

ESPÍRITO SANTO FINANCIAL GROUP S.A.

Sede:231, Val des Bons Malades, L-2121 Luxembourg-Kirchberg

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COMUNICADO DE FACTO RELEVANTE

Nos termos do artigo 248º do Código de Valores Mobiliários e regulamentação aplicável, a Espírito Santo Financial Group S.A. informa sobre os resultados das suas subsidiárias na área dos seguros :

"ESPÍRITO SANTO FINANCIAL GROUP ANNOUNCES 2003 RESULTS OF TRANQUILIDADE GROUP OF INSURANCE COMPANIES

Espírito Santo Financial Group S.A. ("ESFG") (NYSE: and Euronext Lisboa: ESF) announced today preliminary results of its insurance group of companies in Portugal, **Companhia de Seguros Tranquilidade**, ("Tranquilidade") (non-life), **Companhia de Seguros Tranquilidade Vida** ("Tranquilidade Vida") (life) and **Espírito Santo Seguros** ("ES Seguros") (non-life *bancassurance*) for year end 2003.

As a result of the significant turn-around in its operational and financial activities, and following positive results in the course of the year, **Tranquilidade's** net profits at end 2003 reached 20.0 million Euros, against a loss of 18.6 million Euros in 2002, corresponding to a return on equity of 14.0%.

These results are mainly attributable to:

- a) The restructuring of the business mix, which enabled Tranquilidade strongly to increase its operating profitability, whilst largely maintaining the same premium volumes of the previous year, and
- b) The increased return and yield of its investment portfolio, that contributed to pre-tax results with 21.3 million Euros in 2003 (compared to 9.5 million in 2002, including unrealized losses of 12.2 million Euros in Tranquilidade Vida).

On the other hand, Tranquilidade's statutory results were achieved in spite of the impact of significant non-recurrent and exceptional costs related to the restructuring program initiated in December 2001 and the amortization of the significant investments made in the past concerning the IT infrastructure and systems, as follows:-

- a) 12.7 million Euros in 2003, relating to redundancy costs resulting from the restructuring plan initiated in December 2001, which is expected to be concluded in 2004; the implementation of this plan has already resulted in a substantial reorganization of the human resource structure at Tranquilidade, and
- b) 2.8 million Euros relating to the amortization of the investments in IT and systems initiated in 1996 and concluded in 2000, which allowed Tranquilidade to benefit from superior segmentation capabilities as well as better and more comprehensive management and underwriting tools, so far unrivalled in the Portuguese market. Such amortizations are expected to have an impact on the statutory accounts of Tranquilidade up to 2005.

In terms of operational results, the combined ratio improved by approximately 9.9%, declining from 107.3% in 2002 to 97.4 % during 2003. This improvement is largely explained by a significant reduction in claims (the claims ratio net of reinsurance decreased from 72.8% to 62.9%) and by the reduction in operating expenses from 84.0 million Euros in 2002 to 82.0 million Euros in 2003. Furthermore, the above-mentioned reduction in the claims ratio was achieved with no changes in the traditionally and comparatively high reserving level at Tranquilidade. In particular,

- In motor, the claims ratio (net of reinsurance) decreased from 76.8% in 2002 to 65.9% in 2003. This improvement is due to the strict and segmented underwriting policy and tariff increases followed at Tranquilidade both in respect to new business and the portfolio.
- In workers' compensation, the claims ratio (net of reinsurance) decreased from 74.6% in 2002 to 66.2 % in 2003. This result was achieved after a detailed review of the portfolio as well as increased control of the underwriting of these risks, coupled with tariff increases.
 - Total headcount decreased by 23.0% since 2002, whilst related personnel costs decreased by 14.1% in 2003, as a result of the turnaround plan. In terms of administrative expenses, total cash expenses relating to IT systems decreased 7% in 2003. In addition to these cost reductions, marketing expenses were maintained, without jeopardizing the high brand recognition level of Tranquilidade, which currently stands at 90.0%.

These results were only possible following the substantial investments made between 1996 and 2000 in Tranquilidade's systems, which allowed it significantly to enhance its segmentation and underwriting process as well as its capabilities to analyze business and better understand policyholders' sensitivities to different pricing levels.

Tranquilidade is only now starting to benefit more fully from its past investments in systems and IT. The competitive advantage created by these investments, together with the turnaround plan initiated in 2002, was behind Tranquilidade's successful restructuring of its portfolio mix.

In addition to its non-life activities, Tranquilidade was successful in the marketing of life insurance and banking products, through its agent network. Tranquilidade sold more than 34.0 million Euros of Pension Products (PPRs) produced by Tranquilidade Vida and was able further to increase its share of the new mortgages produced by Banco Espírito Santo Group ("BES Group"), from 11.0% to 12.0%, corresponding to a total of approximately 6.0% of the total mortgage stock of the BES Group.

Results at **Tranquilidade Vida** at the end of 2003, continued to reflect the recovery initiated in the first quarter of the year. A net profit of 25.5 million Euros was reached, against a loss of 62.5 million Euros at end 2002. The main contributors to this substantial turn-around were strong premium growth, a good performance of Tranquilidade Vida's financial activities, a strong increase in technical results and the tight control of its operating costs. Furthermore, the growth in revaluation reserves, seen for the first time since 2000, to the level of 30.3 million Euros at end 2003, provides further evidence of Tranquilidade Vida's increased strength.

Despite the unfavourable macro-economic environment in Portugal, Tranquilidade Vida continued to experience very strong growth in new business in its life insurance activities, especially in the most profitable and strategically relevant products like PPRs and traditional life risk products. Total premium income increased in 2003 by 22.4% to 859.4 million Euros, split between 854.2 million Euros originated in Portugal (up from 697.7 million Euros in the preceding year) and 5.2 million Euros in Spain (up from 4.413 million Euros in the preceding year). Tranquilidade Vida's market share increased from 14.9% in 2002 to 15.9 % in 2003, and it maintained its third place in the ranking of Portuguese life insurance companies.

Tranquilidade Vida continued to benefit from the exclusive access to the large customer base of the BES Group, the banking group of ESFG, which is crucial for the success of its life insurance activities, in a market largely dominated by *bancassurance* operations. In 2003, BES Group accounted for 93.3% of total production and the traditional channels – essentially the agent network managed by Tranquilidade - accounted for the remaining 6.7%. However, despite its relative smaller overall importance the distribution through the traditional non-banking channel has a very profitable business mix, with 81.0% of those premiums composed by high margin PPR and traditional term products.

This increase in overall premium income was supported by the strong performance of the most profitable and strategically relevant product segments, as follows -:

- PPRs: In 2003, Tranquilidade Vida continues to maintain its strong market share of 29.8% in the profitable and the strategically important market of pension plans in Portugal. While the market for PPRs in Portugal increased by 14.5%, the Company increased premium income in PPR by 17.8% to 396.3 million Euros. In addition to their own attractive profit margins these pension products enhance client retention, due to their long-term characteristics, and allow increased cross-selling of other insurance and banking products. Moreover, they are instrumental in keeping customer funds of the extensive customer base of BES Group within the Group.
- Traditional life insurance (term products): While this product segment increased at Tranquilidade Vida by only 5.8% up to 63.1 million Euros in 2003, its most profitable policies within this segment (i.e. credit related life insurance and the term life covers- Protecção Vida sold through the banking channel- and Valor Protecção -sold through the agent network) increased by 16.5% and account for a total of 51,8 million Euros.
- Capitalisation Products: After a period in which the emphasis on these products was deliberately reduced, Tranquilidade Vida resumed growth in unit linked capitalisation products. Thus, premiums in capitalisation products increased by 30.9% in 2003 to 394.8 million Euros, mainly due to strong growth of unit linked products, where premiums increased by 81.3% to 100.1 million Euros in 2003.

Tranquilidade Vida's technical results increased by 10.4% in 2003 to 36.2 million Euros. This was due to Tranquilidade Vida's focus on risk products as well as pension products, with lower capital requirements, as well as pension products, which have in the first case lower capital requirements and in both cases higher profitability margins. As a matter of fact, pension plans and traditional risk products accounted for 86.0% of technical results, an increase of 12.1% compared to 2002.

In 2003, the investment portfolio underwent a significant restructuring in order to reduce its exposure to equity capital markets, and to the effects of changing expectations relating to interest rates and structured products. This restructuring, coupled with the significant recovery in value of the strategic stakes held by Tranquilidade Vida in BES and Portugal Telecom – both largely responsible for the write-downs in 2001 and 2002 – enabled Tranquilidade Vida substantially to improve its results from financial activities in 2003 and completely to write-off the deferred 39.5 million Euros incurred in 2001, which were still being carried in its accounts.

As a consequence of the strong premium growth - especially in its asset gathering products like PPRs - the investment portfolio of Tranquilidade Vida increased by 515.0 million Euros to 5,193.0 million Euros, corresponding to an 11.0% growth.

In the same period, operating costs decreased by 10.4% compared to 2002 and the ratio of general expenses over premium declined from 3.41% in 2002 to 2.5% in 2003, whilst technical results covered 107.0% of operating costs in 2003, against 89.0% in 2002.

ES Seguros's results at end 2003 reached 3.0 million Euros, corresponding to an increase of 221.3% over the results of the previous year. As a consequence, total shareholder's equity increased by 26.5% to 14.4 million Euros.

Despite the less favourable macro-economic environment experienced in Portugal during 2003, the non-life *bancassurance* activities grew strongly, resulting in increased market penetration as well as rising overall profitability.

ES Seguros sells very simple and standardized products (like household insurance, standard motor and health insurance) to the retail customer base of BES Group.

While, in 2003, total gross premium income increased by more than 25.8%, total claims expenses net of reinsurance increased only by 24.6% and net administration expenses net of reinsurance by 22.7%. Consequently, the claims ratio (as a percentage of gross premiums) decreased from 84.7% in 2002 to 83.5% in 2003, resulting in an increase in technical results of more than 262.1% compared to 2002, to 3.2 million Euros."

4 de Fevereiro de 2004