

ACTIVITY REPORT FIRST QUARTER 1998

ACTIVITY REPORT FIRST QUARTER 1998

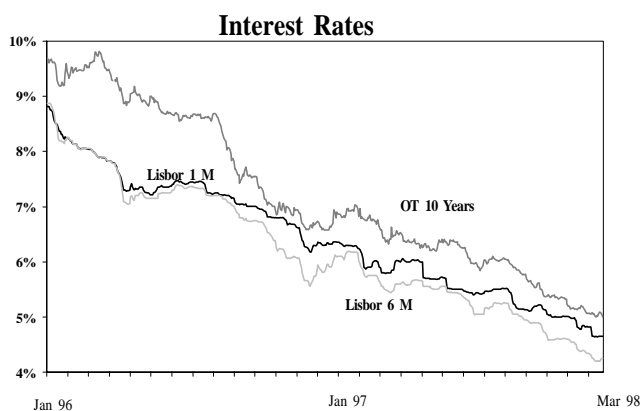
ECONOMIC ENVIRONMENT

According to the timetable and procedures set out in the European Union Treaty, the European Commission and the European Monetary Institute unveiled their Convergence Reports in late March, highlighting the results obtained by the countries of the European Union in terms of economic convergence and compatibility between domestic laws and those of the Treaty. Having agreed that 11 countries of the European Union have achieved sustained economic convergence, the Commission has recommended to the European Council, which will meet in Brussels in May, to ratify that those countries fulfil the necessary conditions to be founding members of EMU. For Portugal, the participation in EMU from the beginning means that all objectives pursued by the macroeconomic policy in the last five years – price stability, budgetary consolidation and Public Debt reduction – were fully achieved.

The available indicators point towards an economic growth rate of 4% in the first quarter of 1998, supported by the strong pace of investment in equipment goods and in housing, by the acceleration of private consumption – induced by the improvement of household confidence, by the significant increase in consumer credit and by the increased wealth effect resulting from interest rate decreases and capital gains on equities – and by the smaller negative contribution of the foreign sector, due to the acceleration of exports to European trading partners. Exchange rate stability, the decline in prices of imported commodities, moderate increases in unit labour costs and in administrative prices and the absence of inflationary upsurges expectations all contributed to the maintenance of the inflation rate at historical low levels (the average rate was 2.1% in March 1998).

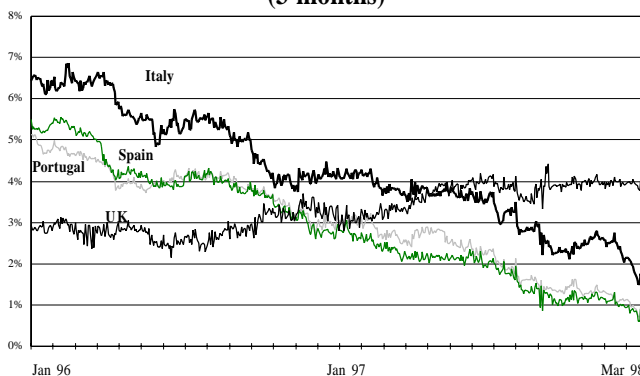
Liquidity held by residents maintained its gradual downward trend, reflecting the channelling trend of individuals savings to equities and investment funds specialised in higher risk assets, supported by expected appreciation of share prices and lower interest rates of term deposits; on the contrary, demand deposits displayed a growth trend clearly above other liquidity aggregates. This behaviour might have resulted from the reduction in the opportunity cost of holding demand deposits due either to the narrowing of the spreads between interest rates of term and demand deposits. Growth in Credit to Individuals and Corporations has remained stable (at about 20%), despite an accelerating trend in both Credit to non financial Corporations and, to a lesser extent, Loans to Individuals, counterbalanced by a slowdown in Credit to Financial Institutions (non banking). The downward trend of interest rates, the improvement in confidence and personal income, lower indebtedness levels of Portuguese households relative to their European counterparts, higher volume of transactions in housing and the promotion of new types of loans and distribution channels reinforced the dynamism of Individuals Credit in the first three months of 1998.

During the first quarter of 1998, the Bank of Portugal cut its intervention rate by 20 b.p. on three occasions, falling from 5.3% to 4.7%, whereas, in the same period, the Bundesbank left unchanged its repo rate (3.3%) and the Bank of Spain only cut its intervention rate once (from 4.75% to 4.5%). The slight depreciation of the



effective exchange rate of both the escudo and the peseta (partly due to the appreciation of the dollar and the sterling), the reduction in the intervention rates in both countries and the conclusion of the desinflation process which has begun in the 80s, contributed to the reinforcement of the expansionary stance of monetary conditions in Portugal. Given the downward revision of the expectations about the future level of the European Central Bank intervention rate in the beginning of 1998 down to a figure slightly above the actual repo rate in Germany, signalling that there is still ample margin for further cuts in the Portuguese intervention rates, the current stance of monetary conditions might be taken into account in the decisions about the timing of further cuts. Following the adjustment of the central parity of the Irish pound (a 3% revaluation) in March, when the Greek dracma entered in the ERM of the EMS, the stability of the majority of the exchange rates belonging to the ERM and the recommendation of the European Commission about the adoption of the Euro by eleven countries, expectations about the announcement of the central parities as conversion rates in May were reinforced.

**Interest Spreads vis-à-vis Germany
(3 months)**



The increase of the main European stock exchange indexes – supported by the continuation of an expansionary monetary stance, by the impact of the Asian crisis on the investors' portfolio diversification, the favourable expectations about economic growth and corporate earnings, the confidence about Portugal joining the European Monetary Union and the stronger international prominence of the Portuguese capital markets favoured the exuberance of domestic

equity markets in recent months. The main stock exchange indexes displayed an increase of approximately 60% until the first fortnight of April – similar to the overall appreciation in 1997 –, with market capitalisation and transaction volume beating successive historical highs.

FINANCIAL PERFORMANCE

Banco Comercial Português consolidated net income for the first quarter of 1998 reached PTE 9.123 billion, an increase of 34.6% over net income of PTE 6.780 billion in the same period of the previous year. The growth of net income represented EPS growth of 17.5% from PTE 49.6 in the first quarter of 1997 to PTE 58.3 in the first quarter of 1998 taking into account the increase in the number of shares due to the share capital increases of BCP (through the exercise of conversion rights of bonds and preference shares outstanding) from PTE 136,686 million as at March 31, 1997, to PTE 157,766 million at the end of the first quarter of 1998. Return on Equity increased from 14.1% to 23.1% between the first quarter of 1997 and 1998, while the Return on Assets (before Minority Interests) also increased, from 1.0% to 1.1%.

Profitability levels in the first quarter of 1998 were helped by the increase of interest income by PTE 1.7 billion, supported by the significant expansion of mortgage and large and medium corporate loans, by the increase of interest earning assets as a percentage of total assets, by the securitisation of customers' funds with previously low spreads and also by other initiatives to stabilise the net interest margin (which stood at 3.1% in the first quarter of 1998, compared with 3.2% in the same period of 1997). Other contributing factors were the growth of net commission income by 70% – attributable to increased income on securities transactions and custody (up by PTE 2.5 billion), asset management (up by PTE 1.7 billion) and card and transfers businesses (up by PTE 1.1 billion) – and by the 50.5% increase in insurance premiums, induced by strong cross-selling through the banking networks of the BCP/Atlântico Group and the rapid growth in turnover of Médis and Seguro Directo, together with the reduction of minority interests (down by PTE 1 billion), due to the increases in the Group's shareholdings in Banco Português do Atlântico and AF Investimentos.

The absence during the first quarter of gains from the sale of financial investments (which corresponded to about PTE 2 billion in the first quarter of 1997, relating to capital gains from the sale of the Group's stake in Empreendimentos Imobiliários Colombo, SA), the increase in provisions for loan losses – reflecting generic provisioning requirements due to expansion of the loan portfolio together with the prudent coverage policy – lower trading income levels (partly explained by the reduction of turnover in the foreign exchange market and the stabilisation of interest rates as the date for adopting the Euro approaches) all contributed to taper the growth of consolidated net income.

There was a nominal increase in operating costs of 3.2% between the first quarters of 1997 and 1998, well below the total income growth rate. The operating costs to total income ratio improved from 56.4% to 47.3% between the first quarters of 1997 and 1998. Savings arising

from the restructuring of operating units, rationalisation of procedures, releasing office space, reduction of the number of employees and renegotiation of suppliers' contracts, covered the cost expansion related to business volume growth (conversion and opening of the new Atlântico and Expresso Atlântico Stores, new transactional and commercial platforms and marketing campaigns) and the adjustments in systems and business areas to face the challenges of the Euro and the millennium transition.

The continuing trend of credit quality and coverage ratios improvement can be explained by the better corporate customers financial condition, the significant increase in loans to traditionally lower risk segments, the perfecting, rationalising and standardisation of credit decision and management processes, the systematic effort to provision potential risks and to recover overdue loans. Between March 31, 1997 and 1998, the weight of loans more than 90 days past due on total loans improved from 3.5% to 2.1%, with provision coverage increasing from 105.1% to 132.2%.

The growth rate of BCP/Atlântico Group main activity indicators show continued market share gains in several areas of the financial system during the first quarter of 1998. Loans and advances to customers increased by 26.9%, reaching PTE 2,813 billion as at March 31, 1998, its weight on total assets increasing from 41.0% on March 31, 1997 to 47.6% at the end of the first quarter of 1998; Customers' funds increased by 23.2% also in year-on-year terms, reaching PTE 5,870 million on March 31, 1998. The consolidated solvency ratio, estimated in accordance with Bank of Portugal rules, stood at 9% as at March 31, 1998. After the conclusion of the BCP share capital increase to PTE 190.6 billion through a rights issue – generating total proceeds of approximately PTE 100 billion – the solvency ratio should rise above 11%, with Tier One standing at 9% of total risk-weighted assets and contra accounts.

MOST SIGNIFICANT DEVELOPMENTS IN THE FIRST QUARTER OF 1998

Among the most significant developments in the BCP/Atlântico Group's activities during the first quarter of 1998, it is worth mentioning:

- BCP's Share Capital increase from PTE 156.006 billion to PTE 157.766 billion through the issue of 1,760,000 new shares, corresponding to the exercise of conversion rights associated to exchangeable preference shares.
- General Meeting of Shareholders of BCP, held on March 12, where the Annual Report and Financial Statements for 1997 were approved, as well as the proposal of appropriation of profits presented by the Board of Directors, establishing the payment of a dividend of PTE 95 per share.
- The General Meeting of Shareholders of BCP also approved the proposal of a capital increase from PTE 157.766 billion to PTE 190.600 billion through the issue of 32,833,649 new shares. This issue was reserved to shareholders and employees at a subscription price of PTE 3,050 per share.

- BCP/Atlântico Group offered to BCP, Atlântico, NovaRede, Banco 7 and Expresso Atlântico customers the possibility of performing basic transactions – such as deposits and withdrawals and transfers – in any branch of the Group’s networks, regardless of the customer relationship network.

- Agreement between Banco Comercial Português and General Electric Capital Fleet Services Europe to set-up a newly incorporated company, equally owned by both partners, dedicated to providing fleet management services through the BCP/Atlântico networks.

- Signature of a letter of intent between BCP and BIG Bank Gdanski SA (BBG), setting the terms of a strategic agreement to develop retail banking activities in Poland.

- Creation of BIM – Investimento, a credit institution, based in Mozambique, that will provide economic and financial consulting, capital markets and structured operations in the Mozambican market. Both BIM and Banco Cif are among the founding shareholders.

- Launching of the “Recheio Account”, designed in association with Jerónimo Martins Group. This financial solution grants to Recheio Cash & Carry customers free credit for 35 days, monthly “rappel”, automatic loan approval and other financial services, together with a purchase reward system.

- Leadership and organisation by Banco Cif of the first 30-year maturity escudo-denominated bond issue amounting to PTE 15 billion and issued by European Investment Bank. Banco Cif has also issued several bond loans with guaranteed principal, indexed to the share price of well-known international companies.

- In accordance with the strategic orientation relating to the divestment of real-estate non strategic assets, Atlântico sold its holding of 71.4% of Marinotéis - Sociedade de Promoção e Construção de Hotéis, SA.

- Strengthening of the cooperation links between BCP/Atlântico Group and BCH through the acquisition by BCH of assets and liabilities of the Banco Português do Atlântico branches in Spain.

FINANCIAL HIGHLIGHTS

	31 March	31 March	31 March	Change (1998-1997)
	1998 (ECU million)	1998 (PTE million)	1997	
Total Assets	29,049	5,915,189	5,406,506	9.4%
Loans and Advances to Customers	13,813	2,812,789	2,216,859	26.9%
Customers' Funds	28,828	5,870,309	4,764,271	23.2%
Shareholders' Equity, Subordinated Debt and Preference Shares	2,112	430,151	450,716	-4.6%
Interest Income	455	92,729	100,261	-7.5%
Interest Expense	274	55,895	65,120	-14.2%
Net Interest Income	181	36,834	35,141	4.8%
Other Income ⁽¹⁾	372	75,836	58,325	30.0%
Other Costs ⁽²⁾	431	87,702	72,272	21.3%
Net Income Attributable to the Bank	45	9,125	6,780	34.6%
Return on Total Assets (ROA)		0.6%	0.5%	
ROA before Minority Interests		1.1%	1.0%	
Return on Shareholders' Equity (ROE)		23.1%	14.1%	
Loans more than 90 days Past Due / Total Loans		2.1%	3.5%	
Provisions for Loan Losses / Total Past Due Loans		120.5%	94.7%	
Provisions for Loan Losses / Loans more than 90 days Past Due		132.2%	105.1%	
Number of Branches in Portugal				
BCP		405	397	2.0%
BCP/Atlântico Group		747	711	5.1%
Number of Employees				
BCP		3,675	4,410	-16.7%
BCP/Atlântico Group		11,164	11,261	-0.9%

(ECU exchange rate: 203.629 Escudos as at March 31, 1998)

⁽¹⁾ Net of trading losses

⁽²⁾ Excluding trading losses

BCP Share Price



**CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH, 1998 AND 1997**

ASSETS	1998	1998	1997
	(Thousands of Ecu)	(Thousands of Escudos)	
Cash and deposits at the			
Bank of Portugal	255,200	51,966,149	67,093,461
Loans and advances to credit institutions			
Repayable on demand	345,053	70,262,797	96,685,378
Other loans and advances	5,225,304	1,064,023,364	1,207,625,865
Loans and advances to customers	13,813,304	2,812,789,275	2,216,859,383
Securities	5,679,647	1,156,540,880	1,115,703,141
Investments	483,523	98,459,403	110,672,146
Intangible assets	604,479	123,089,462	146,410,507
Tangible assets	919,600	187,257,318	178,991,733
Other debtors	637,645	129,843,071	79,893,240
Prepayments and accrued income	1,085,095	220,956,878	186,571,369
	29,048,850	5,915,188,597	5,406,506,223
LIABILITIES			
Amounts owed to credit institutions			
Repayable on demand	483,698	98,494,920	30,339,653
With agreed maturity date	5,915,518	1,204,571,061	1,139,696,600
Amounts owed to customers			
Repayable on demand	5,399,427	1,099,479,994	928,495,780
With agreed maturity date	9,720,153	1,979,304,996	1,977,407,854
Debt securities	1,138,546	231,841,044	218,822,366
Other liabilities	667,668	135,956,639	113,463,098
Accruals and deferred income	1,108,260	225,673,840	124,847,953
Provision for liabilities and charges	2,067,125	420,926,624	315,453,250
Subordinated debt	751,370	153,000,737	131,142,418
Total Liabilities	27,251,765	5,549,249,855	4,979,668,972
SHAREHOLDERS' EQUITY			
Share capital	774,773	157,766,351	136,686,000
Share premium	205,394	41,824,217	23,281,261
Reserves and retained earnings	(215,543)	(43,890,802)	33,565,416
Treasury stock	-	-	(397,181)
Total Shareholders' Equity	764,624	155,699,766	193,135,496
Minority interests in subsidiaries	436,029	88,788,171	107,263,609
Minority interests in preference shares	596,432	121,450,805	126,438,146
Total Minority Interests	1,032,461	210,238,976	233,701,755
	29,048,850	5,915,188,597	5,406,506,223

**CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED 31 MARCH, 1998 AND 1997**

	1998	1998	1997
	(Thousands of Ecu)	(Thousands of Escudos)	
Interests income	455,383	92,729,275	100,261,196
Interests expense	274,495	55,895,175	65,119,825
Net interest income	180,888	36,834,100	35,141,371
Provision for loan losses	30,012	6,111,367	4,541,918
Net interest income after provision for loan losses	150,876	30,722,733	30,599,453
Other operating income			
Income from securities	14,724	2,998,293	1,965,700
Commissions	80,943	16,482,382	10,219,355
Profit arising from trading activity	111,465	22,697,598	36,382,223
Insurance premiums	193,100	39,320,671	26,127,133
Other income	33,628	6,847,590	7,498,811
Gains on sale of shares of subsidiaries and associated companies	-	-	1,964,639
	433,860	88,346,534	84,157,861
Other operating expenses			
Commissions	13,052	2,657,731	2,089,151
Losses arising from trading activity	61,438	12,510,500	25,833,011
Staff costs	104,319	21,242,394	20,756,981
Other administrative costs	73,290	14,923,964	14,221,903
Depreciation	35,094	7,146,125	6,976,576
Other provisions	114,454	23,306,237	11,303,369
Claims incurred in the insurance activity	78,658	16,017,115	12,360,813
Other expenses	11,826	2,408,115	4,562,989
	492,131	100,212,181	98,104,793
Income before income taxes	92,605	18,857,086	16,652,521
Income taxes	16,999	3,461,471	2,645,454
Net income	75,606	15,395,615	14,007,067
Minority interests	30,795	6,270,819	7,227,368
Net income for the year attributable to the Bank	44,811	9,124,796	6,779,699

(ECU exchange rate: 203.629 Escudos as at March 31, 1998)