Press Release

BANCO ESPÍRITO SANTO GROUP ACTIVITY AND RESULTS IN 2008

(Unaudited financial information under IFRS as implemented by the European Union)
(BES; Bloomberg BESNN PL; Reuters BES.LS)
Lisbon, 29 January 2009

HIGHLIGHTS

- Net income of EUR 402.3 million (-33.7% YoY), corresponding to a ROE of 9.8%, despite the profound financial crisis.
- International area represents EUR 143.2 million, or 35.6% of consolidated income, vs. 23.3% in 2007.
- Customer loans, including securitisation, grew by 9.7%, decelerating from previous year's growth of 16.9%; corporate loans increased 13.4% YoY, while deposits were up by 11%.
- Net interest income increased 13.9%, was volume driven, helping commercial banking income, that increased by 7.8%. Once again, international area (w CBI increase of 28.8%) was key to the increase in commercial banking income.
- Operating costs increased (+5.4%) less than in 2007 (+6.7%), despite the cost of developing international activity (+11.6%) and the expansion of the branch network in Portugal (+43). Operating costs decreased by 3.6% in the quarter.
- In view of the ongoing financial crisis, provisions for securities increased by EUR 58.1 million (2007FY: EUR 18.7 million); credit provision charge increased by EUR 274.4 million (+28.7%), corresponding to 0.57% of the loan portfolio (2007FY: 0.49%).
- The overdue loans ratio (>90 days) was 1.1% (2007FY: 1.0%) and a provisions coverage of 219%. The total provision for credit in the balance sheet rose from 2.29% to 2.38% of customer loans, one of the highest levels in Iberia.
- Core Tier I of 6.1% and Tier I of 7.1%, under the Basel II, IRB Foundation, (at the final stage of certification).
- The three main international rating agencies reaffirmed their ratings for BES in 2008.
- The Board of Directors will propose a dividend of EUR 0.16 per share (20% payout) for AGM approval.

Interview with the CEO in video/audio and text available at: http://www.bes.pt./ir

Press
Paulo Padrão padrao@bes.pt (+ 351 21 3501713)
Paulo Vaz Tomé paulo.tome@bes.pt

Investors and Analysts
Elsa Santana Ramalho investor.relations@bes.pt (+ 351 21 359 7390)

BANCO ESPÍRITO SANTO, S.A.
Public Traded Company
Registered in Lisbon C.R.C. no. 500 852 367
Headquarters: Avenida da Liberdade n.º 195, 1250 – 142 Lisbon, Portugal
Share capital: EUR 2,500,000,000.00

INDEX

Page:

1. ECONOMIC OVERVIEW

General developments and crisis in the financial markets

2008 saw a deepening of the global financial crisis, harming confidence levels across all economic agents in general and affecting economic activity throughout the world, which started to decelerate sharply, especially in the last quarter of the year. The aversion to risk and unavailability to provide liquidity that ensued from the bankruptcy of Lehman Brothers in September led to an extreme reluctance on the part of banks to expose themselves to the money and credit markets. In the US, the Federal Reserve significantly increased liquidity injections, with the FED funds rate dropping from 3% to 0.25%

In the Euro Area, the European Central Bank (ECB) also expanded the liquidity provided to the markets, subsequently cutting interest rates. The 3-month Euribor, which had risen from 4.684% at the beginning of 2008 to a high of 5.393% in October, closed the year at 2.892%. This correction was underpinned by the drop in the key refi rate (from 4.25% to 2.5%) and the ECB's strong injections of liquidity into the money market. The spread between the Euribor and the 3-month Treasury Bills increased from 88 to 350 basis points up to October, correcting at the end of the year to 124 basis points. In this context of increased demand for safe haven assets, the yield on 10-year government bonds tended to decline as from the second half of 2008, falling from a peak of 4.681% in June to 2.951% at the end of the year. In the US equity markets, the Dow Jones, Nasdaq and S&P500 indices slumped by respectively 21.9%, 22.6% and 23.6% in the year, while in the Euro Area the DAX, CAC40 and IBEX tumbled by 25.8%, 29.5% and 24.6%. Although initially holding on to better prospects of economic growth, the emerging markets were also affected by the global deterioration in confidence levels. In Brazil the Bovespa index fell by 18.1% while in China the Shanghai Composite index plunged by 58.7%.

The worsening of confidence levels and a more restrictive environment in terms of financial criteria took their toll on the real activity, with the main economic areas entering recession in the second half of the year, leading to significant drop in commodities prices and inflation at global level. The price of oil (Brent) fell by 55% in the year, to USD 42/barrel. In average annual terms the EUR/USD exchange rate rose from 1.37 to 1.47. Lately the USD has been gaining ground, reaching 1.3971 at the end of the year.

The Portuguese economy also closed the year in sharp deceleration, largely explained by the poor performance of exports of goods and investment. Even so, GDP should have increased of 0.4% in the full year. Mirroring the trend in the International Stock Exchanges, the Portuguese equities index – the PSI-20 – fell by 51.3% in 2008.

BES Group's positioning vis-à-vis the crisis

BES Group has closely followed all new developments in the unfolding of the crisis in the financial markets, seeking to minimise its effects while also actively cooperating with the authorities in the search for solutions viewing the reinstatement of the confidence levels required for the regular functioning of the economy.

Accordingly, the Group has taken a number of initiatives aimed to:

- Maintain a prudent liquidity management policy, promoting the diversification of funding sources and applications in higher liquidity assets, and taking part in the State guaranteed financing programme;
- increase the assets eligible for rediscount with the ECB, thus widening the pool of assets that can be transformed into immediate liquidity;
- further diversify the risk geographically, by sector and by counterparty;
- the prudent reinforcement of provisioning, bolstering financial strength through self-financing;
- maintenance of strategic commitment to SME, namely cooperating with government entities in the implementation of programmes to foster SME business activity;
- adapt the offer of products and services to the retail segment in order to lessen the impact of the crisis on its clients;
- Improve productivity and efficiency levels, namely by stepping up cost-cutting measures.

2. RESULTS

BES Group's net income reached EUR 402.3 million in 2008, corresponding to a return on equity (ROE) of 9.8%. Given the adverse economic and financial conditions that affected the activity developed all throughout the year, this performance gains a special meaning, while a number of international banks have been announcing losses due to exposure to risks that caused the global financial crisis.

INCOME STATEMENT

EUR million

	2007	2008	Chg %
Net Interest Income	953.7	1 086.2	13.9
+ Fees and Commissions	643.4	636.2	-1.1
= **Banking Income ex-Markets**	**1 597.1**	**1 722.4**	**7.8**
+ Capital Markets and Other	404.1	165.7	-59.0
= **Banking Income**	**2 001.2**	**1 888.1**	**-5.7**
- Operating Costs	950.7	1 001.6	5.4
= **Gross Results**	**1 050.5**	**886.5**	**-15.6**
- Net Provisions	262.9	375.8	43.0
Credit	213.2	274.4	28.7
Securities	18.7	58.1	....
Other	31.0	43.3	39.7
= **Income before Taxes and Minorities**	**787.6**	**510.7**	**-35.2**
- Income Tax	152.5	83.5	-45.3
= **Income before Minorities**	**635.1**	**427.2**	**-32.7**
- Minority Interests	28.0	24.9	-11.2
= **Net Income**	**607.1**	**402.3**	**-33.7**

Main factors that affected net income in 2008:

- good performance of the commercial banking income, a measure of recurrent revenues, that reached EUR 1722.4 million (+7.8%);
- cost growth slowed to 5.4% only (+ 11.1% in 1H08), which is particularly relevant since it reflects cost discipline, despite the expansion of the international operations and of the domestic brach network;
- provision charge of EUR 274.4 million (+28.7%).
- lower capital markets and other results: EUR 165.7 million (-59%) impacted by financial crisis.

International Activity

The Group's international presence is paying off: with banking income growing at a much higher pace than operating costs (+28.8% vs. +11.6%), the profits from international activity reached 143.2 million (+1.2%), with larger 35.6% weight in the Group's 2008 consolidated results (2007: 23.3%). A credit provision charge of EUR 75.1 million (EUR 28.4 million in 2007) subdued the international area's results from even higher levels.

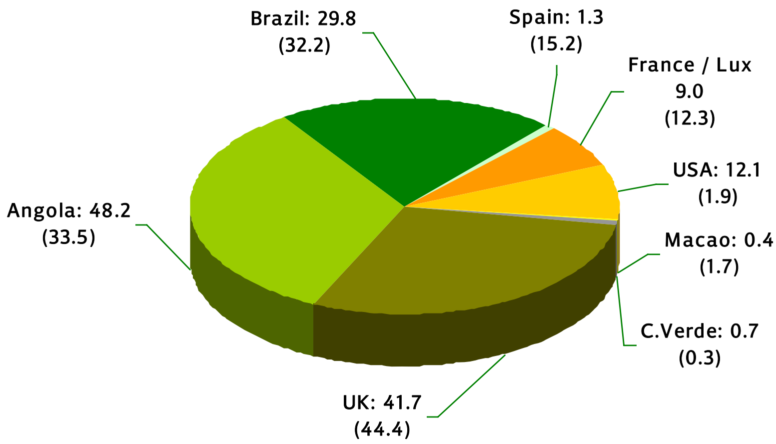
INCOME STATEMENT: DOMESTIC AND INTERNATIONAL BREAKDOWN

EUR millon

Variáveis	Domestic			International		
	2007	2008	Chg %	2007	2008	Chg %
Net Interest Income	792.9	833.1	5.1	160.8	253.1	57.4
+ Fees and Commissions	502.0	499.9	-0.4	141.4	136.3	-3.6
= **Banking Income ex-Markets**	**1 294.9**	**1 333.0**	**2.9**	**302.2**	**389.4**	**28.8**
+ Capital Markets and Other	313.0	103.3	-67.0	91.1	62.4	-31.5
= **Banking Income**	**1 607.9**	**1 436.3**	**-10.7**	**393.3**	**451.8**	**14.9**
- Operating Costs	785.2	816.9	4.0	165.5	184.7	11.6
= **Gross Results**	**822.7**	**619.4**	**-24.7**	**227.8**	**267.1**	**17.3**
- Net Provisions	236.2	304.2	28.8	26.7	71.6	....
Credit	184.8	199.3	7.9	28.4	75.1	....
Securities	18.7	58.1	....	0.0	0.0	....
Other	32.7	46.8	43.1	- 1.7	- 3.5	....
= **Income before Taxes and Minorities**	**586.5**	**315.2**	**-46.3**	**201.1**	**195.5**	**-2.8**
- Income Tax	112.3	50.6	-54.9	40.2	32.9	-18.5
= **Income before Minorities**	**474.2**	**264.6**	**-44.2**	**160.9**	**162.6**	**1.1**
- Minority Interests	8.6	5.5	-36.4	19.4	19.4	0.0
= **Net Income**	**465.6**	**259.1**	**-44.4**	**141.5**	**143.2**	**1.2**

While the domestic net income dropped by 44.4%, the international area's net income increased, where BES Angola's contribution was EUR 48.2 million (+44% YoY).

INTERNATIONAL AREA'S CONTRIBUTION [(1)] TO NET INCOME (in EUR million)



[(1)] After minority interests and consolidation adjustments

2.1. Net Interest Income

Net interest income in 2008 benefited from both the volume effect and the relatively stable net interest margin. Average balance of deposits increased by 16% while average balance of customer loans increased by 16.7%. The volume effect drove net interest income up by 13.9%, to EUR 1086 million.

NET INTEREST INCOME AND NET INTEREST MARGIN

EUR million

	2007			2008		
	Average Balance	Avg Rate (%)	NII	Average Balance	Avg Rate (%)	NII
Interest Earning Asstes	**53 701**	**5.87**	**3 149**	**61 788**	**6.10**	**3 769**
Credit	39 109	5.83	2 278	45 658	6.36	2 905
Other Assets	14 592	5.97	871	16 130	5.36	864
Interest Bearing Liabilities	**53 701**	**4.09**	**2 195**	**61 788**	**4.34**	**2 683**
Deposits	19 583	2.74	537	22 716	3.07	697
Other Funds	33 081	5.01	1 657	39 031	5.09	1 986
Other	1 037	-	-	41	-	-
NII / NIM		**1.78**	**954**		**1.76**	**1086**

The relative net interest margin experienced a small reduction of 2 basis points, to 1.76%, due to:

- focus on loans to lower risk segments, combined with re-pricing policy to incorporate the liquidity premiums caused by the international capital markets funding constraints;
- widespread increase in the funding costs caused by the international financial crisis, with a particular impact on the average rate on “Other Customer Funds”, which rose from 5.01% to 5.09%.

2.2. Fees and Commissions

Fees and commissions, although somewhat recovering in 4Q08, registered a slight YoY drop of 1.1%, to EUR 636.2 million.

The strongest increases in fees and commissions were in documentary credits (+176.7%), as a result of BES’s support of exporting firms, account management (+12.2%), cards (+10.5%), and guarantees provided (+7.5%).

High competitive pressure in the domestic market led to a reduction in commissions on collection services due to decline in the average volume of bills discounted throughout the year. Loan fees were negatively affected by the change of the legislation on commissions applicable to the early amortisation of mortgages as well as by the credit growth slowdown, especially in corporate and project finance. Fees and commissions on securities transactions, asset management and bancassurance – which depend most on the markets’ performance – naturally declined when compared to the previous year.

FEES AND COMMISSIONS

EUR million

	2007	2008	Chg %
Collections	36.6	32.6	-11.1
Securities related fees	65.0	51.2	-21.2
Guarantees	53.7	57.7	7.5
Account management	79.3	89.0	12.2
Commissions on loans and other (1)	139.4	136.5	-2.1
Documentary credit	10.6	29.2	176.7
Asset management (2)	117.8	100.9	-14.4
Cards	31.8	35.2	10.5
Bancassurance	48.6	47.1	-3.2
Other	60.6	56.8	-6.1
Total	**643.4**	**636.2**	**-1.1**

(1) Includes *corporate finance*, exports financing, commissions on loans and *factoring*

(2) Includes investment funds and portfolio management

The BES Group makes a permanent effort to improve the quality of its service, creating distinct value product and service packages for the different client segments, in an effort to continue increasing customer loyalty.

2.3. Capital Markets and Other Results

The financial markets' turmoil and the bankruptcy of Lehman Brothers caused great instability in 2008 and conditioned significantly the bank's results. Nevertheless, the Group managed to generate positive trading results of EUR 165.7 million, which compares with EUR 404.1 million in 2007.

The macroeconomic indicators and confidence levels deteriorated significantly during the last quarter of 2008, with the USA, UK and the Euro Zone all entering recession, causing a sharp reduction in consumption and increase in unemployment. The market volatility reached levels never seen before, as a result of a total lack of confidence in financial institutions in general, which aggravated the already difficult liquidity conditions, especially after the end of the third quarter,

The oil price continued to decline from previous historical maximum levels, reflecting an expected decline in demand. The market volatility also affected the foreign exchange markets, where a strong risk aversion led to a sharp devaluation of the emerging economies' currencies against currencies of the economies usually associated to carry trades. Therefore, the results arising from interest rate and foreign exchange exposures reflect a reduction in the Group's exposure to the emerging economies. However, the BES Group used interest rate instruments to benefit from sharp key interest rates reductions in the Euro Zone and the US, where the Central Banks are following aggressive expansionary monetary policies.

In the debt market, the existing liquidity was almost entirely absorbed by primary market issues, while in the secondary debt market the liquidity crunch already observed in previous quarters was maintained. Sovereign ratings of several countries (Portugal, Greece and Spain) were downgraded in January 2009 and sovereign debt spreads have widened, amid persisting lack of confidence, the deterioration of economic conditions and the interventions of various governments in different sectors of the economy, especially in the financial sector.

As for the equity markets, the Group's securities portfolio was negatively affected by the sharp decline of stock markets, by persistent volatility, fuelled by the negative sentiment towards the market in general and toward the financial sector in particular.

2.4. Operating Costs

Operating costs increased by only 5.4%, having reached EUR 1001.6 million. This cost containment is a result of not only the integration and rationalisation programmes implemented in the Spanish operation and the merger of Besleasing e Factoring into BES, but also due to a cost cutting measures in the areas of advertising, variable remuneration and other administrative costs. Nevertheless the bank managed to continue the expansion of the retail network, which reached 803 units at the end of the year (an 11% increase in the average number of branches).

OPERATING COSTS

						EUR mn
	Domestic		International		Consolidated	
	Amount	YoY %	Amount	YoY %	Amount	YoY %
Staff costs	417.7	1.7	103.4	12.9	521.1	3.8
Admin costs	334.5	5.7	68.1	9.2	402.6	6.3
Depreciation	64.7	11.2	13.2	13.9	77.9	11.7
Total	**816.9**	**4.0**	**184.7**	**11.6**	**1001.6**	**5.4**

Staff costs were up by 3.8%, with domestic staff costs rising by 1.7% only. The increase in administrative costs reflects mainly the expansion of the branch network, the investment made in reinforcing international teams and the increase in IT expenditures in order to improve processes.

2.5. Provisions

Provisions increased by 43%, to EUR 375.8 million. The sharp devaluation of both the equity and the bond markets reduced fair value reserves and caused potential losses of certain investments in the available for sale portfolio. Thus, a EUR 58.1 million impairment loss was recognised.

Credit provisioning charge reached EUR 274.4 million (2007: EUR 213.2 million), reflecting an increasingly prudent risk assessment policy.

Thus, in line with the current context of crisis, the provisioning charge increased from 0.49% of the loan portfolio in 2007 to 0.57% in 2008, with total provisions for credit rising from 2.29% to 2.38%.

Provisions for other risks and charges totalled EUR 43.3 million, which includes the provisions for operational restructuring, for incorporation of Besleasing & Factoring into BES as well as for impairment losses in property received in lieu of payment of bad loans.

2.6. Profitability

The net income corresponds to a return on equity (ROE) of 9.8% and return on assets (ROA) of 0.56%.

PROFITABILITY

		%
	2007	2008
Return on Equity (ROE)	16.6	9.8
Return on Assets (ROA)	0.98	0.56

The earnings per share was EUR 0.74 (2007: EUR 1.15), representing a price earnings ratio of 11.0% based on 31 December 2008 close price of EUR 6.69.

The BES share price performance was in line with that of the main world stock markets. The market cap decreased to EUR 3345 million, a 55% YoY decrease, compared to a 64.8% fall of the European Banks performance tracking index, Dow Jones Europe Stoxx Banks. The Portuguese PSI20 index fell by 51.3% in 2008.

The Board of Directors will propose to the General Meeting of Shareholders to be held in March 2009, the payment of a dividend of EUR 0.16 per share. This remuneration corresponds to a payout ratio of 20% and a dividend yield of 2.4% (2007: 3.2%) based on the year end share price.

3. ACTIVITY

3.1. General overview

2008 once again confirmed the strength and the franchise of the BES Group, which maintained robust activity growth leading to new market share gains. Hence steady progress was made in the following business areas:

- loans to customers increased by EUR 4.6 billion (+9.7%) including the securitisations;
- on-balance sheet customer funds increased by EUR 1.1 billion (+3.0%), while deposits grew by EUR 2.6 billion (+11%);
- total assets reached almost EUR 100 billion (up by 5.5%).

This performance is the result of the strategy that has been consistently implemented throughout the recent years, which yielded particularly good results in terms of international activity growth. The slight increase in total customer funds is due to financial crisis (decreasing assets under management) as well as to the clients' increased preference for on balance sheet products.

MAIN BUSINESS INDICATORS

EUR million

	31 December		Chg %
	2007	2008	
Total Assets (1)	**93 819**	**98 953**	**5.5**
Assets	**68 355**	**75 187**	**10.0**
Gross Loans (including securitised)	**47 389**	**51 964**	**9.7**
Loans to Individuals	17 083	17 589	3.0
- Mortgage	14 369	14 787	2.9
- Other Loans to Individuals	2 714	2 802	3.2
Corporate Loans	30 306	34 375	13.4
Total Customer Funds	**55 445**	**55 697**	**0.5**
On-Balance Sheet Customer Funds	37 060	38 189	3.0
Customer Deposits and similar (2)	29 675	29 910	0.8
Deposits	23 775	26 387	11.0
Certificates of deposit	5 900	3 523	-40.3
Debt Securities placed with Clients (3)	7 385	8 279	12.1
Off-Balance Sheet Funds	18 385	17 508	-4.8
Transformation Ratio (%) (4)	*114*	*123*	*9 p.p.*

(1) Net Assets + Asset Management + Other off-balance Sheet liabilities + non consolidated Securitised credit
(2) Includes: "Customer deposits and Certificates of Deposits
(3) Includes: funds associated to securitizations and bonds at Fair Value
(4) Assuming on-balance sheet credit / (Total customer funds- Off-balance sheet funds)

Corporate loans maintained strong growth (+13.4%), although decelerating from the 2007 levels (+21.5%). in line with the market trend, mortgage loans growth slowed to 2.9% (2007FY: 8.1%). Other loans to individuals also showed signs of slower growth (+3.2% vs +17.5% in 2007FY). Growth in lending was not matched by growth in on-balance sheet funding, causing the transformation ratio to rise to 123% (2007FY: 114%).

3.2. Main business areas

The BES Group activity is supported by specialised units that focus on excellence and permanently meeting customer needs in three segments: individual, corporate and institutional clients.

Retail Banking

The BES Group opened 43 new branches in 2008, having reached a total of 743 branches in Portugal. The retail network expansion plan for 2006-2009 is based on strict profitability criteria and low cost operating models (investment and operating costs of the new branches are on average 43% lower than those of traditional branches). Furthermore, branch expansion focused on region with high purchasing power (over 90% of the new openings in 2008 were made in municipalities where the purchasing power is 70% above the national average).

The results achieved by the new branches are in line with the Business Plan, with strong contribution to retail banking growth in 2008: 17% to new client acquisitions, 25% of the increase in the financial involvement of clients. The network includes 41 assurfinance on-site branches under partnerships with insurance agents. Network expansion along with new client acquisition initiatives allowed BES Group to gain more than 157,000 new clients in 2008, with the number of affluent clients growing by a significant 22%.

Main highlights in the individuals and small business segments:

- ***Increased customer funds acquisition efforts***, yielding a 21.7% YoY increase in on-balance sheet funds of Retail clients, including a 63.6% rise in on-balance sheet term placements. Growth was equally strong in Financial Life Bancassurance: pension plans production rose by 21.3% (upholding the Group's leading position in this important product, with a market share of 28.8%) and production of Capitalisation Products advanced by 21.4%. Good results were also achieved in long-term saving solutions: production of BES Plans (programmed savings solutions) increased by 35.2% and a total of EUR 700 million in BES Subordinated Bonds was placed through various Group entities.

- ***Very selective increase in credit***: mortgage credit grew by 2.9% YoY, with 55% of the year's production coming from affluent segment. At the same time, the evolution of the pricing policy in part reflects the increase in funding cost in the financial sector. Other loans to individuals grew by 3.2% YoY, which compares with 17.5% YoY in 2007. The affluent clients segment was responsible for a large share of consumer loans production (40% in 2008). In the small business segment, the pricing schedule was also adjusted to prevailing market conditions.

- ***Sustained increase in cross-selling,*** a critical growth driver in retail banking. The Group achieved a substantial increase in the number of products sold (+25% YoY). The innovative service account offer, the "The Number 1 Account" launched in the second half of the year features new benefits for the clients, namely in healthcare and travel assistance services. Service accounts increased 28% YoY, life and disability insurance grew + 96% YoY, and non life bancassurance, where new policies sold grew by 30% (with car insurance and health insurance production rising by 28% and 97%, respectively).

The **Assurfinance** programme continued to make a strong contribution: ca. 38,000 new clients, the placement of 32,600 credit cards (T-cards), 21% of BES Group's overall pension plan production (underpinned by the savings capture programme), and 13% of its total mortgage production.

The importance of the direct channels continued to increase in 4Q08. **BESNet -** the internet banking service for individual clients – reached 961 thousand subscribers, which corresponds to a YoY increase of 7.3%. The number of frequent users rose by 21%, while the number of log-ins was up by 22%.

The commercial capabilities of the Direct Channels continued to be reinforced, in close connection to the servicing function, featuring specific and exclusive products for the Internet and phone channels. In 2008 online sales of savings products reached EUR 1500 million, rising by 39.6% YoY.

2008 represented the first year in a new phase in the life of **Banco Espírito Santo dos Açores**. Having elected its new corporate bodies in the general shareholders' meeting held in February, the Bank changed its organisational structure and opened its first Corporate Centre, as well as new branches in *Angra do Heroísmo* (Terceira island) and *Vila da Madalena* (Pico island). At the same time, the Bank developed several commercial initiatives during the near, namely establishing protocols with a number of companies and institutions and supporting social solidarity and cultural causes. In the emigration area, BES Açores continued to take initiatives aimed at promoting closer ties with the Azorean emigrants. As regards the year's activity, customer deposits increased by 5.0% and customer loans by 14.4%, with mortgage loans rising by 19.4%. The Bank closed the year with net assets of EUR 499.3 million, up by 16.6% YoY. Net income reached EUR 5.7 million, corresponding to a 12.4% increase when compared to 2007.

Private Banking and Asset Management

BES Group's Private Banking business was quite dynamic, despite the adverse market conditions. Market volatility led to a significant increase in demand for on balance sheet products, with the volume of term deposits rising by 25.3% YoY. There was also an intensification of "member-get-member" initiatives, both at home and at international Private Banking level, where these were directed to Portuguese residents abroad. The assets under management surpassed EUR 7.2 billion, while the client acquisition initiatives were intensified: member-get-member, both at domestic and international levels, the latter being focused on the Portuguese residents abroad.

Moreover, a closer cooperation with the investment bank allowed to complement the traditional private banking offer with products and services that are particularly sought and valued by its larger or more sophisticated clients, such as discretionary management, brokerage, structured credits, private equity, bond portfolios, structured portfolios, derivatives and financial advisory services.

Espírito Santo Activos Financeiros operates through specialised companies in Portugal, Spain, Luxembourg, United Kingdom, Angola and Brazil. In 2008 total volume of assets under management at ESAF reached EUR 18.0 billion, corresponding to a YoY drop of 10.8%. In terms of investment funds the year was marked by the restructuring and widening of the offer, the first entailing the merger of ten real estate funds and the second the launch of eight new special/flexible real estate funds and six new closed-end mutual funds for private subscription. Towards the end of the year a new Special Investment Fund - the Espírito Santo Rockefeller Global, S.A. SICAV SIF – *Energy Fund* – was launched in the Luxembourg. The first fund was launched in the United Kingdom, through NAU Capital, reaching volume under management of EUR 200 million. Angola also saw the launch of the first investment fund, which at year-end had reached more than USD 100 million. In Spain, total volume of assets under management surpassed EUR 1700 million. On the business internationalisation front, a new fund management firm was acquired in Brazil - BESAF – BES Activos Financeiros Lda – where ESAF indirectly holds a 50% stake. ESAF's consolidated earnings dropped by 19.2% in 2008, translating the reduction of assets under management as a result of the deep crisis lived in the financial markets during the year.

Despite the turmoil in the financial markets and the difficult economic conditions lived in the main world economies during the year and in particular after September, **Banco Best** pursued its strategy of continuously improving its interaction with the clients, at all levels. To this end, the Bank pioneered the introduction in Portugal of interactive simulators based on Web 2.0 technology and launched a full English version of its website, where it also included a multimedia centre and RSS Feeds. Towards the end of the year, a mobile banking facility was made available allowing the clients to access the BEST website using their mobile phones' Internet browser, and in less than one month more than three hundred clients were using this facility to interact with the bank.

According to data released by the Portuguese Securities Market Commission (CMVM) relative to the first half of 2008, Banco BEST reinforced its lead in the distribution of foreign investment funds in Portugal, increasing its market share by 2.6 percentage points, to 29.1%, which compares with 26.5% a year earlier.

In the area of trading, Banco BEST significantly reinforced its offer of products and services and was the first Portuguese bank to launch simultaneously two OTC warrants trading platforms – from Citibank and Commerzbank – offering a total of more than 700 warrants. Moreover, the bank increased by 50% its offer of Exchange Traded Funds (ETFs), to more than 400 available securities, and widened access to the *Best Trading Pro* platform by making it available via the Web and mobile phone.

In banking, Banco BEST launched debit and credit cards under the innovating *iSavings* programme of saving for investment and started to offer personal loans.

Customer assets under management reached EUR 1166 million, up by 4% on 2007, while net income totalled EUR 2.4 million, which corresponds to a 20.9% YoY increase.

Corporate Banking – middle market

In 2008 this important business segment was marked by the reinforcement of the strategy of diversifying revenue sources through the cross-selling of specialised products and services, namely risk management products, investment banking advisory services, insurance and trade finance (in this last case benefiting from the strong commercial presence held by the Group in the exporting sector), leading to a significant YoY increase of 14.1% in the respective banking product.

Although corporate lending growth tended to slow down, the Group continued to support the segment, with loans to companies rising by 13.4% YoY (8.5% in the domestic business). The Bank's performance was backed by its participation in the new subsidised credit lines included in the National Strategic Reference Framework (QREN), where it reached a leading share of 30% of the amount of credit approved under the PME Invest I and II facilities (totalling EUR 500 million). In view of current market conditions, BES Group has focused loan granting on lower risk clients, while adjusting margins upwards in response to the increase in the cost of funding.

Credit growth has been going hand-in-hand with a policy of strict reciprocity in capturing funds and by the continued effort to diversify revenue sources by leveraging on the services provided by all the companies within the BES Group. Client acquisition efforts were quite successful, with 680 new active clients in 2008.

Within the scope of new customer acquisition initiatives and business development with Iberian Clients, the number of active clients in Portugal and Spain already reached 599, of which ca 310 Spanish firms with presence in Portugal and 289 Portuguese firms with presence in Spain, representing 38% of the potential companies with good risk profile and presence in both countries.

The **internet banking service for corporate clients - BESnet Negócios** – registered strong growth in 2008: the number of users reached 72,000, corresponding to a YoY increase of 12.3%, while the number of log-ins and transactions rose by 15.8% and 24.2%, respectively, driven by increases not only in the number of customers but also in the range of available functionalities.

In November BES launched a pioneering service in the Iberian banking market: BESnetwork is an international internet banking portal designed for companies doing business in Portugal, Spain, or in both countries.

Besides featuring a wide range of new functionalities, the great advantage of BESnetwork is to allow the clients of BES and BES Spain to access and move all their assets in Portugal and Spain from a single portal, using the same access data and integrated facilities, and having at their disposal the collection and payment methods of both countries. In time this service will be extended to other international operations.

Although continuing to contribute significantly to finance the Portuguese economy, the leasing and factoring industries were also adversely affected by the international financial crisis. Hence the production of **Besleasing e Factoring** (which was integrated into Banco Espírito Santo on 31 December 2008) dropped by 5.3% YoY, to EUR 4.8 billion. The activity developed during the year led to a EUR 376 million increase in the credit portfolio. The crisis also slightly harmed overdue loan ratios, although this was largely offset by the Company's strict criteria in credit granting.

Large Companies and Institutional Clients

2008 saw strong commercial growth in the segment, particularly in the cross selling of products, in line with the strategy of diversifying revenue sources. This growth was supported by the increase in revenues from fees and commissions, namely derivatives (up by 234% YoY), investment banking (+162.4%) and trade finance (+28.2%).

Fees and commissions already account for 20% of the segment's banking income, reaching 36% when added to income from customer funds (32% in 2007).

Backing up the internationalisation of Portuguese firms has always been one of BES's main lines of activity. In view of the current economic backdrop, the Bank decided to further reinforce this strategic area, creating in 2008 a specialised unit dedicated to support companies with the potential to expand abroad and to develop foreign trade. This new unit, alongside the reinforcement of the programme of Business Missions to strategic markets for Portuguese companies (namely Angola, Morocco, Algeria, Brazil and the United Arab Emirates) will permit to open new markets for the Bank's clients supported by BES Group's international presence.

Investment Banking

BES Investimento conducted its activity in 2008 under extremely adverse conditions for the economy in general and in particular for the financial sector and the investment banking business. Nevertheless, increasing business diversification and the expanded scope of its operations allowed BES Investimento to post banking income of EUR 187.9 million, which is only slightly lower (-6.8%) than in 2007 (EUR 201.5 million). The commercial banking income grew by 5.2% YoY, a good performance in view of the financial markets' dire conditions that benefited from the international expansion strategy (61% of the banking income was generated outside Portugal). The Bank's direct contribution in 2008 dropped by 15% when compared to 2007 while its net income declined by 34.9%, to EUR 47.6 million, due to the large increase in impairment losses in assets recognised during the year.

In 2008 BES Investimento participated in the following main deals and events:

Mergers and Acquisitions - BES Investimento participated in more than 40 transactions for an overall amount of approximately EUR 4 billion, of which the more important were: (i) in Portugal, financial advisor to the LeYa Group in the acquisition of Grupo Oficina do Livro, and to Opway in the acquisition of Recigroup; (ii) in Spain, advisor to Ibersuizas and Aries Industrial Y Naval in the sale of a controlling stake in Aries Complex, S.A. to Aciturri Aeronáutica; and (iii) in Brazil, advisor to Vivo Participações in the acquisition of Telemig Part and Telemig Celular and respective voluntary and compulsory offers.

Project Finance - 2008 was another year of intense activity, seeing the conclusion of more than 50 operations, among which we highlight the following: (i) financial advisor and Mandated Lead Arranger in the tender for the Douro interior road concession, in the amount of EUR 900 million (Portugal); (ii) Mandated Lead Arranger in the EUR 594 million refinancing of Generg for the construction of wind parks and mini hydropower plans with an installed capacity of 440 MW; (iii) Mandated Lead Arranger in the refinancing of senior facilities provided to Wembley National Stadium Limited in an overall amount of GBP 350 million; (iv) financial advisor to the Angolan Ministry of Transports in the restructuring of Angola's public road and railway transport services; (v) Mandated Lead Arranger of the USD 240 million financing of Line 4 of the São Paulo underground (Brazil); (vi) financial advisor to the consortium formed by Ascendi and the Leão group which won the auction for the SP 300 concession – Rodovia Marechal Rondon Leste, in São Paulo, Brazil; (vii) Mandated Lead Arranger in the USD 1.4 billion financing to Cintra for the concession and construction of the SH130 motorway in Texas, USA; and (viii) Mandated Lead Arranger of the EUR 862 million financing of the construction of a 120 MW photovoltaic park in Spain ("Tuin Zonne Project").

Acquisition Finance – the year was marked by an increase in the number of transactions concluded in Spain and by lower activity in Portugal. Overall, BES Investimento participated in the following main transactions: (i) in Portugal, as Joint Mandated Lead Arranger of the financing of Iberwind's LBO acquisition of part of the wind generation assets of Enersis (EUR 1.1 billion debt); (ii) in Poland BESI concluded its first operation, acting as Arranger of Bridgepoint Capital's LBO acquisition of CTL, a railway carrier of goods (zloty 515 million debt).

Equity Capital Markets: (i) in Portugal: Joint Global Coordinator & Bookrunner of the EUR 1567 million IPO of EDP Renováveis; Joint Bookrunner in the USD 1.0 billion issue by BES Finance Ltd of exchangeable bonds tied to the price of Banco Bradesco shares; and Bookrunner of Espírito Santo Financial Group's capital increase; (ii) in Brazil: Co-Manager of the BRL 400 million secondary distribution of shares of COPASA – Companhia de Saneamento de Minas Gerais.

Debt Capital Markets: (i) in Portugal BES Investimento arranged and acted as agent in 41 commercial paper programmes for an overall amount of EUR 1460 million, namely the BRISA (EUR 200 million), Teixeira Duarte Group (EUR 100 million and EUR 120 million), Zon Multimédia (EUR 100 million) and REFER (EUR 100 million) programmes, and co-led two issues of bonds by Banco Espírito Santo in the amount of EUR 1250 million each (one of variable rate bonds and another of covered bonds) and the public offering for subscription of Sporting SAD bonds in the amount of EUR 19 million; in Brazil, BESI was Joint Lead Manager of the Banco Panamericano and Banco BMG issues of notes (respectively USD 130 million and USD 200 million) and in the local market acted as co-manager of the issue of debentures by American Banknote (BRL 180 million) and as Mandated Lead Arranger of the USD 135 million credit opened to Latapack under an IFC A/B Loan.

Brokerage - (i) BES Investimento advanced one position in the ranking of the largest operators in both the Portuguese and the Spanish markets, regaining the lead of Euronext Lisbon with a market share of 11.7% and reaching 5th place in the Madrid Stock Exchange, with a market share of 5.6%; (ii) in Brazil, BES Securities' greater integration with BES Investimento's other brokerage houses allowed it to further increase the geographical diversification of its client portfolio and to start offering its services to European and North-America clients; moreover, the quality of its research team was distinguished in the annual ranking of the Institutional Investor magazine; (iii) in Poland, BES Investimento initiated brokerage activities in July, working with both international and Polish clients; the local research team currently covers some 30 companies listed in the Warsaw Stock Exchange.

Private Equity –the Espírito Santo Infrastructure Fund I closed at EUR 80.7 million, surpassing the target established at the time of its launch, and also by investments totalling EUR 27 million, namely in holdings in Iberwind (the company that purchased part of Enersis' wind assets in Portugal).

The activity developed by BES Investimento in 2008 deserved international recognition, earning it prestigious prizes and awards:

- **"Americas Infrastructure Deal of the Year 2008"** by the Project Finance International magazine for its role as Lead Arranger of the financing of Line 4 of the São Paulo underground, in Brazil.
- Top position in Bloomberg's and Merger-market's league tables of mergers and acquisitions in Portugal and the Iberian peninsula, by number of transactions concluded.
- **"Best Investment Bank in Portugal"** in 2008, by World Finance.
- 5th position in the Infrastructure Journal's global ranking of Mandated Lead Arrangers in the Renewable Energies Sector.

3.3. Foreign Operating Units

The Group's international units have been important for the Group's performance, overall achieving higher growth rates than the domestic operations: in 2008 customer loans increased by 27.6%, total customer funds dropped by 15.0%, and total assets reached EUR 27.0 billion, corresponding to a YoY increase of 5.0%.

INTERNATIONAL ACTIVITY

EUR million

	Domestic			International		
	Dec. 07	Dec. 08	Chg %	Dec. 07	Dec. 08	Chg %
Total Assets (1)	68 069	71 934	5.7	25 750	27 019	4.9
Loans (including securitized)	39 782	42 261	6.2	7 607	9 703	27.6
Total customer funds	40 727	43 193	6.1	14 718	12 504	-15.0

(1) Net Assets + Asset Management + Other off-balance Sheet liabilities + non consolidated Securitised credit

Through its **Branch in Spain**, BES develops activities in affluent banking, corporate banking and private banking.

2008 was a year of consolidation, namely at the organisational level, involving the implementation of a new structure of territorial managers that enhances focus on advisory services.

In corporate banking, the Group consolidated its integrated approach to the Iberian Peninsula companies, launching an innovating service – the BESnetwork, an Iberian Portal for Companies – which permits to execute transactions through the internet in the same way, whether in Portugal, in Spain or between the two countries. In view of the poor market conditions in the world and more specifically in Spain, credit spreads were adjusted to the prevailing cost of funding, as a result of which credit grew at a more moderate pace.

In the course of 2008 **Banco Espírito Santo Angola** consolidated its position as a reference universal service bank in the Angolan market, projecting an image of strength, confidence and excellent customer service while posting very high profitability and efficiency levels. BESA's performance was recognised by the Global Finance, EMEA Finance and World Finance magazines, which awarded it the prizes for respectively Best Bank in Angola and Best Bank in Sub-Saharan Africa. Alongside this positioning, BESA has gradually increased its market shares in both customer loans and customer funds.

The Bank's commercial structure currently comprises 28 branches (18 in Luanda), two corporate centres, and a private banking centre and an investment banking office in Luanda. In the area of asset management, BESA set up the first fund management firm in Angola, BESAACTIF, Sociedade Gestora de Fundos de Investimento. The firm obtained the authorisation to launch a closed-end real estate fund with the duration of five years, with subscriptions surpassing expectations.

On 31 December 2008 BESA had net assets of EUR 3529 million, corresponding to a YOY increase of 171%. Customer funds were up by 103%, to EUR 1681 million, and customer loans rose by 104%, to EUR 1180 million. The bank's securities portfolio, which is made up of sovereign debt, expanded by 231%, to EUR 1674 million. These performances were supported by the medium and long term strategy outlined by the Bank for the various market segments in which it operates, as well as by the initiatives jointly undertaken with BES Group to bring European businessmen, namely from Portugal, Spain and Germany, to Angola.

Banking income grew by 49%, to EUR 129 million (EUR 87 million in 2007), as a result of increases in net interest income (+103%) and fees and commissions (+19%). Despite an increase in operating costs due to significant business growth, the Bank shows a high level of efficiency, with a cost to income of 32.6%, which compares with 38% in 2007. Net income for the year was EUR 81.6 million (EUR 51 million in 2007), representing a YoY rise of 60%.

The activity of **ES Bank** (US) continued to make good progress. The credit portfolio grew by 24.4% YoY in local currency versus, while remaining focused on low risk segments. Although based in Miami, Florida, ES Bank was not involved in the subprime credit market and therefore was not exposed to the corresponding risk. Operating results improved, being supported by the increase of net interest income and fees and commissions. Assets under management totalled USD 795 million, having slightly dropped when compared to 2007 as a result of the crisis in the financial markets.

Although carried out against an adverse economic and financial backdrop, the activities developed by **Banque Espírito Santo et de la Vénétie (France)** in 2008 generated a gross operating income of EUR 23 million, which is 14.3% higher than in 2007. These results were backed by the good performance of the structured finance and a real estate finance area, which's banking income grew by 21.6% and 14%, respectively. In corporate banking and in the banking business with the members of the Portuguese resident community in France who are BES clients in Portugal the performance was in line with last year's. In 2008 the Bank prepared and launched a 3-year strategic plan, aimed at diversifying the expertise achieved in the existing business lines into new sector-specific niches, and setting up advisory teams to back up corporate and private banking activities.

Total banking income reached EUR 39.9 million, representing a YoY increase of 8.5%. Net income for the year (under IFRS) totalled EUR 12.5 million, which compares with EUR 12.9 million in 2007.

In a context where the main Asian countries suffered the contagion effects from the strong turmoil in the financial markets and its negative implications on economic activity in the US and Europe, **Banco**

Espírito Santo do Oriente (Macao) continued to be very selective and rigorous in loan granting, while primarily focusing on attracting customer funds. This allowed the Bank to achieve sustained activity growth, with net assets rising by 26.4% YoY, to EUR 202.2 million. Banking income dropped by 32.1% while net income for the year (under IFRS) totalled EUR 368 thousand, a 78.6% YoY decline essentially explained by the negative variation determined by the fair value revaluation of the Fixed Interest Rate Notes portfolio. Customer funds, on the other hand, registered a strong increase, rising by 107.6% when compared to 2007.

BES' London Branch is an important hub for BES Group's international expansion, concentrating its activity in wholesale banking in the European market. Against the deep changes that occurred in the financial markets, and growing turmoil since the middle of last year, the Branch continued to perform well. Despite heavy liquidity restrictions in the London market, the branch remained self-sufficient in terms of funding. The branch has been extremely selective in its activity as a specialised credit unit, maintaining a conservative risk management policy. As an ancillary activity, the branch also provides services to the UK resident Portuguese community, and offers a range of savings and financing products to British and Irish clients.

BES' New York branch concentrates its activities in wholesale banking, mainly in the US and Brazil. The branch has had a crucial role in terms of obtaining funds from American institutional and corporate clients while also actively promoting the placement of the certificates of deposit and commercial paper programmes. Despite the adverse market conditions, the Branch achieved a strong YoY increase in results, reinforcing its role in the development of BES Group's international strategy. Finally, it is also important to stress that the branch carries no toxic assets in its balance sheet and did not take part in any of the transactions and schemes that unsettled the US banking sector.

4. FINANCIAL STRENGTH AND OTHER INDICATORS

4.1. Asset Quality

Improved credit risk control was achieved due to: systematic development of the credit risk modelling, continuous improvement of decision procedures and circuits, focus on lower risk client segments and products, as well as the reinforcement of the recovery support structure.

ASSET QUALITY

		Dec. 07	Dec. 08	Change absolute	Change relative (%)
Loans to customers (gross)	(EUR mn)	43 161	48 198	5 037	11.7%
Overdue loans	(EUR mn)	507.6	636.9	129.3	25.5%
Overdue loans > 90 days	(EUR mn)	432.9	524.2	91.3	21.1%
Overdue and doubtful loans (BoP) (a)	(EUR mn)	604.2	762.0	157.8	26.1%
Provisions for credit	(EUR mn)	990.4	1148.1	157.7	15.9%
Overdue loans / Loans to customers (gross)		1.18	1.32	0.14 p.p.	
Overdue loans > 90 days / Loans to customers (gross)		1.00	1.09	0.09 p.p.	
Overdue and doubtful loans / Loans to customers (gross) [(a)]		1.40	1.58	0.18 p.p.	
Coverage of overdue loans		195.1	180.2	-14.9 p.p.	
Coverage of overdue loans > 90 days		228.8	219.0	-9.8 p.p.	
Coverage of overdue and doubtful loans		163.9	150.7	-13.2 p.p.	
Coverage of customer loans		2.29	2.38	0.09 p.p.	
P&L Credit provisions / Gross loans		0.49	0.57	0.08 p.p.	
P&L Credit provisions net of recoveries of write offs		0.41	0.52	0.11 p.p.	

(a) According to Circular-letter no. 99/03/2003 of BdP

Nevertheless, the economic crisis that has been unfolding at both domestic and international levels has led to a EUR 91.3 million increase in overdue loans for more than 90 days, which was more than offset by the increase of provisions, totalling EUR 157.7 million.

The overdue credit has increased slightly: the overdue loans for more than 90 days reached 1.09% (1.00% in 2007), while the respective coverage ratio stood at 219%, which under currents circumstances is a comfortable level.

Once again, it is important to highlight that the credit provisions as a percent of total customer loans increased from 2.29% to 2.38%, representing one the highest coverage ratios in the Iberian banking sector.

4.2. Liquidity, Solvency and Financial Strength

4.2.1. Liquidity

During 2008 the instability in the financial markets almost paralysed the international capital markets especially during the second half of the year. Despite this difficult environment, BES Group took advantage of the few windows of opportunity that appeared in the international capital markets until July 2008, and placed the following medium and long term debt.

- two covered bonds totalling EUR 2.5 billion, under the EUR 10 billion Covered Bond Programme established in November 2007;
- senior debt of EUR 1.25 billion under EMTM programme;
- exchangeable bonds into ordinary shares of Bradesco in the amount of USD 1.0 billion.

The strong deterioration of the market conditions after the bankruptcy of Lehman Brothers on the 15th of September led European governments to announce in October a set of measures to re-establish the market confidence, which included the increase of the level of deposit guarantees, the granting of state guarantees for bank issued debt and the possibility of capital injections into banks. Within this scope, the Portuguese Government announced:

- the granting of a state guarantee to Portuguese banks for financing up to EUR 20 billion;
- the increase of coverage by the Deposit Guarantee Fund from EUR 25.000 to EUR 100.000;
- a plan for recapitalization of the financial institutions in Portugal.

This set of measures allowed the reopening of the primary market for medium term debt at the end of the year, for both the non-financial and financial sectors, the latter through the use of guarantees given by the respective governments to issue debt in the international capital markets. Despite the fact that the Bank obtained the approval of the guarantee by the Portuguese Government in November 2008, BES made its first debt placement only on January 2009: EUR 1.5 billion issue guaranteed by the Portuguese Republic.

The short term excess liquidity that BES had from 2001 to September 2008 was conditioned by the deterioration of the market conditions that for the first time had a strong effect on companies, leading to the greater use of approved credit lines and a reduction in deposits. Meanwhile, the 11% growth of on-balance sheet deposits in 2008 was driven mainly by the individuals segment. This strong performance is especially relevant since the asset under management of the investment funds and bancassurance products registered a modest reduction.

Additionally, the Group reinforced the securities portfolio repoable with the Central Banks or in the repo markets, having reached EUR 8.7 billion at the end of December 2008, already considering the regulatory *haircut* level applicable at current market prices. From this total amount, around EUR 4.5 billion are eligible for rediscount at the ECB.

4.2.2. Solvency – Basel II (New Prudential Framework)

Using the facility available under the new prudential framework defined by the Decree-laws 103/2007 and 104/2007, which transposed the principles commonly designated as "Basel II" into Portuguese law, BES Group set as an objective to use the internal models based in *Internal Ratings Based –IRB (Foundation*) method for credit risk and the *Standardized Approach- TSA* for operational risk.

After a long period of theoretical, strategic and technical preparation, and in direct collaboration with the Bank of Portugal, of the several entities and structures of BES Group to adapt to the new requirements adopted, the Group presented the formal application to the use of *IRB Foundation and TSA* methods on the 28th November 2008.

Currently, BES Group is at the final phase of the certification process by the Bank of Portugal, to use the *IRB Foundation and TSA.* Therefore, and according to these methods, the *Core Tier I* and *Tier 1* ratios are 6.1% and 7.1% respectively.

4.2.3. Financial Strength: Capital Ratios

The following table provides the relevant information about risk weighted assets, regulatory capital and capital ratios, in accordance with *BISII Standard* (currently in use) and the *BIS II IRB* methods:

RISK WEIGHTED ASSETS AND ELIGIBLE CAPITAL

EUR million

Variáveis		Dec. 07	Dez. 08 [1]	
		Basel I	Basel II Standard	Basel II IRB [2]
Risk Weighted Assets	A	**52 856**	**59 750**	**55 883**
Banking Book		48 392	53 797	50 132
Trading Book		4 464	2 911	2 911
Operational Risk		-	3 042	2 840
Regulatory Capital	B	**6 067**	**6 277**	**6 273**
Core capital	C	**3 953**	**3 949**	**3 946**
- Core Tier I	D	3 486	3 412	3 412
- Other		467	537	534
(Preferred shares / Core Capital)		*(15%)*	*(15%)*	*(15%)*
Additional and Deductions		**2 114**	**2 328**	**2 327**
Core Tier I	D/A	**6.6%**	**5.7%**	**6.1%**
Tier I	C/A	**7.5%**	**6.6%**	**7.1%**
Total	B/A	**11.5%**	**10.5%**	**11.2%**

(1) Provisional data;

(2) IRB calculations based on internal models

In 2008, the Tier I capital was influenced by the actuarial deviations caused by the expected return of plan assets which aggravated the deduction by EUR 133 million; the capital was further influenced by the existence of negative fair value reserves namely in the strategic holdings, that caused an increase of EUR 211 million in deductions from Tier I.

Within the scope of prudential recommendations from the Bank of Portugal, the following changes had material impact on the calculation of regulatory capital:

- treatment of potential gains and losses of fixed income securities held in the available for sale portfolio, that are no longer deducted from Tier I and Tier II, respectively. (Note 6/2008)
- transitory period for actuarial deviations registered in 2008, except for those originated by the expected return on plan assets, which will be phased out during the period between 2009 and 2012 (Note 11/2008);
- abolition of the 10% limit of assets for deferred taxes (Note 9/2008);
- increase of the weight of preferred shares in Tier I from 20% to 35%.

The pension fund and medical assistance responsibility of BES Group is totally financed and was around EUR 2 billion, while the contribution to the pension funds totalled EUR 538 million.

The main equity exposures in the available for sale portfolio show potential losses of EUR 179.5 million. In accordance with the current prudential framework, these losses are deducted from Core Tier I, adjusted by deferred taxes assets, while 45 of gross potential gains in securities are eligible as Tier II capital.

MAIN EQUITY EXPOSURES IN THE AVAILABLE FOR SALE PORTFOLIO

EUR mn

	Gross potential gains and losses		
	Dec. 07	**Sept. 08**	**Dec. 08**
Banco Bradesco	661.7	178.3	-20.5
EDP	70.5	-54.0	-75.8
Portugal Telecom	76.0	-29.5	-91.2
B. Marocaine Com. Exterieur	8.6	7.8	8.0
	816.8	**102.6**	**-179.5**

The evolution of the fair value reserves had a negative impact on the Tier I ratio, while compensated by the issuance of EUR 845 million of subordinated debt.

The main three international rating agencies reaffirmed BES ratings in 2008:

- **Standard & Poor's**: A / Stable / A-1, noting that the Portuguese banks face the current weakening environment with good financial profiles, namely profitability and efficiency (14th October);
- **Moody's**: Aa3 / Stable / P1, reflecting the fact that BES has a strong and diversified domestic franchise and overall good financial profile, and reflects the challenges of its international expansion;
- **FitchRatings**: A+ / Stable / F1, based on the strong position of BES Group in domestic market, its asset quality, low risk profile and adequate solvency and profitability levels ($21^{st,}$ November).

4.3. Productivity and Efficiency

Activity growth combined with a moderate increase in costs continued to translate into productivity gains, with operating costs as a percent of average net assets decreasing from 1.53% in December 2007 to 1.40% in December 2008.

PRODUCTIVITY AND EFFICIENCY INDICATORS

	Dec. 07	Dec. 08	YoY%
Cost to Income	47.5%	53.0%	5.5 p.p.
Cost to Income (commercial)	59.5%	58.2%	-1.3 p.p.
Operating Costs / Average Net Assets	1.53%	1.40%	-0.13 p.p.

Three factors had a negative impact on the Cost to Income ratio: the decrease in trading results, the international expansion and the domestic branch network extension. Nevertheless, Cost to Income excluding trading results improved from 59.5% (2007) to 58.2% (2008).

4.4. Bank of Portugal Reference Indicators

The table below lists the reference indicators under Bank of Portugal instruction nº 16/2004 for 2008 full year results, with comparison with the 2007 year end figures.

BANK OF PORTUGAL REFERENCE INDICATORS

%	Dec. 07	Dec. 08
Solvency [e]		
Regulatory Capital / Risk Weighted Assets	11.5	10.5
Tier I Capital / Risk Weighted Assets	7.5	6.6
Asset Quality		
Overdue & Doubtful Loans [a] / Gross Loans	1.4	1.6
Overdue & Doubtful Loans Net of Provisions [b]/ Net Loans [b]	-0.9	-0.8
Profitability		
Income before Taxes and Minorities / Average Equity [c]	16.5	10.8
Banking Income [d] / Average Net Assets	3.2	2.6
Income before Taxes and Minorities / Average Net Assets	1.3	0.7
Efficiency		
Admin Costs [d]+ Depreciation / Banking Income [d]	47.5	53.0
Staff Costs / Banking Income [d]	25.1	27.6

[a] Calculated according to BoP Circular Letter no. 99/03/2003.
[b] Credit net of provisions for overdue loans and for doubtful loans.
[c] Includes average Minorities.
[d] Calculated according to BoP Instruction no. 16/2004.
[e] Dezembro 2008 are provisionary and calculated according to the standard method

The indicators whose disclosure is required by Bank of Portugal confirm the previous evolution: (i) solvency ratios declined due to the increased in risk assets as a result of business expansion and Basel II rules, though standing above the minimum levels recommended by the Bank of Portugal; (ii) the credit quality indicators deteriorated, while the balance of provisions exceeded the overdue and doubtful debts; (iii) the profitability indicators were down, affected by the lower results and (iv) efficiency levels were also influenced by the lower trading results and higher operating costs due to expansion.

5. OTHER

- On the 31st of December 2008, the *Besleasing e Factoring, Instituição Financeira de Crédito, S.A.*, was merged by incorporation into BES; prior to the merger this firm was already part of the BES Group and its activity had been consolidated using the full consolidation method.

- On the 9th of January 2009, BES successfully placed a 3 year EUR 1.5 billion debt guaranteed by the Portuguese Republic. International investors subscribed ca. 80% of this amount, originating a pro-rata allocation, since the total order book reached 1.9 billion Euros.

- BES informed the market that it will create a holding for the stakes held in the available for sale portfolio, where the bank will place the non strategic stakes (Portugal Telecom, EDP – Energias de Portugal, Banco Bradseco, among other). The bank aims to maintain a majority control of the new holding, which is expected to be listed on the stock exchange.

- For the second consecutive year, Banco Espírito Santo was considered by the **Global Finance** international magazine as the “Best Custodian Bank in Portugal in 2008”. This distinction translates the international recognition afforded to the Group’s capabilities in terms of securities services.

- In the annual survey conducted by the Global Custodian magazine BES won the “Top Rated” status (the highest classification awarded by this reputed magazine) for the domestic market and the “Commended” status for cross-border Clients. BES was also considered the “Best in Class” in the following categories: Reporting, Corporate Actions, Proxy Voting, Tax Reclaims, Settlements and Technology.

- For the third consecutive year, Banco Espírito Santo was distinguished as “The Best Bank in Portugal in the Trade Finance Area” by the international magazine Global Finance. This prize distinguishes the best banks working in this area in 67 countries and 4 different regions and is based on the volume of transactions, international presence, sales structure, technological platform as well as pricing policy of the institutions.

6. FINAL NOTE

The Board of Directors expresses its recognition to the Clients, Employees, Shareholders and Supervision Authorities for their trust placed with BES and other financial institutions of the Group.

Our Client's trust was indispensable for the Group to continue to develop its main business areas; the trust of our Shareholders has been and continues to be a fundamental factor for the success of the BES Group business project; the participation and dedication of the Employees were indispensable to affirm the brand in the market and will be determinant for the Group to continue to progress in the future.

The Board of Directors expresses its gratitude to the Governmental and Supervision Authorities for the cooperation and trust granted to the Banco Espírito Santo Group.

THE BOARD OF DIRECTORS

BANCO ESPÍRITO SANTO, S.A.

Consolidated Balance Sheet as of 31 December 2008

(EUR '000)

	Dec. 07	Dec. 08
ASSETS		
Cash and deposits at central banks	1 361 218	2 027 318
Deposits with banks	720 442	664 410
Financial assets held for trading	3 847 233	3 690 162
Other financial assets at fair value through profit or loss	1 426 704	2 161 813
Available-for-sale financial assets	6 238 889	7 094 111
Loans and advances to banks	8 210 331	4 531 983
Loans and advances to customers	42 170 263	47 049 474
(Provisions)	(990 395)	(1148 065)
Held to maturity investments	407 842	2 160 196
Financial assets with repurchase agreements	-	-
Hedging derivatives	211 890	936 290
Non-current assets held for sale	279 408	148 372
Investment property	-	-
Property and equipment	537 768	638 487
Intangible assets	91 171	124 216
Investments in associates	573 700	644 506
Current income tax assets	19 708	52 721
Deferred income tax assets	23 946	141 753
Other assets	2 234 200	3 120 916
TOTAL ASSETS	**68 354 713**	**75 186 728**
LIABILITIES		
Deposits from central banks	1 887 622	4 810 458
(of which, from the European Central Banks System)	71 102	1 440 505
Financial liabilities held for trading	1 257 201	1 914 423
Other financial liabilities at fair value through profit or loss	-	-
Deposits from banks	7 096 649	7 681 738
Due to customers	23 775 030	26 386 754
Debt securities	24 313 591	24 596 682
Financial liabilities associated to transferred assets	-	-
Hedging derivatives	286 940	727 475
Non-current liabilities held for sale	233 189	12 827
Provisions	143 950	131 211
Current income tax liabilities	71 136	89 515
Deferred income tax liabilities	255 903	37 448
Capital instruments	-	-
Subordinated debt	2 094 815	2 828 983
Other liabilities	1 524 980	1 316 270
TOTAL LIABILITIES	**62 941 006**	**70 533 784**
EQUITY		
Share Capital	2 500 000	2 500 000
Share premium	668 851	668 851
Other capital instruments	-	-
Treasury stock	(41 437)	(29 838)
Preference Shares	600 000	600 000
Fair Value Reserve	646 701	(266 334)
Other reserves and retained earnings	291 392	624 472
Profit for the period	607 069	402 284
Anticipated dividends	-	-
Minority interests	141 131	153 509
TOTAL EQUITY	**5 413 707**	**4 652 944**
TOTAL EQUITY AND LIABILITIES	**68 354 713**	**75 186 728**

BANCO ESPÍRITO SANTO, S.A.

CONSOLIDATED INCOME STATEMENT AT 31 DECEMBER 2008

	Dec. 07 (EUR '000)	Dec. 08 (EUR '000)
Interest and similar income	3 370 232	4 880 694
Interest expense	2 416 506	3 794 525
Net interest income	**953 726**	**1 086 169**
Dividends	49 959	91 856
Fee and commission income	716 311	709 359
Fee and commission expenses	104 434	110 153
Net gains in financial assets at fair value	65 864	(97 474)
Net gains in financial assets available for sale	231 524	213 378
Net gains from foreign exchange revaluation	27 872	25 619
Net gains from sale of other assets	4 388	(2 480)
Other income from banking activity	24 095	(7 873)
Banking Income	**1 969 305**	**1 908 401**
Staff costs	502 143	521 050
Other administrative expenses	378 831	402 645
Depreciation and amortisation	69 755	77 906
Provisions net of reversals	25 408	19 846
Loans impairment net of reversals	213 184	274 431
Other financial assets' impairment net of reversals	18 187	57 407
Other assets' impairment net of reversals	6 085	24 183
Negative consolidation differences	-	-
Equity accounted earnings	31 907	(20 290)
Income before tax	**787 619**	**510 643**
Income tax		
Current tax	86 916	150 984
Deferred tax	65 630	(67 486)
Income after tax and before minority interests	**635 073**	**427 145**
o.w. after tax income from discontinued operations	116	(1 466)
Minority interests	28 004	24 861
Consolidated Net income	**607 069**	**402 284**