

ACTIVITY REPORT
SECOND QUARTER 1998



Banco Comercial Português

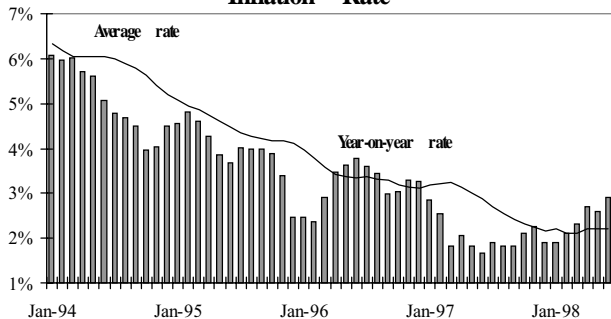
ECONOMIC ENVIRONMENT

The first half of 1998 saw the consolidation of economic growth within the Euro area. This was due to the strengthening of domestic demand which benefited from both investment in production capacity and consumer durables and from higher household spending. Low interest rates, increased corporate profits and high rates of capacity utilisation set the stage for investment in capital goods, while the increase of real purchasing power, the visible reduction of unemployment and the positive impact of interest rates improved expectations among consumers. Despite strong domestic demand, the deflation of raw-material and energy prices as a result of the Asian crisis and the continuing high level of inventories prevented the onset of any inflationary pressures, supporting the continuation of the current expansionist monetary policy in the core countries of the EMU.

According to economic activity indicators, the annualised rate of growth in Portugal stood at around 4.5% over the first half of the year, clearly influenced by an increase in private consumption and by the consolidation of investment in capital goods and housing. Reflecting the greater aggregate demand, industrial output continued to be dynamic, particularly in the capital goods segment, while the construction sector, despite a significant decrease in public works contracts, reflected the good performance of the residential market. Both household investment in housing and the acceleration in private consumption were driven by the sustained improvement in consumer confidence, underpinned by low interest rates, job creation and increasing real income.

Following the publication of the new employment survey by the National Statistics Institute, unemployment fell sharply during the first quarter of 1998 to 5.9%, down from 6.3% at the end of 1997. The creation of new jobs was mainly seen in the services sector, reflecting the influence of Expo'98. Nevertheless, the fall in the numbers of unemployed was not accompanied by any increased pressure on wages, which are increasing at a moderate pace. Despite the stability of average inflation at 2.2% during the second quarter of 1998, year-on-year inflation has shown a recent increase, to stand at 2.9% in June, incorporating the impact of price increases in various tradable goods, compared to the favourable level seen a year earlier, and of strong domestic demand, while deflation concerning non-tradable goods was stopped, partly as a result of the impact of Expo '98 on the price of some services.

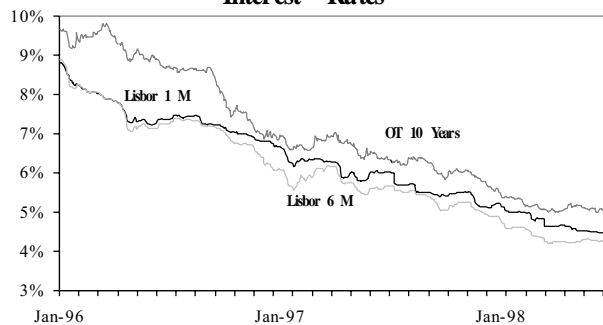
Inflation Rate



Liquidity held by residents continued to slow during the second quarter of the year, contrary to the evolution of the M1 monetary aggregate which, following a slowdown at the beginning of the year, accelerated once more. The performance of the L aggregate reflects the greater attractiveness of investing in capitalisation products due to expectations of higher returns from capital markets compared with the continued fall in interest rates paid on traditional savings' instruments, while the increase of the M1 reflects the reduction of the opportunity cost of transferring funds to demand deposits. The stability of the growth rate of loans to non-financial companies and individuals since the beginning of the year, with year-on-year growth standing at between 22% and 25%, reflects the consolidation of consumer credit and mortgage loans to individuals and an increase in corporate loans, particularly to companies in the manufacturing industries and services, offsetting the impact of falling Public Sector borrowing requirements.

During the second quarter of 1998, the pace of reduction of the Bank of Portugal's intervention rates slowed, as the Bank cut its rates on just one occasion, in May, reducing the repo rate to 4.5% and the standing facility rate to 4.2%, following the Bank of Spain's rate cut to 4.25%. Sharp economic growth and concerns about renewed inflation are thought to have influenced the decision to postpone future cuts. As a result of the expected delay in intervention rate cuts until the end of the year and of the current robust economic cycle, the narrowing trend of short-term interest-rate spreads against Germany was interrupted during the second quarter of 1998, while the long-term interest-rate spread between Portugal and Germany stabilised at 30 b.p. due to it not having been given the same rating notations to the Portugal's public debt as those granted to the core European countries, and the lesser liquidity of the domestic market.

Interest Rates



Commercial paper interest rates fell by about 80 b.p. over the first half of 1998, to stand at approximately 4.2% in June, although the decrease in interest rates on loans was sharper, both on loans to non-financial private companies and on loans to individuals. Regarding the rates offered on time deposits, the reduction was less significant, about 60 b.p.. Despite the volatility caused by the instability of the world's leading equity markets during the second quarter of 1998, the Portuguese stock market index continued to rise, – with the BVL-30 index increasing by 44% since the beginning of the year – underpinned by the expansionist monetary framework, by the diversion of funds from Asian markets and by the sustained improvement of corporate results.

FINANCIAL PERFORMANCE

Consolidated net income for the first half of 1998 amounted to PTE 20.231 billion, up 54.2% on net income of PTE 13.121 billion in the same period of 1997. This evolution contributed to an increase in EPS of 27.1%, from PTE 93.2 in the first half of 1997 to PTE 118.5 in the first half of 1998, despite the Bank's share capital increase from PTE 150.000 billion to PTE 196.969 billion over the same period. Return on Equity increased from 13.0% in the first half of 1997 to 19.9% in the first half of 1998. Return on Assets (before minority interests) increased from 1.0% to 1.1%, in the same period.

The growth in net income is attributable to the strong momentum of the Group's activities both in banking – in particular the increase in loans to customers (+27.2%) and total customers' funds (+18.7%) – and in insurance, where written direct premium income grew 27.7%, from PTE 68.2 billion in the first half of 1997 to PTE 87.0 billion in the first half of 1998, while new policies sold increased 43.5%. Asset management also grew significantly, with total assets under management amounting to PTE 1,319.5 billion as at June 30, 1998 (+38.4% over June 30, 1997).

The sustained expansion of business levels, together with the stabilization of the net interest margin, which stood at 3.1% (3.2% in the first half of 1997) – demonstrating the Group's ability to combine adequate spreads with competitive pricing conditions – contributed to the growth of net interest income, to PTE 76.1 billion, reflecting a 5.9% increase over PTE 71.9 billion for the first half of 1997.

Operating costs showed 6.2% increase over the first half 1997. This was due to increased activity in several business areas – notably the growth of loans granted (particularly mortgage loans and consumer credit), the increase in banking cards, securities' transactions and asset management –, the expansion of the Expresso Atlântico network and the annual salary increases which took place in the second quarter of 1998. However, growth in total income outperformed growth in operating costs, thus contributing to the improvement of the efficiency indicators. The operating costs to total income ratio therefore decreased from 53.4% in the first half of 1997 to 48.0% on the first half of 1998.

The continuing enhancement of the mechanisms involved in the evaluation, granting and monitoring of credit risks, the maintenance of an adequate provisioning policy and the sustained commitment to recover past due loans, together with the positive impact of the macroeconomic environment, led to the improvement of the main asset quality indicators. Loans more than 90 days past due, which represented 1.8% of total loans as at June 30, 1998, decreased by PTE 20.9 billion compared to the level seen a year earlier. Provision coverage of loans more than 90 days past due amounted to 141.6%, compared to 108.6% at June 30, 1997.

The consolidated capital ratio, estimated in accordance with Bank of Portugal rules, stood at 9.2% at the end of the first half of 1998, with Tier One standing at 8.8%. The positive impact of BCP's share capital increase on these indicators was lessened by the effect of the increased shareholding in Banco Português

do Atlântico, which stood, at the end of June, 1998, at 99.2% of the latter's share capital. According to BIS rules, the capital ratio, on a consolidated basis, amounted to 10.0% at the end of the first half of 1998 (Tier One: 8.9%).

THE HIGHLIGHTS OF THE SECOND QUARTER OF 1998

The following are highlights of the most significant developments in the BCP/Atlântico Group's business during the second quarter of 1998:

- Increase in the Banco Comercial Português' share capital from PTE 157,766.351 million to PTE 190,600 million, through a Public Offering of 32,833,649 shares at a price of PTE 3,050 per share, reserved for shareholders and employees.
- Subsequently Banco Comercial Português increased its share capital to PTE 196,969 million, following the exercise of conversion rights related to a part of the convertible bond issue.
- Approval by the General Meeting of Banco Português do Atlântico shareholders, on June 16 1998, of the proposal to increase Atlântico's share capital from PTE 110,000 million to PTE 126,100 million.
- Launch of the *Dow Jones Euro Stoxx 50* Guaranteed Capital Bonds by Banco Cif, with a yield dependent on the evolution of the index of the same name. This indicator is made up of 50 of the largest companies in the eleven founder members of the Euro.
- Creation of the Self-Banking Division, an autonomous business unit which operates across the Group's banks. The mission of this new Division is to manage the business of the self-banking channels, particularly, the installation, promotion and optimisation of the returns of the various automatic networks (branch and non-branch ATMs, POSs and kiosks).
- A year and a half after its launch, Banco Expresso Atlântico opened its hundredth shop at Lisbon's Avenida 5 de Outubro. The network, with 105 shops, covers the major centres of Portugal from north to south, making it one of the country's most extensive banking networks.
- Acquisition by Banco Comercial Português of 21,235,863 shares in BIG Bank Gdanski (or 4.99% of its share capital), at a price of 4.6 zlotys per share, within the strategic co-operation agreement signed last February.
- Inauguration of the first BIM-Expresso branch network aimed at the lower end of the private individual market in Mozambique, and official start-up of BIM - Investimento, Mozambique's first financial institution specialising in investment banking.
- Banco Comercial Português acquired all the remaining shares of Banco Português do Atlântico held by Império, corresponding to a further 20.69% of its share capital, at a price of PTE 2,800 per share.
- Fitch IBCA, the international credit-risk notation agency, improved its rating notation for Banco Comercial Português, Banco Português do Atlântico and Banco Cif from "A" to "A+" in respect of their long-term liabilities.

- The North American agency Moody's confirmed the ratings awarded to the financial liabilities assumed by Banco Comercial Português and Banco Português do Atlântico – "P-2" for short-term debt, "A3" for long-term debt.
- Award to BCP, for the fifth year since it started operations, of the "Best Bank in Portugal" prize by *Euroney* magazine in the annual "Awards for Excellence" edition, the aim of which is to recognise the best financial institutions on the international financial stage.
- Macaulease was renamed Nacional Leasing – Locação Financeira, S.A., a name more in line with the type of business it is developing.
- The subsidiary companies of the BCP/Atlântico Group subscribed to the collective bargaining agreement with the National Bank Technical Staff Union. Therefore, the agreement now extends to the entire Group, with the exception of the insurance area which is covered by its own industry agreement.
- The first Fórum Atlântico Seminar was held in Azores. These seminars are aimed at enabling the exchange of relevant experiences between the business communities of Azores and Madeira.

AUDITORS' REPORT

To the
Shareholders of
Banco Comercial Português, S.A.

We have audited the accompanying summary consolidated financial statements of Banco Comercial Português, as of and for the period of six months ended 30 June, 1998.

Responsibility of Management and Auditors

The summary financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these summary financial statements based on our audit.

Basis of opinion

International Standards on Auditing require that we plan and perform the audit to obtain reasonable assurance about whether the summary financial statements are free of material misstatement. Our audit report related to the full consolidated financial statements describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion, the accompanying summary financial statements are consistent with the full consolidated financial statements of Banco Comercial Português, S.A. as at 30 June, 1998, which have been properly prepared in accordance with International Accounting Standards.

Lisbon, 20 July, 1998

KPMG Peat Marwick

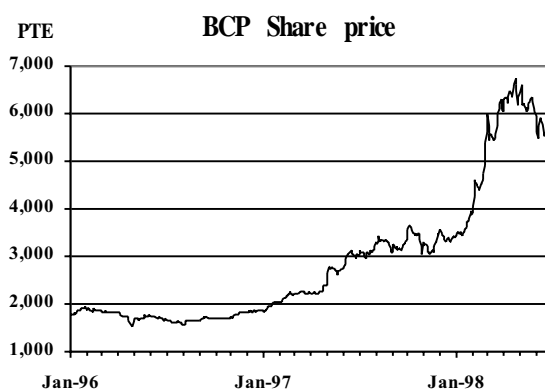
FINANCIAL HIGHLIGHTS

	30 June 1998	30 June 1998	30 June 1997	Change (1998-1997)
	(Million of ECU)		(Million of Escudos)	
Total Assets	29,715	6,023,910	5,621,835	7.2%
Loans and Advances to Customers	15,031	3,047,075	2,394,711	27.2%
Customers' Funds	29,213	5,921,970	4,990,357	18.7%
Shareholders' Equity, Subordinated Debt and Preference Shares	2,637	534,668	503,757	6.1%
Interest Income	872	176,750	202,187	-12.6%
Interest Expense	497	100,671	130,316	-22.7%
Net Interest Income	375	76,079	71,871	5.9%
Other Income ⁽¹⁾	759	153,874	124,528	23.6%
Other Costs ⁽²⁾	877	177,864	152,944	16.3%
Net Income Attributable to the Bank	100	20,231	13,121	54.2%
Return on Total Assets (ROA)		0.7%	0.5%	
ROA before Minority Interests		1.1%	1.0%	
Return on Shareholders' Equity (ROE)		19.9%	13.0%	
Loans more than 90 days Past Due / Total Loans		1.8%	3.1%	
Provisions for Loan Losses / Total Past Due Loans		124.5%	100.3%	
Provisions for Loan Losses / Loans more than 90 days Past Due		141.6%	108.6%	
Number of Branches in Portugal				
BCP		407	399	2.0%
BCP/Atlântico Group		789	723	9.1%
Number of Employees				
BCP		3,604	4,423	-18.5%
BCP/Atlântico Group		11,720	11,533	1.6%

(ECU exchange rate: 202.720 Escudos as at 30 June, 1998)

⁽¹⁾ Net of trading losses

⁽²⁾ Excluding trading losses



CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE, 1998 AND 1997

CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED 30 JUNE, 1998 AND 1997

ASSETS	1998	1998	1997
	(Thousands of ECU)	(Thousands of Escudos)	
Cash and deposits at the			
Bank of Portugal	259,643	52,634,928	57,365,566
Loans and advances to credit institutions			
Repayable on demand	393,796	79,830,289	87,719,043
Other loans and advances	4,267,677	865,143,420	1,071,870,007
Loans and advances to customers	15,030,955	3,047,075,207	2,394,711,205
Securities	5,770,078	1,169,710,232	1,291,024,621
Investments	459,512	93,152,363	104,209,486
Intangible assets	656,458	133,077,149	143,850,032
Tangible assets	911,293	184,737,367	182,157,516
Other debtors	744,197	150,863,601	87,446,573
Prepayments and accrued income	1,221,813	247,685,888	201,480,481
	29,715,422	6,023,910,444	5,621,834,530
LIABILITIES			
Amounts owed to credit institutions			
Repayable on demand	542,276	109,930,179	49,519,958
With agreed maturity date	6,236,148	1,264,192,018	1,247,828,338
Amounts owed to customers			
Repayable on demand	5,703,189	1,156,150,453	1,020,401,961
With agreed maturity date	9,129,572	1,850,746,828	1,885,574,606
Debt securities	1,110,416	225,103,592	221,939,200
Other liabilities	607,270	123,105,804	92,314,790
Accruals and deferred income	1,101,278	223,251,100	154,408,967
Provision for liabilities and charges	2,204,121	446,819,352	337,363,034
Subordinated debt	751,533	152,350,737	148,617,662
Total Liabilities	27,385,803	5,551,650,063	5,157,968,516
SHAREHOLDERS' EQUITY			
Share capital	971,631	196,969,000	150,000,000
Share premium	568,850	115,317,366	33,879,750
Reserves and retained earnings	(159,914)	(32,417,832)	39,229,583
Treasury stock	(5,400)	(1,094,630)	(1,168)
Total Shareholders' Equity	1,375,167	278,773,904	223,108,165
Minority interests in subsidiaries	443,683	89,943,432	108,726,349
Minority interests in preference shares	510,769	103,543,045	132,031,500
Total Minority Interests	954,452	193,486,477	240,757,849
	29,715,422	6,023,910,444	5,621,834,530

	1998	1998	1997
	(Thousands of ECU)	(Thousands of Escudos)	
Interests income	871,894	176,750,281	202,187,173
Interests expense	496,601	100,670,862	130,316,239
Net interest income	375,293	76,079,419	71,870,934
Provision for loan losses	63,892	12,952,200	11,678,432
Net interest income after provision for loan losses	311,401	63,127,219	60,192,502
Other operating income			
Income from securities	28,341	5,745,344	4,749,457
Commissions	169,254	34,311,073	23,947,832
Profit arising from trading activity	198,804	40,301,457	76,204,684
Insurance premiums	388,842	78,825,992	59,545,955
Other income	72,119	14,619,989	14,103,251
Gains on sale of shares of subsidiaries and associated companies	-	-	1,964,639
	857,360	173,803,855	180,515,818
Other operating expenses			
Commissions	26,510	5,374,165	4,489,040
Losses arising from trading activity	98,313	19,930,096	55,987,884
Staff costs	223,395	45,286,610	42,298,962
Other administrative costs	147,767	29,955,390	28,716,569
Depreciation	73,936	14,988,378	13,949,024
Other provisions	225,307	45,674,264	32,767,980
Claims incurred in the insurance activity	152,866	30,988,922	23,830,330
Other expenses	27,606	5,595,932	6,891,953
	975,700	197,793,757	208,931,742
Income before income taxes	193,061	39,137,317	31,776,578
Income taxes	35,170	7,129,664	5,242,502
Net income	157,891	32,007,653	26,534,076
Minority interests	58,092	11,776,429	13,413,046
Net income for the year attributable to the Bank	99,799	20,231,224	13,121,030

(ECU exchange rate: 202.720 Escudos as at 30 June, 1998)