

1st Half Results 2007

Banif Financial Group records profit of 47.2 million euros

Banif SGPS, SA, the holding company for the Banif Financial Group recorded net consolidated profits of **47.2 million euros** at the end of the first half of 2007, **up by 26.4%** on the same period in the previous year.

Balance Sheet Analysis

The net assets of the Banif Financial Group stood at 10,015 million euros at the end of June 2007, reflecting growth of 14.7% over the end of the 1st half of 2006.

Customer lending (gross) totalled 7,927 million euros, up by 17.2% on the figure recorded at 30 June 2006. The ratio of overdue credit/total lending edged up from 1.81% to 1.96%, but the ratio of credit impairment/total lending remained unchanged at 2.3%.

Customer deposits on the balance sheet grew by 17.5% in relation to 30 June 2006, standing at 7,001 million euros. Off-balance sheet deposits revealed significant growth in assets under management, which rose from 1,563 million euros at the end of the first half of 2006 to 2,095 million euros, at the end of the first half of 2007, representing growth of 34.0% (this was influenced by the inclusion of approximately 211 million euros managed by Nitor Administração de Recursos, a Brazilian company acquired during the first half). The growth in customer deposits was achieved thanks to growth in the number of the Banif Financial Group's sales outlets, up from 352 to 418 from the end of the first half of 2006 to the end of the same half in 2007. The number of bank branches in Portugal rose from 219 to 262. There was also substantial growth in the number of the Group's banking clients, thanks to campaigns run by Banif – Banco Internacional do Funchal, SA aimed at attracting new customers, and to the policy of expanding and diversifying distribution networks.

The Banif Financial Group's equity (less minority interests) grew by 12.9% to 512.9 million euros at the end of the first half of 2007, due in particular to undistributed earnings in 2006, revaluation reserves for available-for-sale financial assets and profits up to 30 June 2007.

Income Statement Analysis

The Banif Financial Group's operating income stood at 196.2 million euros at the end of the first half of 2007, representing an increase of 21.4% in relation to the same period in the previous year. The main elements contributing to this result were as follows:

- The financial margin, which includes earnings from securities, was up by 9.3%, thereby confirming a slight narrowing of the financial brokerage margin, which was felt more in terms of the lending margin (down by an average of 0.25% in absolute terms, to 2.43%, due to the fierce competition in Portugal, especially in the home loans market) than in the margin on deposits (up by an average of 0.20% in absolute terms to 0.80%, benefiting from rising interest rates);
- Other net income, which includes commissions, was up by 49.2% and now represents 31.1% of total operating income, as against 25.3% in the first half of 2006;
- Profits on financial operations grew by 87.1%, and also included appreciation of securities classified as at fair value through profit or loss.

Operating costs, which include overheads and personnel costs, totalled 111.4 million euros, 23.1% more than in the same period in 2006. In the first half of 2007, the Banif Financial Group opened 27 branches in Portugal and 3 in Brazil. The costs incurred in the period as a result of expansion of the branch network in Portugal and Brazil, combined with projects relating to technology and control of operating risks, resulted in this significant growth in operating costs.

Modernizing the Group's technology has helped to push up operating costs, especially with the work on updating the technological networks and other projects currently underway. These include the Basle II Programme, which is proceeding in accordance with the master plan prepared for the Banif Financial group, with significant impacts throughout the Group, in terms of technology, change management and in the actual business areas, where efforts are being made to apply uniform advanced risk management methods in all Group companies. In another project currently underway, specific data mining tools have been implemented along with statistical modelling tools to support internal risk scoring models and the qualitative components of operating risk management models, as well as creating a corporate risk DataMart, in order to systematize and collate the information needed for risk control and reporting, in a single information store for the whole Group.

The Banif Financial Group recorded consolidated operating cash flow of 84.8 million euros (up by 19.4% on the same period in the previous year), whilst the cost to income ratio (operating costs + depreciation / operating income) was down from 61.6%, in the first half of 2006, to 60.8%, in the first half of 2007, despite significant expansion in the branch network, as already described.

At the same time, careful control and monitoring of lending risks, combined with fast and continuing work in the recovery of problematic credit, brought net provisions/impairment for the period down by 44.7%, to a total of 12.2 million euros, equivalent to an annualized cost of 0.33% of the average lending portfolio for the period.

In line with the growth in assets under management and in the volume of business brokered (up by 18% over the first half of 2006, with a total of 3.3 thousand million euros of securities brokered during the period), investment banking business grew as a whole, in Portugal and abroad, with the result that its contribution to the Group's consolidated results increased to a total of 5.3 million euros, up by 82.3% on the same period in the previous year.

In the insurance sector, the Banif Financial Group recorded growth of 3.2% in premiums written in relation with the same period in 2006, with a total of 235.0 million euros. Life business performed best, with growth of 4.3%.

In view of the net profits of 47.2 million euros recorded by the Banif Financial Group on 30 June 2007, ROE (return on equity) stood at 21.4% (as against 19.8% in the first half of 2006), whilst ROA (return on assets) stood at 10.4% (as against 0.88% in the same period of the previous year). Both ratios were annualized and calculated at average values for equity and Group assets.

During the first half of 2007, the Banif Financial Group finalized acquisition of holdings in Banca Pueyo in Spain (33.32%) and in Banco Caboverdiano de Negócios, in Cape Verde, (46%), which are now included in the Banif Financial Group's consolidated accounts by the equity method and the full consolidation method, respectively.

At the start of the second half of 2007, as part of its strategy of international expansion, the Banif Financial Group acquired a 27.5% holding in Bankpime, based in Barcelona. Also planned for the second half of 2007 is the opening of Banif Bank (Malta) plc., which is currently being set up.

The following companies in the Banif Financial Group made highly significant contributions to the consolidated net profits for the first half of 2006:

- Banif – Banco Internacional do Funchal, SA (net profit, on an IAS basis, of 23.2 million euros);
- Banco Comercial dos Açores, SA (net profit, on an IAS basis, of 7.5 million euros);
- Banif – Banco Internacional do Funchal (Cayman), Ltd (net profit of 4.8 million euros);
- Companhia de Seguros Açoreana, SA (individual net profit of 9.4 million euros, and a contribution to consolidated net profits of 4.5 million euros);
- Banif – Banco de Investimento, SA (consolidated net profit of 3.3 million euros).
- Banif – Banco Internacional do Funchal (Brasil), SA (individual net profit of 2.8 million euros).
- Banca Pueyo (individual net profit of 4.8 million euros, and a contribution to consolidated net profits of 1.6 million euros);

In April 2007, using the net assessment method for financial institutions, Moody's rating agency reclassified Banif's rating from Baa1 to A2 in the long term, and from P-2 to P-1 in the short term. On the basis of information from 2005 and the first half of 2006, the Fitch IBCA agency maintained Banif's long term rating of BBB+ and its short term rating of F-2.

Finally, we should draw attention to the fact that Standard & Poor's (S&P), one of the world's leading rating agencies, included the Banif Financial Group this year in its ranking of 300 companies in the "S&P Global Challengers Class of 2007", featuring medium sized companies with the greatest potential for growth. This class includes companies from 37 countries, with Banif ranking in tenth position amongst European financial companies, as well as being the only Portuguese company included in this class.

Comparative Analysis
 Banif Financial Group

Figures in '000 euros

Balance Sheet	30-06-2007	30-06-2006	Absolute Variation	Variation %
1 Net Assets	10.014.605	8.732.644	1.281.961	14,7%
2 Gross Lending	7.927.246	6.763.974	1.163.272	17,2%
3 Customer Deposits (balance sheet)	7.001.375	5.958.446	1.042.929	17,5%
4 Shareholders' funds (1)	512.897	454.266	58.631	12,9%
Income statement	30-06-2007	30-06-2006	Absolute Variation	Variation %
5 Financial margin (includes income from equity instruments)	127.225	116.420	10.805	9,3%
6 Profits on financial operations (net)	8.009	4.280	3.729	87,1%
7 Other income (net)	60.980	40.865	20.115	49,2%
8 Operating revenues	196.214	161.565	34.649	21,4%
9 Personnel costs	63.083	51.835	11.248	21,7%
10 Overheads	48.303	38.674	9.629	24,9%
11 Cash Flow	84.828	71.056	13.772	19,4%
12 Depreciation	12.886	9.078	3.808	41,9%
13 Provisions and Impairment (net)	12.206	22.069	-9.863	-44,7%
14 Equity method	6.114	5.976	138	2,3%
15 Pre-tax profits	65.850	45.885	19.965	43,5%
16 Taxes (current and deferred)	15.277	6.620	8.657	130,8%
17 Minority interests	3.378	1.920	1.458	75,9%
18 Consolidated profits for the period	47.195	37.345	9.850	26,4%
Other indicators	30-06-2007	30-06-2006	Absolute Variation	Variation %
19 Insurance premiums (Total)	235.037	227.847	7.190	3,2%
- Life premiums	148.971	142.882	6.089	4,3%
- Non-life premiums	86.066	84.965	1.101	1,3%
20 Assets under management (million Euros)	2.095	1.563	532	34,0%
21 Overdue credit / Total lending	1,96%	1,81%	-	-
22 Credit impairment / Overdue credit	2,3%	2,3%	-	-
23 ROE	21,4%	19,8%	-	-
24 ROA	1,04%	0,88%	-	-
25 Profit before taxes and minority interests / Average net assets	1,45%	1,08%	-	-
26 Operating revenues / Average net assets	4,33%	3,82%	-	-
27 Profit before taxes and minority interests / Average net assets Operating revenues / Average net assets	24,1%	19,4%	-	-
28 Operating costs + Depreciation and amortization / Operating revenue (2)	60,8%	61,6%	-	-
29 Personnel costs / Operating revenue (2)	29,1%	32,1%	-	-

(1) Less minority interests.

(2) These ratios exclude non-financial and auxiliary activities. Operating revenues include earnings on investment in associates not included in the consolidated accounts.

Lisbon, 30 July 2007

THE BOARD OF DIRECTORS