Banif - SGPS, SA

Banif Financial Group

PRIVILEGED INFORMATION

Information on the operations and results of the Banif Financial Group in the year of 2008

Banif - SGPS, SA
Limited company with capital open to public investment
Company Headquarters: Rua de João Tavira, 30, 9004 – 509 Funchal
Registered at Funchal Company Registry Office
Single registration and VAT No 511 029 730
Share Capital: 350,000,000 euros

OPERATIONS, HIGHLIGHTS AND RESULTS OF THE BANIF FINANCIAL GROUPS IN THE YEAR OF 2008

Banif – SGPS, SA, the holding company of the Banif Financial Group achieved a consolidated net profit of 59.2 million euros in 2008. This result represents a decrease of 41.4% on the profit obtained in 2007.

Balance Sheet Analysis

The Banif Financial Group had Net Assets of 12,876.6 million euros as at 31 December 2008, corresponding to an increase of 19.7% compared with the end of the previous year.

In turn, (Gross) Credit Granted to Customers, excluding debt securities reclassified as loans and receivables, came to 10,409.7 million euros, 18.1% higher than the figure recorded on 31 December 2007. Over the same period, the ratio of Credit Impairment/Total Credit rose from 2.23% to 2.44%.

Customer Deposits grew by 20.4% compared with 31 December 2007, to 6,605.4 million euros, while Total Customer Funds on the Balance Sheet rose from 7,388.0 million euros to 8,223.9 million euros, representing an annual increase of 11.3%. “Off-balance sheet” funds in the Group were 2,130 million euros (-25.4% than the figure at the end of 2007). The rise in customer funds benefitted from the growth in the Banif Financial Group points of sale from 423 to 518, between the end of 2007 and the end of 2008[1]. The number of bank branches in Portugal increased from 270 to 324.

In 2008, the Banif Financial Group opened 54 branches in Portugal, 10 in Cape Verde, 4 in Malta and 4 in Brazil.

Also important to note is the strong growth in the number of the Group's bank customers, as a result of marketing campaigns conducted in recent years and of the policy of expansion and diversification of distribution networks. A three-year programme is currently under way to increase the number of products and services sold to customers, with the objective of reinforcing their loyalty and identification with the Banif Financial Group and so obtaining a greater value from cross-selling activities among the various Group companies.

During 2008, work was carried out with a view to the merger by acquisition of Banco Banif e Comercial dos Açores, SA into the Banif- Banco Internacional do Funchal, SA, which took effect on 1 January 2009.

At the beginning of 2008, the acquisition of 25% of Banif Banco de Investimento (Brasil) was agreed, for 35.5 million euros, and the Group now holds the entirety of its share capital. In November 2008, the Group increased its holding in Banco Caboverdiano de Negócios by 5.7% and now holds 51.7% of its share capital.

The equity of the Banif Financial Groups (excluding Minority Interests) decreased by 5.2%, essentially as a result of the following situations:

a) Positive variations;
- Increase of 100 million euros in the share capital of Banif – SGPS, SA, an operation carried in June 2008, which generated a net capital in-flow of the same amount;
- Profit for the year of 2008 of 59.2 million euros;

b) Negative variations;
- Dividends for the year 2007 in the amount of 37.5 million euros;
- Exchange rate variation of –42.3 million euros, resulting, almost in its entirety, from the depreciation of the Brazilian Real, which negatively affected the value of the equity of the Group subsidiaries based in Brazil;
- Reduction in revaluation reserves for securities classified on the balance sheet under “financial assets available for sale” in the amount of -102.8 million euros, namely as a result of the devaluation and sale of financial investments in Brazil (-69.8 million euros), the reduction of the value of shareholdings in Companhia de Seguros Açoreana (-11.8

[1] Excluding Banca Pueyo (Spain), with 82 branches and Bankpime (Spain), with 23 branches, in which Banif-SGPS, SA does not hold a majority of the share capital.

million euros) and the decrease in the market value of the shareholding in Finibanco Holdings SGPS (-18.6 million euros).

Thus the equity, excluding minority interests, was 583.4 million euros at the end of 2008 (compared with 615.1 million euros at the end of 2007).
The Group's Tier 1 Funds, based on IAS/IFRS and Basel, totalled 750.2 million euros, while Risk Weighted Assets were 10,967.4 million euros, corresponding to a Tier 1 ratio at the end of 2008 of 6.84% (5.89% at the end of the previous year). In turn, the Total Own Funds of the Banif Financial Group were 1,011.4 million euros, which corresponded to a total solvency ratio of 9.22% (9.93 % at the end of 2007).

Income Statement Analysis

The Banif Financial Group had operating revenues of 470.0 million euros at the end of 2008, an increase of 5.9% in relation to the year-earlier period. The main components of revenue were:

- The Financial margin, including income from securities, rose 12.5% to 272.2 million euros. This item benefitted from the significant growth in credit activity, but was negatively affected by a decrease in the total intermediation margin (credit portfolio margin plus margin on the on-balance sheet customer funds portfolio) which fell continuously throughout the year from 2.91% in December 2007 to 2.63% in December 2008.

- Revenue from services and commissions rose 8.5% to 102.8 million euros. Progress in this item was also favoured by the increase in the Group's commercial activity, but partly affected by the ongoing crisis in the main international financial markets, a consequence of which was a reduction in levels of activity in the areas of investment banking and asset management.

- Other (net) revenue fell 28.1% to 27.9 million euros. This decrease is justified, in part, by the realisation of capital gains in 2007 from the sale of tangible assets and a significant decrease in revenue in 2008 for the same reasons specified above.

- Profits on financial operations fell 1.7%, to 67.1 million euros, benefiting from the realisation of capital gains on disposal of shareholdings in Brazil, but also held back by losses associated with updating the Banif Group's investment and trading portfolios to reflect market values.

Operating costs, which comprise general administrative expenditure and staff costs, came to a total of 296.8 million euros, 22.8% more than over the same period of 2007, as a result of various situations as follows:

a) Expansion of the distribution networks in Portugal, Brazil and Malta;
b) The cost of projects for modernisation of the technology infrastructures, as well as risk control and evaluation models;
c) The merger by acquisition of Banif Açores with Banif;
d) Costs associated with the advertising campaign to promote the Banif Financial Group's new image, which ran in the first few months of 2008;
e) Commemorations of the 20th anniversary of the Group, which included a special bonus to its Staff.

Net provisions and impairment net for the year show an increase of 97.0%, reaching 63.3 million euros in 2008, reflecting the current deterioration in the national and international macroeconomic situation, which required, inclusively the adoption of a policy of greater prudence in the evaluation of certain collective credit impairment indicators.

The Banif Financial Group's consolidated Cash Flow came to 173.2 million euros (-14.2% on the year-earlier period), while the Cost-to-Income ratio (Operating Costs + Depreciation / Operating Revenues) increased, from 57.5% at the end of 2007, to 68.9% at the end of 2008.

Considering only recurrent profits in the periods in question, there was a decrease of 45.25% between 2007 and 2008, with the consolidated net recurrent profit falling from 73.6million euros in 2007, to 40.3 million euros in 2008. This decrease reflects the lower profits from insurance business and investment banking at the level of commissions and trading operations, and in

particular, in commercial banking, the narrower financial intermediation margin, the greater provisions for credit impairment, the costs inherent to the expansion of the commercial networks and to investments in technology infrastructures.
Also, the progress of recurrent profits in the major areas of business of the Group were as follows:

a) Commercial Banking, with a net recurrent profit of 50.4 million euros in 2008, compared with 66.3 million euros in 2007 (-24.0%)
b) Investment Banking, with a net recurrent profit of 3.0 million euros in 2008, compared with 12.7 million euros in 2007 (-76.3%)
c) Insurance, with a contribution to the consolidated recurrent profit of 1.5 million euros in 2008, compared with 7.7 million euros in 2007 (-80.8%)
d) Impact of the consolidation of Group holding companies, with a negative contribution of -14.6 million euros in 2008, compared with -13.3 million euros in 2007 (-10.5%).

As far as the insurance business of the Banif Financial Group is concerned, pursued by Companhia de Seguros Açoreana, the total volume of premiums issued came to 447.4 million euros (16.7% less than at the end of 2007), including a 2.8% increase in the value of non-life premiums.

On the basis of the Banif Financial Group's net profit of 59.2 million euros as at 31 December 2008, ROE (Return on Equity) was 10.1% (as against 19.3% in the year-earlier period), while ROA (Return on Assets) came to 0.50% (versus 1.02% in the year-earlier period). Both ratios have been calculated using average values for the Group's Equity and Assets.

Lisbon, 9 March 2009

THE BOARD OF DIRECTORS

COMPARATIVE ANALYSIS

Banif - Financial Group

' 000 Euros

	Balance Sheet	31-12-2008	31-12-2007	Absolute variation	% variation
1	Net assets	12.876.616	10.760.960	2.115.656	19,7%
2	Lending (gross) (1)	10.409.701	8.816.168	1.593.533	18,1%
3	Customer deposits	6.605.429	5.488.159	1.117.270	20,4%
4	Total customer funds (on the balance sheet)	8.223.863	7.388.027	835.836	11,3%
5	Equity (3)	583.369	615.065	-31.696	-5,2%
	Income Statement	**31-12-2008**	**31-12-2007**	**Absolute variation**	**% variation**
5	Financial margin (including earnings on equity instruments)	272.171	241.864	30.307	12,5%
6	Profits on financial operations (net)	67.143	68.327	-1.184	-1,7%
7	Revenues from services and commissions (net)	102.812	94.768	8.044	8,5%
7	Other income (net)	27.917	38.809	-10.892	-28,1%
8	Operating revenue	470.043	443.768	26.275	5,9%
9	Personnel costs	162.606	136.323	26.283	19,3%
10	Overheads	134.239	105.470	28.769	27,3%
11	Cash Flow	173.198	201.975	-28.777	-14,2%
12	Depreciation in the period	31.285	26.750	4.535	17,0%
13	Provisions and impairment	63.257	32.108	31.149	97,0%
14	Negative consolidation difference	0	510	-510	-100,0%
15	Equity method	3.282	11.448	-8.166	-71,3%
16	Pre-tax profit	81.938	155.075	-73.137	-47,2%
17	Taxes (current and deferred)	15.175	38.271	-23.096	-60,3%
18	Minority interests	7.526	15.720	-8.194	-52,1%
19	Consolidated income for the period	59.237	101.084	-41.847	-41,4%
	Other indicators	**31-12-2008**	**31-12-2007**	**Absolute variation**	**% variation**
20	Insurance premiums (total)	447.440	536.951	-89.511	-16,7%
	- Life	274.026	368.216	-94.190	-25,6%
	- Non life	173.414	168.735	4.679	2,8%
21	Assets unde management (in million euros)	2.130	2.855	-725	-25,4%
22	Credit impairment / Total lending	2,44%	2,23%	-	-
23	ROE	10,1%	19,3%	-	-
24	ROA	0,50%	1,02%	-	-
25	Pre-tax profit and minority interests / Average net assets	0,69%	1,57%	-	-
26	Operating revenue / Average net assets	3,93%	4,48%	-	-
27	Pre-tax profit and minority interests / Average equity (including minority interests)	10,5%	23,9%	-	-
28	Operating costs + Depreciation / Operating revenue (4)	68,9%	57,5%	-	-
29	Personel costs / Operating revenue (4)	34,5%	30,3%	-	-

(1) Excluding debt securities reclassified as loans and receivables

(2) includes customer accounts and other loans, debt securities in issue and other subordinated liabilities

(3) Less minority interests

(4) These ratios exclude non-financial and auxiliary activities. Operating revenues include profits on investment in associates excluded from consolidated accounts