, be entitled to exercise any right of set-off or counterclaim which may be available to it against amounts owing by the Bank to such Holder. Notwithstanding the provisions of the foregoing sentence, if any of the said rights and claims of any Holder against the Bank is discharged by set-off, such Holder will immediately pay an amount equal to the amount of such discharge to the Bank or, in the event of its winding-up, the liquidator of the Bank and until such time as payment is made, will hold a sum equal to such amount in trust for the Bank, or the liquidator of the Bank and accordingly such discharge will be deemed not to have taken place.
- (d) In the event of a winding-up of the Bank if any payment or distribution of assets of the Bank of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Bank being subordinated to the payment of amounts owing under this Subordinated Guarantee, shall be received by any Holders before the claims of Senior Creditors have been paid in full, such payment or distribution shall be held in trust by the Holder, as applicable, and shall be immediately returned by it to the liquidator of the Bank and in that event, the receipt by the liquidator shall be a good discharge to the relevant Holder. Thereupon, such payment or distribution will be deemed not to have been made or received.

## 10. Subrogation

The Bank shall be subrogated to any and all rights of the Holders against the Issuer in respect of any amounts paid to the Holders by the Bank under this Subordinated Guarantee and will have the right to waive payment of any amount of Preferred Dividends in respect of which payment has been made to the Holders by the Bank pursuant to this Subordinated Guarantee. The Bank shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Subordinated Guarantee, if, at the time of any such payment, any amounts are due and unpaid under this Subordinated Guarantee. If any amount with respect to the Preference Shares shall be paid to the Bank in violation of the preceding sentence, the Bank agrees to pay over such amount to the Holders.

## 11. Status

- (a) The Bank acknowledges that its obligations hereunder are several and independent of the obligations of the Issuer with respect to the Preference Shares and that the Bank shall be liable as principal and sole debtor hereunder to make Guarantee Payments pursuant to the terms of this Subordinated Guarantee, notwithstanding the occurrence of any event referred to in paragraph 7.
- (b) Subject to applicable law, the Bank agrees that the Bank's obligations hereunder constitute unsecured obligations of the Bank and rank and will at all times rank:
  - (i) junior to all Senior Creditors;
  - (ii) *pari passu* with the Liquidation Parity Obligations, if any, of the Bank; and
  - (iii) senior to all Junior Obligations.

## 12. Undertakings of the Bank

- (a) The Bank undertakes that it will not issue any preferred or preference shares ranking senior to its obligations under this Subordinated Guarantee or give any guarantee in respect of any preference shares issued by any Subsidiary if such guarantee would rank senior to this Subordinated Guarantee (including, without limitation, any guarantee that would provide a priority of payment with respect to Distributable Funds) unless, in each case, (i) this Subordinated Guarantee is changed to give the Holders such rights and entitlements as are contained in or attached to such preferred or preference shares or such other guarantee so that this Subordinated Guarantee ranks *pari passu* with, and contains substantially equivalent rights of priority as any such preferred or preference shares or other guarantee and (ii) the most recent Preferred Dividend payment on the Preference Shares has been paid in full either by the Issuer or by the Bank pursuant to this Subordinated Guarantee.
- (b) The Bank undertakes that, in the event that any Preferred Dividend is not paid in full to Holders in accordance with the rights attaching to the Preference Shares in accordance with the Articles of Association of the Issuer, the Bank will not:
  - (i) declare or pay any distribution or dividend and, where applicable, will procure that no distribution or dividend is declared or paid on any Junior Obligations, until after the following Preferred Dividend Payment Date or, after the First Call Date, the fourth consecutive following Preferred Dividend Payment Date on which a Preferred Dividend is paid in full; or
  - (ii) (if permitted) repurchase or redeem Parity Obligations or Junior Obligations until after the following Preferred Dividend Payment Date, or after the First Call Date, the fourth consecutive following Preferred Dividend Payment Date on which a Preferred Dividend in respect of the Preference Shares is paid in full.
- (c) The Bank undertakes to maintain the Issuer as a wholly-owned Subsidiary for so long as any Preference Share remains in issue. The Bank undertakes that, so long as any of the Preference Shares are outstanding, unless the Bank of Portugal has given its prior approval or unless the Bank is itself in liquidation, the Bank will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the Issuer.
- (d) The Bank undertakes to procure that the Issuer will maintain at all times whilst the Preference Shares are outstanding, (i) whilst the Preference Shares are listed on the Luxembourg Stock Exchange, a Paying and Transfer Agent in Luxembourg, (ii) a Preference Shares Registrar having its office outside the UK and (iii) a Paying and Transfer Agent having a specified office in a European Union Member State (if

available) that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

### **13. Termination**

With respect to the Preference Shares, this Subordinated Guarantee shall terminate and be of no further force and effect upon payment of the Redemption Price or purchase and cancellation of all Preference Shares or full payment of the Liquidation Distributions and liquidation of the Issuer, provided however that this Subordinated Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid under the Preference Shares or this Subordinated Guarantee must be restored by a Holder for any reason whatsoever.

### **14. Transfer**

Subject to operation of law, all guarantees and agreements contained in this Subordinated Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Bank and shall inure to the benefit of the Holders. The Bank shall not transfer its obligations hereunder without the prior approval of the Holders of not less than two-thirds of the Preference Shares (excluding any Preference Shares held by the Bank or any entity of which the Bank, either directly or indirectly, owns 20 per cent. or more of the voting shares or similar ownership interests), which consent shall be obtained in accordance with procedures contained in the Issuer's Articles of Association and the applicable law of the Cayman Islands; provided, however, that the foregoing shall not preclude the Bank from merging or consolidating with, or transferring or otherwise assigning all or substantially all of its assets to, a banking organisation organised under the laws of Portugal or another European Union Member State, without obtaining any approval of such Holders.

### **15. Amendments**

Except for those changes (a) required by paragraph 12(a) above, (b) which do not adversely affect the rights of Holders, or (c) necessary or desirable to give effect to any one or more transactions referred to in the proviso to paragraph 14 above (in any of which cases no agreement will be required), this Subordinated Guarantee shall be changed only by agreement in writing signed by the Bank with the prior approval of the Holders of not less than two-thirds of the Preference Shares (excluding any Preference Shares held by the Bank or any entity of which the Bank, either directly or indirectly, owns 20 per cent. or more of the voting shares or other similar ownership interests), in accordance with the procedures contained in the Issuer's Articles of Association and the applicable law of the Cayman Islands.

### **16. Notices**

Any notice, request or other communication required or permitted to be given hereunder to the Bank shall be given in writing by delivering the same against receipt therefor or by facsimile transmission (confirmed by mail) addressed to the Bank, as follows (and if so given, shall be deemed given upon mailing of confirmation, if given by facsimile transmission), to:

Banco Espírito Santo, S.A.  
Avenida da Liberdade 195  
1250-142 Lisboa  
Portugal

Facsimile: +3511 350 1180

Attention: Amílcar Morais Pires

The address of the Bank may be changed at any time and from time to time and shall be the most recent such address furnished in writing by the Bank to JPMorgan Chase Bank as Principal Paying and Transfer Agent.

Any notice, request or other communication required or permitted to be given hereunder to the Holders shall be given by the Bank in the same manner as notices sent by the Issuer to Holders.

### **17. Miscellaneous**

- (a) This Subordinated Guarantee is solely for the benefit of the Holders and is not separately transferable from the Preference Shares.

- (b) The Bank will furnish any Holder, upon request of such Holder, with a copy of its annual report, and any interim reports made generally available by the Bank to holders of the ordinary shares of the Bank.
- (c) The Bank hereby waives notice of acceptance of this Subordinated Guarantee and of any liability to which it applies or may apply, presentment, demand for payment, protest, notice of non-payment, notice of dishonour, notice of redemption and all other notices and demands.

**18. Governing Law and Jurisdiction**

- (a) This Subordinated Guarantee shall be governed by, and construed in accordance with, English law save that paragraphs 3, 4 and 11(b) shall be governed by, and construed in accordance with, Portuguese law.
- (b) The Bank hereby irrevocably agrees for the benefit of the Holders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Subordinated Guarantee and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as “**Proceedings**”) may be brought in such courts.
- (c) The Bank irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a final judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Bank and may be enforced in the courts of any other jurisdiction. Nothing contained in this paragraph shall limit any right to take Proceedings against the Bank in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other competent jurisdictions, whether concurrently or not.
- (d) The Bank will receive service of process in respect of this Subordinated Guarantee at its London branch for the time being (being at the date hereof, 33 Queen Street, London EC4 1ES) in respect of any Proceedings.

**IN WITNESS WHEREOF** this Subordinated Guarantee has been manually executed as a deed poll on behalf of the Bank

Executed as a deed by  
**BANCO ESPÍRITO SANTO, S.A.**

acting by

\_\_\_\_\_ Director

and

\_\_\_\_\_ Director/Secretary

in the presence of:

\_\_\_\_\_

Witness’s signature

Name:

Address:

Dated 30th March, 2004

## **USE OF PROCEEDS**

The net proceeds of the issue of the New Preference Shares, (including €6,220,327.87 representing an amount equal to 272 days accrued Preferred Dividend paid as part of the issue price of the New Preference Shares), amounting to approximately €158,422,327.87, will be on-lent to BES Group companies and used for its general corporate purposes.

## BES FINANCE LTD.

### History

BES Finance Ltd. (the “**Issuer**”) was incorporated in George Town, the Cayman Islands (with registered number 69526) on 15th November, 1996 for an unlimited duration and with limited liability as an Exempted Company under the laws of the Cayman Islands.

The registered office of the Issuer is c/o M&C Corporate Services Limited, P.O. Box 309 GT, Uglan House, South Church Street, Grand Cayman, Cayman Islands. The Issuer has no place of business in Portugal.

### Business

The Issuer is a wholly-owned subsidiary of the Bank. The Issuer has no subsidiaries. The objects for which the Issuer was established are unrestricted and include, pursuant to clause 3(a) of its Memorandum of Association “*to carry on the business of a finance and investment company*”.

### Capitalisation

The existing issued ordinary shares are not listed on the Luxembourg Stock Exchange or on any other stock exchange and are not dealt on any other recognised market.

Two Ordinary Shares were issued and fully paid when the Issuer was incorporated on 15th November, 1996. A further 24,998 Ordinary Shares were issued on 21st January, 1997. The Issuer’s share capital was subsequently redenominated in Euro and its authorised share capital amended by various special resolutions to €600,100,000 consisting of 100,000 Ordinary Shares of par value €1.00 each and 600,000 Non-cumulative Guaranteed Step-Up Preference Shares of a par value of €1,000 each.

All issued Ordinary Shares are credited as fully paid and are held by the Bank as at the date of this Offering Circular.

No capital of the Issuer is under option or is agreed conditionally or unconditionally to be put under option.

### Directors

The Directors of the Issuer are as follows:

<b>Name</b>	<b>Function within the Issuer</b>	<b>Function outside the Issuer</b>
Ricardo Espírito Santo Silva Salgado	Director	Director
Mario Mosqueira do Amaral	Director	Director
Manuel António Gomes de Almeida Pinho	Director	Director
Manuel de Magalhães Villas-Boas	Director	Director
Ricardo Abecassis Espírito Santo Silva	Director	Director
Isabel Maria Carvalho de Almeida	Director	Executive Vice President

The business address for all the above directors is Avenida de Liberdade 195, 1250-142 Lisboa, Portugal.

## CAPITALISATION AND INDEBTEDNESS OF BES FINANCE LTD.

The following table sets forth, at 31st December, 2003, the unaudited capitalisation and indebtedness of the Issuer. This table should be read in conjunction with the financial statements and notes thereto of the Issuer which are incorporated by reference into this Offering Circular.

	<b>31st December, 2003</b>
	<i>(in euro thousands)</i>
<b>Shareholders' Equity</b>	
100,000 shares of EUR 1 par value each, fully authorised, subscribed and paid up . . . . .	100
450,000 preference shares of EUR 1,000 par value each, fully authorised, subscribed and paid up . . . . .	450,000
Retained earnings – prior . . . . .	519
Net Income . . . . .	18,526
<b>Total Shareholders' Equity</b> . . . . .	<b>469,145</b>
<hr/>	
<b>Short term debt</b> . . . . .	1,100,000
<b>Long term debt</b> . . . . .	4,370,799
Long term borrowings . . . . .	4,370,799
– Subordinated debt . . . . .	1,239,588
– Corporate debt . . . . .	3,131,211
<b>Total</b> . . . . .	<b>5,470,799</b>
<hr/>	

*Notes:*

- (1) Euro 600,000,000 Floating Rate Notes due 2009 were issued on 12th February, 2004.  
Euro 50,000,000 Fixed Rate Notes due 2009 were issued on 12th February, 2004.  
On 16th February, 2004, Floating Rates Notes in the amount of Euro 400,000,000 matured.
- (2) Save for the issue of the New Preference Shares and as set out in Note (1) above, there has been no material change in the capitalisation and indebtedness of the Issuer since 31st December, 2003.

## FINANCIAL INFORMATION OF BES FINANCE LTD.

The following tables present the balance sheet and statement of income of the Issuer as at and for the years ended 31st December, 2001 and 2002. This information has been extracted without material adjustment from, and should be read in conjunction with, the audited financial statements of the Issuer for the years ended 31st December, 2001 and 2002, together with the notes thereto, all of which are incorporated by reference into this Offering Circular.

### Balance sheet

(expressed in EUR)

	<b>at 31st December 2001</b>	<b>at 31st December 2002</b>
<b>Assets</b>		
<b>Current assets</b> . . . . .	773,934,516	633,457,289
Cash at bank . . . . .	1,481,011	485,609
Short term deposits. . . . .	724,022,379	568,520,940
Accrued interest receivable . . . . .	48,414,293	64,450,740
Other current assets . . . . .	16,833	–
<b>Long-term assets.</b> . . . . .	4,388,461,215	4,764,254,554
Subordinated loans . . . . .	753,140,815	1,247,678,078
Long-term deposits. . . . .	3,626,016,353	3,512,462,840
Discount and issue costs on long-term debt, net of amortisation. . . . .	9,304,047	4,113,636
<b>Total assets.</b> . . . . .	5,162,395,731	5,397,711,843
<b>Liabilities and shareholder's equity</b>		
<b>Current liabilities</b> . . . . .	999,250,769	630,879,691
Accrued interest payable . . . . .	47,636,638	64,082,942
Short-term debt . . . . .	951,600,280	566,781,186
Other current liabilities . . . . .	13,851	15,563
<b>Non-current liabilities.</b> . . . . .	4,162,546,806	4,766,213,622
Long-term senior debt. . . . .	3,178,874,958	3,518,535,544
Long-term subordinated debt. . . . .	983,671,848	1,247,678,078
<b>Total liabilities</b> . . . . .	5,161,797,575	5,397,093,313
<b>Shareholder's equity</b>		
Share capital . . . . .	28,367	100,000
Accumulated (deficit)/retained earnings. . . . .	569,789	518,530
<b>Total shareholder's equity.</b> . . . . .	598,156	618,530
<b>Total liabilities and shareholder's equity</b> . . . . .	5,162,395,731	5,397,711,843

**Statement of income**  
(expressed in EUR)

	<b>for the year ended 31st December 2001</b>	<b>for the year ended 31st December 2002</b>
	<hr/>	<hr/>
<b>Income</b> . . . . .	209,299,158	210,728,743
Interest income . . . . .	209,299,158	210,044,673
Derivative instruments gains, net . . . . .	–	684,070
 <b>Expenses</b> . . . . .	 209,063,887	 210,641,996
Interest expense . . . . .	205,151,034	207,922,778
General and administrative expenses. . . . .	38,940	114,906
Foreign currency exchange losses. . . . .	1,068,165	221,756
Taxes and licences . . . . .	78	533
Amortisation . . . . .	2,805,670	2,382,023
<b>Net income for the year</b> . . . . .	<b>235,271</b>	<b>86,747</b>

## BANCO ESPÍRITO SANTO, S.A. AND THE BES GROUP

According to the Portuguese Banks Association, the Bank and its subsidiaries (the “**BES Group**”) is the third largest full-service commercial bank in Portugal in terms of total assets with total consolidated assets at 31st December, 2002 of euro 41,234 billion.

At that date the BES Group’s consolidated gross loan portfolio totalled euro 25,795 billion and, net of loan loss provisions, represented approximately 63% per cent. of its total assets.

Espírito Santo Financial Group S.A. (“**ESFG**”), an integrated financial services holding, and its subsidiaries (the “**ESFG Group**”) hold a 48.4 per cent. voting and a 32.1 per cent. economic interest in the Bank. See “*History and Ownership*” below.

### Activities – Overview

Through its subsidiaries, ESFG engages in a broad range of banking activities, including commercial banking, investment banking, asset management, stockbroking and private banking, and a full line of insurance operations.

The Bank’s main source of banking income comes from banking activity, which amounted to euro 1,186 million in 2002 (2001: euro 1,120 million). Specialised consumer credit activity, asset management, leasing and factoring are also important activities and sources of banking income. Approximately 93 per cent. of total banking income for 2002 (2001: 94 per cent.) was derived from units in Portugal, reflecting the location of the Bank’s main operational units.

*Retail and commercial banking* – Commercial banking activities are conducted primarily through the Bank and the Bank’s wholly owned subsidiary Banco Internacional de Crédito, S.A. (“**BIC**”), a banking unit specialising in residential mortgage loans. *Investment banking and stockbroking* – Investment banking business is managed primarily through Banco Espírito Santo de Investimento, S.A. (“**BESI**”), which is based in Portugal. BES Group conducts its stockbrokerage activities through Espírito Santo Dealer, S.A. (“**ES Dealer**”), a subsidiary of the Bank, Benito y Monjardin (“**BM**”) which operates in Spain and BES Securities, which is based in Brazil. ES Dealer, BM and BES Securities coordinate their activities with BESI.

*Asset Management* – asset management activities are operated through Espírito Santo Activos Financeiros SGPS S.A. (“**ESAF**”) based in Portugal and Espírito Santo Activos Financieros (“**ESAF Spain**”), established in Spain. ESAF Spain coordinates its activities with ESAF.

*Bancassurance* – ESFG conducts its insurance operations through Companhia de Seguros Tranquilidade, S.A. (“**Tranquilidade**”) and Companhia de Seguros Tranquilidade-Vida, SA (“**Tranquilidade-Vida**”), which are not part of the BES Group. The Bank’s commercial banking network also serves as the marketing core of the ESFG Group’s integrated financial services group in Portugal. The Bank works closely with both Tranquilidade and Tranquilidade-Vida to foster the sale of life and non-life insurance products, through the Bank’s branch network (“*bancassurance*”). The Bank also takes advantage of its branch network to market other BES Group financial products, such as investment management products developed by ESAF and BIC’s mortgage loans.

The following table shows total banking income by activity for each of the two years ended 31st December 2001 and 2002.

	2001	2002
	<i>(in thousands of euros)</i>	<i>(in thousands of euros)</i>
Banking . . . . .	1,119,759	1,185,734
Leasing . . . . .	20,079	22,202
Consumer credit . . . . .	60,508	77,176
Asset management . . . . .	29,438	29,061
Factoring . . . . .	9,958	11,350
Others / Adjustments . . . . .	12,612	28,498
	<hr/> <hr/>	<hr/> <hr/>
	1,227,030	1,354,021
	<hr/> <hr/>	<hr/> <hr/>

The following table shows total banking income by geographic market in each of the two years ended 31st December, 2001 and 2002.

	<b>2001</b>	<b>2002</b>
	<i>(in thousands of euros)</i>	<i>(in thousands of euros)</i>
Portugal . . . . .	1,156,680	1,263,221
Rest of European Union . . . . .	68,946	197,822
Rest of Europe . . . . .	50,792	10,748
North America . . . . .	(4,735)	(140,622)
Latin America . . . . .	16,278	13,483
Asian . . . . .	5,769	5,599
Africa . . . . .	–	3,770
	<hr/>	<hr/>
	1,227,030	1,354,021
	<hr/> <hr/>	<hr/> <hr/>

### Strategy

Since 1992, the Bank's principal aims have been to increase profitability, market share and productivity, while maintaining high solvency and liquidity ratios, good loan quality and a conservative provisioning policy in respect of non-performing loans.

Management has established medium term objectives for the 2002-2003 period:

- to achieve a nominal yearly return on equity over the European average;
- reach a cost to income ratio of 50 per cent. at the end of 2003;
- increase the overall market share to approximately 20 per cent. by 2005.

In order to increase the penetration of its existing client base, the Bank has sought to take advantage of synergies among its operations and the other banking and insurance operations of the ESFG Group by distributing insurance, investment and other financial products through its branch network. In doing so, the Bank has increasingly focused on the retail sector as a means of achieving higher lending margins and greater cross selling of fee-generating financial services. Through its branches, the Bank now markets, among other things, both life and non-life insurance products underwritten by Tranquilidade-Vida and Tranquilidade, its subsidiaries and ES Seguros, investment management products developed by ESAF and non-subsidised and subsidised mortgage loans offered by BIC (the latter having stopped by September, 2002 due to the Government's decision to stop the subsidisation of these products). As part of its effort to provide enhanced customer service, the Bank has also engaged in a program of modernising and re-configuring existing branches using a segment-oriented approach to better address the needs of clients.

Efficiency is a focal point in the strategic development of the BES Group. Since privatisation, management has undertaken an ambitious program in order to improve productivity levels. The Bank has undertaken several reorganisation initiatives, such as centralising back offices, improving employees' competencies and streamlining office operations through continuing investments in IT systems. These measures have had a positive impact on the BES Group's efficiency indicators. According to statutory and Portuguese standards, the ratio of operating costs to total assets declined from 1.69 per cent. in 1997 to 1.36 per cent. in 2002; assets per employee increased from euro 3.7 million in 1997 to euro 7.0 million in 2002 and cost to income decreased from 56.2 per cent. in 1997 to 53.4 per cent. in 2002.

### History and Ownership

The Bank's origins date from 1884, when José Maria de Espírito Santo e Silva founded a bank in Lisbon which was the Bank's predecessor. After the Second World War, the Bank became one of Portugal's largest commercial banks under the direction and leadership of the Espírito Santo family. In 1975, virtually all institutions in the banking and insurance industries, including the Bank, were nationalised by the Portuguese government. The Espírito Santo family, deprived of its Portuguese base, began operations outside of Portugal, primarily in the financial services market, and in 1984 established the predecessor of ESFG.

In 1986, the Portuguese government embarked on a programme of privatising entities which had been nationalised and, in 1991, began the privatisation of the Bank. ESFG reacquired control of the Bank in 1992 in association with Crédit Agricole, S.A. (“**Crédit Agricole**”), a major French financial services group, and other investors.

ESFG Group holds a 48.4 per cent. voting and a 32.1 per cent. economic interest in the Bank. Crédit Agricole is a major minority investor in the Bank and is the ESFG Group’s strategic partner in the Bank’s management and operation, particularly in connection with the development of products in the retail sector.

Approximately 37 per cent. of the Bank’s ordinary shares are owned by the general public. The Bank’s ordinary shares are listed on the Euronext-Lisbon, formerly the Lisbon and Oporto Stock Exchange and ESFG’s ordinary shares are listed on the New York, London and Luxembourg Stock Exchanges and Euronext-Lisbon.

In July 1999, the Bank changed its name from Banco Espírito Santo e Comercial de Lisboa, S.A. to Banco Espírito Santo, S.A.

On 22nd May, 2003, the management of the Bank’s subsidiaries, BESLEASING MOBILIÁRIA – Sociedade de Locação Financeira, S.A., BESLEASING IMOBILIÁRIA – Sociedade de Locação Financeira, S.A., and ESPÍRITO SANTOS EUROGES FACTORING, S.A., took the decision to merge the companies into one corporation that should be a “Financing Credit Institution” and bring together the businesses of the three mentioned companies. As a result of this merger no changes are expected in either the total turnover or profitability levels of these companies as compared with their current situations.

Moreover, by 30th May, 2003, the Bank’s Board of Directors approved a resolution in order to integrate Espírito Santo Dealer, a stockbrokerage financing company, into Banco Espírito Santo de Investimento, a banking entity of the Group that runs the activity of investment banking.

Espírito Santo Dealer, which holds a capital of €3,500,000, is 57 per cent. held by BANCO ESPÍRITO SANTO and 43 per cent. held by ESSI SGPS. Banco Espírito Santo de Investimento will take over the BES and the ESSI SGPS’s shares on Espírito Santo Dealer. Therefore, BES Investimento will assume the function of Trading Member firm and will operate directly at the Euronext Exchanges of Lisbon, Paris, Amsterdam and Brussels, the Bank being a General Clearing Member and the BES Group, providing for its clients a full range of services in connection with securities.<sup>1</sup>

The BES Group employed an aggregate of approximately 8,523 persons at 31st December, 2002.

### **Market Position and Competition**

The BES Group calculates its average market share as the non-weighted average of the market shares it holds in deposits, individual pension plans, other life insurance, mutual funds, production of mortgage loans, consumer loans, loans to corporations and credit card turnover.

In 2002, the BES Group had an average market share of approximately 17.0 per cent. (16.8 in 2001 and 16.3 per cent. in 2000), each based on the Group’s internal analysis.

The BES Group faces intense competition in all of its principal areas of operation; however, competition in the Portuguese banking markets has the most significant effect on the Bank’s results and operations. The Bank’s competitors in the Portuguese banking markets are Portuguese commercial banks, savings and investment banks, foreign banks (many of which have recently entered the Portuguese market) and non-deposit-taking financial institutions (investment companies).

The Portuguese banking industry has been characterised by increasing consolidation through mergers and acquisitions among the major Portuguese banks and by foreign financial institutions. Currently, the following are the five principal financial groups in the banking sector: Caixa Geral de Depósitos, BCP Group, the BES Group, BPI Group and Totta & Acores (Group Santander Central Hispano).

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<sup>1</sup> Nonetheless, this transaction is subject to the approval of the competent authorities.

Under current Portuguese law, Portuguese banks are permitted to perform all types of financial services. In addition, EU banking directives allow cross-border reciprocity within EU countries for any bank formed within the EU. In the major corporate markets and in international markets generally, therefore, the Bank faces competition from other commercial investment banks and financial institutions, particularly those with ties to Portugal.

**Business Sectors**

***Retail and Commercial Banking***

The BES Group provides a full range of banking and related financial services in Portugal, as well as in Spain and in other countries through its international branches and, since 2000, through Espírito Santo Bank (“**ES Bank**”) in Miami, Florida.

The BES Group has a diverse customer base is comprised of large Portuguese corporations, subsidiaries of foreign corporations, public sector institutions, small to medium-sized Portuguese businesses and individuals. The BES Group’s financial services include wholesale and retail deposit taking, commercial and consumer lending, funds transmission, credit card facilities, foreign exchange, distribution of mutual funds trading and investment of securities, including corporate and government debt securities, and custody of securities. In addition to traditional banking services, the BES Group, through its subsidiaries, engages in various complementary higher margin activities, such as leasing, factoring, asset management and life insurance. These complementary activities allow the BES Group to extend its services to a broader clientele and to enhance its service to its existing client base.

The Bank’s banking network in Portugal consisted of 469 branches at 31st December, 2002. Including BIC, Banco BEST and Banco Espírito Santo dos Açores, the BES Group had a network of 602 branches throughout Portugal at 31st December, 2002. Banco Espírito Santo, S.A. (“**BESSA**”), currently has 32 branches in Spain, primarily along the Portuguese-Spanish border. The Group also has eight other foreign branches and nine representative offices.

The BES Group has consistently aimed to develop a balanced and diversified loan portfolio, while maintaining a conservative provisioning policy in respect of non-performing loans.

The BES Group believes its success in broadening its customer base is evidenced by the expansion in loans to individuals, including mortgages and consumer credit. These loans represented a negligible amount of the total in 1992, and grew to represent 41 per cent. of the BES Group’s total loan portfolio at the end of 2002 (2001:42 per cent).

As of 31st December, 2002, the BES Group’s loan portfolio represented approximately 62 per cent. of its total assets (2001:63 per cent.). Net of allowances for loan losses, as at 31st December, 2002 the BES Group’s loans amounted to euro 25.4 billion (2001: euro 24.3 billion).

The BES Group’s total gross loan portfolio amounted to euro 25.8 billion as of 31st December, 2002 (euro 24.6 billion as of 31st December, 2001) and was directed to the following principal segments:

	<b>31st December 2001</b>	<b>31st December 2002</b>	<b>Per cent. 2001</b>	<b>Per cent. 2002</b>
Corporate . . . . .	14.1	15.3	57.3	59.3
Mortgages . . . . .	8.5	8.6	34.6	33.3
Other loans to individuals. . . . .	2.0	1.9	8.1	7.4

The corporate loan portfolio is well diversified in terms of industry sector with all segments accounting for less than 10 per cent. of the portfolio.

The following table analyses the corporate loan portfolio by sector:

	31st December 2001	31st December 2002	Per cent. 2001	Per cent. 2002
Wholesale and retail trade . . . . .	2,162,805	2,512,282	8.8	9.7
Construction . . . . .	1,710,985	2,271,119	7.0	8.8
Other manufacturing . . . . .	1,712,506	2,019,883	7.0	7.8
Real estate . . . . .	1,446,302	1,916,894	5.9	7.4
Financial Institutions . . . . .	1,888,918	1,323,953	7.7	5.1
Service Companies . . . . .	983,461	1,196,798	4.0	4.6
Transport and telecomm. . . . .	733,228	853,562	3.0	3.3
Food and tobacco . . . . .	357,161	512,997	1.5	2.0
Electricity and gas. . . . .	478,603	398,962	1.9	1.5
Textiles . . . . .	318,306	367,872	1.3	1.4
Agriculture . . . . .	233,288	263,272	0.9	1.0
Mining. . . . .	80,691	95,282	0.3	0.4
Other businesses . . . . .	1,994,769	1,541,492	8.1	6.0

In recent years, the BES Group's loan maturity profile has moved towards medium and long-term loans. This trend is part of the Bank's strategy to increase its lending activity to individuals, particularly mortgages and consumer credit, which are longer-term. As a result, the percentage of the loan portfolio with a maturity of less than one year has decreased from 39.8 per cent. as of 31st December, 1999 to 35.2 per cent. as of 31st December, 2002.

Approximately 12.7 per cent. of the total Group loans are extended to non-resident customers, mainly through the Bank's overseas branches (London, New York, Nassau, Lausanne, Cayman Islands and Madeira), through BIC's overseas branches (Cayman Islands and Madeira), and through the Bank's subsidiaries (BESSA, Banco Espírito Santo de Oriente ("BESOR"), ES PLC, in Ireland and ES Bank in USA). Most of the Bank's trade finance lending is conducted through these entities.

*Internet banking.* The Bank offers internet banking to its customers through BESnet. At 31st December, 2002 had 586,000 active customers, of which 237,000 users – this represents an annual increase of respectively 60 per cent. and 26 per cent. that ensures the Bank a major position in this market in Portugal. In addition, the Bank has launched a number of initiatives jointly with Portugal Telecom Group. In June 2001, Banco BEST, an internet bank that specialises in asset management, deposits, brokerage, funds and assurance products was launched through BES.Com.

#### ***Investment Banking and Stockbroking***

The BES Group conducts investment banking operations in Portugal through BESI, of which the Bank is now the sole shareholder. BESI's primary investment banking and advisory activities are in domestic project finance, corporate restructurings, privatisation, primary and secondary market securities trading, and underwriting of equity and debt issues in the Portuguese capital markets.

BESI had total consolidated assets of euro 870 million at 31st December, 2002 (2001: euro 851 million) and net income of euro 2.8 million for the 12 months then ended (2001: euro 2.1 million). BESI accounted for 2.1 per cent. of the BES Group's total assets at 31st December, 2002 (2001: 2.2 per cent.) and 1.2 per cent. of the BES Group's net income for 2002 (2001: 1.1 per cent.).

#### ***Other Activities***

The Bank has minority stakes in ESFG Group-controlled companies engaged in banking (Banco Espírito Santo et de la Vénétie, whose business is centred on commercial trade among France, Portugal and Italy) and joint-venture partnerships in the insurance business of other ESFG Group affiliates (Tranquilidade and Tranquilidade-Vida).

The Bank believes that cross-selling opportunities among its subsidiaries and with its affiliates will become increasingly important to its development. Tranquilidade-Vida and the Bank are parties to a marketing agreement that enables the Bank to sell Tranquilidade-Vida's products (life products) through the Bank's branch network (*bancassurance*). Sales of insurance products through the Bank were euro 588 million in 2002, as compared to euro 551 million in 2001. Fee income received by the Bank in respect of such sales was euro 21 million for the year ended 31st December, 2002.

## CAPITALISATION, INDEBTEDNESS AND FUNDING OF THE BES GROUP

The following table sets forth, at 31st December, 2003, the unaudited capitalisation and indebtedness of the BES Group. This table should be read in conjunction with the consolidated financial statements and notes of the Bank which are incorporated by reference into this Offering Circular.

	<b>31st December, 2003</b>
	<i>(in thousands of euros)</i>
<b>Shareholders' Equity</b>	
Share Capital of the Bank . . . . .	1,500,000
Retained Earnings – Prior . . . . .	5,015
Net Income . . . . .	250,245
Share premium. . . . .	300,000
Legal reserve . . . . .	40,865
<b>Total Shareholders' Equity . . . . .</b>	<b>2,096,125</b>
<b>Minority Interest . . . . .</b>	<b>617,867</b>
<b>Long Term Debt . . . . .</b>	<b>10,990,029</b>
<b>Subordinated debt</b>	
– Corporate bonds . . . . .	1,651,558
<b>Total Long Term Debt . . . . .</b>	<b>12,641,587</b>
<b>Total . . . . .</b>	<b>15,355,574</b>

*Notes:*

- (1) The application of the Bank's 2003 year earnings, amounting to euro 191,835,002.49, will be submitted by the Board of Directors of the Bank for approval at the General Shareholders' Meeting of the Bank to be held on 30th March, 2004, as follows: (i) to legal reserves, euro 19,200,000.00; (ii) for distribution to employees, euro 17,537,500.00; (iii) for distribution to shareholders, euro 99,000,000.00; (iv) for distribution to Members of the Board of Directors, euro 1,918,350.00; and (v) to other reserves, euro 54,179,152.49.
- (2) Except as specified in Note (1) above, there has been no material change in the capitalisation and indebtedness of the BES Group since 31st December, 2003.

**Funding**

At 31st December, 2002, the BES Group's deposits from customers totaled euro 18.7 billion (2001: euro 17.4 billion) which were held by over 1.4 million (2001: 1.4 million) individuals and over 107,000 corporate depositors.

For 2002, approximately 60 per cent. (2001: 62 per cent.) of deposits were from individuals, 20 per cent. were from the domestic small and medium-sized corporate market, and 20 per cent. were from the major corporate market. Deposits from non-resident customers (mainly corporate customers) accounted for 21 per cent. of the Bank's deposits.

The BES Group's primary source of funds is its deposit base, which consists primarily of demand and time deposits and deposits from other banks. Funding is also provided by the net proceeds from the:

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

The following table indicates composition of customer funds by category for the years indicated.

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

### ***Liquidity and Solvency Ratios***

The Bank conducts a quarterly liquidity analysis which it reports to the Bank of Portugal. In this analysis the Bank reports the assets and liabilities from on and off balance sheet activities that may mature within the following 12 months. All those assets and liabilities are classified in one of four maturity categories: less than one month; from one to three months; from three to six months; or from six months to one year. A liquidity ratio is then calculated by dividing all the assets in a maturity class by the liabilities in that same class, adjusted for the estimated negative mismatches of the subsequent periods. The Bank also reports information on the concentration of deposits and of money market counterparties, as well as on the coverage of deposits from foreign institutions by liquid assets, and on the coverage of the loan portfolio by stable funding. This analysis is prepared quarterly on an individual and consolidated basis.

The BES Group is also subject to solvency ratio requirements. These requirements have been fixed by the Bank of Portugal and conform with the EU directives fixing common standards for the measurement of capital (generally referred to as the “**Own Funds Directive**”) and establishing a system for weighing assets according to credit risk (generally referred to as the “**Solvency Ratio Directive**”). All credit institutions in Portugal are required to maintain capital of at least 8 per cent. of risk-weighted assets. The BES Group is in compliance with these solvency ratio requirements. As of 31st December, 2002, the BES Group maintained capital (as defined by the Bank of Portugal) of 10.74 (2001: 9.28) per cent. of its equivalent risk-weighted assets.

While Portugal is not a party to the Basle Accord, if the BES Group were to calculate its consolidated capital ratios in accordance with the capital framework adopted, at 31st December, 2002, its capital ratios would have been (i) a total capital to risk-weighted assets ratio of 12.81 (2001: 10.75) per cent. (compared to the Basle requirement of 8.0 per cent.) and (ii) a Tier I capital to risk-weighted assets ratio of 7.19 (2001: 6.42) per cent. (compared to the Basle requirement of 4.0 per cent.).

### **Risk Management**

The BES Group is exposed to market, credit and operational risk due to the nature and scope of its operations. Success in managing these risks is essential to the BES Group, accordingly, a Global Risk Department was created in 1999, independent of the business units, in order to propose to the Bank’s management policies and procedures, and to identify, quantify and monitor each major type of risk at the Group level.

The BES Group conducts activities domestically throughout Portugal and in Spain (through the Bank’s subsidiary BESSA), in London (foreign branch), in New York (foreign branch), in Florida (through the Bank’s subsidiary ES Bank) in Macao (subsidiary BESOR) and in Switzerland (foreign branch), and accordingly, the risk management procedures consider the specifics of each market in which the BES Group operates. The Global Risk Department is responsible for integrating the various risk management procedures across various entities.

The credit and market risk management process is controlled and supervised by the Bank's Credit and Financial Committee, which meets daily and is composed primarily of the Executive Committee of the Board of Directors and is chaired by the Chairman of the Executive Committee. The Credit and Financial Committee is responsible for establishing the BES Group's risk tolerance parameters through the setting of market and credit risk limits, monitoring current market and credit risk positions, and approving all major business decisions which increase the BES Group's market or credit risk.

### **Nature of Primary Market Risk Exposures**

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest and foreign currency exchange rates and in equity prices as well as changes in the liquidity in the markets. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the BES Group's market risk management procedures extends beyond derivatives to include all market risk sensitive financial instruments. The BES Group's exposure to market risk is directly related to its proprietary trading and arbitrage activities and to its role as a financial intermediary in customer-related transactions. The main sources of market risk are its portfolio of long-term fixed rate bonds, and its portfolio of equity and fixed income derivatives.

The Bank seeks to mitigate its market risk exposures using derivative financial instruments that provide a cost effective alternative to traditional on-balance sheet instruments (such as securities, customer credit and customers' and other deposits). Transactions are conducted mainly through the Bank's head office in Lisbon, Portugal and in its overseas branches. Derivative financial instruments used to reduce the Bank's market risk involve, to varying degrees, credit risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the terms of the contract.

Following is a summary of the BES Group's primary market risk exposures as of 31st December, 2002, including a discussion of how those exposures are currently managed:

#### ***Foreign currency exchange risk***

Foreign currency exchange risk includes transaction exposure (the exposure arising from fluctuations in foreign currency exchange rates on the reported value of revenues and expenses and certain assets and liabilities denominated in foreign currencies) and translation exposure (the exposure arising from the translation of investments in the net assets of foreign subsidiaries and offices). The BES Group's revenues and expenses can be affected, as reported in euros, by fluctuations in foreign currency exchange rates, primarily relative to the US dollar and the pound sterling. However, the impact of such fluctuations is limited because as of 31st December, 2002 approximately 73 (2001: 77) per cent. of the Bank's assets and 75 (2001: 77) per cent. of its liabilities were denominated in euro.

The BES Group seeks to manage its exposure from the risk of adverse foreign currency fluctuations by hedging certain of its currency exchange exposures with respect to identifiable assets, liabilities or commitments denominated in foreign currency, which are firm. The BES Group primarily uses forward exchange contracts, currency swaps, and, to a lesser extent, foreign currency options to manage its foreign currency transaction and translation exposure.

#### ***Interest rate risk***

Interest rate risk is the potential loss in a position value due to the inherent volatility of interest rates. Interest rate risk is a consequence of a mis-match between the durations of assets and liabilities within the BES Group.

The BES Group uses several types of financial instruments to manage its interest rate risk, including interest rate swaps, cross-currency interest rate swaps, forward rate agreements, futures and options. The extent to which the BES Group uses these instruments is determined by reference to the net exposure of the BES Group's assets and liabilities that are subject to interest rate risk. The BES Group uses such instruments to manage its interest rate risk and protect the interest rate margin between interest-bearing assets and interest-bearing liabilities.

#### ***Equity price risk***

The BES Group is exposed to equity price risk as a consequence of its proprietary trading activity in stock markets and in related derivative financial instruments. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities or instruments that derive their value from a particular stock, a basket of stocks or a stock index.

### ***Liquidity risk***

The BES Group is subject to liquidity risk, which is a measure of the BES Group's capacity to meet its short-term financial obligations without incurring losses or resulting in an adverse impact on the fair value of the Bank's financial assets and liabilities. Liquidity risk is managed by the Executive Committee and by the Bank's Treasury Department using a daily liquidity gap analysis and liquidity limits for balance sheet assets and liabilities, and by Bank management's careful selection of the types of financial instruments used and markets entered.

### ***Credit Risk Management***

Credit risk arises from the potential inability of counterparties to perform on an obligation in accordance with the terms of the contract. The BES Group is exposed to credit risk in various capacities: primarily as a direct lender, as holder of securities, and as a counterparty in financial contracts. As a lender and as a holder of debt securities, the BES Group is exposed to the risk of nonpayment of interest or principal by the borrower. As a counterparty in financial contracts, the BES Group is exposed to risk of non-performance by a counterparty obligated to perform under the contract.

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

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

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

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

### ***Operating Risk***

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

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

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

To this end, and following a preliminary diagnosis that focused on some areas of the organisation, a number of initiatives were launched, specifically: (i) beginning of data collection and database categorisation for some typologies of events resulting from operational risk; (ii) identification and qualitative analysis of critical points in terms of operational risk, in some processes of specific business areas; (iii) revision of procedures associated to

the treatment of information as set out in the Security Policy and the Information Security Manual. The revision of surveys and processes analysis, currently under way, will contribute to the success of these initiatives.

## RECENT DEVELOPMENTS

*There follows extracts from a press release issued by the Bank in relation to the results of the Bank for the year ended 31st December, 2003. As at the date of this Offering Circular, the audited financial statements of the Bank for the year ended 31st December, 2003 are not publicly available.*

### GROUP BANCO ESPIRITO SANTO 2003 RESULTS (Unaudited)

LISBON – February 5, 2004 – Banco Espírito Santo (BES; Bloomberg BESNN PL; Reuters BESN.IN) today announced its 2003 results.

#### HIGHLIGHTS

- Net profit of euro 250.2 million, a record high, representing an increase of 14.4% on a comparable basis, corresponding to EPS of euro 0.83 (euro 0.74 in 2002).
- Return on Equity (ROE) of 13.4% (13.1% in 2002), particularly favorable considering that it was achieved under very difficult economic conditions.
- In terms of efficiency, BES Group met its target: operating costs rose by 0.2%, reflecting a Cost to Income ratio of 50.0%.
- Banking revenue totaled euro 1,432.2 million (+7.5%), boosted by the increase in fees and commissions (+15.3%) that more than offset the decrease in net interest income (-4.7%). Capital markets results contributed with 15% to banking income, in line with the performance during the year.
- Moderate credit growth (+5.9% including securitized credit) as a result of a more prudent lending policy and adverse economic conditions. On-balance sheet customer funds were up by 11.8%, with a positive impact on the transformation ratio, which improved to 96% (from 104% in 2002).
- Significant reinforcement of provisions: net provisioning charge for the year totaled euro 381.5 million (52.7% of the gross results). Credit provisions increase surpassed the overdue loans rise. Fund for General Banking Risks was reinforced by euro 111.8 million to euro 126.4 million at the end of the year. Solvency ratio remains well above required levels.
- Proposed dividend of euro 0.33 per share, to be submitted to the General Shareholders' Meeting.

#### 1. ECONOMIC ENVIRONMENT

After initial uncertainty caused by the war in Iraq, there was a moderate recovery in the world economy in 2003. In the United States, consumer demand was stimulated by monetary and budgetary policy, translating into GDP growth around 3.1%.

The Euro Area economy slowed down further, with GDP rising by around 0.5%. However, the growth pace was not linear throughout the year: Stagnation in the first half was followed by a small acceleration of GDP growth in the second half of the year, as exports picked up. Consumer confidence and expenditure levels remained conditioned by high unemployment (8.8%). Under these circumstances, the strong rise in the euro versus the dollar (20%) and the decline in average inflation to 2.1% led the ECB to prolong in 2003 the cycle of cuts in official interest rates. The main refi rate was cut by 75 basis points, reaching 2% by the end of the year.

On the equity markets side, 2003 reversed the negative trend of the previous years, the main stock indices registering significant increases. The Dow Jones and S&P 500 general indices gained 25% and 26%, while the Nasdaq climbed 50%. In the Euro Area, the Frankfurt DAX, the CAC and the IBEX 35 rose by respectively 37%, 16% and 28%.

In Portugal, economic activity was marked by the continuing process of adjustment of domestic demand in an adverse international context. Despite some signs of stabilization towards the end of the year, GDP is thought to have suffered a fall of 1%, driving unemployment higher, from 5.1% to around 6.4%. Equity markets mirrored international trends, the PSI-20 index rising by 16%.

#### 2. PRIOR NOTE TO THE ANALYSIS OF THE ACTIVITY AND RESULTS

As announced at the end of 1st half of 2003, Banco Espírito Santo sold to Banque Sofinco shares representing 45% of the share capital of Credibom – Sociedade Financeira para Aquisição a Crédito S.A., reflected in the

financial statements from June 30, 2003. As mentioned at that time, this transaction led to an extraordinary profit of euro 65.3 million in the consolidated accounts and euro 74.3 million in BES' individual accounts. The extraordinary profit was fully allocated to reinforcing, by euro 111.8 million, the Fund for General Banking Risks, increasing it to euro 126.4 million at year-end, thus neutralizing the effects of the operation on the net income of the year.

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

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

### 3. RESULTS AND PROFITABILITY

Consolidated net income reached euro 250.2 million, a year-on-year increase of 12.5%, and a 14.4% rise on a like-for-like basis. Return on equity (ROE) reached 13.4% (13.1% in 2002), which represents a significant performance, bearing in mind the current low level of interest rates.

#### INCOME STATEMENT

	2002	2002*	2003	% Chg*
	<i>(euro million)</i>			
Net Interest Income . . . . .	808.2	786.3	749.3	- 4.7
+ Fees and Commissions . . . . .	407.3	407.2	469.5	15.3
= <b>Commercial Banking Income</b> . . . . .	<b>1 215.5</b>	<b>1 193.5</b>	<b>1 218.8</b>	<b>2.1</b>
+ Capital Markets Results . . . . .	138.5	138.5	213.4	54.1
= <b>Banking Income</b> . . . . .	<b>1 354.0</b>	<b>1 332.0</b>	<b>1 432.2</b>	<b>7.5</b>
- Operating Costs . . . . .	722.7	715.3	716.6	0.2
+ Extraordinary Results and Other . . . . .	- 57.2	- 57.6	8.4	—
= <b>Gross Results</b> . . . . .	<b>574.1</b>	<b>559.1</b>	<b>724.0</b>	<b>29.5</b>
- Net Provisions . . . . .	280.8	271.9	381.5	40.3
Credit . . . . .	224.3	215.3	216.7	0.6
Securities . . . . .	59.3	59.3	- 0.2	—
Other . . . . .	- 2.8	- 2.8	165.1	—
= <b>Results before Taxes and Minorities</b> . . . . .	<b>293.3</b>	<b>287.2</b>	<b>342.5</b>	<b>19.2</b>
- Income Taxes . . . . .	38.5	36.2	55.0	51.8
- Minorities . . . . .	32.3	32.2	37.2	15.7
= <b>Net Income for the Year</b> . . . . .	<b>222.5</b>	<b>218.8</b>	<b>250.2</b>	<b>14.4</b>

\* Proforma, considering the 1st semester of Credibom's activity.

#### 3.1 Net Interest Income

Net interest income reached euro 749.3 million, down 4.7% year-on-year, mainly explained by declining interest rates (the European Central Bank has cut the refi rate by 125 basis points since the end of the third quarter of 2002) and strict control of credit growth (e.g. reduced exposure to consumer credit). Net interest margin for the year stood at 2.02%, which compares to 2.22% last year.

#### 3.2 Fees and Commissions

Fees and commissions reached euro 469.5 million, a year-on-year rise of 15.3% mainly boosted by traditional banking, and the positive contribution of bancassurance and investment funds.

The focus put on improving service quality and the launch of new client retention initiatives were crucial contributors to the growth achieved.

Banco Espírito Santo was elected by the Global Finance magazine as the Best Portuguese Sub-Custodian due to the high quality standards of its settlement and custody services.

### 3.3 Capital Markets Results

BES Group continued to target opportunities arising out of a rebounding equity market and, in particular, from the evolution of interest rates, where marked fluctuations produced gains in fixed-rate instruments.

### 3.4 Operating Costs

Operating costs were kept lower than targeted limits, rising by 0.2% on a like-for-like basis, based on the implementation of several projects and initiatives aiming at cost containment, like the integration of operating platforms, the restructuring of foreign branches, and the centralization of negotiations on supply contracts.

#### OPERATING COSTS

	2002	2002*	2003	% Chg*
	<i>(euro million)</i>			
Staff Costs . . . . .	323.1	320.7	318.5	– 0.7
Other Admin Costs . . . . .	264.9	261.0	257.3	– 1.4
Depreciation . . . . .	134.7	133.6	140.8	5.4
<b>Operating Costs . . . . .</b>	<b>722.7</b>	<b>715.3</b>	<b>716.6</b>	<b>0.2</b>

\* Proforma, considering the 1st semester of Credibom's activity

The rationalization plan for 2003 was successfully concluded, with a net reduction of 264 employees.

### 3.5 Provisioning

During the third quarter of the year, new rules relating to provisions for doubtful loans (Notice 8/2003, of January 30) came into force. This new framework reduced the ratio of provisions for general banking risks to mortgage loans from 1% to 0.5% as from last February, resulting in a surplus of existing provisions in the balance sheet amounting to euro 39.6 million. The released provisions were fully allocated to reinforce specific provisions for credit, as stated in the above mentioned Notice. However, that release did not impact positively the results for the year, as the charge for general banking risks includes an additional amount of euro 58 million above minimum requirements, in line with the prudent stance that characterizes the Bank.

#### PROVISION CHARGE

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

(1) Includes euro 35.4 million above requirements.

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

The net provision charge for the year amounted to euro 381.5 million, a year-on-year increase of 40.3%.

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

Provisions for equity holdings, calculated under Bank of Portugal Notice no. 4/2002, were increased by euro 15.8 million. Based on period-end prices, potential capital losses were substantially reduced, from euro 330.7 million in December 2002 to euro 147.2 million in December 2003 (-55%)

### 3.6 Extraordinary Results and Other

Extraordinary and other results include the amortization of extraordinary pension charges, as well as an extraordinary capital gain of euro 65.3 million from the disposal of 45% of Credibom (accomplished at the end of 1H2003). As already mentioned, this gain was totally allocated to the Fund for General Banking Risks, thus neutralizing the effect of the sale in net income.

## 4. ACTIVITY HIGHLIGHTS

Notwithstanding macroeconomic constraints domestically and world-wide, BES Group showed strong business growth, particularly in terms of customer funds, which rose by 12.7%, thus strengthening the competitive position in this area. The progress achieved reflects the commercial strategy pursued, which continued to rely on innovation, deeper segmentation and sustained improvement of quality standards. The results achieved by **BIC**, by **BESI** in national and international investment banking, and the progress made by **BES Açores** are particularly noteworthy.

### MAIN BUSINESS VARIABLES

	2002	2002*	2003	% Chg*
	<i>(euro million)</i>			
<b>Total Assets<sup>(1)</sup></b> . . . . .	<b>53,120</b>	<b>52,663</b>	<b>59,558</b>	<b>13.1</b>
<b>Net Assets</b> . . . . .	<b>41,234</b>	<b>40,777</b>	<b>43,287</b>	<b>6.2</b>
<b>Loans to Customers (gross)</b> . . . . .	<b>25,795</b>	<b>25,318</b>	<b>26,048</b>	<b>2.9</b>
– Mortgage . . . . .	8,645	8,645	8,461	– 2.1
– Other Loans to Individuals . . . . .	1,876	1,399	1,283	– 8.3
– Corporate . . . . .	15,274	15,274	16,304	6.7
<i>Loans to Individuals/Gross Customer Loans (%)</i> . . . . .	<i>40.8</i>	<i>39.7</i>	<i>37.4</i>	<i>– 2.3p.p.</i>
<b>Funds</b>				
+ Deposits . . . . .	18,668	18,668	20,137	7.9
+ Debt Securities placed with clients . . . . .	5,008	5,008	6,340	26.6
= <b>On-Balance Sheet Customer Funds</b> . . . . .	<b>23,676</b>	<b>23,676</b>	<b>26,477</b>	<b>11.8</b>
+ Off-Balance Sheet Funds . . . . .	10,383	10,383	11,924	14.8
= <b>Total Customer Funds</b> . . . . .	<b>34,059</b>	<b>34,059</b>	<b>38,401</b>	<b>12.7</b>
<i>Transformantion Ratio (%)</i> . . . . .	<i>106</i>	<i>104</i>	<i>96</i>	<i>– 8p.p.</i>

\* Proforma, excluding Credibom

(1) Net Assets + Asset Management + Off Balance Sheet Items + Securitized Credit

Customer loans, reflecting the adverse conditions faced by the Portuguese and the international economies, showed moderate growth: 2.9% excluding securitized credit, and 5.9% including securitized credit.

	<i>Dec 02*</i>		<i>Dec 03</i>		<b>Change (%)*</b>	
	<i>Excluding Securitization</i>	<i>Including Securitization</i>	<i>Excluding Securitization</i>	<i>Including Securitization</i>	<i>Excluding Securitization</i>	<i>Including Securitization</i>
	<i>(euro million)</i>					
<b>Loan Portfolio</b> . . . . .	<b>25,318</b>	<b>26,821</b>	<b>26,048</b>	<b>28,392</b>	<b>2.9</b>	<b>5.9</b>
Mortgage . . . . .	8,645	9,641	8,461	10,366	- 2.1	7.5
Other Loans to Indiv . . . . .	1,399	1,646	1,283	1,464	- 8.3	- 11.1
Corporate . . . . .	15,274	15,534	16,304	16,562	6.7	6.6

\* Proforma, excluding Credibom

Mortgage loans remained the most dynamic item overall, rising by 7.5%; other loans to individuals were down by 11.1%, reflecting an increased selectivity criteria; corporate credit grew by 6.6% (10.2% in 2002).

At the end of November, the Group's subsidiary Banco Internacional de Crédito concluded a new securitization of the mortgage portfolio (RMBS), amounting to euro 1 billion.

The increase in customer funds, coupled with the moderate growth of customer loans, led to a reduction of the transformation ratio, from 104% in December 2002 to 96% at the end of 2003.

Off-balance sheet funds, namely bancassurance products and mutual funds, continued to post a significant growth (+14.8%). This trend reflects an increase in demand for alternative saving products, explained by the current low level of interest rates. The Group has achieved market leadership in the pension plan business, with a market share of over 23%.

BES Investimento had a highly positive performance in 2003, posting a net profit of euro 26 million that greatly surpassed budgeted targets, and winning leadership positions in national and international investment banking, as attested by the accolades conferred by the most qualified entities in this market:

- Prize for "The Best M&A House in Portugal", awarded by the prestigious Euromoney magazine; also in the area of M&A, BES Investimento was ranked in the 1st, 2nd and 4th positions of Bloomberg's league tables, respectively in Portugal, Brazil and the Iberian Peninsula; and "Arranger of the Year 2003 in Transportation and Infrastructure Sector" prize, awarded by the specialized Infrastructure Journal.

The international market was responsible for 30% of the Bank's total revenues in 2003, as well as for some of the most important transactions carried out in the period, including:

- Advisor to the Advent International private equity fund, in the structuring and execution of the public tender offer for Parques Reunidos S.A., in Spain;
- Financial advisor to the consortium led by Corsán-Corviam, Comsa, Azvi, Sando Construcciones and BES in the tender for the award of the concession of the Madrid-Toledo motorway. The financing of this euro 353 million project will be structured and syndicated by BES Investimento as a project finance operation.
- Financial advisor to Banco Bradesco in the acquisition of Banco BBVA do Brasil;

On December 31, 2003 BES, under a joint venture with CGD, set up a new renting company – Locarent, Companhia Portuguesa de Aluguer de Viaturas, S.A.. Its products will be sold by the commercial networks of Banco Espírito Santo, Banco Internacional de Crédito and Banco Espírito Santo dos Açores.

## 5. ASSET QUALITY AND SOLVENCY

Under a conservative provisioning policy, the balance of credit provisions was increased by euro 41 million, above the increase of overdue loans (+ euro 32 million).

		Dec 2002*	Sep 03	Dec 03	YoY Change <sup>(*)</sup>	
					absolute	relative (%)
Loans to Customers (Gross) . . . . .	eur mr	25,318	26,268	26,048	730	2.9
Overdue Loans . . . . .	eur mr	521.4	598.0	553.6	32	6.2
Overdue Loans > 90 days . . . . .	eur mr	457.2	527.3	478.0	21	4.5
Overdue and Doubtful Loans (BoP) <sup>(a)</sup> . . . . .	eur mr	—	—	540.6	—	—
Provisions for Credit . . . . .	eur mr	685.5	782.7	726.5	41	6.0
Overdue Loans/Loans to Customers (gross) . . . . .	%	2.06	2.28	2.13		0.07p.p
Overdue Loans > 90 days/Loans to Customers (gross). . . . .	%	1.81	2.01	1.83		0.02p.p
Overdue and Doubtful Loans <sup>(a)</sup> / Loans to Customers (gross) . . . . .	%	—	—	2.08		—
Coverage of Overdue Loans . . . . .	%	131.5	130.9	131.2		– 0.3p.p.
Coverage of Overdue Loans > 90 days . . . . .	%	149.9	148.4	152.0		2.1p.p.
Coverage of Overdue and Doubtful Loans . . . . .	%	—	—	134.4		—

\* Proforma, excluding Credibom

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

The ratio of overdue loans over 90 days to customer loans stood at 1.83%, while the coverage ratio remained strong: 152.0% for overdue loans over 90 days and 131.2% for total overdue loans. The ratio of overdue and doubtful loans to total loans, calculated in accordance with the Bank of Portugal regulations (Circular Letter no. 99/03/DSB), stood at 2.08%.

In December Banco Internacional de Crédito sold a portfolio of overdue mortgage loans totaling euro 37.8 million to an international financial institution.

The solvency ratio remains at comfortable levels: 11.2% according to the Bank of Portugal rules (vs. 10.7% in December 2002) and 13.4% under the BIS criteria (December 2002: 12.6%).

In July 2003 Group BES issued euro 450 million preference shares. This issue aimed to reduce the foreign exchange volatility of the capital base linked to the value of preference shares. Thus, on August 18, 2003 the Group redeemed the preference shares issued in November 1996 and listed on the London Stock Exchange, for a total of USD 250 million, and on December 1, 2003, redeemed the preference shares issued on December 1, 1993 and listed on the New York Stock Exchange, for a total of USD 100 million.

	2002	2003*
	(%)	
Solvency Ratio (Bank of Portugal)		
– TIER I . . . . .	6.06	6.54
– Total . . . . .	10.74	11.03
Solvency Ratio (BIS)		
– TIER I . . . . .	6.99	7.77
– Total . . . . .	12.61	13.13

\* Estimate

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

## 6. PRODUCTIVITY

Regarding productivity and efficiency, noticeable results have been achieved through cost containment policies, which led to further improvements in the cost to income ratio. At 50%, as of December 2003, this ratio reflects full achievement of the objective that had been set by the Board of Directors at the end of 2001.

The remaining productivity indicators also improved significantly, particularly the “Operating Costs/Average Net Assets” and “Total Assets per Employee” ratios.

	2002	2002*	2003	YoY Change*
Cost to Income (including markets) . . . . .	53.4%	53.7%	50.0%	– 3.7p.p.
Cost to Income (excluding markets) . . . . .	59.5%	59.9%	58.8%	– 1.1p.p.
Operating Costs/Average Net Assets . . . . .	1.8%	1.9%	1.7%	– 0.2p.p.
Total Assets** per Employee (eur '000) . . . . .	7,017	7,151	8,262	15.5%

\* Proforma adjusted for Credibom

\*\* Net Assets + Asset Management + Other Off-Balance Sheet Items + Securitized Credit

A number of other integration/rationalization measures were taken, also aimed at raising productivity. The merger of Group BES’ three specialized credit units – Besleasing Mobiliária, Besleasing Imobiliária and Euroges Factoring – was announced at the end of the first half of the year. This merger, which will take place during February 2004, will produce synergies, both in terms of the business, where it will have an impact on banking revenue and, in terms of costs, optimizing processes and headcount.

The integration of Espírito Santo Dealer, Sociedade Financeira de Corretagem, into Banco Espírito Santo de Investimento was another step taken within the Group’s strategy of rationalizing the organization.

## 7. PROFITABILITY

Return on assets (ROA) remained in line with the previous year, while return on equity (ROE) improved.

	2002	2003*
	(%)	
Return on Equity (ROE) . . . . .	13.1	13.4
Return on Assets (ROA) . . . . .	0.6	0.6

## 8. ELECTRONIC BANKING

Concerning direct channels, 2003 was marked by the increased penetration of direct channels on the Group’s Client base, particularly internet banking (BESnet, for private individuals, and BESNet Negócios, for corporate clients). The year was quite important in many aspects: the penetration rate in the customer base reached 42%; the number of logins rose by 24%; the Quality Certification of BESnet (ISO 9001), and and for the first time BESnet matched the branch network in terms of interactions with the customer base.

The widespread acceptance of Direct Channels has become a reality. With a 47% penetration rate in the customer base, these Channels are radically changing the way customers relate with Group BES. In 2003 the BES site registered 17.8 million visitors, an increase of 61% over 2002, and at the year-end it had 672,000 users, 15% more than in the previous year. The number of logins hit a record high of 12.4 million, translating to a year-on-year rise of 24%.

Besides being a source of cost efficiency gains, Direct Channels are increasingly used to provide services. Fees and commissions generated in these channels reached 2.6 million euros, up by 42% on 2002.

BESnet excellence standards are highlighted by the “*Best Consumer Internet Bank 2003*” prize, and the Quality Certification of BESnet was the first certification (ISO 9001) of an internet banking service in Portugal.

At the end of the year, BESnet Negócios (internet service for corporate clients) had 33,000 users (year-on-year increase of 27%). The penetration rate in medium-sized and large companies reached 78%, and transactions made through this channel rose by 87% versus the previous year.

The telephone banking service – **BES Directo** – reached 743,000 users, the same as last year, as a result of the migration of customers to the Internet channel. Also, the widening of price differences between telephone banking and automatic channels’ has led to a reduction of 42% in the call center’s costs, resulting in annual savings of euro 2.2 million.

The **pmelink.pt**, an online business center for companies promoted by BES, CGD and PT, already has 12,000 companies as customers, and every day another 40 new companies start using it to purchase goods and services, thus confirming the value of this service. This channel’s turnover has reached euro 8 million, corresponding to a year-on-year increase of more than 80%.

**Banco BEST**, a joint project of BES and PT, continued to capitalize on a differentiated value proposal aimed at affluent customers, having already surpassed the 20,000 customer mark. In 2003 the ES Financial Consultants’ business was integrated into Banco BEST, leveraging on its asset management skills.

## **9. BANCO ESPÍRITO SANTO (SPAIN)**

In 2003 Banco Espírito Santo (Spain) pursued its strategy of specializing in retail and private banking, and business with companies operating in Portugal and Spain. The network of Benito y Monjardin was merged with the bank’s network, which now comprises a total of 31 branches concentrating all the Group’s activity in Spain.

In retail and private banking, assets under management reached euro 1,214 million, up by 9.5% year-on-year. Mortgage loans, closely associated to these segments, increased by 35%.

The network’s rationalization and costs cutting efforts (-9.3%) have contributed to business progress and are expected to deliver results in 2004.

Asset management in Spain continues to show strong growth, the recent initiative taken by the Group being part of this growth strategy in this market. In late January 2004, BES, through its subsidiaries ESAF, SGPS and Banco Espírito Santo (Spain), reached an agreement to purchase the asset management units of Banco Simeón (CGD Group) in Spain. This transaction is subject to a distribution agreement for the asset management products of BES Group through Banco Simeón’s branch network. This acquisition is expected to yield an increase of 15% in the total value of assets under management in Spain.



## BANCO ESPIRITO SANTO

### CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2003 (Unaudited Figures)

	2002	2003
	<i>(10<sup>3</sup> EUR)</i>	
<b>NET ASSETS</b>		
Cash and deposits at the Central Banks . . . . .	996,685	931,567
Loans and advances to credit institutions repayable on demand . . . . .	844,058	697,176
Other loans and advances to credit institutions . . . . .	5,674,990	6,886,160
(Provisions) . . . . .	(8,870)	(39,831)
Loans and advances to customers . . . . .	25,795,107	26,047,641
(Provisions) . . . . .	(367,446)	(403,078)
Bonds and other fixed income securities . . . . .	4,088,821	4,291,163
(Provisions) . . . . .	(80,978)	(50,528)
a) Issued by Government and Public entities . . . . .	1,201,171	946,285
(Provisions) . . . . .	(6,128)	(2,298)
b) Issued by other entities . . . . .	2,877,240	3,334,082
(Provisions) . . . . .	(74,850)	(48,230)
c) Treasury stock . . . . .	10,410	10,796
Shares and other variable income securities . . . . .	720,805	577,475
(Provisions) . . . . .	(102,800)	(88,405)
Investments in associated companies . . . . .	51,413	55,606
(Provisions) . . . . .	(2,384)	(2,385)
Other investments . . . . .	943,126	944,044
(Provisions) . . . . .	(32,004)	(52,483)
Intangible assets . . . . .	523,119	593,457
(Amortizations) . . . . .	(339,371)	(421,784)
Tangible assets . . . . .	1,055,597	882,938
(Depreciations) . . . . .	(628,977)	(538,243)
Unpaid Capital . . . . .		
Own shares . . . . .		5
Other debtors . . . . .	495,954	483,730
(Depreciations) . . . . .	(21,938)	(27,630)
Prepayments and accrued income . . . . .	1,628,916	2,520,101
<b>Total Net Assets . . . . .</b>	<b>41,233,823</b>	<b>43,286,696</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Amounts owed to credit institutions . . . . .	7,678,707	6,468,640
a) Repayable on demand . . . . .	333,232	326,769
b) With agreed maturity date . . . . .	7,345,475	6,141,871
Amounts owed to customers . . . . .	18,667,656	20,136,614
a) Savings accounts . . . . .	2,338,075	2,170,637
b) Repayable on demand . . . . .	7,321,027	7,594,051
c) With agreed maturity date . . . . .	9,008,554	10,371,926
Debt securities . . . . .	9,270,851	10,905,624
a) Bonds . . . . .	7,613,710	9,359,584
b) Other securities . . . . .	1,657,141	1,546,040
Other liabilities . . . . .	187,883	227,200
Accruals and deferred income . . . . .	783,759	672,892
Provisions for liabilities and charges . . . . .	398,858	383,812
a) Pension plan and equivalent charges . . . . .	4,660	
b) Other provisions . . . . .	394,198	383,812
Provision for general banking risks . . . . .	14,594	126,364
Subordinated debt . . . . .	1,695,799	1,651,558
Share capital . . . . .	1,500,000	1,500,000
Share premium . . . . .	300,000	300,000
Reserves . . . . .	(20,981)	45,880
Revaluation reserves . . . . .		
Other retained earnings . . . . .		
Minority interests . . . . .	534,236	671,867
Consolidated net profit . . . . .	222,461	250,245
<b>Total Liabilities and Shareholders' Equity . . . . .</b>	<b>41,233,823</b>	<b>43,286,696</b>



## BANCO ESPIRITO SANTO

### CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2003 (Unaudited Figures)

	2002	2003
	<i>(10<sup>3</sup> EUR)</i>	
<b>CREDIT</b>		
Interest and similar income . . . . .	2,339,249	2,090,842
Income from securities . . . . .	10,740	16,522
Commissions . . . . .	343,387	393,052
Gains on financial operations . . . . .	3,335,070	2,597,986
Replacements and cancellations of provisions . . . . .	213,333	236,615
Results of associated companies and subsidiaries excluded from the consolidation . . . . .	2,309	5,975
Other operating income . . . . .	117,116	119,520
Extraordinary income . . . . .	26,971	98,319
Minority interests . . . . .		
<b>Total Credit . . . . .</b>	<b>6,388,175</b>	<b>5,558,831</b>
<b>DEBIT</b>		
Interest and similar costs . . . . .	1,531,035	1,341,494
Commissions . . . . .	53,162	43,083
Losses on financial operations . . . . .	3,207,344	2,401,150
General administrative costs . . . . .	587,960	575,784
a) Staff costs . . . . .	323,083	318,509
b) Other administrative costs . . . . .	264,877	257,275
Amortisation and depreciation . . . . .	134,716	140,808
Other operating costs . . . . .	6,381	8,302
Provisions for overdue loans and other risks . . . . .	489,640	606,365
Provisions for financial investments . . . . .	4,548	11,766
Extraordinary losses . . . . .	67,560	72,594
Income taxes . . . . .	38,476	54,977
Other taxes . . . . .	10,364	12,758
Results of associated companies and subsidiaries excluded from the consolidation . . . . .	2,232	2,263
Minority interests . . . . .	32,296	37,242
Consolidated profit for the period . . . . .	222,461	250,245
<b>Total Debit . . . . .</b>	<b>6,388,175</b>	<b>5,558,831</b>

## MANAGEMENT OF THE BANK

The Bank is administered by a Board of Directors (the “**Board**”). According to the Bank’s by-laws, the Board meets at least quarterly and whenever convened by the Chairman or by two board members. Pursuant to amendments to the Bank’s Articles of Association that were approved at the Annual General Meeting in June 2000, the Board consists of an odd number of at least 11 but no more than 31 members, who may also be shareholders. Their term of office is four years. At 31st December, 2002, the Board comprised 31 members.

The Directors have been appointed for a four year term in office, from 2000 to 2003, but under article 391(4) of the Portuguese Commercial Companies Code, members of the Board of Directors remain in office, even after the term for which they were appointed is completed, until the Shareholders of the Bank appoint a new Board at a Shareholders’ meeting. The next Shareholders’ meeting will be held on 30th March, 2004, however it is anticipated that this meeting will not make material changes to the composition of the Board as set out below.

The Board has an Executive Committee. There are currently 13 members of the Executive Committee.

Set forth below are the names and functions of the Directors, their ages, the year in which their current terms expire and their principal business activities outside of the Bank.

*António Luís Roquette Ricciardi*, age 83, has served as Chairman of the Board since 1992. He is a member of the board of directors of other companies, including BES Vénétie (Chairman), BESPARG (Vice Chairman), E.S. Control (BVI) S.A. (Chairman), E.S. Control Holding S.A. (Chairman), E.S. International Holding (Chairman), E.S. International Panamá (Chairman), Espírito Santo Financial (BVI) S.A., ESFG, Espírito Santo Industrial (BVI) S.A., Espírito Santo International (BVI) S.A. (Chairman), Espírito Santo Property (BVI) S.A., Espírito Santo Resources Limited (Chairman), Espírito Santo Services S.A., Espírito Santo Tourism (Europe), S.A. (Chairman), Espírito Santo Tourism Limited, Gespetro SGPS, S.A. (Honorary Chairman), PARTRAN (Vice Chairman) and Compagnie Bancaire Espírito Santo, S.A. He is an uncle of Ricardo Espírito Santo Silva Salgado, a cousin of José Manuel Espírito Santo Silva and the father of José Maria Espírito Santo Silva Ricciardi. His current term of service as a Director expires in 2003.

*Ricardo Espírito Santo Silva Salgado*, age 58, has served on the Board since 1991 and is currently its Vice Chairman. He is Chairman of its Executive Committee in charge of its Financial and Credit Committee, Assets and Liabilities Committee (ALCO), Planning and Accounts, Asset Management, Purchases and Property (CGC), Corporate Communication, the General Secretariat to the Board and Management Information. He is also Chairman of ESFG, BESPARG, Bank Espírito Santo International Limited, Casa dos Pórticos, Espírito Santo Financial (Portugal), Espírito Santo Overseas Limited, Espírito Santo Saúde SGPS, Sociedade de Administração de Bens Pedra da Nau, S.A. PARTRAN, Banco Espírito Santo de Investimento, BEST-Banco Electrónico de Serviço Total and ES TECH Ventures and Vice Chairman of Espírito Santo Bank (Florida) and E.S. Holding Administração e Participações, S.A. He is a director of Espírito Santo International Holding, Compagnie Bancaire Espírito Santo, S.A., Banque Espírito Santo et de la Vénétie, Banco Espírito Santo do Oriente, BES Finance Ltd., Cariges, S.A., E.S. Control (BVI) S.A., E.S. Control Holding, ESCA Participation Limited, Espírito Santo BP Invest S.A., Esfint Holding S.A., Espírito Santo BVI Participation Limited, Espírito Santo Financial Services Inc., Espírito Santo Industrial (BVI) S.A., Espírito Santo International (BVI) SA, Espírito Santo Property (BVI) S.A., Espírito Santo Resources Limited, Gespetro, SGPS, S.A., Maes-Administração, Participaçõese Consultoria and Novagest Assets Management and Banco Espírito Santo (Spain). He is also a member of the Supervisory Board of Euronext NV and the European Advisory Committee of the New York Stock Exchange. Mr. Salgado is a cousin of José Manuel Pinheiro Espírito Santo Silva, José Maria Espírito Santo Silva Ricciardi, Manuel Fernando de Moniz Galvão Espírito Santo Silva and Ricardo Abecassis Espírito Santo Silva and a nephew of António Luís Roquette Ricciardi. His current term of service as a Director expires in 2003.

*Jean Gaston Pierre Marie Victor Laurent*, age 58, was appointed to the Board in September 1999 and has been Vice Chairman since that time. He is also General Manager of Credit Agricole S.A, Chairman of Crédit Agricole Indosuez, Vice Chairman of Banca Intesa BCI and a director of Credit Lyonnais and Rue Imperiale. His current term of service as a Director expires in 2003.

*Mário Mosqueira do Amaral*, age 70, has served on the Board since 1991 and is a member of the Executive Committee in charge of Transactional Banking and International Business, Corporate International, and External Branches. He serves as Chairman of Amaral & Pinto – Empreendimentos Imobiliários and Banco Espírito Santo North America Capital Corporation. He is also Vice Chairman of Espírito Santo International Holding S.A and E.S. Control Holding S.A. and a director of BESPARG, PARTRAN, Banque Espírito Santo et de la Vénétie, Banque Marocaine du Commerce Extérieur, E.S. Services S.A., Espírito Santo Financial Group S.A., Espírito

Santo Investment Management, Espírito Santo Overseas, Ltd, Espírito Santo Resources Limited, Gespetro – SGPS, S.A., and Compagnie Bancaire Espírito Santo S.A. Mr. Amaral joined the Espírito Santo family enterprises in 1956. His current term of service as a Director expires in 2003.

*José Manuel Pinheiro Espírito Santo Silva*, age 57, has served on the Board since 1992 and is a member of the Executive Committee in charge of Private Banking (Group BES Coordination), Residents Abroad, Financial Consultants and Banco Espírito Santo, S.A. (Spain). He is currently Chairman of Banco Espírito Santo, S.A. (Spain), Espírito Santo Agriculture and Development Limited, Espírito Santo Financial Consultants, Fiduprivate, Quinta dos Cónegos and Sociedade Imobiliária e Turística da Quinta do Peru, Vice Chairman of ESFG, Espírito Santo Enterprises, and Espírito Santo Financial (Portugal), SGPS, S.A. and a director of Espírito Santo International Holding, BESPARG, BES Vénétie, BESI, Compagnie Bancaire Espírito Santo, E.S. Control Holding S.A., E.S. Holding – Administração e Participações, ESAF, ESFG Overseas Limited, Espírito Santo Bank, Espírito Santo BVI Participation Limited, Espírito Santo Control (BVI), S.A., Espírito Santo Industrial (BVI) S.A., Espírito Santo Internacional (BVI) S.A., Espírito Santo Internacional Panamá S.A., Espírito Santo Overseas Ltd., Espírito Santo Property (BVI), S.A., Espírito Santo Resources Limited, Espírito Santo Services S.A., Europ Assistance – Companhia Portuguesa Seguros Assistência, S.A., Gespetro, SGPS, S.A. and Parfil – Sociedade de Gestão de Participações Financeiras, SGPS, Lda. He is a cousin of Ricardo Salgado, António Luís R. Ricciardi and José Maria Espírito Santo Silva Ricciardi and an uncle of Manuel Fernando de Moniz Galvão Espírito Santo Silva and Ricardo Abecassis Espírito Santo Silva. His current term of service as a Director expires in 2003.

*António José Baptista do Souto*, age 52, has served on the Board since 1989 and is a member of the Executive Committee in charge of Large Companies, Corporate Banking and Municipals and Institutionals. Mr. Souto has held various positions in the Bank since 1978 and is currently a director of Angra Moura, Tranquilidade-Vida, Tranquilidade, Espírito Santo – Empresa de Prestação de Serviços, Espírito Santo Overseas, Ltd. SIBS – Sociedade Interbancária de Serviços, Unicre – Cartão Internacional de Crédito, S.A. and Espírito Santo – Companhia de Seguros. He is Chairman of Besleasing Mobiliária, Besleasing Imobiliária, Espírito Santo Data and Euroges – Aquisição de Créditos a Curto Prazo, S.A.. His current term of service as a Director expires in 2003.

*Jorge Alberto Carvalho Martins*, age 45, has served on the Board since 1993 and is a member of the Executive Committee in charge of the Commercial Department for North Portugal, the Personal Credit and Auto Loans Department and the Executive Unit. Mr. Martins is Chairman of CREDIBOM and a director of Banco Espírito Santo (Spain). His current term of service as a Director expires in 2003.

*Manuel António Gomes de Almeida Pinho*, age 48, was appointed to the Board in March 1996 and is a member of the Executive Committee in charge of the Financial Department, Markets and Surveys. He joined the Bank in 1994 as Director coordinating capital market activities. He is Vice Chairman of BESI and a member of the Board of Directors of ESAF, BES Finance, BES Overseas, Ltd. and Gesfinc, S.A. Mr. Pinho is a board member of the European Investment Bank and the Social Development Fund of the Council of Europe and Chairman of the Advisory Board of the Stock Exchange Commission. He was Vice Chairman of Banco Manufacturers Hanover in Portugal from 1987 to 1989, Assistant General Manager of Crédit Lyonnais, Portugal from 1989 to 1992 and Director General of the Treasury, (Ministry of Finance), and Chairman of the Instituto de Gestão do Crédito Público in Portugal from 1992 to 1994. His current term of service as a Director expires in 2003.

*Yves Henri Camille Barsalou*, age 70, joined the Board in 1994. He has had a distinguished career in banking in France and is presently the Chairman of Crédit Foncier de Monaco, Fondation du Crédit Agricole and Groupe Val d'Orbieu Listel and a director of Sodagri – Société de Développement Agricole, STE Caves de Roquefort, Total-Fina-Elf, S.A and Ui, S.A. His current term of service as a Director expires in 2003.

*Aníbal da Costa Reis de Oliveira*, age 67, has served on the Board since 1992. Mr. Oliveira has been a director of several major companies of the Riopelle textile group in Portugal. Currently, he serves as Chairman of several corporations, namely, Fábrica Têxtil Riopelle, S.A., Filatex Têxteis, S.A., Diliva – Sociedade de Investimentos Imobiliários, S.A., Olicor Têxteis, S.A., Olinveste, SGPS, Lda., Saramagos – Sociedade Produtora de Energia, S.A., Urpor – Imobiliária S.A. and Acro SGPS, S.A. His current term of service as a Director expires in 2003.

*José Manuel Ferreira Neto*, age 65, has served on the Board since 1994 and is a member of the Executive Committee in charge of the Mortgage Credit Division (CGC). He is also Chairman of BIC and a director of ESAF and Espírito Santo Empresa de Prestação de Serviços – ACE. He currently serves as a Member of the Council of Fundação CulturSintra. After a long career at the Bank, where he was director from 1976 to 1986, he moved to Crédito Predial Português where he was Chairman from 1986 to 1993. During this time he was also Chairman of

Lusitânia Vida. Mr. Ferreira Neto joined the Espírito Santo family enterprises in 1960. His current term of service as a Director expires in 2003.

*Manuel de Magalhães Villas-Boas*, age 57, has served on the Board since 1992. He is also Vice Chairman of Espírito Santo Overseas Limited and a director of Espírito Santo Financial Group, S.A., BESI, BESIL, Espírito Santo Investment Management, ESFG Overseas Limited and BES Overseas Limited. Mr. Villas-Boas worked at the Bank in Portugal from 1972 until 1976, and, following a period in investment banking in London, rejoined the ESFG in 1983. His current term of service as a Director expires in 2003.

*Manuel Fernando de Moniz Galvão Espírito Santo Silva*, age 44, was appointed to the Board in 1994. He was General Manager of the Bank, London Branch, from 1992 to 1995. He is also Chairman of Academia de Música de Santa Cecília, Espírito Santo Health & SPA, S.A., Espírito Santo Hoteis, SGPS, S.A., Espírito Santo Tourism (Portugal) – Consultoria de Gestão Empresarial, S.A., Espírito Santo Tourism.Com S.A., Espírito Santo.Com S.A., Euroamerican Finance Corporation, Inc., Herdade do Reguengo – Exploração de Propriedades, S.A., Hoteis Tivoli, S.A., Spread.Com S.A. and The Atlantic Company, Vice Chairman of Espírito Santo Resources Ltd and Espírito Santo Tourism (Europe) and a director of Espírito Santo International Holding, ESFG, E.S. Control (BVI) S.A., E.S. Control Holding S.A., Espírito Santo Agriculture and Development Ltd., Espírito Santo Financial (BVI) S.A., Espírito Santo Industrial (BVI) S.A., Espírito Santo International (BVI) S.A., Espírito Santo Property (BVI) S.A., Espírito Santo Services, S.A., Espírito Santo Tourism Limited, GES Finance Limited, Gespetro – SGPS, S.A., Santogal – SGPS, S.A., Sociedade de Investimentos Imobiliários Sodim, S.A., Telepri – Telecomunicações Privadas, SGPS, S.A., BESPARG, PARTRAN and Espírito Santo Bank (Florida) as well as several other companies in Portugal. From 1984 to 1987, he worked with Morgan Grenfell & Co. in London before joining the family businesses in 1988. He is a nephew of José Manuel Pinheiro Espírito Santo Silva and a cousin of José Maria Espírito Santo Silva Ricciardi and Ricardo Espírito Santo Silva Salgado. His current term of service as a Director expires in 2003.

*Jackson Behr Gilbert*, age 70, joined the Board in 1992 and is also Chairman of Espírito Santo Bank (Florida) and Espírito Santo Financial Services, Inc., and a director of Espírito Santo Financial Holding, Espírito Santo Overseas, Ltd., Espírito Santo Properties, E.S. Private Equity Ltd. and Banco Espírito Santo (Spain). Prior to his association with the ESFG Group, Mr. Gilbert served from 1983 to 1989 as Vice Chairman of Riggs National Bank in the United States. He has almost three decades of experience in the banking industry. His current term of service as a Director expires in 2003.

*Manuel António Ribeiro Serzedelo de Almeida*, age 59, was appointed to the Board in March 1999 and resigned on 25th March, 2003.

*José Maria Espírito Santo Silva Ricciardi*, age 48, was appointed to the Board in March 1999 and is a member of the Executive Committee in charge of Global Risk Management, the Company Monitoring and Credit Recovery Department, and Internal Audit. Mr. Ricciardi is Chairman of E.S. Investment, Plc, ESSI-Comunicações, SGPS, S.A., ESSI-Investimentos, SGPS, S.A., ESSI, SGPS, S.A., and Multiger – Sociedade de Compra, Venda e Administração de Propriedades, S.A., Vice Chairman of BESI, ESAF and Palácio do Correio Velho and a director of ESFG and BESPARG. Mr. Ricciardi worked at Banco Interatlântico (Brazil), in the GES Holding Company in Brazil and in Luxembourg. Mr. Ricciardi is the son of Antonio Luís R. Ricciardi and a cousin of Ricardo Salgado, José Manuel Pinheiro Espírito Santo Silva, Manuel Fernando de Moniz Galvão Espírito Santo Silva and Ricardo Abecassis Espírito Santo Silva. His current term of service as a Director expires in 2003.

*Jean-Luc Louis Marie Guinoiseau*, age 48, was appointed to the Board in October 1999 and is a member of the Executive Committee in charge of the Organization and Execution of Operations Division (CGC). He is also the Chairman of Crediflash and a director of Credibom, Besleasing Mobiliária, Besleasing Imobiliária, Espírito Santo Data and Espírito Santo Empresa de Prestação de Serviços – ACE. Mr. Guinoiseau worked as the Chief Marketing Officer of Caisse Regionale du Crédit Agricole de l’Anjou et du Maine from 1994 to 1999. His current term of service as a Director expires in 2003.

*Gilles François Gramat*, age 51, was appointed to the Board in June 2000. He is Central Manager of Crédit Agricole, Manager of Idia Participations and supervises international relations for the Crédit Agricole Group. He is Chairman of Crédit Agricole Deveurope BV, Sofagri-SPAS, Sofagri Participations-SPAS, Sofipar, S.A., Union D’études et D’investissements, S.A., and Unipar (Ex Kappa 30)-SPAS and a director of Agos-Itafinco, BESPARG, Banca Intesa BCI, Banque Libano-Française, Eurazeo, S.A. and François Charles Oberthur Fiduciaire. Mr. Gramat resigned on 29th May, 2003.

*Rui Manuel Duarte Sousa da Silveira*, age 48, was appointed to the Board in March 2000 and is a member of the Executive Committee in charge of the BES Group's Legal Division. Mr. Silveira is a director of Espírito Santo-Unidades de Saúde e Apoio à Terceira Idade, S.A. Mr. Silveira serves as the chairman, vice chairman or secretary of the general meeting for numerous companies of the BES Group. His current term of service as a Director expires in 2003.

*Joaquim Anibal Brito Freixial de Goes*, age 36, was appointed to the Board in March 2000 and is a member of the Executive Committee in charge of Strategic Marketing, the Direct and Self-Banking Division, Human Resources and Virtual Banking. He is also a director of Crediflash, Espírito Santo Data, ES TECH Ventures, E.S. Interaction-Sistemas de Informação Interactivos, BEST-Banco Electrónico de Serviço Total, Portugal Telecom, PT Multimedia and Tranquilidade-Vida. He is also the Chairman of ES Interaction-Sistemas de Informação Interactivas. His current term of service as a Director expires in 2003.

*Francisco Luís Murteira Nabo*, age 63, was appointed to the Board in June 2000. He is Chairman of the Portugal-China Chamber of Commerce and Vice-President of the General Board of the Portuguese Industry Association. He serves as a member of the Lisbon Commercial Association, the Portugal Chamber of Commerce, the Business Administrators Forum and the Portugal – Africa Foundation and is Chairman of the Permanent Committee of the Board of Curators of the Portugal-Spain Foundation. In addition, he has held a number of positions in the Portuguese and Macau governments. His current term of service as a Director expires in 2003.

*Pedro José de Sousa Fernandes Homem*, age 54, was appointed to the Board in June 2000 and is a member of the Executive Committee in charge of Private Banking (BES). He is also director of ESAF, Espírito Santo Financial Consultants and Empresa de Servicios de Inversión HISCAPITAL A.V., S.A. Mr. Homem was the Chairman of Citibank Portugal from 1985 to 1991 and worked as the Private Banking Director Western Hemisphere Europe at Citibank Switzerland from 1991 to 1999. His current term of service as a Director expires in 2003.

*Ilídio da Costa Leite de Pinho*, age 64, was appointed to the Board in June 2000. He is Chairman of Asiainvest, S.A., Fomentinvest, SGPS, S.A., IP Holding SGPS, S.A., IP Agro, IP Vale, S.A. and IP Cinegetica and a director of Spiering, SGPS, S.A. His current term of service as a Director expires in 2003.

*Herman Agneessens*, age 53, was appointed to the Board in June 2000. He is also a director of KBC Bankverzekeringsholding NV KBC (Singapore) Ltd., Kereskedelmi és Hitelbank, Fin.Force, lib Finance Ireland Unltd, lib International Finance Ireland Unltd, KB (International) Nominee Ltd, KBC Bank NV, KBC Ifima, KBC International Finance, KBC North American Finance Corporation, CSOB Bank (Vice Chairman), Kredyt Bank, Nova Ljubljanska Banka, KBC Finance Ireland Unltd and Banksys and a Supervisory Director of Cerinvest NV. His current term of service as a Director expires in 2003.

*Patrick Gérard Daniel Coudène*, age 51, became a member of the Board in March 2001 (by co-option) and is a member of the Executive Committee in charge of the Commercial Department for South Portugal, Operational Marketing and the Executive Unit. He is also vice-chairman of Espírito Santo Companhia de Seguros S.A. and Banco Espírito Santo dos Açores and director of BESPARG, ES TECH Ventures, BES (Spain), and Tranquilidade-Vida. His current term of service as a Director expires in 2003.

*Michel Victor François Villatte*, age 57, became a member of the Board in March 2002. He is also the Non-executive General Manager of PREDICA (a life insurance company and a subsidiary of Crédit Agricole), Chairman of Predical-Europe, Vice Chairman of Emporiki Life Insurance Company and director of PARTRAN, Bancassurance Sal (Liban), Ifcam, Pacífica, Unimo (Permanent Chairman of Predica Administrateur) and CAES – Ca Epargne Salariale (Permanent Chairman of Predica Administrateur). His current term of service as a Director expires in 2003.

*Mário Martins Adegas*, age 67, became a member of the Board in March 2002. His current term of service as a Director expires in 2003.

*Luis António Burnay Pinto de Carvalho Daun e Lorena*, age 58, became a member of the Board in March 2002. He is also manager of Campeque, Lda. His current term of service as a Director expires in 2003.

*Lázaro de Mello Brandão*, age 76, became a member of the Board in March 2002. He is Chairman of numerous companies, including Banco Bradesco S.A., ABS-Empreendimentos Imob., Partic. EServ. S.A., Altântica Capitalização S.A., Atria Participações, S.A., Babié Participações Ltda., Banco Baneb S.A., Banco BEA S.A., Banco Bradesco Luxembourg S.A., Banco de Credito Real de Minas Gerais S.A., Banco Mercantil de São Paulo International S.A., Banco Mercantil de São Paulo S.A., Bancocidade – Leasing Arrendamento Mercantil S.A., Boavista Arrendamento Mercantil S.A., Bradesco Capitalização S.A., Bradesco Leasing Arrendamento Mercantil

S.A., Bradesco Saúde S.A., Bradesco Seguros, S.A., Bradesco Vida e Previdência S.A., Bradespar S.A., Bradesplan Participações S.A., Bram-Bradesco Asset Management Ltda., Cidade de Deus – Cia. Comercial de Participações, Eletron S.A., Elo Participações S.A., Finasa Holding S.A., Finasa Leasing Arrendamento Mercantil S.A., Finasa Seguradora S.A., Fundação Inst. De Molést. Do Ap. Dig. e da Nutrição, G.E.Bê Vidigal (Luxembourg) S.A., Nova Paiol Participações, e Prédios S.A., Portal do Campo S.A., Scopus Tecnologia S.A., Scopus. Com Ltda and União Novo Hamburgo Seguros S.A. He is also Chairman of the Governing Board of Fundação Bradesco. His current term of service as a Director expires in 2003.

*Ricardo Abecassis Espírito Santo Silva*, age 44, became a member of Board in March 2002. He is a member of the board of directors of BES Investimento do Brasil, ES Holding, Espírito Santo International Holding, Espírito Santo Investimentos, SA, Espírito Santo Financial (Portugal), Bradespar SA, Espírito Santo Bank (Florida) and Monteiro Aranha and serves as Chairman of Banco Espírito Santo Angola and Companhia Agrícola Botucatu. He is also Chairman of the Supervisory Board of Banco Espírito Santo do Oriente and a member of the Supervisory Board of Bradesco. He is a nephew of José Manuel Espírito Santo Silva and a cousin of Ricardo Salgado, José Maria Ricciardi and Manuel Fernando Moniz Galvão Espírito Santo Silva. His current term of service as a Director expires in 2003.

*Bernard Henri Georges De Witt*, age 43, became a member of Board in May 2002. He is also a director of Deveurope, S.A., Banco Acac- Montevideo, Banco Del Desarrollo, Santiago and Lukas Bank S.A, Wroclav. He was a partner in CSC Peat Marwick France between 1992 and 200. His current term of service as a Director expires in 2003.

José Manuel Ruivo da Pena and Michel Marin Le Masson were appointed by co-option on 30th May, 2003, to replace Manuel António Ribeiro Serzedelo de Almeida and Gilles François Gramat, respectively. However, their appointment is still subject to ratification by the general meeting and registration by the Bank of Portugal.

## **Supervision and Regulation**

### ***The Bank of Portugal***

The Bank of Portugal is a part of the European System of Central Banks (“ESCB”), which was created in connection with the European Economic and Monetary Union (“EMU”). The EMU implies a single monetary policy, the main features of which are a single currency – the euro – and the creation of a European Central Bank (“ECB”) and the ESCB. According to the European Union (“EU”) Treaty, the primary objective of the ESCB shall be to maintain price stability, such goal pursued through monetary policy.

The Bank of Portugal is directed to “provide for the stability of the domestic financial system, performing for this purpose the function of lender of last resort”. This goal is achieved through the supervision of credit institutions, financial companies and some holding companies of credit institutions and financial companies.

According to the “*Regime Geral das Instituições de Crédito e Sociedades Financeiras*”, or Legal Framework of Credit Institutions and Financial Companies (Decree-Law NR 298/92 of 31st December, 1992), the Bank of Portugal authorises the setting up of credit institutions and financial companies based solely on technical-prudential criteria, monitors the activity of the institutions under its supervision and their compliance with the rules governing their activities, issues recommendations for the correction of any deviations from such rules, sanctions breaches, should they occur, and takes extraordinary measures of reorganisation.

The Bank of Portugal has established rules governing solvency ratios, reserve requirements, control of major risks and provisions for specific and general credit risks. It monitors compliance with these rules through periodic inspections, review of regularly filed financial statements and reports, and continuing assessment of adherence to current legislation.

The Bank of Portugal is also charged with the duty to “regulate, oversee and promote the smooth operation of payment systems, namely within the scope of its participation in the ESCB”.

Membership in the EU subjects Portugal to compliance with legislation which may be either in the form of regulations, which are directly enforceable in any Member State, or Directives addressed to the Member States, which may require the enactment of implementing legislation or which – as established by the European Court of Justice in several decisions – may be deemed to be directly enforceable in a Member State in the event they are clear, precise and unconditional. In addition, the European Commission and the Council of Ministers issue non-binding recommendations to the Member States. The Portuguese authorities have introduced EU Directives and recommendations into legislation to adapt Portuguese laws to European regulatory standards.

### ***Capital Adequacy Requirements***

#### ***Capital and Solvency Ratio***

Portuguese banks are subject to solvency ratio requirements. These requirements conform to the EU Directives establishing, respectively, common standards for the measurement of capital (generally referred to as the “Own Funds Directive”) and a system for weighting assets according to credit risk (generally referred to as the “Solvency Ratio Directive”) with the requirement that, since 31st December, 1992, all credit institutions must maintain capital of at least 8 per cent. of risk-weighted assets. In particular cases, the Bank of Portugal may impose a higher solvency ratio to ensure weighting assets according to credit risk. Banks that fail to comply with these requirements are subject to various measures that may be imposed by the Bank of Portugal, including possible restrictions on dividends and imposition of fines and other sanctions on, not only the Bank, but also on its directors and executive officers.

#### ***The Basle II Capital Accord***

Because Portugal is not a party to the 1988 capital accord of the Basle Committee on Banking Supervision (the “**Basle Committee**”), the capital adequacy requirements established by that accord are not applicable to the Bank. Nonetheless, the BES Group discloses certain capital adequacy ratios provided by that accord on a voluntary basis. The Basle Committee is composed of central banks and bank supervisors/regulators from the major industrialised countries. It develops broad policy guidelines that each country’s supervisors may use to determine the supervisory policies they apply. In January 2001, the Basle Committee published proposals for an overhaul of the existing international capital adequacy standards. The two principal goals of the proposals are: (i) to align capital requirements more closely with the underlying risks; and (ii) to introduce a capital charge for operational risk (comparing, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). The proposals are expected to be adopted by the Basle Committee by the end of 2003 and to become effective in the various countries that participate in the Basle Committee in 2006. If these

proposals become effective, the Bank may need to maintain higher levels of capital for bank regulatory purposes, which could increase its financing costs.

### ***Minimum Cash Requirements***

The minimum cash requirement is set by the ECB, and the rate of interest is the rediscount rate at which the ECB lends to the other European central banks. The failure of a bank to maintain adequate liquidity may result in (i) an increase in the cash amount required (of up to three times the original amount); or (ii) an additional payment of up to double the rediscount rate or (iii) up to 5 basis points over that market rate.

### ***Depositors' Guarantee***

The Deposit Guarantee Fund was established in December 1994 and has administrative and financial autonomy. All institutions that accept deposits must participate in this fund.

The financial resources of the Deposit Guarantee Fund are mainly composed of initial contributions from the Bank of Portugal and the participating credit institutions and, thereafter, periodic contributions from the participating credit institutions.

The annual contributions are defined according to the monthly average of the deposits made in the previous year and to the fixed contribution rate, weighted by the solvency ratio of each institution (the lower an institution's ratio, the higher its contribution). The payment of up to 75 per cent. of the annual contributions may be partly replaced by an irrevocable contract, guaranteed where necessary by securities having a low credit risk and high liquidity.

If the resources are insufficient to comply with its commitments, the Deposit Guarantee Fund may ask for special contributions or resort to loans.

When a credit institution is unable to comply with its commitments, the Deposit Guarantee Fund guarantees the total repayment to depositors up to euro 25,000 per deposit (limit determined by the Decree-Law 222/99, 22nd June, 1999).

The deposits made in Portuguese territory are guaranteed regardless of the currency in which they are denominated, and whether the depositor is resident or non-resident in Portugal. However, some deposits are excluded from the guarantee scheme – such as those of credit institutions, financial companies, insurance companies, investment funds, pension funds and central or local administration bodies. Moreover, in order to prevent a conflict of interests, the Fund does not cover deposits made by an institution's managing bodies, qualifying shareholders, external auditors and non-financial companies under the control of the credit institution at issue, or which together with the latter belong to the same group.

Unlike the systems existing in other countries, the Deposit Guarantee Fund is not responsible for any procedures aimed at the reorganisation and recovery of the participating credit institutions.

The annual contribution is determined by multiplying 0.1 per cent. by the average balance of qualifying deposits; 75 per cent. of the annual contribution can be made in the form of riskless securities, as defined by the Bank of Portugal, given in guarantee.

### ***Borrowing from the Bank of Portugal***

The Bank of Portugal has followed a policy of intervening as a lender of last resort in cases of liquidity shortfalls in the banking system. The basic method of lending employed is advances and overdrafts against collateral. For this purpose the Bank of Portugal discloses a list of securities eligible as collateral. The rediscount rate is now set by the ECB.

### ***International Capital Flows***

The Portuguese authorities have established a programme of liberalisation of international capital flows in furtherance of the country's integration into the single market of the EU.

### ***Restrictions on Acquisition of Capital Stock of a Bank***

According to the Legal Framework of Credit Institutions and Financial Companies, any legal or natural person who proposes either to acquire directly or indirectly a qualified direct or indirect holding (5 per cent. or more of the capital or the voting rights, or a holding which makes it possible to exercise significant influence over management) in a credit institution is required to give the Bank of Portugal prior notice of such intention.

Prior notice must also be given to the Bank of Portugal by any such person intending to increase an existing qualified holding as a result of which the percentage of the voting rights or of the share capital held by such person would reach or exceed 5 per cent., 10 per cent., 20 per cent., 33 per cent. or 50 per cent. or when such credit institution would become a subsidiary of such person.

The Bank of Portugal may oppose any such acquisition or increase, in the event it does not consider the concerned person to meet certain conditions designed to ensure sound and prudent management of the credit institution.

All acquisitions of holdings as a result of which the percentage of the voting rights or of the share capital held by such person would reach or exceed 2 per cent. must be notified to the Bank of Portugal within a period of 15 days after they occur. The Bank of Portugal will then determine if the holding is qualified or not.

Similarly, any legal or natural person who proposes either to dispose of a qualified holding in a credit institution or to reduce the percentage of the voting rights and/or of the share capital directly or indirectly held in a credit institution as a result of which: (i) such person's holding in the credit institution would fall below any of the percentages referred to above, (ii) such person would no longer be able to exercise a significant influence over the credit institution, or (iii) such credit institution would cease to be a subsidiary of such person, is also required to give the Bank of Portugal notice prior to proceeding with the proposed transaction. The notification must include information on the new amount of the holding.

Under the “*Código dos Valores Mobiliários*”, or Portuguese Securities Code, any natural or legal person or persons acting in concert (including companies and their affiliates) who reach or exceed a holding of 10 per cent., 20 per cent., 33 per cent., 50 per cent., 66 per cent. or 90 per cent. of the voting rights attributable to the share capital of any public company (“*sociedade aberta*”) or reduce their holding below any of the above referred limits, must notify the Portuguese securities market authority (“**CMVM**”) and the company within three days from the occurrence of the event. The notice must identify the chain of entities to which, according to law, such holding is attributed. In the event the company is the issuer of shares or of other securities that grant the holder the right to subscribe or acquire shares listed on regulated markets located or operating in Portugal, the respective stock exchange authorities must also be notified.

In addition, these requirements also apply in the case of a listed company in Portugal if any natural or legal person or persons acting in concert (including companies and their affiliates) reach or exceed a holding of 2 per cent. or 5 per cent. of the voting rights attributable to the share capital of the company or reduce such holding to an amount below either of these limits.

The Portuguese Securities Code provides that any natural or legal person or persons acting in concert (including companies and their affiliates) whose holding reaches or exceeds 33 per cent. or 50 per cent. of the voting rights attributable to the share capital of a public company, are required to launch a takeover for all the shares and other securities issued by the company that grant the holder the right to subscribe for or acquire shares. Such offer must be for cash or have a cash alternative.

There is no clause in the Company's by-laws and, as far as the Bank is aware, there is no shareholder agreement bearing on the Bank or on any of the companies in which it has equity holdings and whose shares are listed on the stock exchange regarding the exercise of rights in the company or the transferability of BES shares.

### ***Investment in Non-Banking Companies***

According to the Legal Framework of Credit Institutions and Financial Companies, no credit institutions may, in principle, have any direct or indirect qualified holding exceeding 15 per cent. of its own funds. In addition, the total amount of qualified holdings by a credit institution in such non-banking companies may not exceed 60 per cent. of its own funds (qualifying capital and reserves).

The Legal Framework of Credit Institutions and Financial Companies also provides that no credit institution may directly or indirectly own more than 25 per cent. of the capital of any single non-financial company for a period longer than three years. The Bank is currently in compliance with these laws.

### ***Treasury Shares***

Portuguese law prohibits a company from subscribing for its own shares and generally from issuing guarantees or lending money to any third party in connection with the subscription for or acquisition of such shares, except for loans made in the ordinary course of business by banks and other financial institutions. In the event the by-laws of a company do not prohibit the acquisition of its own shares, the company may only acquire or sell its own shares

on terms and conditions determined at a general meeting of shareholders and, with certain exceptions, such shares, together with shares held by the company as collateral, may not exceed 10 per cent. of its capital. During the period the company owns such shares, all rights attendant on the ownership of such shares are suspended except for the right to receive additional, free or bonus shares. With certain exceptions, a Portuguese subsidiary is prohibited from subscribing for or acquiring shares of its parent.

Treasury shares of a company that exceed the 10 per cent. limit must be sold within one year (if unlawfully acquired) or within three years (if lawfully acquired). Failure to sell shares in accordance with these provisions will subject such shares to cancellation and the directors of the company to potential personal liability for damages to the company, to the creditors of the company or to third parties.

Issuers subject to Portuguese or foreign personal law with shares or other securities that confer rights of subscription, acquisition or disposal and that are admitted to trading in spot markets domiciled or operating in Portugal must notify the managing body of that market and the CMVM of any acquisitions or disposals by them of such securities:

1. within the national territory or abroad, where such transactions, either individually or together with any effected since the last previous notice, amount to or exceed 1 per cent. of the equity capital;
2. in the same trading session of a spot market domiciled or operating in Portugal, where such transactions, either individually or together with any already effected, amount to or exceed 0.05 per cent. of the quantity admitted to trading.

Controlling companies must give notice, in accordance with the terms of the preceding article, of all acquisitions and disposals of securities issued by the controlling company itself and executed by a company controlled by it.

#### ***Other Controls***

The Bank of Portugal imposes a number of other controls covering various aspects of a bank's business. It administers these controls through reporting requirements and ongoing supervision, including periodic examinations of the operations and asset portfolios of individual banks and consolidated banking groups.

As part of the internal market programme, the European Commission and the European Council have proposed and adopted a number of regulations, Directives and recommendations with respect to banking and financial services, including enacted and proposed legislation regarding capital movements, depositors' guarantees, payment systems, collective investment companies, investment firms, public disclosure of acquisitions and dispositions of holdings in listed companies, prospectuses for the public issuance of securities, consumer credit, insider trading, mortgage credit, insurance, publication of annual accounting documents and taxation. The legislation is promoting greater competition in financial services, including areas such as securities brokerage, dealing and underwriting and providing investment advice and management in which the Bank competes.

## FINANCIAL STATEMENTS OF THE BES GROUP

### CONSOLIDATED BALANCE SHEET AS OF 31ST DECEMBER, 2001 AND 2002

	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
	<i>(Amounts expressed in thousands of euro)</i>	
<b>Assets</b>		
Cash and deposits at Central Banks . . . . .	996,685	724,209
Loans and advances to credit institutions repayable on demand . . . . .	844,058	1,241,259
Other loans and advances to credit institutions . . . . .	5,666,120	3,888,187
Loans and advances to customers . . . . .	25,427,661	24,264,079
Bonds and other fixed income securities . . . . .	4,007,843	4,929,501
a) Issued by Government and Public entities . . . . .	1,195,043	1,955,068
b) Issued by other entities . . . . .	2,812,800	2,974,433
(Of which: Own securities) . . . . .	(10,410)	(2,006)
Shares and other variable income securities . . . . .	618,005	426,380
Investments in associated companies . . . . .	49,029	41,165
Other investments . . . . .	911,122	849,826
Intangible assets . . . . .	183,748	182,348
Tangible assets . . . . .	426,620	438,104
(Of which: premises) . . . . .	(315,882)	(316,939)
Unpaid capital . . . . .	-	-
Treasury stock . . . . .	-	-
Other debtors . . . . .	474,016	540,742
Prepayments and accrued income . . . . .	1,628,916	996,830
Loss for the year . . . . .	-	-
<b>Totals . . . . .</b>	<b>41,233,823</b>	<b>38,522,630</b>
	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
<b>Obligations and Future Commitments</b>		
Guarantees granted and contingent liabilities . . . . .	4,527,474	4,371,382
Of which:		
- Acceptances and endorsements . . . . .	-	26
- Guarantees and sureties . . . . .	4,282,956	4,111,083
- Others . . . . .	244,518	260,273
Commitments . . . . .	3,390,405	2,821,644

	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
	<i>(Amounts expressed in thousands of euro)</i>	
<b>Liabilities and Shareholders' Equity</b>		
Amounts owed to credit institutions . . . . .	7,678,707	7,536,692
a) Repayable on demand . . . . .	333,232	338,698
b) With agreed maturity date . . . . .	7,345,475	7,197,994
Amounts owed to customers . . . . .	18,667,656	17,394,740
a) Savings accounts . . . . .	2,338,075	2,506,628
b) Other amounts . . . . .	16,329,581	14,888,112
ba) Repayment on demand . . . . .	7,321,027	6,879,626
bb) With agreed maturity date . . . . .	9,008,554	8,008,486
Debt securities . . . . .	9,270,851	8,804,543
a) Outstanding bonds . . . . .	7,613,710	7,001,237
b) Other securities . . . . .	1,657,141	1,803,306
Other liabilities . . . . .	187,883	243,181
Accruals and deferred income . . . . .	783,759	695,257
Provisions for liabilities and charges . . . . .	398,858	325,866
a) Pension plan and equivalent charges . . . . .	4,660	47
b) Other provisions . . . . .	394,198	325,819
Provisions for general banking risks . . . . .	14,594	59,838
Subordinated debt . . . . .	1,695,799	1,443,293
Share Capital . . . . .	1,500,000	1,000,000
Share premium . . . . .	300,000	192,950
Reserves . . . . .	(20,981)	13,025
Revaluation reserves . . . . .	–	
Retained earnings . . . . .	–	
Minority interests . . . . .	534,236	615,536
Net income for the year . . . . .	222,461	197,709
<b>Totals . . . . .</b>	<b>41,233,823</b>	<b>38,522,630</b>

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED 31ST DECEMBER, 2001 AND 2002**

	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
	<i>(Amounts expressed in thousands of euro)</i>	
<b>Expenses</b>		
Interest expense . . . . .	1,531,035	1,904,303
Commissions . . . . .	53,162	69,090
Losses arising from trading activities . . . . .	3,207,344	3,688,274
General administrative costs . . . . .	587,960	591,934
a) Staff costs . . . . .	323,083	320,521
b) Other administrative costs . . . . .	264,877	271,413
Depreciation . . . . .	134,716	122,186
Other operating expenses . . . . .	6,381	5,142
Provisions for loan losses and other risks . . . . .	489,640	383,582
Provisions for investments . . . . .	4,548	20,636
Extraordinary losses . . . . .	67,560	38,275
Income taxes . . . . .	38,476	38,554
Other taxes . . . . .	10,364	12,382
Losses arising from the equity method of consolidation . . . . .	2,232	1,379
Minority interests . . . . .	32,296	53,130
Net income for the year . . . . .	222,461	197,709
<b>Totals . . . . .</b>	<b>6,388,175</b>	<b>7,126,576</b>

	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
	<i>(Amounts expressed in thousands of euro)</i>	
<b>Revenues</b>		
Interest income . . . . .	2,339,249	2,622,939
Income from securities . . . . .	10,740	9,893
Commissions . . . . .	343,387	342,739
Profits arising from trading activity . . . . .	3,335,070	3,804,228
Write back of provisions . . . . .	213,333	199,382
Income arising from the equity method of consolidation . . . . .	2,309	6,899
Other operating income . . . . .	117,116	108,898
Extraordinary gains . . . . .	26,971	26,854
Minority interests . . . . .	–	4,744
Loss for the year . . . . .	–	–
<b>Totals</b> . . . . .	<b>6,388,175</b>	<b>7,126,576</b>

## TAXATION

### **General**

*The comments below are of a general nature based on current law and practice in each jurisdiction referred to. They relate only to the position of persons who are the owners of their Preference Shares and may not apply to certain classes of persons such as dealers. Any holders who are in doubt as to their personal tax position should consult their professional advisers.*

### **Portuguese Tax**

Under current Portuguese law, neither the Subordinated Guarantee nor Guarantee Payments made by the Bank to a Holder of the Preference Shares who or which is not resident of Portugal for Portuguese tax purposes will be subject to any Portuguese income, capital, transfer, wealth, estate, gift inheritance or other tax or duty.

### **Cayman Islands Tax**

Under current Cayman Islands law, there are no income, capital, transfer, profits or other taxes that would apply to the profits of the Issuer nor would any such taxes apply on dividend, redemption or liquidation payments by the Issuer to any Holder of the Preference Shares.

### **Proposed EU Savings Directive**

On 3rd June, 2003, the European Council of Economics and Finance Ministers agreed on proposals under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The proposals are anticipated to take effect from 1st January, 2005.

## SUBSCRIPTION AND SALE

Lehman Brothers International (Europe), Merrill Lynch International and Banco Espírito Santo de Investimento, S.A. (the “**Managers**”) have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 29th March, 2004, jointly and severally agreed to subscribe or procure subscribers for the Preference Shares at the issue price of €1024.68 per Preference Share plus €6,220,327.87 representing an amount equal to 272 days accrued Preferred Dividend, less a combined selling, management and underwriting commission of €10 per Preference Share. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Preference Shares. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### United States

The Preference Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Preference Shares (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Preference Shares during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preference Shares within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Preference Shares within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement:

- (i) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, will not offer or sell any Preference Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue of the Preference Shares in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Bank; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Preference Shares in, from or otherwise involving the United Kingdom.

### Portugal

No document, circular, advertisement or any offering material in relation to the Preference Shares has been or will be approved by the Portuguese Securities Authority (*Comissão do Mercado de Valores Mobiliários*). Each Manager has represented and agreed that: (i) it has not directly or indirectly taken any action or offered, advertised or sold or delivered and will not directly or indirectly offer, advertise, sell, re-sell, re-offer, or deliver any Preference Shares in circumstances which could qualify as a public or private offer pursuant to the Portuguese Securities Code (*Código dos Valores Mobiliários*) or in circumstances which could qualify as an issue of Preference Shares or as an issue or placement of Preference Shares in the Portuguese market and (ii) it has not directly or indirectly distributed and will not directly or indirectly distribute any documents, circulars, advertisements of any offering material except in accordance with all applicable laws and regulations. No invitation may be made to residents of Portugal to subscribe for any Preference Shares.

**Cayman Islands**

Each Manager has represented and agreed that no invitation will be made to the public in the Cayman Islands to subscribe for or purchase any Preference Shares, whether directly or indirectly.

**France**

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, Preference Shares to the public in France and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France the Offering Circular or any other offering material relating to the Preference Shares and that such offers, sales and distributions have been and will only be made in France to qualified investors (*investisseurs qualifiés*) acting for their own account, all as defined in, and in accordance with, articles L.411-1 and L.411-2 of the French *Code monétaire et financier* and *décret* No. 98-880 dated 1st October, 1998.

**Germany**

In connection with the initial placement of any Preference Shares in Germany, each Manager has agreed that it will offer and sell such Preference Shares (i) only for an aggregate purchase price per purchaser of at least euro 40,000 (or the foreign currency equivalent) or such other amount as may be stipulated from time to time by applicable German law or (ii) as may otherwise be permitted in accordance with applicable German law.

**The Netherlands**

Each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Preference Shares other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, investment undertakings, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

**General**

No action has been taken by the Issuer, the Bank or any of the Managers that would, or is intended to, permit a public offer of the Preference Shares in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Preference Shares or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Preference Shares by it will be made on the same terms.

## GENERAL INFORMATION

### Authorisation

1. The issue of the New Preference Shares was duly authorised by a resolution of the Board of Directors of the Issuer dated 25th March, 2004 and the giving of the Subordinated Guarantee was duly authorised by a resolution of the Board of Directors of the Bank dated 24th March, 2004.

### Listing

2. Application has been made to list the Preference Shares on the Luxembourg Stock Exchange. A legal notice relating to the issue of the New Preference Shares and the constitutional documents of the Issuer are being lodged with the Registrar of Commerce and Companies (*Registre du Commerce et des Sociétés*) in Luxembourg where such documents may be examined and copies obtained.

### Clearing Systems

3. The Preference Shares have been accepted for clearance through Euroclear and Clearstream, Luxembourg. Until exchange of the Temporary Global Certificate for the Permanent Global Certificate, the ISIN for the New Preference Shares is XS0189334625 and the Common Code for the New Preference Shares is 018933462. Thereafter, the ISIN and Common Code for the New Preference Shares will be the same as for the Existing Preference Shares, namely ISIN: XS0171467854 and Common Code: 017146785.

### No significant change

4. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group since 31st December, 2003 and there has been no material adverse change in the financial position or prospects of the Group since 31st December, 2003.

### Litigation

5. Save as disclosed in this Offering Circular, neither the Issuer nor the Bank is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the Bank is aware) which may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position of the Issuer or the Bank.

### Accounts

6. The auditors of the Issuer are KPMG, Edificio Monumental, Avenida Praia da Vitoria, 71A 11<sup>o</sup>, 1069-006 Lisbon, Portugal. KPMG were appointed as auditors of the Issuer on 4th July, 2002 and audited the financial statements of the Issuer, without qualification, prepared in accordance with International Accounting Standards for the financial year ended 31st December, 2002. The previous auditors of the Issuer were Pricewaterhouse Coopers, Avenue C.F. Razmuz 45, Case postale 1172, 1001 Lausanne, Switzerland, who audited the Issuer's financial statements, without qualification, prepared in accordance with International Accounting Standards for each of the three financial years ended on 31st December, 1999, 2000 and 2001.

The Issuer currently prepares audited non-consolidated financial statements on an annual basis. The Issuer does not currently prepare any interim financial statements.

The auditors of the Bank are KPMG, Edificio Monumental, Avenida Praia da Vitoria, 71A 11<sup>o</sup>, 1069-006 Lisbon, Portugal. KPMG were appointed as auditors of the Bank on 4th July, 2002 and audited the financial statements of the Bank, without qualification, prepared in accordance with generally accepted accounting principles in Portugal for the financial year ended 31st December, 2002. The previous auditors of the Bank were Pricewaterhouse Coopers, Avenida da Liberdade, 245 1250 Lisbon, who audited the Bank's financial statements, without qualification, prepared in accordance with generally accepted auditing standards in Portugal for each of the three financial years ended on 31st December, 1999, 2000 and 2001.

The Bank currently prepares audited consolidated and non-consolidated financial statements on an annual basis and unaudited consolidated and non-consolidated financial statements on a semi-annual basis.

## **Documents**

7. Copies of the following documents will be available (in the case of (b) and (c) below, free of charge) from the specified office of the Paying and Transfer Agent for the time being in Luxembourg so long as any of the Preference Shares remains outstanding:
- (a) the Articles of Association of the Issuer and the constitutional documents (with an English translation thereof) of the Bank;
  - (b) the non-consolidated audited financial statements of the Issuer in respect of the financial years ended 31st December, 2001 and 31st December, 2002 and the consolidated audited financial statements of the Bank in respect of the financial years ended 31st December, 2001 and 31st December, 2002 (with an English translation thereof);
  - (c) the most recently published audited annual financial statements of the Issuer and the Bank (when available) and the most recently published unaudited interim financial statements of the Issuer (if any) and the Bank (with an English translation thereof); and
  - (d) the Subscription Agreement, the Agency Agreement and the Subordinated Guarantee.

**REGISTERED OFFICE OF THE ISSUER**

**BES Finance Ltd.**  
P.O. Box 309 GT  
Ugland House  
South Church Street  
Grand Cayman  
Cayman Islands  
British West Indies

**REGISTERED OFFICE OF THE BANK**

**Banco Espírito Santo, S.A.**  
Avenida da Liberdade 195  
1250-142 Lisboa  
Portugal

**PRINCIPAL PAYING AND TRANSFER AGENT**

**JPMorgan Chase Bank**  
Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
England

**PREFERENCE SHARES REGISTRAR**

**J.P. Morgan Bank Luxembourg S.A.**  
5 rue Plaetis  
L-2338  
Luxembourg Grund

**PAYING AND TRANSFER AGENT**

**J.P. Morgan Bank Luxembourg S.A.**  
5 rue Plaetis  
L-2338  
Luxembourg Grund

**LEGAL ADVISERS**

*To the Issuer and the Bank  
as to Portuguese law*  
**Vieira de Almeida & Associados**  
Mouzinho da Silveira, 10  
1250-167 Lisboa  
Portugal

*To the Issuer and the Bank  
as to Cayman Islands law*  
**Maples and Calder Europe**  
7 Princes Street  
London EC2R 8AQ  
England

*To the Managers  
as to English law*  
**Allen & Overy**  
One New Change  
London EC4M 9QQ  
England

**AUDITORS**

*To the Bank*  
**KPMG**  
Edifício Monumental  
Avenida Praia da Vitória,  
71A 11<sup>0</sup>  
1069-006 Lisboa  
Portugal

*To the Issuer*  
**KPMG**  
Edifício Monumental  
Avenida Praia da Vitória,  
71A 11<sup>0</sup>  
1069-006 Lisboa  
Portugal

**LUXEMBOURG LISTING AGENT**

**Kredietbank S.A. Luxembourgeoise**  
43 Boulevard Royal  
L-2955 Luxembourg