

Banif - SGPS, SA
Banif Financial Group

DISCLOSURE OF PRIVILEGED INFORMATION
on the operations and results of Banif – SGPS, SA
in the financial year of 2007

Banif - SGPS, SA
Public limited company
Registered Offices: Rua de João Távira, 30 – 9004 509 Funchal
Registered at the Funchal Companies Registry
Registration and corporate person no. 511 029 730
Share capital: 250.000.000 Euros

OPERATIONS, HIGHLIGHTS AND RESULTS RECORDED BY THE BANIF FINANCIAL GROUP IN 2007

Banif – SGPS, SA, the holding company of the Banif Financial Group recorded consolidated net profits in 2007 of 101.1 million euros, representing growth of 29.4% over the previous year.

Balance Sheet analysis

The total assets of the Banif Financial Group stood at 10,761 million euros at 31 December 2007, up by 17.6% on the previous financial year.

Customer lending (gross) totalled 8,816 million euros, 22.3% higher than in the previous year. The ratio of Credit Impairment/Total Lending fell from 2.28% to 2.23%.

Client deposits recorded on the balance sheet grew by 16.0% in relation to 31 December 2006, standing at 7,412 million euros. In off-balance sheet deposits, the Group recorded growth in Assets under Management¹ from 1,794 million euros, in 2006, to 2,127 million euros, in 2007, corresponding to growth of 18.6%, despite the sharp depreciation in financial assets in the 2nd half of the year, due to the crisis which originated in the US with the sub-prime mortgage segment, leading to wider lending spreads and falling equity and bond prices on the financial markets. This growth in customer deposits was fuelled in part by the increase in the number of the Banif Financial Group's points of sale, up from 381 in 2006 to 423 in 2007. The number of high street branches in Portugal rose from 235 to 270. The Group also recorded substantial growth in the number of banking customers thanks to campaigns aimed at new customers by Banif – Banco Internacional do Funchal, SA and to the policy of expansion and diversification in distributions networks.

The Banif Financial Group recorded shareholders' equity (after Minority Interests) of 615.1 million euros at year-end 2007, representing growth of 26.7% over the end of the previous year. This growth (+ 129.4 million euros) was due to:

- a) the profits for 2007 (101.1 million euros),
- b) growth in the value of securities classified under "available-for-sale financial assets" (with a positive balance of 59.3 million euros, due to potential capital gains of 64.6 million euros on shares still held at the end of the year in the São Paulo Stock Exchange (Bolsa de Valores do Estado de São Paulo - Bovespa) and the Brazilian Commodities and Futures Exchange (Bolsa de Mercadorias e Futuros - BMF), the potential capital gain of 11.3 million euros on the holding in Finibanco, less the depreciation in the asset value of the Banif Financial Group's holding in Companhia de Seguros Açoreana, down by 16.4 million euros on the previous year),
- c) distribution of dividends for 2006, paid in 2007 (to be deducted, totalling 30 million euros).

Income Statement analysis

The operating revenue of the Banif Financial Group totalled 443.8 million euros at the end of 2007, up by 29.4% on the previous financial year. The main components in this growth were:

- The financial margin, which includes earnings from securities, grew by 11.8% to 241.9 million euros, thanks to vigorous growth in business, as described above, hampered in part by the reduction in the total brokerage margin (lending margin plus the margin on on-balance sheet customer deposits) which came down from 3.35% to 3.15% from 2006 to 2007 (average annual figures);
- Other net income, which includes commissions, was up by 22.0% to a total of 133.6 million euros, representing 30.1% of operating revenue;
- Profits on financial operations grew by 299.2% to 68.3 million euros, thanks to capital gains realized on the shares disposed of in 2007 Bovespa and BMF through Banif Corretora de Valores e Câmbios, a Brazilian based company, with an impact on the net consolidated profits of the Banif Financial Group of 24.7 million euros.

¹ Not considering companies where the Banif Financial Group is not majority shareholder.

Operating costs, which included Overheads and Personnel Costs, stood at 241.8 million euros, up by 23.0% on the previous financial year, whilst net provisions/impairment for the period was down by 4.9%, at 32.1 million euros, including a sum of 23.4 million euros resulting from lending impairment, which represents 0.29% of the average loan portfolio during 2007.

In 2007 the Banif Financial Group opened 35 new branches in Portugal and 3 in Brazil. The costs incurred during the financial year as a result of this expansion in the branch network in Portugal and Brazil, together with the expense of advertising campaigns as part of the programme to attract new banking customers, resulted in the significant growth in operating costs indicated.

A further contribution to increased operating costs was given by the process of technological modernization, which included the updating of technological networks and other projects in progress. Prominent amongst these was the “Basle II Programme”, which is proceeding in line with the master plan drawn up by the Banif Financial Group, with significant impacts throughout the group, in the fields of technology, change management and in the business areas themselves, where efforts have been made to standardize advanced risk management methods for adoption across the group. Commercial banking business areas were restructured in the small and medium business segment and the leasing and consumer credit segment, and the respective product ranges have been reviewed and updated.

Other projects underway included special tools for Data Mining and Statistical Modelling to support Internal Risk Scoring Models, for qualitative aspects of Operating Risk Management, and also for creation of a Corporate Risk DataMart, to systematize and aggregate all the information needed for risk control and reporting, in a single repository for use by the whole Group.

The Banif Financial Group recorded consolidated operating cash flow of 202.0 million euros (up by 37.9% on the previous year), whilst the cost to income ratio (Operating Costs + Depreciation/Operating Income) was down from 60.4%, in 2006, to 57.5% in 2007, despite the expansion in the branch network and heavy costs, due to the situations described above.

In view of the net profits obtained by the Banif Financial Group at 31 December 2007, of 101.1 million euros, ROE (*Return on Equity*) stood at 19.3% (as against 19.1% in the previous year), whilst ROA (*Return on Assets*) rose to 1.02% (from 0.90% in the previous year). Both ratios were annualized and calculated at average figures for the Group’s equity and assets.

Considering only recurrent results recorded during the period, growth from 2006 to 2007 stands at 10.4%, with consolidated net profits up from 66.6 million euros to 73.6 million. As already mentioned, the crisis in the financial markets over the 2nd half of 2007 is thought to have brought down the Group’s recurrent profits by around 11 million euros, in net terms, in 2007. The proportion of recurrent profits obtained abroad was 25.3% of total in 2007, up from 20.0% in 2006 (if we consider the total contribution of the Banif Financial Group’s international operations to the Group’s consolidated profits, this figure rises to 43.2% in 2007, thanks to the strong impact of the capital gains obtained in Brazil on the disposal of part of the Group’s holdings in Bovespa and BMF on the consolidated accounts for 2007).

In the course of 2007 the Banif Financial Group acquired holdings in Banca Pueyo in Spain (33.32%), Banco Caboverdiano de Negócios in Cape Verde (46%), and Bankpime in Spain (27.5%), representing investment of 88.2 million euros.

In January 2008, the Group launched the operations of Banif Bank (Malta) Plc., incorporated on 27 March 2007, after obtaining the necessary permits from the Maltese authorities and the Bank of Portugal, with the opening of two branches (at the head office and St. Julians).

In October, the Banif Financial Group opened the London branches of Banif – Banco Internacional do Funchal, SA and Banif - Banco de Investimento.

In its insurance business, the Banif Financial Group recorded premiums written of 536.9 million euros, practically identical to the previous year, with non-life business growing by 2.4%.

The consolidated net profits recorded for 2007 on an IAS/IFRS basis included the following major contributions from Banif Financial Group companies:

- Banif – Banco Internacional do Funchal, SA: 41.6 million euros;
- Banif – Banco de Investimento: overall contribution from the Group's investment banking operations (including international business) of 32.9 million euros;
- Banco Banif e Comercial dos Açores, SA: 13.4 million euros;
- Companhia de Seguros Açoreana, SA: net profits of 18.1 million euros and a contribution to consolidated profits of 7.7 million euros;
- BanifGo: 5.9 million euros;
- Banif – Banco Internacional do Funchal (Brasil): 5.1 million euros;
- Banca Pueyo: individual net profits of 9.2 million euros and a contribution to consolidated profits of 3.1 million euros;
- Banif – Banco Internacional do Funchal (Cayman): 2.9 million euros

In 2007, Standard & Poor's (S&P), one of the world's leading financial rating agencies, included the Banif Financial Group in its ranking of 300 medium sized companies with the greatest potential for growth ("S&P Global Challengers Class of 2007"). This ranking included companies from 37 countries, with Banif positioned tenth out of all the European companies and third amongst European financial corporations. Banif was the only Portuguese company included in this list.

On 15 January 2008, Banif celebrated 20 years' of operations, marking the event with the launch of a new image and a signature to be shared by all Group companies.

Lisbon, 18 February 2008

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