PORTUGAL REPUBLIC

*EJR Sen Rating(Curr/Prj) BBB-/ BBB-

*EJR CP Rating: A2

*EJR's 3 yr. Default Probability: 2.3%

Rating Analysis - 8/19/20

According to OECD, Portugal's economy is projected to shrink by 11.3% in 2020, should a second pandemic outbreak hit at the end of 2020 (the double-hit scenario). Assuming a single wave of the pandemic (the single-hit scenario), GDP is expected to decline by 9.4% in 2020, with a rebound of 6.3% in 2021. EJR expects the recovery to be slower due to prolonged export weaknesses, heightened uncertainty, additional bankruptcies, and prolonged unemployment spells.

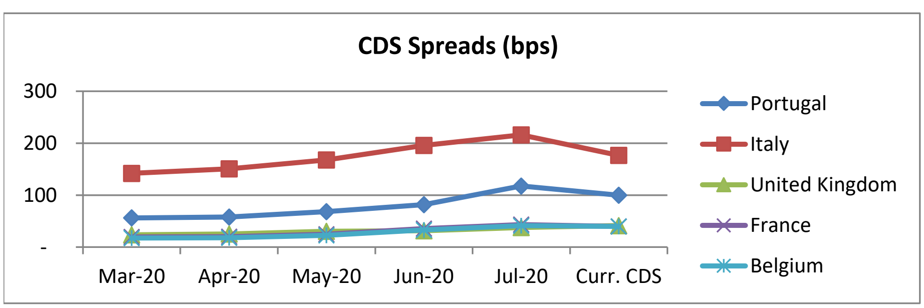
Consumer and industrial confidence indicators fell significantly in March and hit record lows in April. These were again accentuated with economic climate indicator rising to -2.9 in July 2020 from an all-time low of -4.3 in the previous month, as the economy recovers from the coronavirus shock. Still, the reading was among the weakest on record. Notable policy measures to boost demand and investment after the confinement include the creation of a development bank, the extension of the income support measures for households and of moratorium and credit lines to companies, and further increasing the capacity of the National Health Services are all pos. But given the fiscal strain and rising levels of indebtedness, we are affirming.

Annual Ratios
(source for past results: IMF, CountryEconomy)

CREDIT POSITION	2017	2018	2019	P2020	P2021	P2022
Debt/ GDP (%)	126.2	122.2	117.7	119.6	121.4	122.9
Govt. Sur/Def to GDP (%)	-3.8	-1.1	-0.7	-0.6	-0.5	-0.4
Adjusted Debt/GDP (%)	126.2	122.2	117.7	119.6	121.4	122.9
Interest Expense/ Taxes (%)	15.2	13.4	12.0	12.0	12.0	12.0
GDP Growth (%)	5.2	4.1	3.9	2.3	2.3	2.5
Foreign Reserves/Debt (%)	3.2	2.7	1.7	1.2	0.3	-0.2
Implied Sen. Rating	BBB-	BBB	BBB	BBB	BBB-	BBB-

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

PEER RATIOS	Other NRSROs	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic of Germany	AAA	59.8	1.6	59.8	3.3	2.5	AA
French Republic	AA	98.1	-2.5	98.1	4.7	2.9	A+
Kingdom of Belgium	AA	98.7	-1.5	98.7	6.6	4.8	AA+
Republic of Italy	BBB-	134.8	-2.1	134.8	11.7	1.6	BBB
United Kingdom	AA	88.1	-1.2	88.1	8.0	4.3	AA+



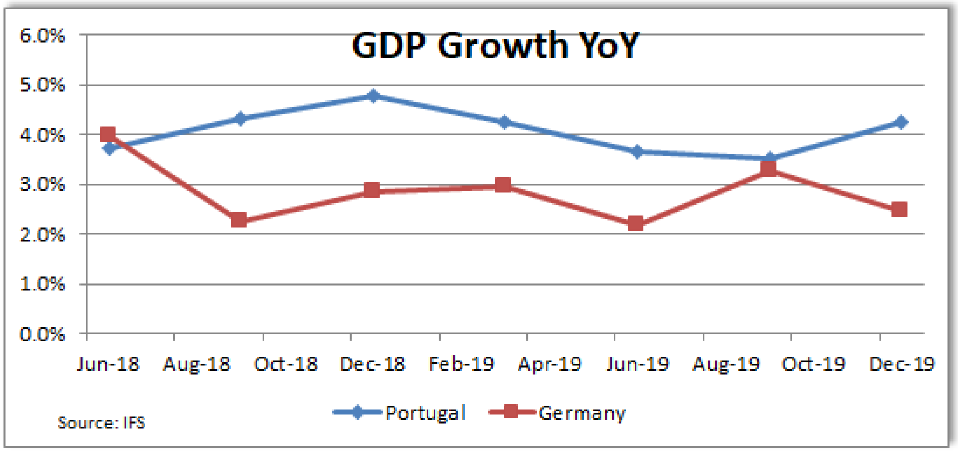
(Source: Thomson Reuters)

Country	EJR Rtg.	CDS
Portugal	BBB-	100
Italy	BBB-	177
United Kingdom	BBB	41
France	A+	40
Belgium	A+	40

*EJR Sen Rating(Curr/Prj) BBB-/ BBB-
*EJR CP Rating: A2
*EJR's 3 yr. Default Probability: 2.3%

Economic Growth

Portugal's Q2 GDP shrank 14.1% - the biggest contraction ever, as lockdowns imposed to contain the spread of the coronavirus hit key sectors of the economy. Last year, Portugal's GDP grew 2.2% while unemployment was 6.5%, near record lows. But the economy depends on tourism, which accounts for up to 15% of GDP and has suffered from the coronavirus lockdowns in Portugal and abroad. The central bank sees Portuguese GDP contracting 9.5% in 2020 (OECD expects GDP to fall by 11.3%), after growing 2.2% in 2019.



Fiscal Policy

The government has introduced a wide range of measures to shore up the economy, including a post-COVID fiscal package. As a first response to the pandemic, discretionary fiscal spending, public guarantees for loans and the deferral of tax payments (amounting to 0.9%, 3.3% and 3.7% of GDP respectively) were introduced. Public debt was declining but still high before the pandemic (118% of GDP in 2019). Additional spending will turn the fiscal surplus into a sizeable deficit. Combined with the deep economic contraction, this could increase public debt in 2021 to 131% of GDP (Maastricht definition) in the single-hit scenario and up to 138% of GDP in the double-hit scenario.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Portugal	-0.69	125.70	99.99
Germany	1.58	64.10	22.28
France	-2.53	97.00	39.75
Belgium	-1.52	103.10	41.42
Italy	-2.09	131.80	176.76
United Kingdom	-1.24	87.40	39.72

Sources: Thomson Reuters, IFS and Country Economy

Unemployment

The unemployment rate in Portugal fell to 5.6 percent in the second quarter of 2020 from 6.7 percent in the previous three-month period. The number of unemployed dropped by 20 percent from the previous quarter to 278.4 thousand and employment declined by 2.8 percent to 4.73 million, of which 680.1 thousand people were absent from work, an increase of about ten times more people than in the previous quarter. Youth unemployment rate, measuring jobseekers between 20 and 24 years old, went up to 19.9 percent from 19.7 percent in the prior period.

Unemployment (%)	2018	2019
Portugal	7.05	6.33
Germany	3.40	3.20
France	9.11	8.43
Belgium	5.98	5.44
Italy	10.62	9.90
United Kingdom	4.09	3.80

Source: Intl. Finance Statistics

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Banking Sector

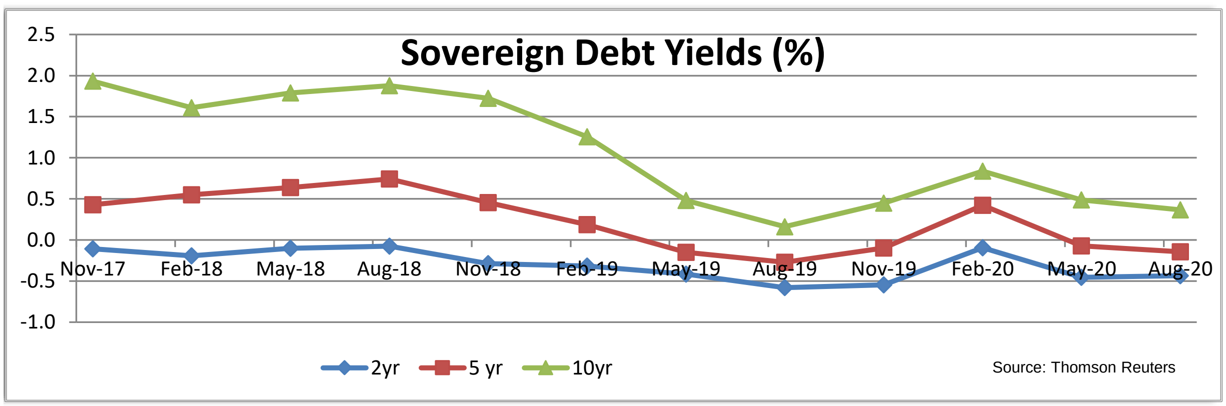
Government and regulator have initiated debt reduction policies (i.e. by converting loans into grants), which will not only avoid foreclosure waves, but also avoid debt overhang problems that might hamper investment. The value of loans in Portugal increased 4.60 percent in May of 2020 over the same month in the previous year, but more needs to be done to help jumpstart the economy. Portugal's Non-Performing Loans Ratio stood at 2.9% in May 2020, flat on a MoM basis - a positive. The Portuguese government has asked for €5.9 billion loan from EU’s SURE to finance furlough scheme – the request is equivalent to 2.8% of GDP.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
Banco Comercial Portugues SA	81.6	1.93
Banco BPI SA	31.6	6.75
BANIF BANCO INTERNACIONAL DO	13.1	1.76
Total	126.3	
EJR's est. of cap shortfall at 10% of assets less market cap		8.7
Portugal's GDP		212.2

Funding Costs

Portugal 5 Years CDS value is at 56.1, which reveals a 0.94% implied probability of default, on a supposed 40% recovery rate. Bank Lending Rate in Portugal increased to 1.84% in June'20 from 1.63% in May 2020.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 39 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*

	2019 Rank	2018 Rank	Change in Rank
Overall Country Rank:	**39**	**29**	**-10**
Scores:			
Starting a Business	63	48	-15
Construction Permits	60	32	-28
Getting Electricity	52	58	6
Registering Property	35	28	-7
Getting Credit	119	105	-14
Protecting Investors	61	57	-4
Paying Taxes	43	38	-5
Trading Across Borders	1	1	0
Enforcing Contracts	38	19	-19
Resolving Insolvency	15	15	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Portugal is above average in its overall rank of 67.0 for Economic Freedom with 100 being best.

Heritage Foundation 2020 Index of Economic Freedom
World Rank 67.0*

	2020 Rank**	2019 Rank	Change in Rank	World Avg.
Property Rights	75.4	71.5	3.9	56.6
Government Integrity	68.9	64.3	4.6	43.8
Judicial Effectiveness	65.6	59.5	6.1	45.1
Tax Burden	59.6	59.9	-0.3	77.3
Gov't Spending	39.8	35.6	4.2	66.0
Fiscal Health	74.4	69.8	4.6	69.1
Business Freedom	76.5	79.7	-3.2	63.3
Labor Freedom	44.1	44.3	-0.2	59.4
Monetary Freedom	83.0	83.0	0.0	74.6
Trade Freedom	86.4	86.0	0.4	73.8

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:
PORTUGAL REPUBLIC has grown its taxes of 2.7% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 2.7% per annum over the next couple of years and 2.7% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
PORTUGAL REPUBLIC's total revenue growth has been more than its peers and we assumed a 3.7%growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr. 1&2	Yr. 3,4,5
Taxes Growth%	3.1	2.7	**2.7**	**2.7**
Social Contributions Growth %	3.2	6.3	**6.0**	**6.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	3.5	**5.4**	**5.4**
Total Revenue Growth%	2.8	3.8	**3.7**	**3.3**
Compensation of Employees Growth%	3.1	4.4	**4.4**	**4.4**
Use of Goods & Services Growth%	2.8	(0.7)	**(0.7)**	**(0.7)**
Social Benefits Growth%	3.2	4.3	**4.3**	**4.3**
Subsidies Growth%	7.3	18.0		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.6	**2.6**	**2.6**
Currency and Deposits (asset) Growth%	1.7	0.0		
Securities other than Shares LT (asset) Growth%	7.3	0.0		
Loans (asset) Growth%	0.8	2.1	**2.1**	**2.1**
Shares and Other Equity (asset) Growth%	7.9	14.3	**14.3**	**14.3**
Insurance Technical Reserves (asset) Growth%	1.8	0.0		
Financial Derivatives (asset) Growth%	7.6	50.2	**2.7**	**2.7**
Other Accounts Receivable LT Growth%	(0.3)	2.8	**2.7**	**2.7**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.7	(3.2)	**3.0**	**3.0**
Currency & Deposits (liability) Growth%	1.0	3.0	**3.0**	**3.0**
Securities Other than Shares (liability) Growth%	7.1	6.8	**4.8**	**4.8**
Loans (liability) Growth%	(2.4)	(3.7)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	5.9	(1.8)	**(1.8)**	**(1.8)**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are PORTUGAL REPUBLIC's annual income statements with the projected years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(MILLIONS EUR)

	2016	2017	2018	2019	P2020	P2021
Taxes	46,270	48,569	51,636	53,013	54,444	55,914
Social Contributions	21,610	22,694	23,836	25,343	26,864	28,475
Grant Revenue						
Other Revenue						
Other Operating Income	12,126	11,842	12,222	12,652	12,652	12,652
Total Revenue	80,006	83,105	87,694	91,008	93,960	97,042
Compensation of Employees	20,895	21,386	21,834	22,800	23,809	24,862
Use of Goods & Services	10,348	10,572	11,066	10,992	10,918	10,845
Social Benefits	35,483	36,013	37,099	38,685	40,339	42,063
Subsidies	927	823	752	887	887	887
Other Expenses				7,107	7,107	7,107
Grant Expense						
Depreciation	5,123	5,236	5,339	5,619	5,619	5,619
Total Expenses excluding interest	78,117	83,251	83,085	86,090	88,679	91,384
Operating Surplus/Shortfall	1,889	-146	4,609	4,918	5,281	5,658
Interest Expense	7,739	7,398	6,897	6,379	6,542	6,709
Net Operating Balance	-5,848	-7,544	-2,286	-1,460	-1,261	-1,051

*EJR Sen Rating(Curr/Prj) BBB-/ BBB-
*EJR CP Rating: A2
*EJR's 3 yr. Default Probability: 2.3%

ANNUAL BALANCE SHEETS

Below are PORTUGAL REPUBLIC's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
ASSETS	2016	2017	2018	2019	P2020	P2021
Currency and Deposits (asset)	22,520	19,887	16,645	14,508	15,816	15,816
Securities other than Shares LT (asset)	3,361	2,688	3,241	5,626	5,626	5,626
Loans (asset)	5,235	5,149	5,069	5,176	5,285	5,397
Shares and Other Equity (asset)	35,519	35,467	35,841	40,968	46,828	53,527
Insurance Technical Reserves (asset)	69	66	64	65	65	65
Financial Derivatives (asset)	2,194	549	436	655	673	691
Other Accounts Receivable LT	12,002	11,967	12,524	12,871	13,219	13,575
Monetary Gold and SDR's						
Other Assets						
Additional Assets	2	1				
Total Financial Assets	80,902	75,774	73,820	79,869	87,512	94,698
LIABILITIES						
Other Accounts Payable	14,166	13,903	13,013	12,592	12,970	13,359
Currency & Deposits (liability)	27,284	29,952	31,334	32,283	32,283	32,283
Securities Other than Shares (liability)	139,905	160,276	167,729	179,154	187,696	196,646
Loans (liability)	87,772	76,449	69,700	67,092	68,353	69,404
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)	1,214	1,504	886	870	854	839
Other Liabilities	1,990	2,276	93	96	96	96
Liabilities	272,331	284,360	282,755	292,087	300,991	309,228
Net Financial Worth	-191,429	-208,586	-208,935	-212,218	-213,479	-214,530
Total Liabilities & Equity	80,902	75,774	73,820	79,869	87,512	94,698

Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ ABS issuers.

Comments on the Difference between the Model and Assigned Rating
In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "BBB-" whereas the ratio-implied rating for the most recent period is "BBB"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios
We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer PORTUGAL REPUBLIC with the ticker of 1174Z PL we have assigned the senior unsecured rating of BBB-. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses publicly available information from the IMF, governmental filings, and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:

The information is generally adequate and acceptable.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			**Resulting Ratio-Implied Rating**		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	2.7	6.7	(1.3)	BBB	BBB	BBB-
Social Contributions Growth %	6.0	9.0	3.0	BBB-	BBB-	BBB-
Other Revenue Growth %	0.0	3.0	(3.0)	BBB-	BBB-	BBB-
Total Revenue Growth%	3.7	5.7	1.7	BBB-	BBB-	BBB-
Monetary Gold and SDR's Growth %	2.7	4.7	0.7	BBB-	BBB-	BBB-

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

…………………………………………………..

Subramanian NG
Senior Rating Analyst

Today's Date

August 19, 2020
……………………………………….

Reviewer Signature:

Steve Zhang
…………………………………………………..

Steve Zhang
Senior Rating Analyst

Today's Date

August 19, 2020
……………………………………….

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings.

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.