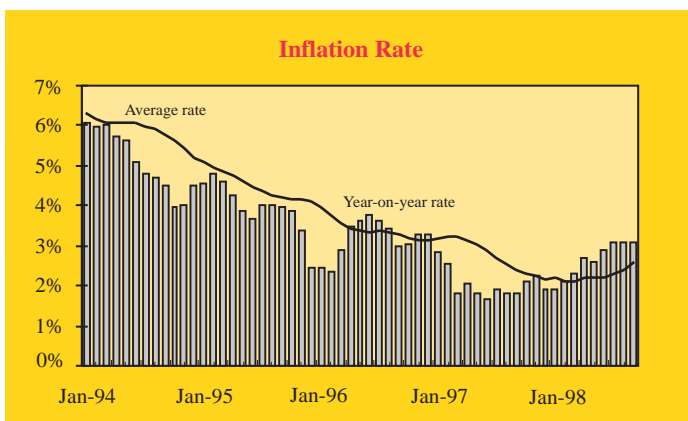


ACTIVITY REPORT THIRD QUARTER 1998

ECONOMIC ENVIRONMENT

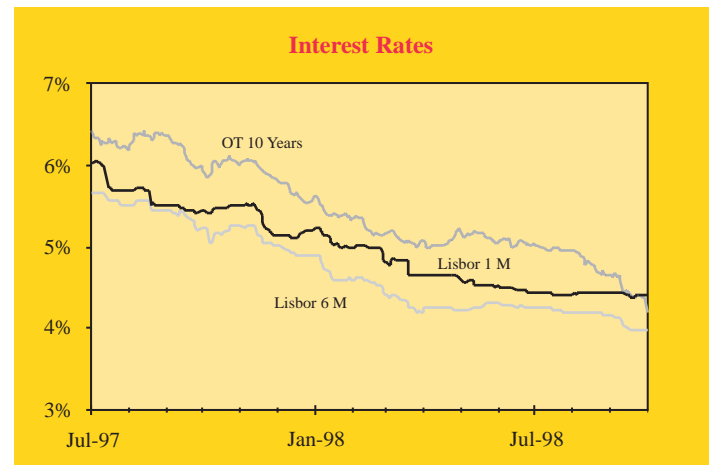
Although the Portuguese economy remains buoyant, the main economic indicators have seen a slight slowdown during the third quarter of 1998. The sectors most affected were construction and manufacturing (both consumer and intermediate goods), whereas the dynamism of the services sector continued as a result of a favourable year for tourism, increased attendance at Expo'98 during the summer, and the acceleration of investment in housing, equipment goods and vehicles. The year-on-year inflation rate stood at 3.1%, reflecting the rise in tradeable goods prices as a consequence of Expo'98 and the momentum of private consumption. The unemployment rate continued its downward trend, having decreased from 5.9% to 4.6% between the first and the second quarters of 1998, benefiting from production growth and seasonal factors. Budget deficit forecasts for 1998 have been revised downwards from 2.5% to 2.3% of GDP, despite the fact that the rate of growth of current receipts is lower than the rate of change of current expenditure, excluding costs with debt servicing.



During the third quarter of 1998, liquidity held by residents accelerated as a result of the slowdown in the channelling of savings to investment funds following the fall in equity prices and the perception that investment in capital markets bears higher risks. Meanwhile, the low rates on time deposits have resulted in a higher preference for demand deposits. Current household consumption is increasingly being financed through banking loans, which, along with the strong increase in mortgages has led loans to individuals growth of more than 30%. Contrasting with the buoyancy of loans to individuals, loans to non-financial companies have slowed down, although remaining at high levels (17.1% at the end of the first half of 1998).

Intervention rates in Portugal remained unchanged up to October when the Bank of Portugal cut all its rates by 50 b.p., following the decreases of the Federal Funds rate and of the intervention rates of both the Bank of England and the Bank of Spain. Further cuts in Portuguese interest rates up to the end of the year will be influenced by the increasing likelihood that interest rates in Europe will converge to the current German rates, the absence of inflationary pressures and less favourable prospects for economic growth. Incorporating the expectations of a more accommodative stance for the monetary policy, short term interest rates

decreased marginally during the third quarter of 1998 (from 4.3% to 4.2%). Despite the widening of the spread vis-à-vis Germany, long term rates reached an historic low (4.3% at the end of September).



Equity price indices at the Lisbon Stock Exchange recorded losses of approximately 30% in the third quarter of 1998, notwithstanding the growth of earnings of domestic listed companies, the fall in interest rates, the absence of inflationary pressures and the expected favourable impact of the adoption of the Euro. The strong correlation of the domestic market with international stock exchanges has thus cancelled out gains since the beginning of the year, as the overall turbulence in financial markets resulted in an inaccurate view of the sensitivity of Portuguese companies to the Latin American crisis. As a result, several domestic companies, with no significant investments in emerging markets, have seen their share prices sharply affected.

The international economic environment, conditioned by the effects of the financial crisis on global economic growth, will influence banking activity in the near future. In fact, the impact from the significant decrease in equity prices on household wealth and investment may lead, in the medium term, to a slowdown in banking business volume and a deterioration in the quality of the loan portfolio; the losses resulting from the depreciation of exchange rates, from the increased volatility of both monetary and exchange markets and from securities investments may exert a negative impact on several financial institutions, despite their relatively low exposure to the most affected countries. Due to the expected narrowing spreads, as a result of stiffer competition in the banking sector, profitability levels may be affected in the years to come.

FINANCIAL PERFORMANCE

Banco Comercial Português' consolidated net income amounted to PTE 41.302 billion during the nine month period ended September 30, 1998, increasing 115.2% in relation to consolidated net income of PTE 19.192 billion for the same period of 1997. Earnings per share rose from PTE 133.4 to PTE 230.1, despite the impact of BCP's share capital increase from PTE 150 billion in September 30, 1997 to PTE 196.969 billion at the end

of the third quarter of 1998. Return on Equity improved from 12.2% in the first nine months of 1997 to 23.6% in the same period of 1998, while Return on Assets, before minority interests, amounted to 1.3% (0.9% during the first nine months of 1997).

The high volatility of global financial markets, especially in emerging economies – where the BCP/Atlântico Group's exposure is non-material – resulted in the downward revision of the world's growth prospects. However, the Group's profitability levels benefited from the continued strong growth of the main activity indicators, namely the expansion of loans granted and the sustained growth of cross-selling activity, especially in insurance, asset management and payment cards. Net income was also influenced by the impact of the capital gain on the sale of a 32.2% shareholding in Banco Português do Atlântico which, net of taxes, totalled PTE 18.4 billion, and by a provision charge of PTE 6.0 billion related to a participation in a Mexican associate company. Excluding the impact of non-recurring gains and losses, net income increased 58.9% on a comparable basis over the figure for the first nine months of 1997.

Net interest income increased 9.7% to PTE 117.7 billion in the first nine months of 1998, from PTE 107.3 billion in the same period of 1997, as a result of the combination of adequate spreads with competitive pricing, compatible with a sustained expansion of business. This increase is attributable to the increased weight of interest earning assets, benefiting from the significant expansion of the balance of loans to customers – which grew 31.3% – while the net interest margin stood at 3.1% (3.2% during the first nine months of 1997).

The effectiveness of the Group's cross-selling strategy was reflected in the improvement of disintermediation indicators, with the proportion of other income to total income growing from 56.4% during the first nine months of 1997 to 59.7% during the same period of 1998. Net commissions amounted to PTE 43.8 billion, up 41.7% from the figure for the nine month period ended September 30, 1997 (PTE 30.9 billion) – determined by the strong performance of commissions on securities' transactions, unit trust funds and payment cards – which, together with the growth of the Group's insurance activity, contributed to the positive evolution of other income, partially offset by the reduction of trading income.

Efficiency indicators showed an improvement, reflecting the control of operating costs – which increased at a slower pace than the evolution of total income – and the effect of the centralisation of operating and strategic units in ServiBanca. Operating costs represented 47.1% of total income (52.3% in the first nine months of 1997), the lowest level ever recorded by Banco Comercial Português. Nevertheless, operating costs increased 6.6%, up from PTE 128.9 billion during the first nine months of 1997 to PTE 137.5 billion in the same period of 1998. Besides the impact of expanding business levels, longer opening hours in 52 NovaRede branches and Atlântico stores (leading to additional recruitment), investment in the increased geographical coverage of the distribution networks – of which Expresso Atlântico deserves a special mention, its branch network having doubled from 56 stores at September 30, 1997, to 112 stores at the end of

the third quarter of 1998 – and costs linked to the promotion of innovative financial ventures have all contributed to the higher level of operating costs.

Retail activity maintained steep growth levels, namely loans to customers that – in spite of the prudent criteria underlying credit analysis and granting of loans – showed a 31.3% increase, amounting to PTE 3,340 billion at the end of September, 1998 (PTE 2,544 billion at September 30, 1997), positively influenced by the strong performance of loans granted to individuals (mortgage loans and consumer credit) and to the construction and services sectors. Total customers' funds – consisting of customers' deposits, certificates of deposit, assets under management and capitalisation insurance products – showed a 12.7% increase (from PTE 5,213 billion at the end of third quarter of 1997 to PTE 5,873 billion at September 30, 1998), despite the decrease of stock markets indices which affected the valuation of assets under management.

The loan portfolio maintained comfortable levels of quality and provision coverage, with loans more than 90 days overdue, which totalled PTE 55.8 billion at September 30, 1998 (PTE 71.3 billion at September 30, 1997), accounting for 1.6% of total loans (2.7% at the end of the third quarter of 1997). Provision coverage of loans more than 90 days overdue reached 145.2%, comparing favourably with the figure at the end of September, 1997 (113.0%).

The share capital increase between the end of the third quarter of 1997 and September 30, 1998, as well as Atlântico's share offering, positively influenced solvency indicators, with the consolidated capital ratio, estimated according to the rules of the Bank of Portugal, amounting to 11.6% at the end of September 1998 (8.9% at September 30, 1997), while Tier One stood at 9.8%. In accordance with BIS rules, the estimated consolidated capital ratio stood at 12.4% (Tier One: 9.7%).

MOST SIGNIFICANT DEVELOPMENTS IN THE THIRD QUARTER OF 1998

The following are highlights of the most significant developments in the BCP/Atlântico Group:

- Public offering of 32.2% of Atlântico's share capital in the Portuguese and international markets. The price was set at PTE 4,600 per share and determined through a book-building process. This offering allowed Atlântico to become one of the Portuguese institutions with the highest number of shareholders. The success of the offering among the Group's customers resulted in its shareholder base increasing more than fourfold as compared to the situation before its acquisition by BCP and Império in March, 1995. The offering also further enhanced the value of the Customer-Shareholder relationship.
- BCP launched a programme of securitisation of its loan portfolio in international markets, involving a transaction of PTE 45.5 billion. Deutsche Bank acted as consultant of the operation through its "European Securitisation Group" and the funding was carried out through a "Special Purpose Vehicle". The success of this operation was a result of the quality of the assets involved and the reputation of BCP.

- Approval of an expansion programme of the BCP/Atlântico Group's networks, involving the opening of 170 branches and stores of Atlântico, NovaRede and BCP in 1999. This will increase the number of branches of the BCP/Atlântico Group to over 1000, providing the Group with the largest branch network in the Portuguese market. The programme will involve opening 120 Atlântico stores, 40 NovaRede branches and 10 branches of BCP's Individuals and Businesses network.
- In order to completely satisfy customer needs, it was decided to extend opening hours to 6 p.m. for 52 branches of NovaRede and Lojas Atlântico, from October, 1.
- Following the agreement established with GE Capital Fleet Services, a joint-venture named "VSC – Aluguer de Veículos Sem Condutor, Lda." began operating in July under the brand name "Classis Auto Plan". "Classis" offers Operational Lease of cars, using the different networks of the Group as distribution channels.
- The BCP/Atlântico Group has set up a 50/50 joint-venture with the British group Robert Fleming in stock market brokerage, named "Fleming BCP/Atlântico". This joint-venture is designed to increase cross-border activity in capital markets, i.e. it will ease transactions of Portuguese securities abroad and foreign securities in Portugal, and will distribute the research of the two partners' brokerage houses.
- Launch of the first capital guaranteed fund specialising in the infrastructure and communications sectors in the Portuguese market by AF Investimentos, named "Fundo de Investimento Mobiliário Fechado – Redes e Comunicações 2003". The investment strategy of this fund is to take advantage of the infrastructure and communications sectors, which present strong prospects for value growth, both domestically and internationally.
- Banco Internacional de Moçambique (BIM) opened a new branch in Beira. This is the third branch of BIM-Expresso, a network aimed at the lower end of the private individual market in Mozambique.

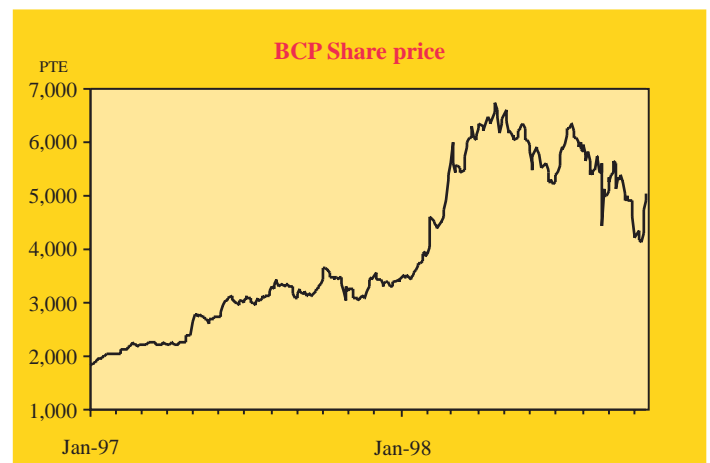
FINANCIAL HIGHLIGHTS

	30 September			Change
	1998 (Million of ECU)	1998 (Million of Escudos)	1997	
Total assets	30,269	6,111,684	5,689,190	7.4%
Loans and advances to customers	16,541	3,339,796	2,544,304	31.3%
Customers' funds	29,087	5,872,861	5,212,729	12.7%
Shareholders' equity, subordinated debt and preference shares	2,684	542,015	512,091	5.8%
Interest income	1,309	264,343	297,382	-11.1%
Interest expense	726	146,615	190,038	-22.8%
Net interest income	583	117,728	107,344	9.7%
Other income ⁽¹⁾	1,362	274,966	194,895	41.1%
Other costs ⁽²⁾	1,507	304,203	239,958	26.8%
Net income attributable to the Bank	205	41,302	19,192	115.2%
Return on total assets (ROA)		0.9%	0.5%	
ROA before minority interests		1.3%	0.9%	
Return on shareholders' equity (ROE)		23.6%	12.2%	
Loans more than 90 days past due / Total loans		1.6%	2.7%	
Provisions for loan losses / Total past due loans		132.0%	106.5%	
Provisions for loan losses / Loans more than 90 days past due		145.2%	113.0%	
Number of branches in Portugal				
BCP		413	402	2.7%
BCP/Atlântico Group		802	738	8.7%
Number of employees				
BCP		3,671	4,428	-17.1%
BCP/Atlântico Group		11,917	11,703	1.8%

(ECU exchange rate: 201.909 Escudos as at 30 September, 1998)

⁽¹⁾ Net of trading losses

⁽²⁾ Excluding trading losses



**CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER, 1998 AND 1997**

ASSETS	1998	1998	1997
	(Thousands of ECU)	(Thousands of Escudos)	
Cash and deposits at the			
Bank of Portugal	357,063	72,094,159	49,456,691
Loans and advances to credit institutions			
Repayable on demand	436,604	88,154,315	81,684,179
Other loans and advances	3,777,663	762,744,142	1,167,117,691
Loans and advances to customers	16,541,094	3,339,795,817	2,544,303,932
Securities	5,421,389	1,094,627,194	1,027,945,706
Investments	495,922	100,131,203	101,122,868
Intangible assets	691,737	139,667,876	223,185,832
Tangible assets	913,313	184,406,049	187,385,631
Other debtors	723,010	145,982,153	99,798,280
Prepayments and accrued income	911,704	184,081,179	207,189,623
	30,269,499	6,111,684,087	5,689,190,433
LIABILITIES			
Amounts owed to credit institutions			
Repayable on demand	352,965	71,266,846	66,225,829
With agreed maturity date	6,847,352	1,382,542,009	1,296,282,778
Amounts owed to customers			
Repayable on demand	5,838,844	1,178,915,074	975,259,609
With agreed maturity date	8,801,869	1,777,176,581	1,858,660,421
Debt securities	1,103,458	222,798,013	219,548,192
Other liabilities	591,780	119,485,675	113,289,343
Accruals and deferred income	1,075,225	217,097,370	199,721,668
Provision for liabilities and charges	2,463,892	497,481,918	362,880,148
Subordinated debt	757,156	152,876,706	148,617,662
Total Liabilities	27,832,541	5,619,640,192	5,240,485,650
SHAREHOLDERS' EQUITY			
Share capital	975,534	196,969,000	150,000,000
Share premium	571,053	115,300,795	33,324,282
Reserves and retained earnings	(69,039)	(13,939,561)	45,902,018
Treasury stock	(26,495)	(5,349,505)	(349,404)
Total Shareholders' Equity	1,451,053	292,980,729	228,876,896
Minority interests in subsidiaries	509,664	102,905,825	85,231,153
Minority interests in preference shares	476,241	96,157,341	134,596,734
Total Minority Interests	985,905	199,063,166	219,827,887
	30,269,499	6,111,684,087	5,689,190,433

**CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER, 1998 AND 1997**

	1998	1998	1997
	(Thousands of ECU)	(Thousands of Escudos)	
Interest income	1,309,219	264,343,155	297,382,469
Interest expense	726,145	146,615,203	190,038,059
Net interest income	583,074	117,727,952	107,344,410
Provision for loan losses	101,458	20,485,211	16,601,809
Net interest income after provision for loan losses	481,616	97,242,741	90,742,601
Other operating income			
Income from securities	45,176	9,121,412	9,502,721
Commissions	256,196	51,728,336	37,655,723
Profit arising from trading activity	324,659	65,551,619	104,798,064
Insurance premiums	648,243	130,886,171	95,758,325
Other income	98,426	19,873,095	20,655,378
Gains on sale of shares of subsidiaries and associated companies	177,557	35,850,337	1,964,639
	1,550,257	313,010,970	270,334,850
Other operating expenses			
Commissions	39,215	7,917,769	6,736,620
Losses arising from trading activity	188,427	38,045,159	75,439,545
Staff costs	342,171	69,087,475	64,906,419
Other administrative costs	227,971	46,029,436	42,988,643
Depreciation	110,642	22,339,530	21,033,280
Other provisions	505,220	102,008,378	57,166,610
Claims incurred in the insurance activity	241,644	48,790,136	37,040,823
Other expenses	39,768	8,029,863	10,085,831
	1,695,058	342,247,746	315,397,771
Income before income taxes	336,815	68,005,965	45,679,680
Income taxes	50,146	10,125,000	7,670,687
Net income	286,669	57,880,965	38,008,993
Minority interests	82,112	16,579,081	18,817,490
Net income for the year attributable to the Bank	204,557	41,301,884	19,191,503

(ECU exchange rate: 201.909 Escudos as at 30 September, 1998)