BANCO COMERCIAL PORTUGUÊS, S.A.

(incorporated with limited liability in Portugal)

Euro 12,500,000,000
COVERED BONDS PROGRAMME

Banco Comercial Português, S.A. (the "**Issuer**" or the "**Bank**") is an authorised credit institution for the purposes of Decree-Law 59/2006, of 20 March 2006 (as amended, the "**Covered Bonds Law**"). The Covered Bonds (as defined below) will constitute mortgage covered bonds for the purposes, and with the benefit, of the Covered Bonds Law. The Issuer's legal name is Banco Comercial Português, S.A. and uses "Millennium bcp" as a brand name. The Issuer and its subsidiaries are together referred to in this Base Prospectus as the "**Group**".

Under this Euro 12,500,000,000 Covered Bonds Programme (the "**Programme**"), the Issuer may from time to time issue mortgage covered bonds (the "**Covered Bonds**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Covered Bonds will be issued in book entry form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed Euro 12,500,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein. Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under *Overview of the Covered Bonds Programme* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Covered Bonds.

See *Risk Factors* for a discussion of certain risk factors to be considered in connection with an investment in the Covered Bonds.

This base prospectus (the "**Base Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under the Prospectus Directive. When used in this Base Prospectus, "**Prospectus Directive**" means Directive 2003/71/EC (as amended or superseded), and, where the context so requires in this section, shall include any relevant implementing measure in a relevant Member State of the European Economic Area. The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to the Covered Bonds which are to be admitted to trading on the regulated market of the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") or on another regulated market for the purposes of Directive 2014/65/EU and/or that are to be offered to the public in any member state of the European Economic Area ("**EEA**") in circumstances that require the publication of a prospectus.

This Base Prospectus, as approved and published by the Central Bank, in accordance with the requirements of the Prospectus Directive, comprises a base prospectus in respect of all Covered Bonds other than Exempt Covered Bonds (as defined below) for the purposes of the Prospectus Directive and for the purpose of giving information with regard to Covered Bonds issued under the Programme during the period of 12 months after the date hereof.

Application has been made to Euronext Dublin for Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to its Official List (the "**Official List**") and trading on its regulated market. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market or admitted to trading on any other market which is not a regulated market as described in the next paragraph.

The requirement to publish a prospectus under the Prospectus Directive only applies to Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive. References in this Base Prospectus to "**Exempt Covered Bonds**" are to Covered Bonds for which no prospectus is required to be published under the Prospectus Directive. Information contained in this Base Prospectus regarding Exempt Covered Bonds shall not be deemed to form part of this Base Prospectus and the Central Bank has neither approved or reviewed such information.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined under *Terms and Conditions of the Covered Bonds*) of Covered Bonds will (other than in the case of Exempt Covered Bonds) be set out in a final terms document (the "**Final Terms**") which will be delivered to the Central Bank and, if admitted to trading on its regulated market, to Euronext Dublin. Copies of Final Terms in relation to Covered Bonds to be listed on Euronext Dublin will also be published on the website of the Central Bank. In the case of Exempt Covered Bonds, the issue price of the Covered Bonds and certain other information which is applicable to each Tranche will be set out in a pricing supplement document (the "**Pricing Supplement**").

Arranger
Barclays Bank PLC

Co-Arranger
Millennium Investment Banking

Dealers

Banco Santander Totta, S.A.	Barclays Bank PLC	Barclays Bank Ireland PLC
BNP PARIBAS	BofA Merrill Lynch	Citigroup
Commerzbank	Crédit Agricole CIB	Credit Suisse
Deutsche Bank	DZ BANK AG	HSBC
J.P. Morgan	Millennium Investment Banking	Morgan Stanley
Natixis	NatWest Markets	Nomura
Société Générale Corporate & Investment Banking	UBS Investment Bank	UniCredit Bank

The date of this Base Prospectus is 15 May 2019.

IMPORTANT INFORMATION AND RESPONSIBILITY STATEMENTS

In respect of the Issuer, this Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive for the purpose of giving information with regard to the Issuer which, according to the nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, as well as of the features and characteristics of the Covered Bonds.

The format and contents of this Base Prospectus comply with the relevant provisions of the Prospectus Directive and all laws and regulations applicable thereto.

The Issuer accepts responsibility for the information contained in this Base Prospectus and in the Final Terms for each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The only persons authorised to use this Base Prospectus in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms as the relevant Dealer or the Managers.

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see *Documents Incorporated by Reference*). This Base Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Base Prospectus.

No person has been authorised to give any information or to make any representation not contained in, or not consistent with, this Base Prospectus or any other information supplied in connection with the issue or sale of the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arrangers (as defined in *Definitions*), the Common Representative (as defined in *Definitions*) or any of the Dealers. Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing such information.

The Arrangers, the Common Representative and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, amongst other things, the most recent financial statements, if any, of the Issuer when deciding whether or not to purchase any Covered Bonds.

As at the date of this Base Prospectus short-term and long-term senior obligations of the Issuer are rated, respectively, "NP" and "Ba2 " by Moody's Investors Service España, S.A., "B" and "BB" by S&P Global Ratings Europe Limited, "B" and "BB" by Fitch France – Société par Actions Simplifiée and "R-3" and "BB (high)" by any entity that is part of DBRS Group and any successor to the relevant rating agency.

Series of Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Covered Bonds). The rating of Covered Bonds may not be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Each of Moody's Investors Service España S.A., S&P Global Ratings Europe Limited, Fitch France – Société par Actions Simplifiée and the relevant DBRS entity is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**").

As such Moody's Investors Service España S.A., S&P Global Ratings Europe Limited, Fitch France – Société par Actions Simplifiée and the relevant DBRS entity are included in the list of rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

BENCHMARKS REGULATION - Amounts payable on Floating Rate Covered Bonds (as described under "*Terms and Conditions of the Covered Bonds*") will be calculated by reference to the London Interbank Offered Rate ("**LIBOR**") or the Euro Interbank Offered Rate ("**EURIBOR**") as specified in the relevant Final Terms. As at the date of this Base Prospectus, only the administrator of LIBOR (ICE Benchmark Administration Limited) is included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**"). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that European Money Markets Institute (the administrator of EURIBOR) is not currently required to obtain authorisation or registration.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Covered Bonds (or Pricing Supplement, in the case of Exempt Covered Bonds) includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016, on insurance distribution (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms in respect of any Covered Bonds (or Pricing Supplement, in the case of Exempt Covered Bonds) will include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of

Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arrangers and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers or the Dealers (save for application for the approval by the Central Bank of this Base Prospectus as a base prospectus for the purposes of the Prospectus Directive) which would permit a public offering of any Covered Bonds or the distribution of this Base Prospectus or any other offering material relating to the Programme or the Covered Bonds issued thereunder in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material relating to the Programme or the Covered Bonds issued thereunder may be distributed or published in any jurisdiction, except under circumstances that would result in compliance with any applicable securities laws and regulations. Each Dealer has represented or, as the case may be, will be required to represent that to the best of its knowledge all offers and sale by it will be made on the terms indicated above. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of the Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the EEA (including Italy, Portugal and the United Kingdom) and Japan. See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

The Arrangers, the Common Representative and the Dealers have not separately verified the information contained or incorporated in this Base Prospectus. Accordingly, none of the Arrangers, the Common Representative or the Dealers makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained or incorporated by reference in this Base Prospectus. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the Covered Bonds is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arrangers, the Common Representative or the Dealers that any recipient of this Base Prospectus or any other financial information supplied in connection with the Programme should purchase the Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer, the Arrangers, the Common Representative or any of the Dealers to subscribe for or to purchase any Covered Bonds.

Any offer of Covered Bonds in any Member State of the European Economic Area (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of Covered Bonds which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Covered Bonds may not be a suitable investment for all investors. Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;

- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;

- understands thoroughly the terms of the relevant Covered Bonds and is familiar with the behaviour of any relevant indices and financial markets; and

- is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**") or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States and are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account of or benefit of, U.S. persons, as defined in Regulation S under the Securities Act, unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction (see *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements* below).

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, to "**U.S.$**", "**USD**" or "**U.S. dollars**" are to United States dollars, the lawful currency of the United States of America, and to "**£**" or "**GBP**" or "**pounds sterling**" are to pounds sterling, the lawful currency of the United Kingdom.

This Base Prospectus is drawn up in the English language. In case there is any discrepancy between the English text and the Portuguese text, the English text stands approved for the purposes of approval under the Prospectus (Directive 2003/71/EC) Regulations 2005.

TABLE OF CONTENTS

In connection with the issue of any Tranche (as defined in *Terms and Conditions of the Covered Bonds*), one or more Dealers (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

OVERVIEW OF THE COVERED BONDS PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms (or, in the case of Exempt Covered Bonds, the applicable Pricing Supplement). Any reference in this section to "applicable Final Terms" or "relevant Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" or "relevant Pricing Supplement", respectively, where relevant.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004, as amended, implementing the Prospectus Directive.

Capitalised terms used in this overview and not otherwise defined below or under Definitions have the respective meanings given to those terms elsewhere in this Base Prospectus.

Description:	Covered Bonds Programme.
Programme size:	Up to Euro 12,500,000,000 (or its equivalent in other currencies, all calculated as described under *General Description of the Programme*) aggregate principal amount (or, in the case of Covered Bonds issued at a discount, their aggregate nominal value) of Covered Bonds outstanding at any time. The Issuer will have the option at any time to increase the amount of the Programme, subject to compliance with the relevant provisions of the Programme Agreement.
Issuer:	Banco Comercial Português, S.A.
Issuer Legal Entity Identifier:	JU1U6S0DG9YLT7N8ZV32
Arranger:	Barclays Bank PLC.
Co-Arranger:	Banco Comercial Português, S.A.
Dealers:	Banco Comercial Português, S.A., Banco Santander Totta, S.A., Barclays Bank Ireland PLC, Barclays Bank PLC, BNP Paribas, BofA Securities Europe SA, Citigroup Global Markets Europe AG, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, HSBC France, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, NatWest Markets N.V., NatWest Markets Plc, Nomura International plc, Société Générale, UBS Europe SE and UniCredit Bank AG and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.
Common Representative:	Deutsche Trustee Company Limited in its capacity as

representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

Agent:	Banco Comercial Português, S.A., in its capacity as Agent, with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal.
Paying Agent:	Banco Comercial Português, S.A., in its capacity as Paying Agent, with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal, and any other Paying Agent appointed from time to time by the Issuer in accordance with the Programme Documents.
Cover Pool Monitor:	Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the "*Comissão do Mercado de Valores Mobiliários*" (**CMVM**) with registration number 20161389, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon, Portugal. See *Cover Pool Monitor.*
Hedge Counterparties:	The parties or party (each, a "**Hedge Counterparty**" and together, the "**Hedge Counterparties**") that, from time to time will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Covered Bonds issued under the Programme, including, *inter alia*, those set out under *Risk Factors* below. In addition, there are risk factors which are material for the purpose of assessing the other risks associated with Covered Bonds issued under the Programme. These are also set out in detail under *Risk Factors* below and include, *inter alia*, the dynamics of the legal and regulatory requirements and the risks related to the structure of a particular issue of Covered Bonds.
Distribution:	Covered Bonds may be distributed by way of private placement and on a non-syndicated or syndicated basis. The method of distribution of each Tranche of Covered Bonds will be stated in the applicable Final Terms. Covered Bonds will be issued and placed only outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.
Certain Restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines,

	regulations, restrictions or reporting requirements from time to time (see *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*).
Currencies:	Subject to compliance with relevant laws, Covered Bonds may be issued in any currency agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
Ratings:	Series of Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Covered Bonds). The rating of Covered Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing and Admission to Trading:	Application has been made to Euronext Dublin for Covered Bonds issued under the Programme to be admitted to its Official List and trading on its regulated market. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market or Covered Bonds admitted to trading on other regulated markets for the purposes of Directive 2014/65/EU, as amended, or on any other market which is not a regulated market. The relevant Final Terms will state on which stock exchange(s) and/or market(s) the relevant Covered Bonds are to be listed and/or admitted to trading (if any).
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA (including Italy, Portugal and the United Kingdom) and Japan as set out in S*ubscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.
United States Selling Restriction:	The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. Accordingly, the Covered Bonds are being offered and sold only outside the United States in reliance upon Regulation S under the Securities Act. There may also be restrictions under United States federal tax laws on the offer or sale of Covered Bonds to U.S. persons; Covered Bonds may not be sold to U.S. persons except in accordance with United States Treasury regulations as set forth in the applicable Final Terms. See

	Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements.
Use of Proceeds:	Proceeds from the issue of Covered Bonds will be used by the Issuer for its general corporate purposes.
Status of the Covered Bonds:	The Covered Bonds will constitute direct, unconditional and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves. The Covered Bonds will be mortgage covered bonds issued by the Issuer in accordance with the Covered Bonds Law and, accordingly, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law, and will rank *pari passu* with all other obligations of the Issuer under mortgage covered bonds issued or to be issued by the Issuer pursuant to the Covered Bonds Law. See *Characteristics of the Cover Pool*.
Terms and Conditions of the Covered Bonds:	Final Terms will be prepared in respect of each Tranche of Covered Bonds, completing the Terms and Conditions of the Covered Bonds set out in *Terms and Conditions of the Covered Bonds*. A Pricing Supplement will be prepared in respect of each Tranche of Exempt Covered Bonds and may replace, modify or supplement the Terms and Conditions of the Covered Bonds.
Clearing System:	Interbolsa. See *Form of the Covered Bonds and Clearing Systems*. Without prejudice to the foregoing, investors will be able to hold an interest in the Covered Bonds through Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), who are clients of an Interbolsa Participant for these purposes.
Form of the Covered Bonds:	The Covered Bonds will be in book-entry form (*forma escritural*) and are *nominativas* (i.e. Interbolsa, at the Issuer's request, can ask the Interbolsa Participants information regarding the identity of the holders of Covered Bonds and transmit such information to the Issuer) and thus title to such Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of the Covered Bonds. See *Form of the Covered Bonds and Clearing System*.
Transfer of Covered Bonds:	The Covered Bonds may be transferred in accordance with the provisions of Interbolsa. The transferability of the Covered Bonds is not restricted.
Maturities:	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body), the Covered Bonds Law or any laws or regulations applicable to the

	Issuer or the relevant Specified Currency. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than two years or in excess of 50 years. See also *Extended Maturity Date*.
Issue Price:	The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.
Events of Default:	Issuer Insolvency. See *Terms and Conditions of the Covered Bonds*.
Negative Pledge:	None.
Cross Default:	None.
Guarantor:	None.
Fixed Rate Covered Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
Floating Rate Covered Bonds:	Floating Rate Covered Bonds will bear interest determined separately for each Series as follows: • on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. ("**ISDA**") and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or • on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms. In the event a Benchmark Event occurs (a) a Successor Rate or, failing which, an Alternative Reference Rate, and (b) in either case, an Adjustment Spread may be used for the purposes of determining the Rate of Interest.
Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.
Exempt Covered Bonds:	The Issuer may agree with any Dealer that Exempt Covered

Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds, in which event the relevant provisions will be included in the applicable Pricing Supplement, which will replace, modify or supplement those Terms and Conditions.

Redemption: The applicable Final Terms relating to each Tranche of Covered Bonds will specify either (i) that the relevant Covered Bonds cannot be redeemed prior to their stated maturity, save as provided for in the Covered Bonds Law (see *The Covered Bonds Law*), or (ii) that the relevant Covered Bonds will be redeemable at the option of the Issuer and/or the holder of Covered Bonds upon giving notice to the holder of Covered Bonds or the Issuer (as applicable), on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s). See also *Extended Maturity Date*.

Extended Maturity Date: Unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such provisions, the applicable Final Terms will also provide that an Extended Maturity Date applies to each Series of the Covered Bonds.

As regards redemption of Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date (or within two Business Days thereafter), the maturity of the principal amount outstanding of the Covered Bonds not redeemed will automatically extend on a monthly basis up to one year but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms.

As regards interest on Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date (or within two Business Days thereafter), the Covered Bonds will bear interest on the principal amount outstanding of the Covered Bonds from (and including) the Maturity Date to (but excluding) the earlier of the Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full and the Extended Maturity Date and will be payable in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date in arrear or as otherwise provided for in the applicable Final Terms on each Interest Payment Date after the Maturity Date at the rate provided for in the applicable Final Terms.

In the case of a Series of Covered Bonds to which an Extended

Maturity Date so applies, those Covered Bonds may for the purposes of the Programme be:

(a) Fixed Rate Covered Bonds, Zero Coupon Covered Bonds or Floating Rate Covered Bonds in respect of the period from the Issue Date to (and including) the Maturity Date; or

(b) Fixed Rate Covered Bonds or Floating Rate Covered Bonds in respect of the period from (but excluding) the Maturity Date to (and including) the Extended Maturity Date, as set out in the applicable Final Terms.

In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date applies, the initial outstanding principal amount on the Maturity Date for the above purposes will be the total amount otherwise payable by the Issuer but unpaid on the relevant Covered Bonds on the Maturity Date.

Denomination of Covered Bonds:

Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer, save that the denomination of each Covered Bond (other than an Exempt Covered Bond) will be at least EUR 100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or, in any case only if higher than EUR 100,000, any other specified denomination as may be allowed or required from time to time by the relevant central bank or supervisory authority (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Each Series will have Covered Bonds of one denomination only.

Taxation of the Covered Bonds:

All payments in respect of the Covered Bonds will be made without deduction for, or on account of, withholding taxes imposed by any jurisdiction, unless the Issuer shall be obliged by law to make such deduction or withholding. The Issuer will not be obliged to make any additional payments in respect of any such withholding or deduction imposed. See *Taxation*.

The Covered Bonds Law:

The Covered Bonds Law introduced into Portuguese law a framework for the issuance of certain types of asset covered bonds. Asset covered bonds can only be issued by (i) credit institutions licensed under the Banking Law or (ii) by special credit institutions created pursuant to the Covered Bonds Law, whose special purpose is the issue of covered bonds. The Covered Bonds Law establishes that issuers of mortgage covered bonds shall maintain a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, over which the holders of the relevant covered bonds have a statutory special creditor privilege.

The Covered Bonds Law also provides for (i) the inclusion of certain hedging contracts in the relevant cover pool and (ii) certain special rules that apply in the event of insolvency of the Issuer. The Covered Bonds Law and the Bank of Portugal Regulations further provide for (i) the supervision and regulation of issuers of covered bonds by the Bank of Portugal, (ii) the role of a cover pool monitor in respect of each issuer of covered bonds and the relevant cover pool maintained by it, (iii) the role of the common representative of the holders of covered bonds, (iv) restrictions on the types and status of the assets comprised in a cover pool (including loan to value restrictions, weighted average interest receivables and weighted average maturity restrictions), and (v) asset/liability management between the cover pool and the covered bonds. See *Characteristics of the Cover Pool*, *Insolvency of the Issuer*, *Common Representative of the Holders of Covered Bonds* and *The Covered Bonds Law*.

The Covered Bonds issued by the Issuer will qualify as mortgage covered bonds for the purposes of the Covered Bonds Law. The Covered Bonds will be senior obligations of the Issuer and will rank equally with all other Covered Bonds which may be issued by the Issuer. In the event of an insolvency of the Issuer, the holders of the Covered Bonds issued by the Issuer, together with the Other Preferred Creditors, will have recourse under the Covered Bonds Law to the Cover Pool in priority to other creditors (whether secured or unsecured) of the Issuer who are not preferred creditors under the Covered Bonds Law. See *Characteristics of the Cover Pool* and *Insolvency of the Issuer.*

Governing Law: Unless otherwise specifically provided, the Covered Bonds and all other documentation relating to the Programme are governed by, and will be construed in accordance with, Portuguese law.

RISK FACTORS

Investing in financial instruments, including securities, involves risk. Before making any investment decision, one must take into consideration all the information described in this Base Prospectus and, in particular, the risks mentioned herein.

The following text describes the material risks which the Issuer believes may affect the capacity of the Issuer to comply with its duties concerning the Covered Bonds issued under the Programme. All these factors may adversely affect the business, income, results, assets and liquidity of the Group. Moreover, there may also be some unknown risks and other risks that, despite being deemed as non-relevant, may become relevant in the future. The Bank is unable to ensure that, in view of exceptionally adverse scenarios, the policies and procedures used by it to identify, monitor and manage the risks are fully efficient. The order according to which the risks are presented herein is not an indication of their relevance or occurrence probability. Investors must carefully read the information contained in this Base Prospectus or included herein by reference and reach their own conclusions before taking any investment decision.

RISKS RELATING TO THE ISSUER

RISKS RELATING TO THE PORTUGUESE ECONOMY

The Bank is highly sensitive to the evolution of the Portuguese economy, whose growth performance is uncertain.

The evolution of the Portuguese economy has a considerable impact on the Bank's business, its financial situation and net income. A substantial portion of the Bank's assets and operating profit is derived from Portugal, which accounted for 60% of the Bank's net operating revenue and 73% of total gross loans to customers in the end of 2018, compared to 61% and 75%, respectively, as at 31 December 2017. In addition, as at 31 December 2018, the Bank's holdings of EUR 6.6 billion (EUR 4 million recorded in "Financial assets at fair value through profit or loss – Held for trading"; EUR 33 million recorded in "Financial assets at fair value through profit or loss – Designated at fair value through profit or loss"; EUR 6,525 million recorded in "Financial assets at fair value through other comprehensive income" and EUR 47 million recorded in “Financial assets at amortised cost – Debt securities”) (EUR 3.6 billion as at 31 December 2017, of which EUR 10 million recorded in "Financial assets held for trading", EUR 142 million recorded in "Others financial assets at fair value through profit or loss" and EUR 3,483 million recorded in "Financial assets available for sale") in Portuguese government bonds represented 8.7% (4.8% as at 31 December 2018) of its total assets. As such, developments in the Portuguese economy have had and will continue to have a material impact on the quality of the Bank's assets, its business, financial condition, results of operations and prospects.

The evolution of the Portuguese economy since the creation of the single currency in 1999 was characterised by weak growth levels in an environment of strong debt accumulation, public and private, internal and external, and of loss of competitiveness. Consequently, the Portuguese economy was placed in a vulnerable position upon the occurrence of the international financial crisis in 2007-2008 and the sovereign debt crisis in the Eurozone periphery in 2010. Faced with an unsustainable economic model that had been followed in the previous decade, the Portuguese economy was forced to adjust in a profound and structural manner. The cumulative impact of the international financial crisis of 2007-2008 and of the European sovereign debt crisis of 2010-2011 forced the Portuguese authorities to negotiate a financial assistance programme of EUR 78 billion (the "**PAEF**"), with the International Monetary Fund ("**IMF**"), the European Commission ("**EC**") and the European Central Bank (“**ECB**”), which was formally approved on 17 May 2011, in a bid to stabilise its public finances, initiate a set of structural reforms that would promote competitiveness and stabilise the banking system.

In the short term, the structural reforms and the changes to the productive structure had a negative impact on Portuguese economic activity, which contracted by 7%, in cumulative terms, between 2011 and 2013 (source: Portugal's National Statistics Institute, September 2017).

However, as a result of the structural reforms and the fiscal consolidation, the economic situation eventually improved. Since the last quarter of 2013, the year-on-year gross domestic product ("**GDP**") growth rates have turned positive, beginning a period of sustained recovery of economic activity, which has been supported by growth of exports, alongside an improving trend in domestic demand. Recently, the recovery gained further breadth, with GDP recording annual growth rates above 2.0% in 2017 and 2018 (source: Portugal's National Statistics Institute, March 2019). In line with the economy's recovery, the unemployment rate declined to 7.0% in 2018 after reaching a peak of 17.5% in the first quarter of 2013 (source: Portugal's National Statistics Institute, November 2018). The consolidated value of the gross debt of the public administration declined from 130.6^ of GDP in 2014 to 121.5% of GDP in 2018 (source: Bank of Portugal March 2019) and the public deficit, which was 11.2% of GDP in 2010, decreased to 3.0% in 2017 and to 0.5% in 2018 (source: Portugal's National Statistics Institute, March 2019). The restructuring of balance sheets in both the public and private sectors, and growth in exports helped to reduce the external imbalance, leading to significant improvements in current and capital account balances, which have been recording consecutive surpluses since 2012 (source: Banco de Portugal, July 2018).

In spite of recent improvements, the economic context in Portugal still presents risks and there are no guarantees that the structural changes already implemented will be sufficient to provide the Portuguese economy with the competitive levers that will enable it to produce strong enough growth to absorb the high levels of public and private indebtedness and there are also no guarantees that its implementation will continue consistently. A potential materialisation of these risks constitutes an important threat to the profitability of the Bank, due to the restriction it poses to the growth of business volumes, the maintenance of loan impairment at penalising levels or lower than expected tax revenues and the weak performance of the financial assets comprising the Bank's portfolio – in particular, the Portuguese public debt securities. Any of the aforementioned could result in a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

These aspects, combined with internal risks related to the process of reducing private and public sector debt and the potential need to implement further structural reforms in the labour and products and services markets, the pressure of a still high tax burden on the real disposable income of families and companies, the possibility of political turbulence following the Fall of 2019 parliamentary elections in Portugal, which may not give a parliamentary absolute majority to any of the parties, and the need to reduce the stock of non-performing loans in order to improve stability in the financial sector, represent a challenging economic and political environment. If these risks to economic and political stability were to materialise, demand for credit would predictably fall, the cost of funding could rise and the credit quality of the loans portfolio and other segments of the asset side of the Bank's balance sheet would deteriorate. The still uncertain macroeconomic conditions in Portugal are affecting, and will continue to affect, the behaviour and financial position of the Bank's customers and, therefore, the supply and demand of the products and services offered by the Bank. In particular, it is expected that the growth of loans will remain sluggish for the forthcoming years, hindering the creation of revenue supporting net interest income. Still elevated private debt, persistent low levels of business profitability and high rates of insolvency of companies and/or households had and may continue to negatively influence customers' capacity to repay loans. Consequently, non-performing loans ("**NPLs**") may remain at high levels, which would continue to negatively impact the quality of the Bank's assets. This scenario could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Portuguese Economy is impacted by the performance and potential deterioration of foreign economies.

Since exports have been the main engine of the Portuguese economic recovery, the economic activity in the main countries receiving Portuguese exports is extremely important to the Portuguese economy. Therefore, any deterioration of economic activity in the main trading partners of Portugal (as at December 2018 and according to Portugal's National Statistics Institute, in decreasing order: Spain, France, Germany, United Kingdom, United States, Italy, Netherlands, Angola, Belgium and Brazil) could impact negatively on the recovery of Portuguese economy and lead to economic and financial difficulties and affect the achievement of budgetary and structural targets required by the European authorities under the reinforced rules on macroeconomic stability, including the Fiscal Compact or Fiscal Stability Treaty and legislative measures implemented under the Stability and Growth Pact. Such deterioration may be derived from, among other factors, excessive levels of European debt, lower effectiveness of the transmission of monetary policy in a context of interest rates close to zero and the persistence of a climate of uncertainty and speculation inhibiting the creation of value that would have otherwise resulted from a full exercise of economic integration. There has been a resurgence in the risks regarding the integrity of the EU, given the increasing lack of visibility regarding the final outcome of the negotiations for the United Kingdom's exit from the EU, the lingering political crisis in Catalonia, and also the uncertainty stemming from the confrontational stance of the new Italian government concerning the compliance of its fiscal policies to the European rules.

Regarding markets outside the European Union ("**EU**") the risks may be derived, among other adverse factors, the escalation of protectionism among the major world economic blocs, a correction in international financial markets, a sudden rise in the level of global interest rates and the intensification of the appreciating trend of the U.S. dollar against, in particular, the currencies of the emerging markets economies.

Any other significant deterioration of global economic conditions, which may be caused by, among other factors, the intensification of geopolitical tensions worldwide, including the deterioration of credit profile of other countries of the EU, the solvency of Portuguese or international banks or relevant political, economic, or regulatory changes in the Eurozone, may lead to concerns relating to the capacity of the Portuguese Republic to meet its funding needs. Any deterioration could have a direct impact on the value of the Bank's portfolio of public debt bonds, which are primarily Portuguese and Polish. Any permanent reduction of the value of public debt bonds would be reflected in the Bank's equity position.

Moreover, any such deterioration of economic conditions could strongly affect the Bank's capacity to increase and/or generate capital and observe the regulatory minimum capital requirements and could limit the Bank's capacity to obtain financing. Any of the foregoing could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank relies to some extent on funding from the ECB.

The ECB was a major funding source used by the majority of Portuguese banks, including the Bank, during the financial crisis and the European sovereign debt crisis. As at 31 December 2018, the Bank had EUR 2.7 billion net of borrowings with the ECB (EUR 3.0 billion as at 31 December 2017), EUR 4 billion of which related to the last series of targeted longer-term refinancing operations ("**TLTRO II**"), corresponding to 3.9% of the Bank's liabilities (4.6% as at 31 December 2017) and 14.5% of the total usage of the Portuguese banking system as at 31 December 2018 (13.6% as at 31 December 2017), a level that stands clearly below the maximum value of EUR 17.4 billion recorded in April 2011 and that emphasises the gradual reduction of the Bank's dependency on the liquidity provided by the ECB. The objective of the Bank is to reduce further the use of funding from the ECB through the continuous implementation of various measures to diversify its funding sources, including the issuance of debt instruments in the international wholesale funding markets and the increase in customers funds, which could present a risk of increasing cost of deposits (as at 31 December 2018, customer deposits accounted for 88% of the funding structure).

The pool of eligible assets could be eroded as a result of price devaluations, increase in haircuts following credit and sovereign downgrades or even the loss of eligibility of certain assets, such as those that benefit from temporary measures implemented by the ECB to support liquidity, including the acceptance of additional credits. The reduction of the pool of eligible assets and the increased difficulty in generating or acquiring other eligible assets to compensate for such loss of eligibility would have a negative impact in terms of the potential for raising liquidity with the ECB, may result in the Bank having to find alternative funding sources, which may have a negative impact on the Bank's business, financial condition or results of operations and prospects and may require the Bank to sell some of its assets.

The uncertainty surrounding access to capital markets as a source of funding for the Bank may also harm the ongoing diversification process of its funding sources, leading the Bank to excessive use of funding from the ECB. Increased market risk perception associated with accessing the markets and/or the persistency of the uncertainty surrounding access to the capital markets would exert pressure on the Bank to seek alternative funding sources, to accelerate its capital and liquidity plan and to increase its pool of collateral eligible for funding by the ECB, although there can be no assurances that it would be successful in its efforts to do so. If regulators require a quicker reduction of exposure to the ECB or if there are restrictions to access ECB funding, the Bank may be forced to anticipate the compliance time frame of its capital and liquidity plan, which would likely reduce profitability and hinder the deleveraging process. In addition, in the current economic climate, a review of liquidity conditions by the ECB could force the Bank to dispose of assets at a potentially significant discount in relation to their respective book values, with a corresponding negative impact on capital position and results of operations. Any of the aforementioned could result in a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to risks associated with the implementation of the ECB's Quantitative Easing.

In order to restore financial stability and fulfil its inflation mandate, in January 2015 the ECB decided to implement a programme of quantitative easing. Under this programme, the ECB purchases debt securities issued by both private and public entities. This measure, which has never been adopted before in the Economic and Monetary Union (the "**EMU**"), has been crucial to maintaining the yields of Portuguese government bonds at low levels (the average yields of 10-year Portuguese sovereign debt were 1.74% for the first half of 2018, which compares to 3.75% for the year ended 31 December 2014 (source: Thomson Reuters Datastream).

Therefore, the ECB's Governing Council ("**GC**") confirmation on 12 December 2018 meeting that its debt purchase programme will be discontinued in January 2019 could have a substantial downward impact on the valuation of the Portuguese government's debt directly, or indirectly via contagion through the loss in value of the public debt securities of other EMU countries, which would in turn hurt banks directly through the investment book and indirectly by affecting the price and availability of the banks' funding in the market and also by potentially lowering the demand for loans from households and corporations.

The discontinuation of the ECB public debt purchase programme may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Budgetary Treaty may permanently confine economic policymaking, with potential adverse effects on the Bank's operational activity.

On 14 June 2013, the Budgetary Treaty of the EMU was adopted into national legislation (by means of Law No. 37/2013, of 14 June) in order to strengthen fiscal discipline through the introduction of a "balanced budget rule" and an automatic mechanism for corrective action. In particular, the Treaty states that the structural budget deficit in each country must not exceed 0.5% of GDP at market prices. Additionally, fiscal balances of the Member States must comply with specific medium-term objectives, as defined under the Stability and Growth Pact, and must be monitored annually in the context of the EU's annual cycle of economic policy guidance and surveillance. If a Member State deviates from the defined goal, an automatic corrective mechanism would be activated. Member States whose debt exceeds 60% of GDP will be required to adopt measures aimed at reducing their debt to a pre-set rate, taking as a reference standard reduction at an average rate of one twentieth per year (even if their deficits are below 3% of GDP, which constitutes the reference value for the EU).

Given the current magnitude of Portuguese government debt (121.5% of GDP in 2018, according to Bank of Portugal March 2019), these measures will likely impose a long-term limit on the ability of the Portuguese government to stimulate economic growth through increased expenditure or a reduction of the tax burden.

Any limitation on the growth of the Portuguese economy or to the ability of the Portuguese government to stimulate growth, especially during downturns, could have a material adverse effect on the Bank's business, financial condition, results of operations or its prospects. All these factors could contribute to a deterioration of the financial and economic condition of the Bank.

The Portuguese Republic is regularly subject to rating reviews by the rating agencies, which could affect the funding of the economy and the Bank's activity.

Rating agencies Standard & Poor's, Moody's, Fitch Ratings and DBRS have downgraded the long and short-term ratings of the Portuguese Republic on several occasions since the beginning of the financial crisis due to the uncertainties and risks of a prolonged recession, the outlook for modest GDP growth, high levels of unemployment, limited fiscal flexibility, the high leverage of the private sector and the level of sustainability of Portuguese public debt. The long term ratings of the Portuguese Republic as at the date of this Base Prospectus were as follows: Moody's (Baa3/Stable), Standard & Poor's (BBB/stable), Fitch Ratings (BBB/Stable) and DBRS (BBB/Positive).

Portuguese Republic credit ratings represent an important component condition to the Bank's own credit ratings given the connection between the rating of the sovereign and the rating of banking institutions in the Rating Agencies methodologies.

Any downgrade in the Portuguese Republic's ratings may contribute to the erosion of the collateral eligible for funding by the ECB, as well as more restrictive access to funding and increased funding costs, would worsen the economy's funding conditions and would have a negative effect on the Bank's credit risk and consequently on its business, financial condition, results of operations and prospects.

A relapse of the sovereign debt crisis of the Eurozone and the uncertainty regarding the integrity of the EU constitute potential sources of turbulence for the markets that may impact the Bank's activity.

The possibility of another sovereign default, the continuing high levels of public and private debt in several Member States and the uncertainty regarding the robustness of the European financial sector could lead to market turbulence and instability, which could negatively impact the Bank's activity. Additional risks to the stability of the EU could arise from the negotiations in connection with the United Kingdom's exit from the EU following the 23 June 2016 referendum (see "*The United*

Kingdom's impending departure from the EU could adversely affect the Bank's activity."), and from the growing electoral weight of anti-European and Eurosceptic political parties in several Member States, including Italy, where the general elections of early 2018 led to the formation of a government supported by two anti-establishment political parties that may challenge the European fiscal rules or put in jeopardy European-wide policies in the areas of immigration or foreign affairs, from which might stem risks to the stability and even the integrity of the EU. If any or all these risks were to materialise, it could result in severe pressure on the conditions and financing costs of Portuguese banks (particularly regarding deposits) and asset depreciation, with a significant impact on the net interest margin and results of the Bank, credit impairments and mark-to-market valuation of financial assets.

Moreover, the mere existence of a risk to the integrity of the EU or the EMU might lead the Bank's customers to reallocate their savings towards other countries that are perceived to be fundamentally more stable than Portugal, thereby posing additional pressure on the financing costs of Portuguese banks and thus adversely affecting the net interest margin and the results of the Bank. Any of the foregoing could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The United Kingdom's impending departure from the EU could adversely affect the Bank's activity.

On 23 June 2016, the United Kingdom held a referendum on the country's membership of the EU, according to which the United Kingdom voters elected to leave the EU ("**Brexit**"). The negotiation process for the exit is ongoing but there is a great amount of uncertainty on the specific terms to be agreed between the negotiating parties. Moreover there is an increasing risk that the United Kingdom and the EU part ways without any agreement regarding such crucial matters as trade in goods and services, security and immigration cooperation, in which case Brexit could become very problematic for both the United Kingdom and the EU member-states. If the so-called 'Hard-Brexit' scenario materialises, the implications to the European financial sector could be acute, especially in what concerns access to financial market infrastructures, the ability to perform contractual obligations under the existing contracts, access to funding markets, and the use of UK law in issuances of minimum requirement for own funds and eligible liabilities ("**MREL**") eligible instruments.

The consequences of Brexit are uncertain with respect to the EU integration process, the relationship between the United Kingdom and the EU, and the impact on economies and European businesses. Should international trade between the United Kingdom and the Member States become significantly restricted in the future, the Portuguese economy could be adversely affected, given the importance of the United Kingdom as a market for the export of goods, with a 6.3% average share in 2018 (source: Portugal's National Statistics Institute, March 2019) and as a source of tourism, with 19.6% of tourists arriving in Portugal from the United Kingdom in January – December 2018 (source: Portugal's National Statistics Institute, March 2019).

Accordingly, there can be no assurance that the Bank's business, results of operations, financial condition and prospects will not be affected by market developments, notably the depreciation of the exchange rate of GBP against the euro and higher financial market volatility in general due to increased uncertainty of the aforementioned factors.

A material decline in global capital markets and volatility in other markets could adversely affect the activity, results and value of strategic investments of the Bank.

Investment returns are an important part of the Bank's overall profitability, particularly in relation to the life insurance business carried out by the Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. ("**Millennium bcp Ageas**") joint venture and the Bank's investment banking business.

Uncertainty in global financial markets stemming from the price volatility of capital market instruments may materially and adversely affect the Bank's life insurance business and investment banking operations, impacting its financial operations and other income and the value of its financial holdings and securities portfolios.

In particular, a decline in the global capital markets could have an adverse effect on the sales of many of the Group's products and services, such as unit-linked products, capitalisation insurance, real estate investment funds, asset management services, brokerage, primary market issuances and investment banking operations, and significantly reduce the fees related to them, as well as adversely affect the Bank's business, financial condition, results of operations and prospects. As a minority shareholder of Millennium bcp Ageas, the Bank is at risk of being required to inject capital into the company if its solvency ratio falls below a certain predefined level, which could occur if certain products of Millennium bcp Ageas do not meet a minimum level of return. Furthermore, the prolonged fluctuation of stock and bond market prices or extended volatility or turbulence of markets could lead to the withdrawal of funds from markets by investors, which would result in lower investment rates or in the early redemption of life policies. Any such decrease could negatively influence the placement of the Bank's investment products. Therefore, a decline in the capital markets in general could adversely affect the Bank's business, financial condition, results of operations and prospects.

The Bank also maintains trading and investment positions in debt securities, foreign exchange, equity and other markets. These positions could be adversely affected by volatility in financial and other markets and in Portuguese sovereign debt (EUR 6.6 billion as at 31 December 2018, of which EUR 4 million recorded in "Financial assets at fair value through profit or loss – Held for trading"; EUR 33 million recorded in "Financial assets at fair value through profit or loss – Designated at fair value through profit or loss"; EUR 6,525 million recorded in "Financial assets at fair value through other comprehensive income" and EUR 47 million recorded in “Financial assets at amortised cost – Debt securities”), creating a risk of substantial losses. Potential losses in the Portuguese public debt in December 2018 stand at around EUR 40.6 million. Volatility can also lead to losses relating to a broad range of the other trading and hedging products that the Bank uses, including swaps, futures, options and structured products. Significant reductions in estimated or actual values of the Bank's assets have occurred from previous events in the market. Continued volatility and further fragmentation of certain financial markets may affect the Bank's business, financial condition, operating results and prospects. In the future, these factors may have an influence on day-to-day valuations of the Bank's financial assets and liabilities, recorded at fair value.

Acts of terrorism, natural disasters, pandemics and global conflicts may have a negative impact on the Bank's business and operations.

Acts of terrorism, natural disasters, pandemics, global conflicts or other similar catastrophic events could have a negative impact on the Bank's business, financial condition, results of operations and prospects. Such events could damage the Bank's facilities, disrupt or delay the normal operations of its business (including communications and technology), result in harm or cause travel limitations on the Bank's employees, and have a similar impact on its clients and counterparties. These events could also negatively impact the purchase of the Bank's products and services to the extent that those acts or conflicts result in reduced capital markets activity, lower asset price levels, or disruptions in general economic activity, or in financial market settlement functions. In addition, war, terror attacks, political unrest, global conflicts, the national and global efforts to combat terrorism and other potential military activities and outbreaks of hostilities may negatively impact economic growth, which could have an adverse effect on the Bank's business, results of operations, financial condition and prospects, besides other adverse effects on the Bank in ways that it is unable to predict.

LEGAL AND REGULATORY RISKS

The Bank is subject to complex regulation that could increase regulatory and capital requirements.

The Bank conducts its business in accordance with applicable regulations and is subject to related regulatory risks, including the effects of amendments to laws, regulations and policies applicable in Portugal and in other countries where the Bank operates. As a result of the economic and financial crisis which began in 2007, Portuguese and international regulatory entities, including the ECB, Banco de Portugal and the European Banking Authority (the "**EBA**"), have implemented significant changes to the Bank's regulatory framework, particularly in relation to capital adequacy and the scope of the Bank's operations. These changes are continuously being updated and revised, adjusting to past experience or to new business trends and other changes may be implemented in the future. Consequently, the Bank could face more intense regulation that could adversely and significantly impact the results of its operations.

The implementation of new regulations may increase capital requirements and could result in additional preparatory work, disclosure needs, restrictions on certain types of transactions, limitations to the Bank's strategy, the need to take strategic actions, which may include raising additional capital, and/or limitations to, or modification of, the Bank's earnings derived from margin, fees, capital gains or other sources of income. Any of the above may reduce the business volume and the yield of the Bank's investments, assets or holdings, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The internal risk models that the Bank has implemented are supervised and monitored continuously by the supervisory authorities, with whom the Bank maintains a regular dialogue on the matter. Adjustments to those models, with a view to their better calibration in light of possible context changes, requested by the supervisory authorities or as a result of the Bank's initiative, or related to new regulation implementation may have an impact on the amount of risk weighted assets ("**RWA**"), and, consequently, affect the capital ratios of the Bank.

For further details regarding the rules related to the implementation of Basel III and Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, as amended ("**CRD IV**") and Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, as amended ("**CRR**" and together with CRD IV, "**CRD IV/CRR**"), please see "*Description of the Business of the Group – Recent developments on the banking regulation*".

If the Bank's capital ratios fall below the thresholds specified or guided by the relevant regulatory entities (including pursuant to the Supervisory Review and Evaluation Process ("**SREP**"), the Bank may need to adopt additional measures to strengthen its capital ratios (including at unfavourable terms), such as an acceleration of deleveraging, the reduction of RWA, divestments and other measures that may include rights issues. Furthermore, any additional capital adequacy requirements imposed on the Bank may result in the need to increase its capital buffers in order to fulfil more demanding capital ratio requirements, thereby increasing the costs to the Bank and reducing the return on equity. Any of the aforementioned situations could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

During the SREP, the supervisor not only defines banks' capital requirements (e.g. Pillar 2 capital requirements ("**P2R**") and Pillar 2 capital guidance ("**P2G**")), but may also decide to impose additional measures on banks, including liquidity and qualitative measures. See further "*Description of the Business of the Group – Recent developments on the banking regulation"*.

If a bank does not meet P2G, this may not result in an automatic action by the supervisor and will not be used to determine the Maximum Distributable Amount ("**MDA**") trigger, but it may be subject to additional measures adjusted to the individual situation of the bank.

The final measures to be adopted will be assessed, on a case-by-case basis, by the Supervisory Board of the ECB.

Regarding regulatory liquidity requirements, changes to liquidity ratios or their composition could require the Bank to obtain additional liquidity in the future that may adversely affect the Bank's financial condition. See further "*Description of the Business of the Group – Recent developments on the banking regulation*".

Basel III recommendations provide for the setting of short and long term liquidity ratios and funding, namely the "Liquidity Coverage Ratio" ("**LCR**") and the "Net Stable Funding Ratio" ("**NSFR**") (see further "*Description of the Business of the Group – Recent developments on the banking regulation*"). As the remuneration of financial assets is generally inversely correlated with their liquidity and risk assessment, the compliance with these ratios by the Bank may lead to the need to strengthen or create a portfolio of highly liquid but low-yielding assets and/or to increased funding costs, since the method for calculating these ratios favours long-term over short-term funding (which usually imply higher yields) which may therefore adversely impact the Bank's business, financial condition, results of operations and prospects.

A binding minimum standard LCR was introduced into EU legislation through CRR and delegated regulations and has been applicable since October 2015. In November 2016, the EC published a legislative proposal, which contained key elements amending CRD IV/CRR and aimed to implement important Basel standards, namely to introduce a harmonised binding NSFR. On 14 February 2019, the EU ambassadors endorsed the full package of risk reduction measures. On 16 April 2019, the European Parliament endorsed the provisional agreement reached, at the beginning of December 2018, during the political trilogues, between the EU Member States. The legislative texts still need to be formally adopted by the Council of the EU.

The leverage ratio has been introduced under Basel III and the CRD IV/CRR as a complementary tool to the existing risk-based capital adequacy requirements. In November 2016, the EC published a legislative proposal endorsing a minimum 3% Tier 1 Leverage Ratio for all EU entities within the scope of the CRR. On 14 February 2019, the EU ambassadors endorsed the full package of risk reduction measures. On 16 April 2019, the European Parliament endorsed the provisional agreement reached, at the beginning of December 2018, during the political trilogues, between the EU Member States. The legislative texts still need to be formally adopted by the Council of the EU. See further "*Description of the Business of the Group – Recent developments on the banking regulation*".

In December 2017, the Basel Committee published the revisions to the Basel III framework. Please see "*Description of the Business of the Group – Recent developments on the banking regulation*" for further details on this framework.

Although the process is close to being concluded, there are still some uncertainties regarding the banking reform package proposed by the European Commission in November 2016 and the implementation of Basel III and its transposition into EU law and regulations, given the process of revision of some of the measures and procedures, including the development process of redefinition of materiality of sovereign risk. The revision of the regulatory framework and its adoption at EU level, comprising any adjustments thereof, could imply equity changes and the need to reconfigure the Bank’s asset and liability structure, which may in turn adversely impact the Bank's business, financial condition, results of operations and prospects.

A global systemically important institution ("**G-SII**") could face additional requirements. Although it is currently not anticipated that Portuguese banks may be classified as G-SIIs, there is no assurance that this will not change in the future. The Bank is currently classified as an "other systemically important institution" ("**O-SII**"), and as such it is subject to concurrent additional capital requirements, which could increase and lead to lower returns on equity.

The Banking Union may impose additional regulatory requirements that may impact the Bank's results.

In an effort to harmonise the regulation and supervision of banking activities across the EU and especially in the Eurozone, the EC established a new common regulation (Single Rule Book) and supervisory architecture. The Banking Union comprises the Single Supervisory Mechanism ("**SSM**"), the Single Resolution Mechanism ("**SRM**") and the European Deposits Insurance Scheme ("**EDIS**"). See further "*Description of the Business of the Group – Recent developments on the banking regulation*".

The regulatory framework under the Banking Union and future modifications to it may result in or require changes to the strategic positioning of financial institutions, including their business model and risk exposure, and could result in additional costs in order to ensure compliance with the new requirements. Therefore, the new regulatory regime, even if gradually implemented until the beginning of the next decade may potentially restrict the Bank's ability to comply with its financial undertakings regarding debt and equity instruments.

<u>Single Supervisory Mechanism</u>

The Banking Union assigned the role of direct banking supervisor to the ECB to ensure that the largest banks in Europe, including the Bank, are independently supervised under common rules (see "*Description of the Business of the Group – Recent developments on the banking regulation*"). The Bank is currently in compliance with SREP requirements (see "*Description of the Business of the Group – Recent developments on the banking regulation*"). Even though the Bank considers that its current and expected levels of capital and liquidity are adequate, these requirements may change in the future which could have an impact on the Bank's capital and liquidity needs and adversely affect the Bank's business, financial condition, results of operations and prospects.

A change in the prudential supervision framework may:

(a) impose additional capitalisation demands on the Bank, in particular if the ECB requires the reclassification of assets and/or a revision of coverage levels for impairment, which could result in the Bank being subject to additional capital requirements, or to any future stress tests; and

(b) given the classification of the Bank as an O-SII, lead to higher combined capital buffer requirements.

If, following a capital requirement exercise, such as a stress test, capital quality or risk management assurance exercise or equivalent exercise, a capital deficit is identified, it could adversely affect the cost of funding for the Bank and have a materially adverse impact on its business, financial condition, results of operations and prospects. See further "*The results of additional stress tests could result in a need to increase capital or a loss of public confidence in the Group*".

Any of the situations described above could adversely impact the Bank's business, financial condition, results of operations and prospects.

<u>Single Resolution Mechanism, the Resolution Fund and the sale of Novo Banco</u>

Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, as amended ("**BRRD**") establishes a framework for the recovery and resolution of credit institutions and investment companies. Implementation of the BRRD into Portuguese law was completed by Law No. 23-A/2015, of 26 March, encompassing several changes to Decree-Law no. 298/92, of 31 December (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*) (as amended from time to time, the "**Banking Law**") (see "*Description of the Business of the Group – Recent developments on the banking regulation*").

The Banking Union's framework is also designed to minimise the impact of any particular bank's financial difficulties on the financial system and on taxpayers. Under the envisaged SRM, shareholders of the institution would be the first to bear losses, followed by lenders (including the holders of the Covered Bonds).

Guaranteed deposits are expected to be safeguarded and creditors should not bear losses greater than those that they would have suffered had the institution been liquidated under ordinary insolvency proceedings. The BRRD contemplates that capital instruments (such as the Covered Bonds) may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool. As such, the use of resolution tools and powers provided for by the Banking Union may disrupt the rights of shareholders and creditors. In particular, the power of the authorities to transfer the shares or all or part of the assets of an institution to a private purchaser without the consent of shareholders affects the property rights of shareholders. In addition, the power to decide which liabilities to transfer out of a failing institution based upon the objectives of ensuring the continuity of services and avoiding adverse effects on financial stability may affect the equal treatment of creditors.

To avoid having institutions structuring their liabilities in a way that impedes the effectiveness of the bail-in or other resolution tools and to avoid the risk of contagion or a bank run, the BRRD requires that institutions meet a robust MREL at all times. See "*Description of the Business of the Group – Recent developments on the banking regulation*".

For each of the components of the MREL, the resolution authority may consider upward or downward adjustments, on the basis of a thorough case-by-case analysis of financial information, supervisory data and resolution strategies. In order to meet MREL requirements, the Bank may need to issue MREL-eligible instruments, impacting its funding structure and financing costs. See "*Description of the Business of the Group – Trends Information*" for more information on MREL requirements applicable to the Issuer. Such mechanisms and procedures, besides having the capacity to restrain the Bank's strategy, could increase the average cost of the Bank's liabilities, in particular, without limitation, the cost of Additional Tier 1, Tier 2 instruments and other MREL eligible instruments thus negatively affect the Bank's earnings. These instruments may also result in a potential dilution of the percentage of ownership of existing shareholders, given their potential convertibility features under application of a resolution or other measure or in accordance with their terms.

The SRM and the Single Resolution Fund (the "**SRF**") are regulated by Regulation (EU) No. 806/2014 of the European Parliament and of the Council, of 15 July 2014 ("**SRM Regulation**"), which also established the framework for recovery and resolution of credit institutions and the calculation method of the annual contributions for the funding of the resolution mechanism (see "*Description of the Business of the Group – Recent developments on the banking regulation*"). The SRF provides for the financial support to the application of resolution measures.

The Portuguese resolution fund (*Fundo de Resolução*) (the "**Resolution Fund**") (see "*Description of the Business of the Group – Recent developments on the banking regulation*") provides for the financial support for the application of resolution measures taken by Banco de Portugal prior to the end of 2015. The financial resources of the Resolution Fund result essentially from the initial and periodical contributions paid by member institutions, the proceeds from the bank levy, created by Law no. 55-A/2010, of 31 December, and the returns on the investment of the financial means. According to a clarification by Banco de Portugal, potential contributions from the banks participating in the Resolution Fund will only be recorded when they are due and paid and the contribution to the Resolution Fund should only be recognised as a cost in the year in which it is due and the payment occurs. In addition, public announcements, both by the Resolution Fund and by the Portuguese government, indicate that no special contribution is foreseen and that it will not be necessary to recognise a liability in advance.

Pursuant to the decision by Banco de Portugal on 3 August 2014 to apply to Banco Espírito Santo, S.A ("**BES**") a resolution measure consisting in the transfer of most of its business to a bridge bank - Novo Banco, S.A ("**Novo Banco**") - the Resolution Fund participated in the recapitalisation of Novo Banco in the amount of EUR 4.9 billion. The Resolution Fund owned in full all of Novo Banco's initial equity, valued at EUR 4.9 billion as at 31 December 2015 (of which EUR 3.9 billion from a loan granted by the Portuguese State, EUR 700 million from a loan granted by a group of credit institutions that are members of the Resolution Fund (including the Bank), and the remaining amount from the mobilisation of resources available to the Resolution Fund).

On 1 September 2017, after having conveyed reservations regarding the contingent capitalisation obligation by the Resolution Fund to be included in a sale agreement of Novo Banco, within the relevant legal deadline and as a precaution, BCP announced its decision to start administrative legal proceedings with a view that it was subject to judicial review.

This process, which was centred exclusively on the capitalisation obligation referred to above, did not result in the suspension of the sale of Novo Banco, which was completed on 18 October 2017.

On 18 October 2017, according to a press release of Banco de Portugal, and following the resolution of the Council of Ministers No. 151-A/2017, of 2 October, Banco de Portugal and the Resolution Fund concluded the sale of Novo Banco to Lone Star, with an injection by the new shareholder of EUR 750 million, followed by a further injection of EUR 250 million by the end of 2017.

As of this date, Novo Banco is held by Lone Star and the Resolution Fund, holding respectively 75% and 25% of its share capital.

On 26 February 2018, the EC published the non-confidential version of its decision regarding the approval of the state aid underlying Novo Banco's sale process. This statement identifies the three support measures by the Resolution Fund and the Portuguese State that are part of the sale agreement associated with a total gross book value of around EUR 10-20 billion[1], which revealed significant uncertainties as regards adequacy in provisioning[2] [3], namely:

(i) A Contingent Capital Agreement ("**CCA**") which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to an *ex-ante* agreed portfolio of existing loan stock subject to a capital ratio trigger and some additional conditions. The amount that can be reclaimed under the CCA is subject to the CCA cap of EUR 3.89 billion[4].

(ii) Underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount necessary (but no more than EUR 400 million). This underwriting did not take place as the instruments were placed with third party investors as disclosed by Novo Banco on 29 July 2018.

(iii) In case the SREP total capital ratio of Novo Banco falls below the SREP total capital requirement, the Portuguese State will provide additional capital in certain conditions and through different instruments.

1 Exact value not disclosed by the EC for confidentiality reasons.

2 As referred to in the relevant EC's decision.

3 According to 2018 Novo Banco's earnings institutional presentation, the minimum capital contribution is (i) CET1 or Tier 1 < CET1 or Tier 1 SREP requirement plus a buffer for the first years (2017-2019), (ii) CET1 <12%

4 Exact value not disclosed by the EC for confidentiality reasons.

The EC considers that the above measures are structured in such a way that any money reclaimed, i.e. not used under the underwriting guarantee can be reused as capital guarantee under the CCA. In total, the amount of aid contained in the 2017 measures is up to EUR 4.29 billion of capital support plus the amount necessary to ensure solvency in the EC's adverse scenario.

On 28 March 2018, following the disclosure of the 2017 annual results by Novo Banco, the Resolution Fund made a communication on the activation of the CCA totalling EUR 792 million.

On 24 May 2018, the Resolution Fund communicated having disbursed to Novo Banco the abovementioned funds, of which EUR 430 million were from a loan from the Portuguese State and the remaining amount were from the Resolution Fund's own resources.

In its 2018 annual results press release, Novo Banco states that in connection with the impact of losses related to the sale and write-downs of legacy assets, Novo Banco will request a compensation of EUR 1,149 million under the existing CCA. 69% of this amount results from the losses incurred on the assets included in the CCA and 31% due to regulatory requirements for capital increase in the adjustment of the transitional period of capital ratios and to the impact of IFRS 9. For 2017 and 2018, Novo Banco will have received a total of EUR 1.9 billion out of the maximum of EUR 3.89 billion defined under the CCA.

On 1 March 2019, the Resolution Fund stated that the amount to be paid by the Resolution Fund in 2019 to Novo Banco under the CCA will be carried out after the legal certification of Novo Banco's accounts and following a verification procedure by an independent entity, to ascertain that the amount to be paid by the Fund has been correctly accounted for.

According to publicly available information, the volume of litigation associated with the BES resolution process is high. The losses that the Resolution Fund may incur as a result of any such uncertainties (including, *inter alia*, litigation associated with the sale of Novo Banco and, in particular, the above-mentioned contingent capitalisation mechanism) have not been clearly quantified and, therefore, it is not possible as at this date to quantify the impact that the resolution of BES may have on the Bank.

In the event of a shortage of funds, a negative financial impact, of an uncertain nature, on the Resolution Fund and, indirectly, on the Portuguese banking sector, could occur. The definition of the financing structure of a possible shortage (in terms of type of contribution, its distribution in time and any recourse to temporary loans) will depend on the amount of such hypothetical shortage.

According to Article 5(e) of the Regulation of the Resolution Fund, approved by the Ministerial Order (*Portaria*) No. 420/2012, of 21 December, the Resolution Fund may submit to the Government a proposal for the implementation of special contributions to rebalance the financial condition of the Resolution Fund. According to public communications from both the Resolution Fund and from the Government, there is no indication that any such special contributions are foreseen.

According to Article 153-I (4) of the Banking Law, if the payment of those special contributions compromises the Bank's liquidity or its solvency, Banco de Portugal can suspend them for a period of up to 180 days, extendable at the request of the Bank. The Resolution Fund also publicly indicated that the financing will be structured in such a manner as to not only avoid jeopardising the solvency of any bank but also to preserve financial stability. Furthermore, the Commission Delegated Regulation (EU) 2016/778 of 2 February 2016, supplementing the BRRD, stipulates the circumstances and conditions under which the payment of extraordinary *ex-post* contributions may be partially or entirely deferred.

The impact of the above is uncertain and the Bank can give no assurance that the current understanding/framework and related contributions will not be changed in the future (i.e. that recourse to special contributions may occur) thus negatively impacting BCP's financial condition, including a negative impact on net income, capital ratios, earnings and long-term targets.

Under Article 153-O of the Banking Law, the Resolution Fund may be required to finance the implementation of the resolution measures applied by Banco de Portugal and the resulting general and administrative expenses. At the present date, there is no reliable estimate of the potential losses to be incurred by the Resolution Fund, notably those that have been publicly mentioned as potentially applicable arising from (i) the sale of Novo Banco (including, without limitation, the contingent capitalisation mechanism), (ii) the litigation relating to the BES resolution process including in respect of the so-called "*lesados do BES*" proceedings and the attempts to find a solution for such proceedings, (iii) the resolution process of BANIF and related expenses, and (iv) the amount and timing of the Bank's contributions to the Resolution Fund and the reimbursement of the loans granted by the Bank to the Resolution Fund. Thus, the impact of the BES and BANIF resolution processes on the Bank, which participates in the Resolution Fund, could depend on external factors not controlled by the Bank, including the proceeds from the Resolution Fund assets, the future funding needs and contingent liabilities of the Resolution Fund including, without limitation, those related to the sale of Novo Banco to Lone Star.

The Ministry of Finance has stated that there will be no need to levy extraordinary contributions to finance the Resolution Fund as it will continue to be financed over the coming years by the periodical contributions and the proceeds from the levy on the banking sector. However, there can be no assurance that in the future Banco de Portugal will maintain the current base rate used for calculating the periodical contribution. Increases in the base rate in future years may reduce the Bank's profitability. See "*Description of the Business of the Group – Recent developments on the banking regulation*".

This situation has been disclosed in the financial statements of the Bank as a contingent liability, with no impacts recorded on the financials or capital ratios of the Bank. There can be no assurance that such accounting treatment will be maintained in the future, and as such there is no guarantee that the Bank's business, financial condition, results of operations, prospects and capital ratios will not be affected by the factors described above.

Decree-Law No. 31-A/2012, of 10 February, which amended the Banking Law, also introduced, on terms subsequently amended by Law No. 23-A/2015, of 26 March (as further amended by Law No. 66/2015, of 6 July), the creation of the privileges accorded to claims associated with loans backed-up by deposits under the Deposit Guarantee Fund ("**DGF**"), as well as credit secured by the DGF, the Integrated Mutual Agricultural Scheme (which, in Portugal, is formed by the Central Mutual Agricultural Bank (*Caixa Central de Crédito Agrícola Mútua*) and its associated banks) ("**SICAM**") or the Resolution Fund, arising from the potential financial support that these institutions might give in the context of the implementation of resolution measures, in each case within the limits of the applicable laws.

Although these measures contribute to the flexibility of regulators to intervene and help reduce systemic risk in the restructuring and resolution process, subject to legal and adequacy criteria, the effective implementation of the regulations may result in an increase in costs and/or in losses that could adversely impact the Bank's business, financial condition, results of operations and prospects.

In 2017, the periodical contributions paid by the Bank to the Resolution Fund (regular contribution and bank's levy) corresponded to approximately 18% of the total periodical contributions paid by the Portuguese banking sector. The amount of the periodical contribution is calculated every year pursuant to Notice 1/2013 of Banco de Portugal, as amended by Notices 8/2014 and 14/2014, using a base rate which is published by Banco de Portugal after consulting with the Resolution Fund and the Portuguese Banking Association (*Associação Portuguesa de Bancos*). There can be no assurance that in the future Banco de Portugal will maintain the current base rate (which is 0.057% for the periodical contribution of 2019). Increases in the base rate in future years may reduce the Bank's profitability. See "*Description of the Business of the Group – Recent developments on the banking regulation*".

In 2015, following the establishment of the SRF, the Group had to make an initial contribution in the amount of EUR 31,364 thousand. In accordance with the Intergovernmental Agreement, on the transfer and mutualisation of contributions to the SRF, this amount was not transferred to the SRF but was used instead to partially cover for the disbursements made by the Resolution Fund in respect of the resolution measures prior to the date of application of such Agreement. This amount will have to be reinstated over a period of 8 years (starting in 2016) through the periodic contributions to the SRF. The total amount of the contribution in 2018 attributable to the Group was EUR 24,922 thousand, of which the Group delivered EUR 21,185 thousand and the remaining was constituted as irrevocable payment commitment. The SRF does not cover undergoing situations with the Resolution Fund as at 31 December 2015.

<u>European Deposit Insurance Scheme</u>

The establishment of EDIS is contingent on certain political decisions, in particular as to whether it should be a system based on the reinsurance between the several national deposit guarantee funds or a mutualisation mechanism at the European level. The decision and implementation processes of the guarantee scheme may have material adverse effects on the Bank's business activity, liquidity, financial condition, results of operations and prospects.

The harmonisation of the deposit guarantee system, through Directive 2014/49/EU of the European Parliament and of the Council, of 16 April 2014, concerning the deposit guarantee systems, resulted in some significant changes to the systems currently in force in each of the Member States, including Portugal. The changes contemplate the introduction of size and risk based contributions by entity and harmonisation of products and depositors covered, maintaining, however, the principle of a harmonised limit per depositor and not per deposit.

According to the BRRD, and consequently the Banking Law, with the amendments of Law No.23-A/2015, of 26 March, banks must ensure that by 3 July 2024, the financial resources available to a deposit guarantee scheme ("**DGS**") amount to a target-level of 0.8% of the amount of DGF-covered deposits.

If, after this target level is reached for the first time, the available financial resources come to be less than two thirds of the target level, Banco de Portugal will set the periodic contributions at a level that allows the target level to be reached within six years. If the available financial resources are not sufficient to reimburse the depositors, in the event of unavailability of deposits, DGS members must pay *ex-post* contributions not exceeding 0.5% of the DGF-covered deposits for the exercise period of the DGF. In exceptional circumstances, the DGS can request a higher amount of contribution with the approval of Banco de Portugal.

The exemption from the immediate payment of *ex-ante* contributions shall not exceed 30% of the total amount of contributions raised. This possibility depends on the credit institutions undertaking irrevocable payment commitments, to pay part of or the whole amount of the contribution which has not been paid in cash to the DGF, that are fully backed by collateral composed of low-risk assets unencumbered by any third-party rights and partly or wholly pledged in favour of the DGF at the DGF's request.

The additional indirect costs of the deposit guarantee systems may be significant and can consist of costs associated with the provision of detailed information to clients about products, costs of compliance with specific regulations on advertising for deposits or other products similar to deposits.

They can therefore affect the activity of the relevant banks and consequently their business activities, financial condition, results of operations and prospects.

As a result of these developments, the Bank may incur additional costs and liabilities which may adversely affect the Bank's business, operating results, financial condition and prospects.

The Bank may be unable to issue certain own funds and eligible liability instruments and therefore be either unable to meet its capital requirements/MREL or is required to meet its capital requirements/MREL through more costly instruments.

The Bank can issue Additional Tier 1 or Tier 2 instruments to meet its minimum total capital ratio requirement or other regulatory eligible instruments to meet the minimum requirement for MREL. However, the aforementioned instruments might be viewed by investors as riskier than other debt instruments, primarily due to the risk of capital losses, missed coupon payments, insufficient MDA buffer, conversion into capital instruments and lack of available distributable items. As a result, investor appetite for these instruments may decline in the future, which could render the Bank unable to place them in the market. In this case, the Bank would have to issue CET1 capital to meet the mentioned regulatory requirements or issue Additional Tier 1, Tier 2 or other regulatory eligible instruments that would entail an associated coupon expense which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending directive 2014/59/EU regarding the ranking of unsecured debt instruments in insolvency hierarchy was transposed into the Portuguese legal framework by Law No. 23/2019 of 13 March that, in addition to the governing of the position of the unsecured debt instruments in the insolvency hierarchy, providing greater legal certainty to the issuance of non-preferred debt, also confers a preferential claim to all deposits *vis-a-vis* senior debt.

The resolutions adopted by the EC regarding financial services and products in the context of disclosure compliance and investor protection and changes in consumer protection laws may limit the business approach and fees that the Bank can charge in certain banking transactions.

Several EC initiatives regarding financial services and products have recently been transposed/implemented, including:

- Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, as amended, and Regulation (EU) No. 600/2014 of the European Parliament and of the Council, of 15 May 2014, relating to markets in financial instruments, known as the Markets in Financial Instruments Directive II ("**MiFID II**")/Markets in Financial Instruments Regulation ("**MiFIR**") (together, "**MiFID II/MiFIR**"), have been transposed into the national legal framework by Law 35/2018, of 20 July 2018, and is already in force with some additional related regulations pending;

- Regulation (EU) No. 1286/2014 of the European Parliament and of the Council, of 26 November 2014, relating to packaged retail and insurance-based investment products, complemented by Delegated Regulation (EU) No. 653/2017 of the Commission, of 8 March 2017 ("**PRIIPs**"), which applies from 1 January 2018. On 4 January 2018, the CMVM issued a "Circular" regarding PRIIPs subject to the CMVM's supervision, outlining further applicable requirements and Law 35/2018, of 20 July 2018 introduced the legal framework for PRIIPs in Portugal, and

- The European Market Infrastructure Regulation, Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July 2012 ("**EMIR**"), as amended, that sets out procedures regarding OTC markets and derivatives, namely on clearing.

The EU General Data Protection Regulation, approved by the Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27 April of 2016 ("**GDPR**"), replaces the Data Protection Directive 95/46/EC and was designed to harmonise data privacy laws across Europe, to protect and empower all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy.

These diplomas aim to create more efficient, transparent and safe markets, improving investors' protection and data privacy and intend to effect changes on transparency requirements for a broad category of assets, derivative contracts and requirements relating to high frequency trading and algorithmic trading and other regulatory tools associated with commodity derivatives. They also seek to limit the use of commissions, the rules for independent investment advice, the requirements for the production and distribution of new products and the intervention skills associated with the level of products and disclosure of burden and costs. Compliance with these obligations entails increased operational and financial costs for the Bank and may also affect the provision of financial services to customers, and therefore impact on the Bank's overall results.

Changes in consumer protection laws in Portugal and other jurisdictions where the Bank has operations could limit the fees that banks may charge for certain products and services, such as mortgages, unsecured loans, credit cards and fund transfers and remittances.

Further to regulations mentioned above, some legislative initiatives in Portugal are currently being examined and in the process of being implemented, including the creation of free of charge "basic bank accounts".

The implementation of these legal initiatives could affect the regular functioning of the market and significantly impact the Bank's business, financial condition, net income and prospects.

The Bank is subject to obligations and costs resulting from the legal and regulatory framework related to the prevention, mitigation and monitoring of asset quality.

Several regulatory and legislative initiatives have been and continue to be put in place to address asset quality issues, with particular focus on the non-performing exposures ("**NPEs**") and/or non-performing loans ("**NPLs**") as authorities highlight credit risk and heightened levels of NPLs as key risks facing euro area banks.

In 2013, the EBA issued a recommendation to Competent Authorities ("**CAs**") to perform asset quality reviews for banks, based on newly harmonised definitions of NPLs (complemented by EBA Report on the dynamics and drivers of non-performing exposures in the EU banking sector dated 22 July 2016). In 2014, CAs carried out comprehensive assessment and a stress test. EBA's Implementing Technical Standards ("**ITS**") on forbearance and NPEs, issued under Commission Implementing Regulation (EU) 2015/227, of 9 January 2015, aim at implementing uniform definitions and reporting requirements for forbearance and NPEs. The ECB has issued in March 2017 Guidance on SSM bank's on NPLs supplemented a year later by an addendum specifying ECB's expectations for prudent levels of provisions for new NPLs.

In July 2017, the European Council concluded an Action Plan[5] to achieve a sustainable reduction of NPEs in credit institutions' balance sheets, comprising: (i) supervisory actions to work with banks to improve strategies to reduce NPEs; (ii) measures to improve the functioning of the secondary market;(iii) structural measures to improve the environment for reducing NPEs; and (iv) fostering restructuring of the banking system. Within this Action Plan, the EC was mandated to consider, within the framework of the ongoing review of the CRD IV/CRR, prudential backstops addressing potential under-provisioning which would apply to newly originated loans, that could take the shape

5 Council conclusions on Action Plan to tackle non-performing loans in Europe, Council of the European Union, 11 July 2017.

of compulsory prudential deductions from own funds of the non-covered part of the NPL, and EBA to issue general guidelines on NPL management, on banks' loan origination, monitoring and internal governance. Macro-prudential approaches to prevent the emergence of system-wide NPL problems are also envisaged in the Plan, alongside enhanced reporting procedures/disclosure to markets as well as structural reforms of Member States' insolvency and debt recovery frameworks. On 31 October 2018, the EBA published the final guidance on management of non-performing and forborne exposures. These guidelines specify sound risk management practices for credit institutions in their management of NPEs and forborne exposures, including requirements on NPE reduction strategies, governance and operations of NPE workout framework, internal control framework and monitoring.

The regulation amending the CRR to introduce common minimum coverage levels for potential losses stemming from newly originated loans that become nonperforming has been published in Official Journal on 17 April 2019 (Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) no 575/2013). This regulation establishes a requirement for credit institutions to build their loan loss reserve up to common minimum levels to cover the incurred and expected losses on newly originated loans that become non-performing. Where the minimum coverage requirement is not met, the difference between the actual coverage level and the requirement should be deducted from a bank's own funds (CET1). The new rules should not be applied in relation to exposures originated prior to 26 April 2019.

A proposal for a directive on credit servicers, credit purchasers and recovery of collateral was also included in the comprehensive package of measures to be tackled by the Commission. The proposal strengthens the ability of secured creditors to recover value from secured loans to corporates and entrepreneurs. The review by the Parliament and Council’s Working Party is ongoing.

As macroprudential authority for Portugal, Banco de Portugal has approved a recommendation introducing limits to some of the criteria used in the assessment of customers' creditworthiness, covering the granting of new credit relating to residential immovable property, credit secured by a mortgage or equivalent guarantee, and consumer credit agreements, to be applied to agreements concluded as of 1 July 2018. Measures of similar nature are also in place in Poland. In September 2017, Banco de Portugal Notice No. 4/2017 that entered into force on 1 January 2018, established procedures and criteria for banks for assessing customer's financial capacity before granting mortgage loans.

This legal and regulatory framework creates an assortment of obligations for credit institutions and sets forth protection measures for bank customers, including, procedures for gathering information, contacting customers, monitoring the execution of loan agreements and managing default risk situations; the duty to assess the financial capacity of bank customers and present default correction proposals adapted to the debtor's situation; and drawing up a plan for restructuring debts emerging from home loans or replacing mortgage foreclosures that in some cases of extra-judicial procedures may restrict the Bank's options to (i) terminate the relevant agreements; (ii) initiate judicial proceedings against the debtor; (iii) assign its credits over the client; or (iv) transfer its contractual position to a third party.

The implementation of these legislative measures, as well as any potential additional regulatory or self-regulation measures, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

In the past few years, the Bank's approach to deal with its high NPL ratio has included:

- the strengthening of the monitoring of credit quality;
- the implementation and development of new assessment models;

- new internal regulations and recovery models; and
- improvement of the risk management governance model.

In addition, and in compliance with the ECB's banking supervision, the Bank has been implementing a NPE reduction plan. The Bank's 2021 strategic plan envisages a reduction of approximately 45% from 2018 of the NPE stock to near EUR 3,000 million by 2021. The NPE strategy and reduction plan are globally aligned with the ECB's draft guidance to banks on NPLs, which addresses the main aspects of the strategy, governance and operations relating to an efficient disposal of NPLs, but adjustments and recommendations can follow from the regular monitoring performed by the supervisor.

The Bank's NPE reduction plan builds on the following main lines of action:

- NPE sale strategy, with a low expected impact on own funds (EL/Impairment GAP) and capital;
- reduction strategy for the top 200 exposures and regular monitoring of the implemented strategy;
- review the *deed in lieu* policy, focus on out-of-court solutions to accelerate the resolution of mortgage loans; and
- approaches for preventing loans evolving into NPE and consistency of application of criteria.

BCP's NPE reduction plan is closely monitored by the ECB. Further requirements imposed by the ECB may arise from the follow-up discussions and new regulations on the matter. This could adversely and significantly impact the Bank's business, results of operations, financial condition, including capital position, and prospects.

Changes to tax legislation, regulations, higher taxes or lower tax benefits could have an adverse effect on the Bank's activity. Implementation of legislation relating to taxation of the financial sector could have a material adverse effect on the Bank's results of operations.

The Bank might be adversely affected by changes in the tax legislation and other regulations applicable in Portugal, the EU and other countries in which it operates, as well as by changes in the interpretation of legislation and regulation by the competent Tax Authorities. In addition, the Bank might be adversely affected by difficulties in the interpretation of or compliance with new tax laws and regulations. The materialisation of these risks may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The various measures approved by the Portuguese Republic to ensure budgetary consolidation, stimulate the economy and support the banking system have led to a considerable increase of public debt levels. In the context of low growth, the need to restore the balance of public finances in the medium term led to increased tax costs through the expansion of the tax base, the increase in tax rates and/or reduction of tax benefits, as well as the increase in restrictions on tax planning practices, which may directly affect the Bank's net income. Moreover, changes in legislation may require the Bank to bear additional costs associated with participation in financial stabilisation mechanisms and resolution funds at a national and European level.

For example, under Law No. 55-A/2010, of 31 December, and Ministerial Order (*Portaria*) No. 121/2011, of 30 March, as amended, a bank levy is applicable to the Bank (EUR 28 million in 2017 and EUR 30.4 million in 2018) and will be applied over (a) the Bank's liabilities at a tax rate of 0.11% and (b) the notional amount of off-balance sheet financial derivatives, excluding hedging derivatives and back-to-back derivatives, at a tax rate of 0.0003%. The taxable base is calculated by reference to an annual average of the monthly balances of the qualifying items, as reflected in the relevant year's approved accounts.

Additionally, on 14 February 2013 the EC published its proposal for a Council Directive for enhanced co-operation in the form of a financial transaction tax ("**FTT**"), of which Portugal would be a member.

There can be no assurance that an FTT or similar additional bank taxes and national financial transaction taxes will not be adopted, at any moment, by the authorities of the jurisdictions where the Bank operates.

Any such additional levies and taxes could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank also has ongoing ordinary course disputes with the Tax Authorities and, although it considers the provisions it has made regarding these disputes to be adequate to cover the risk of judgements against the Bank it is unable to ensure their sufficiency or the outcome of such disputes.

The new regulatory framework for insurance companies may negatively impact the Bank's operations.

The Bank has a partnership agreement with an insurance company for the placement of insurance products through the commercial distribution networks of the Bank, being remunerated for insurance intermediation services ("**bank assurance activity**"), and the Bank holds a 49% stake in Millennium bcp Ageas. Measures, regulations and laws affecting the insurance business may impact on the Bank's business, financial condition, net income and prospects, directly, through commission's income, or indirectly, through the change of valuation of the equity stake.

Directive (EU) 2016/97, as amended (the "**Insurance Distribution Directive**") regulates the way insurance products are designed and sold both by insurance intermediaries and directly by insurance undertakings, namely in the cases of insurance products that have an investment element such as unit-linked life insurance contracts. The Directive was transposed into national law by Law No. 7/2019, of 16 January, and has entered into force in October 2018. Similar in nature provisions are also embedded in the PRIIPs Regulation (Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014) and implementing national provisions which entered into force in 2018. At a different level, the Solvency II in force (as amended) and IFRS 17 to be applied from 2020 onwards, introduce additional requirements for insurance companies in terms of minimum capital requirements, supervisory review of firms' assessment of risk and enhanced disclosure requirements. All these may affect the insurance business and associated earnings. Further regulatory developments are expected in the forthcoming years, such as the review of capital requirements, long term guarantees and macroprudential tools.

Any such developments could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to changes in financial reporting standards, such as IFRS 9 and IFRS 16, or policies, including as a result of choices made by the Bank, which could materially and adversely affect the Bank's reported results of operations and financial condition and may have a corresponding material adverse impact on capital ratios.

The Bank's financial statements are prepared in accordance with EU IFRS, which is periodically revised or expanded. Accordingly, from time to time the Bank is required to adopt new or revised accounting standards issued by recognised bodies, mainly the International Accounting Standards

Board. It is possible that future accounting standards which the Bank is required to adopt, could change the current accounting treatment that applies to its financial statements and that such changes could have a material adverse effect on the Bank's results of operations and financial condition.

IFRS 9 on Financial Instruments was endorsed by the EU in November 2016 and entered into force on 1 January 2018. IFRS 9 replaced IAS[6] 39 - Financial Instruments: Recognition and Measurement and provides new requirements in accounting for financial instruments with significant changes specifically regarding impairment requirements. For this reason, it is a standard that has been subject to a detailed and complex implementation process that has involved all the key stakeholders in order to understand the impacts but also the changes in processes, governance and business strategy that may be required. The requirements of IFRS 9 are applied retrospectively by adjusting the opening balance at the date of initial application.

The main changes resulting from IFRS 9 are related to impairment requirements. IFRS 9 introduces a new model for impairment estimates based on expected losses while the model under IAS 39 was based on incurred losses. The IFRS 9 impairment model is applicable to financial assets valued at amortised cost, to debt instruments valued at fair value through other comprehensive income, and to contingent risks and commitments not valued at fair value. It should be underlined that the implementation of the new standard requires the application of more complex credit risk models of greater predictive power which require a significantly broader set of source data than the previously applied models.

Financial instruments subject to impairment are classified into three stages based on the level of credit risk:

(i) Stage 1: there has been no significant increase in risk since its initial recognition. In this case, the value correction will reflect expected credit losses arising from defaults over the 12 months from the reporting date.

(ii) Stage 2: financial instruments that are considered to have experienced a significant increase in credit risk since initial recognition but for which the impairment has not materialised. In this case, the value correction for losses will reflect the expected losses from defaults over the residual life of the financial instrument. For determining the existence of a significant increase in credit risk not only will quantitative indicators, namely indicators related to credit risk management, be taken into account but also qualitative variables.

(iii) Stage 3: financial instruments for which there is objective evidence of impairment pursuant to events that result in a loss. In this case, the amount of the value correction will reflect the expected losses for credit risk over the expected residual life of the financial instrument.

As a result of IFRS 9, the Bank recognised credit losses on loans and other financial instruments based on expected losses rather than incurred losses. Considering allowance for credit losses will be based on forward-looking information IFRS 9 has led to an increase in subjectivity. The forward-looking information mentioned takes into account the evaluation of future macro-economic conditions which are monitored on a continuous basis and that are also used for management and internal planning. Credit losses are defined as the expected contractual cash-flows not received over the estimated life of the financial instrument, discounted at the original interest rate. Following this definition, expected credit losses correspond to credit losses determined by considering future economic conditions.

As credit losses are recognised at an earlier stage this will lead to a higher loan loss allowance, and corresponding lower capital on implementation of IFRS 9. In addition, IFRS 9 is expected to lead to

[6] IAS: International Accounting Standards as adopted by the EU.

more profit and loss volatility, because changes in counterparty credit quality could lead to shifts from a 12-month expected loss to a life time expected loss and vice versa. In addition, more financial instruments may be classified at fair value through profit or loss. An increase in credit loss could have an impact on lending activities and the potential for greater pro-cyclicality on lending and impairment exists owing to implementation of IFRS 9. Further changes in financial reporting standards or policies, including as a result of choices made by the Group, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and may have a corresponding material adverse effect on capital ratios.

IFRS 16 was approved by EU in October 2017 and enters into force in the periods starting on or after 1 January 2019. Its early application is permitted through the fulfilment of certain requirements. This standard replaces IAS 17 – Leases and establishes the new requirements regarding the scope, classification/recognition and measurement of leases. The Group will apply the principles set out in IFRS 16 at the beginning of 2019 and, after a preliminary assessment, the following impacts are expected:

- from the lessor's perspective, leases will continue to be classified as finance leases or operating leases, not being expected substantial changes for the Group compared to which was already defined in IAS 17;

- from the lessee’s perspective, the standard defines a single model of accounting for lease contracts, which results in the recognition of a right-of-use asset and a lease liability for all leases, except for those which the lease term ends within 12 months or for those which the underlying asset is of low value and, in these cases, the lessee may opt for the exemption from recognition under IFRS 16, and shall recognise the lease payments associated with those leases as an expense.

The Group will choose not to apply this standard to short-term lease contracts, i.e. contracts with a term shorter than or equal to one year, and to lease contracts in which the underlying asset’s value is below EUR 5,000. Additionally, this standard won’t be applied to leases of intangible assets.

Lease definition

The new lease definition focusses on the control of the identified asset, establishing that a contract constitutes or contains a lease if it carries the right to control the use of an identified asset, i.e. the right to obtain substantially all of the economic benefits of using it, and the right to choose how to use the identified asset over a period in exchange of a payment.

Impacts from the lessee‘s perspective

The Group will recognise for all leases, except for those with a term under 12 months or for low value underlying asset leases:

- a right-of-use asset initially measured at cost must consider the Net Present Value (NPV) of the lease liability plus the value of payments made (fixed and/or variable), deducted from any lease incentives received, penalties for terminating the lease (if reasonably certain), as well as any cost estimates to be supported by the lessee with the dismantling and removal of the underlying asset and/or with the recovery of its location. Subsequently, it will be measured according to the cost model (subject to depreciations/amortisations and impairment tests);

- a lease liability initially recorded at the present value of the remaining lease payments (NPV), which includes:

- fixed payments deducted from any lease incentives receivable;

- variable lease payments that depend on a rate or an index, initially measured considering the rate or index as at the commencement date;

- amounts expected to be paid by the lessee under residual values guarantees;

- the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option;

- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to end the lease.

Lease payments shall be discounted at the interest rate implicit in the lease, if that rate is easily determinable. If not, the lessee's incremental borrowing rate shall be used. Subsequently, lease payments will be measured as follows:

- by increasing their carrying amount to reflect interest;

- by reducing their carrying amount to reflect lease payments;

- carrying amount shall be remeasured to reflect any leases' revaluations or changes, as well as to reflect the review of in-substance fixed payments.

Impact from the lessor's perspective

In accordance with IFRS 16, lessors will continue to classify leases as finance or operational leases, which does not imply significant changes to what is defined in IAS 17. Thus, it is not expected that the lessor will make transition adjustments resulting from the adoption of IFRS 16. The Group does not anticipate any impact on the application of this change in its financial statements.

Transition

On 1 January 2019, the Group carried out a review of the existing contracts at this date and applied the practical expedient provided in IFRS 16, i.e., the standard was only applied to contracts previously identified as leases in accordance with IAS 17 – Leases and IFRIC 4.

As proposed in IFRS 16, the Group will apply this standard retrospectively, with its transition impacts being recognised on 1 January 2019. This way, comparative information will not be restated.

By applying the practical expedient provided on the transition to IFRS 16, the Group will recognise a lease liability at the present value of the remaining lease payments, discounted at an incremental interest rate at the date of initial application and the underlying assets' right-to-use by the lease liability amount.

The following assumptions considered in the implementation of this standard were:

- lease term: this component was evaluated by categories of contracts, being each contract enforceable;

- discount rate: it was used the lessee 's incremental rate, which incorporates the risk-free yield curve (swap curve), plus Group's risk spread, applied over the weighted average term of each lease contract;

- non-application of the standard to lease contracts with a term under 12 months, neither to leases of low value assets (up to EUR 5,000).

Given the conditions mentioned above, the Group identified that the main lease contracts that will be covered by this standard are contracts on real estate (branches and central buildings) and on a residual number of vehicles. According to the preliminary analysis made, the Group estimates that, by applying this new standard in January 2019, its total assets and liabilities will have an increased amount of EUR 245 million, approximately. The adoption of IFRS 16 will result in changes in the Amortisations and depreciations, Other administrative costs and Interest expense, but, on a net basis, these changes will not result in material impacts in the Income statements.

If the Bank's regulators adopt or interpret more stringent standards or views on the applicable standards than the Bank anticipates, the Bank could experience unanticipated changes in its reported financial statements, including but not limited to restatements or the inclusion of reserves in review or audit reports, which could adversely affect the Bank's business due to litigation and loss of investor confidence in its financial statements.

The Bank's financial statements in conformity with EU IFRS require the exercise of judgements and use of assumptions and estimates which, if incorrect, could have a material impact on the Bank's business, results of operations, financial condition, prospects and capital ratios.

The preparation of financial statements in conformity with EU IFRS requires management to exercise judgement and use estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income and expenses. Due primarily to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. For example, due primarily to the inherently uncertain outcome of settlements of claims and litigation, it is difficult to provide for sufficient legal and regulatory provisions, and if the provisions made turn out not to be sufficient, the Bank will have to report additional losses.

Judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and known at the date of preparation and issuance of the respective financial statements. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Bank's results and financial condition, based upon materiality and significant judgements and estimates, include the following areas: impairment of the financial assets available for sale, losses due to impairments in credit to clients, fair value of derivative financial instruments, investments held to maturity, entities included in the consolidation perimeter, taxes on profit, pensions and other benefits to employees, goodwill impairments and impairments in non-current assets held for sale (properties). If the exercise of judgement and the use of estimates and assumptions by the Group in preparing its consolidated financial statements in conformity with EU IFRS are subsequently found to be incorrect, this could have a material impact on the Bank's business, results of operations and financial condition, including capital ratios.

The use of standardised contracts and forms carries certain risks.

The Bank maintains contractual relationships with a large number of clients. The management of such a large number of legal relationships involves the use of general terms and conditions and standard templates for contracts and forms. This could pose a significant risk to the large number of contracts containing subjects that need clarification and drafting errors or requiring individual terms and conditions. In light of recent amendments to the applicable legal frameworks as a result of new laws or judicial decisions, it is possible that not all standard contracts and forms used by the Bank comply with every applicable legal requirement at all times.

If there are drafting errors or interpretive issues, or if the individual contractual terms or the contracts are invalid in their entirety or in part, many client relationships may be negatively affected. Any resulting claims for compensation or other legal consequences may have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

RISKS RELATING TO ACQUISITIONS

The Bank may be the object of an unsolicited acquisition bid.

In light of the ongoing trend in Europe towards consolidation in the banking sector, and like any listed company, the Bank could be the target of an unsolicited acquisition bid. If such an acquisition were to occur, there could be changes in its corporate strategy, the main focus of its business, or its operations and resources, which could have a material adverse effect on the Bank's business, financial condition or results.

The Bank or its subsidiaries may engage in mergers and/or acquisitions.

Although the Bank's strategic plan is focused on organic growth and while it has reinforced its commitment to its strategic goals, there is no guarantee that it will not participate in mergers and/or acquisitions in Portugal or elsewhere should such opportunities arise. In the event the Bank or any of its subsidiaries participates in mergers and/or acquisitions, there could be changes in its corporate strategy, in its organisation and structure, its main business focus, its resources, and in its financial condition and results of operations. Additionally, if the Bank or its subsidiaries were to engage in such an operation, it is possible that the Bank may not be able to extract all the cost and/or revenue synergies, totally or partially, associated with such mergers and/or acquisitions. The Bank may also have to bear additional personnel costs resulting from any restructurings needed to integrate acquired operations or businesses successfully. Moreover, future mergers or acquisitions could result in unexpected losses due to unforeseen liabilities, which could have a material adverse effect on the Bank's business, financial condition or results of operations.

On 17 October 2018 Bank Millennium S.A. ("**Bank Millennium**") took over management of the assets of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast ("**SKOK Piast**") (Cooperative Credit Union SKOK Piast), based on a decision of the Polish Financial Supervision Authority, and on 1 November 2018 Bank Millennium acquired SKOK Piast. Bank Millennium joined other banks involved in the SKOK turnaround process supported by the Polish Financial Supervision Authority and the Bank Guarantee Fund. The acquisition of SKOK Piast corresponded with efforts to ensure stability of the national financial system and to ensure safety for all clients of financial institutions in Poland.

Bank Millennium reached an agreement for the acquisition of a 99.79% stake in Eurobank, S.A. ("**eurobank**") from Société Générale Financial Services Holding, a subsidiary of Société Générale S.A. The acquisition of eurobank allows Bank Millennium to strengthen its position in the Polish banking sector and represents a profitable deployment of Bank Millennium's excess capital and liquidity. Bank Millennium's CET1 ratio stood at 19.77% as at 31 December 2018, comfortably above regulatory requirements. Taking into consideration the planned acquisition of eurobank, the Management Board of Bank Millennium submitted to the Annual General Meeting a proposal of full retention of 2018 net profit in Bank's own funds.

RISKS RELATING TO THE BANK'S BUSINESS

The Bank is exposed to the credit risk of its customers.

The Bank is exposed to its customers' credit risk. Gross exposure to risk of credit (position in original risk) on 31 December 2018 was EUR 89.8 billion (EUR 87.1 billion on 31 December 2017).

As at 31 December 2018, the breakdown of this exposure was the following: EUR 15.2 billion for central governments or central banks, EUR 0.8 billion for regional administrations or local authorities, EUR 0.1 billion for administrative entities and non-profit organisations, EUR 0.02 billion for multilateral development banks, EUR 2.7 billion for other credit institutions, EUR 60.7 billion for retail and companies customers and EUR 10.1 billion for other elements.

As at 31 December 2017, the breakdown of this exposure was the following: EUR 11.4 billion for central governments or central banks, EUR 0.8 billion for regional administrations or local authorities, EUR 0.3 billion for administrative entities and non-profit organisations, EUR 0.02 billion for multilateral development banks, EUR 2.9 billion for other credit institutions, EUR 60.2 billion for retail and companies customers and EUR 11.4 billion for other elements.

According to Banco de Portugal latest available data, Portugal's NPE coverage by loan loss reserves ("**LLR**") was 53.2% in the first nine months of 2018 and the NPE ratio stood at 11.3%. The Bank NPEs as at 31 December 2018 were EUR 5.5 billion (10.9%) with a coverage by impairments of 52% and a coverage by impairments, collaterals and Expected Loss Gap of 109%.

A general deterioration of the Portuguese economy (and of the global economy) and the systemic risk of financial systems due to structural imbalances could affect the recovery and value of the Bank's assets and require increased credit impairments, which would adversely affect the Bank's financial condition and results of operations. This could further increase the Bank's NPL and NPE ratios and impair the Bank's loan portfolio and other financial assets.

The Bank is exposed to concentration risk, including concentration risk in its credit exposure.

The Bank is exposed to the credit risk of its customers, including risks arising from the high concentration of individual or economic group exposures in its loan portfolio. The 20 largest loan exposures of the Bank as at 31 December 2018 represented 9.3% of the total loan portfolio (gross) (10.2% as at 31 December 2017 and 10.9% as at 31 December 2016). The qualified shareholders' loan exposures as at 31 December 2018 represented 0.49% of the total loan portfolio (gross) (0.42% as at 31 December 2017 and 0.46% as at 31 December 2016).

The Bank also has high sectoral concentration in its loan book. As at 31 December 2018, the Bank's credit exposure to the real estate and civil construction sectors was 7% (real estate activities) and 4.0% (construction companies) of the total loan portfolio (gross). On that date, 46.7% of the loan portfolio consisted of mortgage loans, the exposure to retail and commerce was 6.9% and the exposure to service sector companies was 17.3%.

As at 31 December 2017 the Bank's credit exposure to the real estate and civil construction sectors was 3.3% (real estate activities) and 4.7% (construction companies) of the total loan portfolio (gross), respectively. On that date, 45.9% of the loan portfolio consisted of mortgage loans, the exposure to retail and wholesale commerce was 6.8% and the exposure to service sector companies was 18.1%.

This concentration is common for most of the main Portuguese banks given the small size of the Portuguese market, and has been noted by the rating agencies as a fundamental challenge facing the Portuguese banking system. Rating agencies have been particularly critical of the Bank's exposure to larger customers and, especially, exposure to its shareholders. Although the Bank carries out its business based on strict risk control policies, in particular with respect to credit risk, and seeks to increase the diversification of its loan portfolio, it is not possible to guarantee that the exposure to these groups will not be increased or that exposure will fall in the future. If exposure increases in the future, it could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to counterparty risk, including credit risk of its counterparties.

The Bank routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients.

Sovereign credit pressures may weigh on Portuguese financial institutions, limiting their funding options and weakening their capital adequacy by reducing the market value of their sovereign and other fixed income holdings. These liquidity concerns have adversely impacted, and may continue to adversely impact, interim institutional financial transactions in general. Concerns about, or a default by, one financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, as the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing and other relationships. Many of the routine transactions the Bank enters into expose it to significant credit risk in the event of default by one of its significant counterparties. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-side liquidity pressures or losses or ultimately to an inability of the Bank to repay its debt. In addition, the Bank's credit risk may be exacerbated when the collateral it holds cannot be enforced upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure. A default by a significant financial and credit counterparty, or liquidity problems in the financial services industry in general, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Exposure to credit risk may also derive from the collaterals of loans, interbank operations, clearing and settlement and trading activities as well as other activities and relationships. These relationships include those with retail customers, brokers and dealers, other commercial banks, investment banks and corporate borrowers. Most of these relationships expose the Bank to credit risk in the event of default by the counterparty or customer.

Adverse changes in the credit quality of customers and counterparties of the Bank, a generalised deterioration of the Portuguese or global economies or the systemic risk of financial systems due primarily to structural imbalance could affect the recovery and value of the Bank's assets and require increased impairments, which would adversely affect the Bank's business, financial condition, results of operations and prospects.

As the Bank expands its business activities, penetrates new market segments and adopts or acquires, directly or through subsidiaries, new business models, such as consumer lending to new-to-bank customers, or franchisee-owned branch networks, it may acquire customers with lower credit quality, which, if such new pursuits were to grow and acquire a significant weight in the business portfolio, could adversely affect the Bank´s business, financial condition, results of operations and prospects.

The Bank sells capitalisation insurance products with guaranteed principal and unit linked products, exposing the Bank to reputational risk in its role as seller, and financial risk indirectly arising from the Group's shareholding in Millenniumbcp Ageas.

Off-balance sheet customer funds, as at 31 December 2018 totalled EUR 17.4 billion, consisting of assets under management (EUR 5.0 billion), assets placed with customers (EUR 3.8 billion) and insurance products (EUR 8.6 billion), including unit linked products (EUR 3.1 billion) and capitalisation insurance (EUR 5.3 billion), with only the latter being able to ensure capital or a minimum income.

All financial insurances are predominantly placed with retail investors, those being in their majority issued and accounted by Millenniumbcp Ageas (in which the Bank has a 49% shareholding) and registered by the equity method. Therefore, adverse changes in the underlying assets, a general deterioration of the global economy, or the systemic risk of financial systems due to structural imbalances may affect the recovery and value of such assets, entailing reputational risks for the Bank as a seller of these products as well as financial risks indirectly arising out of the shareholding held by the Group in Millenniumbcp Ageas. Any of the foregoing could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to a contraction of the real estate market.

The Bank is highly exposed to the Portuguese real estate market by means of the credit granted to construction companies, real estate activities, and mortgage loans, which represented 4.0%, 3.0% and 46.7% of the consolidated loan portfolio, respectively, as at 31 December 2018 in assets related to its operations or obtained in lieu of payment, and indirectly through properties securing loans or through funding of real estate development projects (assets received in lieu of payment in Portugal represented 1.9% of total assets of the Bank as at 31 December 2018), and through the exposure to closed-ended real estate funds and to the pension fund and real estate properties in the Bank's balance sheet.

Assets held on the Bank's balance sheet received in lieu of payment (real estate assets only) decreased from EUR 1,782 million as at 31 December 2016 to EUR 1,778 million as at 31 December 2017 and to EUR 1,474 million as at 31 December 2018 (impairments of EUR 201 million as at 31 December 2016 and EUR 232 million as at 31 December 2017 and EUR 205 million as at 31 December 2018). The coverage of assets received in lieu of payment stood at 11.3% as at 31 December 2016 to 13.0% as at 31 December 2017 and 13.9% as at 31 December 2018. In 31 December 2018, the Bank sold 4,758 properties, from its stock of properties, for EUR 669 million, above its book value of EUR 583 million.

The exposure to closed-end investment funds, whose units were received following operations where properties were recovered in lieu of payment and that, in accordance with IAS/IFRS, were subject to consolidation, represented EUR 431,6 million as at 31 December 2018 (EUR 536.9 million as at 31 December 2017 and EUR 529.3 million as at 31 December 2016). The item Investment Properties includes the amount EUR 11.1 million as at 31 December 2018 and EUR 12.4 million as at 31 December 2017, concerning properties held by Fundo de Investimento Imobiliário Imosotto Acumulação, by Fundo de Investimento Imobiliário Gestão Imobiliário, by Fundo de Investimento Imobiliário Imorenda, by Fundo de Investimento Imobiliário Fechado Gestimo and by Imoport – Fundo de Investimento Imobiliário Fechado.

The Bank also performed a set of transactions involving the sale of financial assets for funds specialising in the recovery of loans, including Fundo Recuperação Turismo FCR, Fundo Reestruturação Empresarial FCR, FLIT, Vallis Construction Sector Fund, Fundo Recuperação FCR, Fundo Aquarius FCR, Discovery Real Estate Fund and Fundo Vega FCR.

The item Properties, which includes the real estate booked in the pension fund's financial statements and used by Group companies, in the pension fund amounted to EUR 245,3 million recorded as at 31 December 2018, EUR 253.9 million recorded as at 31 December 2017 and EUR 282.0 million as at 31 December 2016.

Accordingly, the Bank is vulnerable to a contraction in the real estate market. A significant devaluation of prices in the Portuguese real estate market would lead to impairment losses in the assets directly held and to an increased exposure to counterparty risk for loans guaranteed by real estate collateral and in pension fund assets retained by the Bank, adversely affecting the Bank's business, financial condition and results of operations. Mortgage loans represented 46.7% of the total loan portfolio as at 31 December 2018 (45.9% as at 31 December 2017), with a low delinquency level and an average loan-to-value ratio of 66%. Although Portugal did not face a housing bubble during the recent financial crisis as did other European countries, such as Ireland and Spain, and real estate prices in Portugal have been fairly stable over the last years, the economic and financial crisis still had an impact on the real estate market. Portuguese banks are granting a low amount of new mortgage loans with very low spreads, and real estate developers have encountered a difficult market for sales. Moreover, there was a reduction in public works activity that severely affected construction companies, which had to redirect their activities to foreign markets. Furthermore, difficult credit conditions associated with the contraction of tourism have affected certain real estate developers that had been involved with tourism related projects, in particular in the southern part of Portugal. All of the aforementioned effects have increased delinquency among construction companies and real estate developers, impacting the Bank's NPLs and contributing to the increase in impairment charges.

A significant devaluation of prices in the Portuguese real estate market may lead to an increase in impairment losses in the assets held directly and in the participating units of the restructuring funds, and increased exposure in counterparty risk for loans guaranteed by real estate collateral and in pension fund assets retained by the Bank. Any of the foregoing could have a materially adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to the risk of interest rate repricing of credit granted to customers.

Mortgage loans represented 46.7% of BCP's total loan portfolio (consolidated) as at 31 December 2018. The average spread of the mortgage loans portfolio in Portugal stood at 1.30%; 46% of the contracts and 49% of the balance of mortgage loans had spreads under 1%. As at 31 December 2018, 73% of the contracts and 63% of the balance of the mortgage loans portfolio in Portugal were indexed to Euribor 3 months and 11% of the contracts and 11% of the balance of the portfolio were indexed to Euribor 6 months. In 2017, the average spread of the mortgage loans portfolio in Portugal stood at 1.27%; 37% of the contracts and 41% of the balance of mortgage loans had spreads under 1%. As at 31 December 2017, 73% of the Bank's contracts and 67% of the balance of the mortgage loans portfolio in Portugal were indexed to Euribor 3 months and 12% of the contracts and 13% of the balance of the portfolio were indexed to Euribor 6 months.

In response, the Bank, along with other banks in Portugal, limited the granting of new mortgage loans. In 2018, 18,016 new mortgage credit operations were contracted with an average spread of 1.41%, compared to 9,390 new mortgage credit operations contracted with an average spread of 1.63% in 2017. The Bank cannot unilaterally change the contractual terms of the loans that make up its portfolio of mortgage loans and it has proven extremely difficult to negotiate the extension of the maturity of these contracts. The resulting limitation of this contractual rigidity has a significant impact on net interest income. In addition, given the current low demand for credit by companies, the Bank may also experience difficulties in changing the mix of its loan portfolio which would make it difficult to offset the impact of reduced spreads on mortgages in the average spread of the loan portfolio.

After a period in which banks implemented policies of interest rate repricing on loans, mainly directed at loans to companies, a reduction of corporate and consumer loans spreads may be observed in the future, given the weak credit dynamics in the Portuguese corporate sector. This could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. Furthermore, a continuation of the historically low interest rate environment may adversely affect the Bank's net interest income, which in turn would likely have an adverse effect on the Bank's profitability.

The Bank holds units issued by specialised credit recovery closed-end funds that are subject to potential depreciation, for which reimbursement may not be requested and for which there is no secondary market.

The Bank performed a set of transactions comprising the sale of financial assets (namely loans to customers) to funds specialising in loan recovery. These funds manage the companies or the assets received as collateral with the objective of achieving a pro-active management through the implementation of operation/valuation plans of such companies. The financial assets sold through these transactions were removed from the Bank's balance sheet, as the transactions result in the transfer of a substantial portion of the risks and benefits associated with the assets to the funds, in addition to any control exercised thereof.

The funds specialised in credit recovery that purchased the financial assets from the Group are closed-end funds, wherein the participants have no ability to request the reimbursement of their investment throughout the useful life of the fund. Furthermore, given their intrinsic characteristics and those of the underlying assets, there is no secondary market operating for the participation units, which makes their sale to third parties very unlikely.

These participation units are held by several banks, which are the sellers of the loans, in proportions that vary through the useful life of the funds, guaranteeing however that no bank may hold more than 50% of each fund's capital.

The funds have a specific management structure (led by a general partner), which is independent from the credit assignor banks and selected on the fund's incorporation date.

The funds' management structure is mainly responsible for:

- defining the fund's purpose; and
- managing the fund on an exclusive basis, determining its investment goals and policy, in addition to management conduct and fund business.

The management structure is remunerated through commissions charged to the funds.

The majority of funds in which the Bank holds a minority position were incorporated for the purpose of investing in own capital instruments and third parties' share capital which, in accordance with their investment policies, is their goal. The participating banking institutions subscribe to senior instruments (usually participation units issued by the funds themselves) and junior instruments (for example, subordinated financings or supplementary contributions granted directly to the special purpose vehicles held by the funds).

The value of senior instruments is set as the negotiated fair value based on valuations made by the involved parties and the instruments are paid at an interest rate that reflects the risk of the assets and of the relevant companies.

The value of the junior instruments equals the difference between the fair value based on the valuation of the senior instruments and the value of the assigned credits by the banks.

Junior instruments entitle the holder to a contingent positive value in the event that the value generated by the assigned assets surpasses the amounts to be paid through the senior instruments.

The Bank's total exposure to funds specialised in the recovery of loans was EUR 1,007 million as at 31 December 2018.

For further details on this topic, please also see "*The Bank is exposed to market risk, which could result in the devaluation of investment holdings or affect its trading results*."

A possible deterioration in the prospects for recovery of the loans transferred to specialised closed-end funds may result in the devaluation of the NAV of the held participation units that cannot be sold, leading to additional impairments. This could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Financial problems faced by the Bank's customers could adversely affect the Bank.

Continued market turmoil and poor economic growth, particularly in Portugal and in other European countries, could have a material adverse effect on the liquidity, the activity and/or the financial conditions of the Bank's customers, which could in turn further impair the Bank's loan portfolio.

The Bank's customers' levels of savings and credit demand are dependent on consumer confidence, employment trends, the state of the economies in countries where the Bank operates, and the availability and cost of funding. In addition, customers may further significantly decrease their risk tolerance to non-deposit based investments such as stocks, bonds and mutual funds. This would adversely affect the Bank's fee and commission income. Any of the conditions described above could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The Bank's portfolio may continue to contract.

Bank loans to customers (gross) at a consolidated level decreased from EUR 51.8 billion as at 31 December 2016 to EUR 51.0 billion as at 31 December 2017 (of which EUR 48.9 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers" and EUR 2.1 billion were recorded in the caption "Debt securities held associated with credit operations") and EUR 51.0 billion as at 31 December 2018 (of which EUR 48.4 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers", EUR 2.3 billion were recorded in the caption "Debt securities held associated with credit operations" and EUR 0.3 billion were recorded in the caption "Financial assets not held for trading mandatorily at fair value through profit or loss - Loans and advances to customers at fair value"). In the current economic environment, the Bank's loan portfolio in Portugal may continue to shrink and its loan portfolio abroad may not continue to grow at historic rates, or may even decrease. Furthermore, in some of the Bank's target markets there is a limited number of customers of high creditworthiness. The Bank has also undertaken commitments in respect of operational efficiency, including the sale of the loan portfolio operations in Switzerland and the Cayman Islands. As the demand for credit in the economy is reduced and the good quality credit loans are repaid, the Bank may face difficulties in exchanging loans that are being reimbursed for good credit quality loans. Developments in the Bank's loan portfolio will be affected by, among other factors, the condition of the Portuguese economy. The continued decline in the value or quality of the Bank's loan portfolio could limit its ability to generate net interest income, which in turn could have a material adverse effect on the Bank's business, financial position, results of operations and prospects.

The Bank is exposed to further deterioration of asset quality.

The value of assets collateralising the Bank's secured loans could decline significantly as a result of a general decline in market prices or a decline in the value of the asset class underlying the collateral, which could result in an increase of the impairment recognised for the collateralised loans granted by the Group. Loan volume to both businesses and individuals is expected to remain depressed in Portugal due primarily to downward pressure of austerity measures on household disposable income and the firms' profitability, as well as the resulting deterioration in the business environment, more restrictive credit conditions and stressed liquidity. A decline in equity and debt market prices could also have an impact on the quality of the Bank's collateral linked to financial assets leading to a reduction in coverage ratios.

In light of the Portuguese macroeconomic situation and the Bank's older loan exposures to some of the more vulnerable sectors in the economy, in 2018, the Bank continued to increase the level of coverage through impairments and collateral.

In relation to the new NPLs, following the EC and ECB proposals in March 2018, stricter provisioning rules are expected; and in relation to the NPLs stock, there is now a 5% ratio benchmark (2.5% for NPLs net of provisions) although without an implementation date.

The economic and financial crisis, combined with the implementation of budgetary consolidation measures established under the PAEF, have resulted in a further deterioration of the quality of the Bank's assets, including its loan portfolio.

The Bank's consolidated gross loan portfolio, as at 31 December 2018, was EUR 51.0 billion (of which EUR 48.4 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers", EUR 2.3 billion were recorded in the caption "Debt securities held associated with credit operations" and EUR 0.3 billion were recorded in the caption "Financial assets not held for trading mandatorily at fair value through profit or loss - Loans and advances to customers at fair value"). As at 31 December 2017, the Bank's consolidated loan portfolio was EUR 51.0 billion (of which EUR 48.9 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers" and EUR 2.1 billion were recorded in the caption "Debt securities held associated with credit operations"). The ratio of NPEs stood at 10.9% as at 31 December 2018, compared to 15.0% as at 31 December 2017. As at 31 December 2018, the loan portfolio in Portugal amounted to EUR 37.2 billion. In Portugal, the ratio of NPEs stood at 12.9% as at 31 December 2018, compared to 15.8% as at 31 December 2017, compared to 17.8% as at 31 December 2016.

NPEs in Portugal amounted to EUR 4.8 billion as at 31 December 2018, with 2% of NPEs relating to individuals and 75% to companies. 55% of NPEs are NPLs more than 90 days. NPE coverage as at 31 December 2018 was 112% for Companies (58% by LLRs, 35% by real estate collateral and 20% by other collateral and EL gap) and 100% for Individuals (26% by LLRs, 71% by real estate collateral and 3% by other collateral and EL gap). NPLs more than 90 days' coverage as at 31 December 2018 was 116% for Companies (67% by LLRs, 26% by real estate collateral and 23% by other collateral and EL gap) and 100% for Individuals (32% by LLRs, 66% by real estate collateral and 2% by other collateral and EL gap). Other NPE coverage as at December 2018 was 108% for Companies (48% by LLRs, 44% by real estate collateral and 16% by other collateral and EL gap) and 100% for Individuals (17% by LLRs, 80% by real estate collateral and 3% by other collateral and EL gap).

The persistence of volatility and adverse economic and financial circumstances at worldwide, European and national levels increase the risk of deterioration of the quality of the consolidated loan portfolio and may also lead to increased impairment losses and deterioration of the regulatory capital ratios. Loan impairment (net of recoveries) amounted to EUR 470.8 million as at 31 December 2018, recorded in the caption “Impairment for financial assets at amortised cost – Loans and advances to customers”, EUR 623.7 million as at 31 December 2017, recorded in the caption “Loans impairment”, and EUR 1,116.9 million as at 31 December 2016, recorded in the caption “Loans impairment”. From 2011 to 31 December 2017, the Bank made impairment provisions amounting to EUR 6,987.4 million. A significant portion of the foregoing related to inspections to the Bank's loan portfolio, namely Special Inspections Programme Work Stream 1 (EUR 381 million), On-site Inspections Programme (EUR 290 million), Exercício Transversal de Revisão das Imparidades das Carteiras de Crédito-ETRICC (Transversal Exercise of Impairments Revision on the Loan Portfolio) (EUR 306 million) and Asset Quality Review (EUR 313.5 million). Cost of risk[7], measured by the proportion of loan impairment annualised charges (net of recoveries) compared to loans to customers (gross), stood at 92 basis points as at 31 December 2018, compared to 122 basis points as at 31 December 2017 and 216 basis points as at 31 December 2016. The persistence, or deepening, of the crisis, general market volatility, sluggish economic growth and increased unemployment, coupled with either decreased consumer spending or a sharp increase in risk premiums required would lead to increased loan impairment costs and, consequently, to the reduction of the Bank's net income. In addition, the level of impairment and other reserves may not be sufficient to cover possible future impairment losses, and it may be necessary to create additional provisions of significant amounts. Any failure in risk management or control policies relating to credit risk could adversely affect the Bank's business, financial condition, results of operations and prospects.

In Poland, the NPL ratio as at 31 December 2018 was 2.5%, compared to 2.8% as at 31 December 2017 and 2.6% as 31 December 2016.

In Mozambique, the NPL ratio as at 31 December 2018 was 16.4%, compared to 14.3% as at 31 December 2017 and 6.0% as at 31 December 2016.

[7] As used in this Base Prospectus, "**Cost of risk**" means the ratio of impairment charges (net of recoveries) accounted to customer loans (gross).

Credit risk and deterioration of asset quality are mutually reinforcing. If there is any reduction in the value of assets securing loans that have been granted or if the value of assets is not sufficient to cover the exposure to derivative instruments, the Bank would be exposed to an even higher credit risk of non-collection in the case of non-performance, which, in turn, may affect the Bank's ability to comply with its payment obligations. The Bank cannot guarantee that it would be able to realise adequate proceeds from disposals of collateral to cover loan losses, or that in the fiscal year 2018 and/or in future reporting periods, it will not raise impairment charges from recent levels. Deterioration in the credit risk exposure of the Bank may have a material and adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank faces strong competition in its main areas of activity, notably in the retail business.

The Portuguese banking market is well developed, containing major national and foreign competitors which follow multi-product, multi-channel and multi-segment approaches and are, in general, highly sophisticated. Over recent years, there have been significant developments of banking operations through the internet and the use of new technology that have enabled banks to assess the needs of their customers with greater accuracy and efficiency. These factors have contributed to an increase in competition in the Portuguese banking sector, with new entrants such as Bankinter and Banco CTT who may adopt aggressive commercial practices in order to gain market share. The sale process of Novo Banco could add to increased competition as the bank was acquired by an institution with no prior presence in the Portuguese banking system. Furthermore, many Portuguese banks are dedicated to increasing their market shares by launching new products, implementing cross-selling strategies and engaging in more aggressive commercial strategies. Additional integration of European financial markets may contribute to increased competition, particularly in the areas of asset management, investment banking, and online banking and brokerage services.

In 2018, the Bank had 2.3 million active customers in Portugal and, the market share in Portugal (estimates based on figures disclosed by Banco de Portugal and other banking industry associations for aggregates of the financial system and with adjustments for statistical standardisation) was the following: 17.4% in loans to customers, 17.7% in loans to companies, 16.0% in loans to individuals, 17.0% in mortgage loans, 9.8% in consumer credit, 19.1% in customer funds, 18.0% in on-balance sheet customer funds, 17.5% in deposits and 22.1% in off-balance sheet customer funds.

The Bank's financial success depends on its capacity to maintain high levels of loyalty among its customer base and to offer a wide range of competitive and high quality products and services to its customers. In order to pursue these objectives, the Bank has adopted a strategy of segmentation of its customer base, aimed at serving the various needs of each segment in the most suitable manner, in addition to cross-selling its products and services through its distribution network in Portugal, under the brand "Millennium bcp". However, high levels of competition in Portugal, as well as in other countries where the Bank operates and an increased emphasis on cost reduction may result in the Bank's inability to maintain these objectives. In addition, on 31 December 2018 the Bank operated 546 branches, having achieved the goal of reducing the number of branches to less than 570 by the end of 2018, working towards its goal of becoming a more digital bank. This resulted in the downsizing of the Bank's branch network and consequently in BCP's branches' market share in Portugal. This may result in a weaker competitive position in the Portuguese retail market. As a consequence, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Moreover, as at 31 December 2018, around 5.2% of the Bank's total domestic customers also held ordinary shares of the Bank (around 5.8% as at 31 December 2017 and approximately 5.7% as at 31 December 2016). If the price of the Bank's ordinary shares continues to decline, this could lead to shareholder dissatisfaction and, to the extent that such shareholders are also customers of the Bank, this could result in broader customer dissatisfaction, any of which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

There is no assurance that the Bank will be able to compete effectively, or that it will be able to maintain or improve its operational results. Such inability to compete or maintain results could also lead to a reduction in net interest income, fees and other income of the Bank, any of which could have a further significant material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank may generate lower revenues from commissions and fee-based businesses.

In 2018, more than 83% of the fees and commissions related to banking (24% to cards and transfers, 24% to loans and guarantees, 15% to bancassurance, 15% to customer account related fees and 3% to other fees and commissions), with market related fees and commissions accounting for the remaining 17%. A decrease in the volume of lending transactions that the Bank executes with its customers could result in lower commissions derived from banking operations and guarantees. Moreover, changes to market sentiment could lead to market downturns that are likely to impact transactional volume, therefore leading to declines in the Bank's fees.

In addition, as the fees that the Bank charges for managing its' clients' portfolios are, in many cases, based on the value or performance of those portfolios, a market downturn that reduces the value of the Bank's clients' portfolios or increases the amount of withdrawals would reduce the revenue the Bank receives from its asset management, private banking and custody services. Revenue derived from the Bank's asset management business could also be impacted by below market performance by the Bank's securities investment funds, which could lead to increased withdrawals and reduced inflows. An increase in withdrawals and a reduction in inflows could have a significant material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Downgrades in the Bank's credit rating could increase the cost of borrowing funds and make the Bank's ability to raise new funds or renew maturing debt more difficult.

The Bank's ratings are assigned by Moody's Investors Service España, S.A., S&P Global Ratings Europe Limited, Fitch France – Société par Actions Simplifiée and any entity that is part of DBRS group and any successor to the relevant rating agency. The ratings as of the date of this Base Prospectus are the following: (a) Moody's Investors Service España, S.A.: "Ba2/NP" (re-presented as at 1 April 2019), (b) S&P Global Ratings Europe Limited: "BB/B" (re-presented as at 9 October 2018), (c) Fitch France – Société par Actions Simplifiée: "BB/B" (re-presented as at 6 December 2018) and (d) the relevant DBRS entity: "BB (high)/R-3" (re-presented as at 28 March 2019).

Credit ratings represent an important component of the Bank's liquidity profile and affect the cost and other terms upon which the Bank is able to obtain funding. Changes to the Bank's credit ratings reflect, apart from changes to the rating of the Portuguese Republic, a series of factors intrinsic to the Bank. Currently, the ratings assigned to the Bank, with the exception of the Critical Obligations Ratings (COR) assigned by the relevant DBRS entity, are non-investment grade. In terms of capital, and despite the fact that the rating agencies recognise that the solvency levels of the Bank are better primarily due to the recapitalisation by the Portuguese State and by shareholders in June and September 2012, respectively, and more recently in July 2014, June 2015, November 2016 and the start of 2017, and the repayment of the GSIs, it remains uncertain whether adverse conditions of the Portuguese economy could impact the Bank's profitability and ability to generate income, jeopardising the Bank's ability to preserve capital. The rating agencies also consider the following additional risk factors: (i) the declining quality of the loan portfolio and any exposure to small and medium enterprises in Portugal; (ii) the Bank's exposure to public debt; (iii) the Bank's exposure to its main clients, particularly shareholders (5.2% of BCP's shareholders were also clients of BCP as at 31 December 2018); and (iv) continued dependency on funding from the ECB.

Any downgrade in the Bank's ratings may contribute to the erosion of the collateral eligible for funding by the ECB, as well as more restrictive access to funding and increased funding costs. Under such circumstances, the Bank may need to reinitiate its deleveraging process and reduce its activities, which could have a negative impact on the Bank's ratings. Any of the foregoing could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Bank faces exposure to risks in its businesses in Europe (Poland) and Africa (Angola and Mozambique).

The Bank faces exposure to risks in its operations in Poland and Mozambique, as well as a result of its participation in Angola via Banco Millennium Angola, SA ("**BMA**"), whose materialisation in the future may have an adverse impact on the business, financial condition, results of operations and prospects of the Bank.

In 2018, the Bank's net profit (after income taxes and non-controlling interests) attributable to international operations was EUR 186.9 million, compared to net profits (after income taxes and non-controlling interests) of a total EUR 301.1 million for the Bank as a whole. For the same period, net income in Poland was EUR 178.4 million, (EUR 89.4 million of which was attributable to the Bank), net contribution in Angola was EUR 21.4 million and net income in Mozambique was EUR 94.1 million (of which EUR 62.8 million was attributable to the Bank).

In 2017, the Bank's net profit (after income taxes and non-controlling interests) attributable to international operations was EUR 254.5 million, compared to net profits (after income taxes and non-controlling interests) of EUR 186.4 million for the Bank as a whole. For the same period, net income in Poland was EUR 160.2 million (of which EUR 80.3 million was attributable to the Bank) net contribution in Angola was EUR 0.1 million and net income in Mozambique was EUR 85.1 million (of which EUR 56.7 million was attributable to the Bank).

<u>Poland</u>

Poland's economy has been growing robustly. After a marked slowdown in 2012 and 2013, economic activity in Poland rebounded and has been recording GDP growth rates above 3.0% since then (Source: Eurostat, July 2018), supported by firmer exports and strong domestic demand due to improvement in the labour market and the EU structural funds. The expansionary trend is expected to continue in the medium-term, according to most recent EC forecasts (November 2018).

Against this positive background, a potential slowdown of the global economy, due to intensification of trade wars and geopolitical tensions, may lead to a downward revision of external demand and renewed instability in financial markets which may constrain economic activity, and cause greater volatility of the Polish zloty ("**PLN**") exchange rate and, consequently, affect the Bank's results directly through financial operations and indirectly through repercussions on the clients' financial situation.

In addition political tensions with the EU, on the back of intensifying pressures to introduce new policies to ensure the viability of the EU, and particularly, the political tensions that have arisen between the Polish government and the European authorities, as the EC concluded on 20 December 2017 that there is a clear risk of a serious breach of the rule of law in Poland and proposed to the Council to adopt a decision under the Article 7(1) of the Treaty on EU, could adversely affect the economic and financial stability in Poland and consequently Bank's activity and results.

Moreover, there is the risk that the implementation of more economic policy decisions, namely on the tax front, targeting the banking system by Polish authorities could negatively affect investors' confidence and the economic activity and, consequently, negatively impact the profitability of the Polish banking sector.

The removal of the peg of the EUR/CHF parity led to a significant appreciation of the Swiss franc ("**CHF**") against the euro and the zloty. The granting of loans in Swiss francs was a common practice of most Polish banks (and in other economies of Central and Eastern Europe) in the past. Bank Millennium granted mortgage loans in Swiss Francs until December 2008 and its Swiss francs mortgage loans portfolio on 31 December 2018 stood at approximately EUR 3.4 billion (approximately 26.5% of the total loan portfolio). The mortgage loans impaired ratio (stage 3) stood at 4.4% in 2018 which compares to 4.9% in 2017.

Bank Millennium stopped granting mortgage loans in foreign currencies in 2009. Consequently the Polish foreign exchange mortgage loans are a mature portfolio, constantly decreasing according to the repayment rate and with a low impairment ratio and high coverage by provisions. As at 31 December 2018, Bank Millennium's foreign exchange mortgages amount to 26.5% of the Polish bank's loan book (EUR 3.4 billion), which represents 6.7% of the Group's total loans.

A proposal has been presented to solve the issue of the conversion of the credits into Swiss francs in Poland, and it received the support from the central bank and the supervisor. This plan implies a quarterly contribution of up to 0.5% (up to 2% annually) on the mortgage loans in a foreign currency into a new restructuring fund for a long period of time. The objective is to promote the conversion of the loans into zloty. The maximum costs for all the polish banking sector estimated by the Polish Financial Supervision Authority amount to PLN 3.2 billion (approx. EUR 738 million) in the first year of the term of office of the restructuring fund. According to the latest news, it is not expected the adoption of proposals with a higher impact on the banks' costs, such as a mandatory conversion or the return of the foreign exchange spreads charged to customers. It is important to underline that Bank Millennium continues to decrease its portfolio of mortgage loans in a foreign currency (10% a year on average), which presently represents only 51% of the total mortgage loans portfolio and 26.5% of the total portfolio.

At the end of 2017, the Polish supervisor defined additional requirements for banks with mortgage loans portfolio in foreign currencies (based on the weight of the total foreign currency mortgage loans portfolio and based on the weight of 2007-2008 vintages in the total foreign currency mortgage loans portfolio). It is worth mentioning that Bank Millennium is reducing its foreign currency mortgage loans portfolio on average 10% per year and that on 31 December 2018 it represented only 51% of the total mortgage loans portfolio and 26.5% of the total loans portfolio.

The contributions for 2019 set by the Polish legislator regarding the resolution fund have doubled versus the contributions set for 2018.

In the described circumstances it is not possible to estimate the impact of potential regulations on the banking sector. However, these legislative and regulatory intentions regarding FX mortgage loans, if implemented and made mandatory for banks, could significantly deteriorate the Bank Millennium's profitability and capital position.

To be able to minimise this potential negative effect and in line with supervisory recommendations, Bank Millennium has been strengthening its capital ratios, building relevant capital buffers that may cushion potential negative impacts from a legislative action.

On 17 October 2018 Bank Millennium took over management of the assets of SKOK Piast, based on a decision of the Polish Financial Supervision Authority, and on 1 November 2018 the Bank Millennium acquired SKOK Piast. Bank Millennium joined other banks involved in the SKOK turnaround process supported by the Polish Financial Supervision Authority and the Bank Guarantee Fund. The acquisition of SKOK Piast corresponded with efforts to ensure stability of the national financial system and to ensure safety for all clients of financial institutions in Poland.

Bank Millennium reached an agreement for the acquisition of a 99.79% stake in eurobank from Société Générale Financial Services Holding, a subsidiary of Société Générale S.A. The acquisition of eurobank allows Bank Millennium to strengthen its position in the Polish banking sector and represents a profitable deployment of Bank Millennium's excess capital and liquidity. Bank Millennium's CET1 ratio stood at 19.77% as at 31 December 2018, comfortably above regulatory requirements. Taking into consideration the planned acquisition of eurobank, the Management Board of Bank Millennium submitted to the Annual General Meeting a proposal of full retention of 2018 net profit in Bank's own funds.

Emerging Markets

There are still some risks related to the economic environment experienced by some African countries, with potential impact on the Group namely Angola and Mozambique, whose economic activity is decelerating, with high inflation and faced a significant depreciation of their currencies in 2017.

Angola and Mozambique present specific political, economic, fiscal, legal, regulatory and social risks that differ from those encountered in countries with European economic and political systems, including, but not limited to, those related to political and social environments, different business practices, logistical challenges, shortages of skilled labour, trade restrictions, macroeconomic imbalances and security challenges.

The Group's operations are currently exposed in particular to the political and economic conditions of Angola and Mozambique. These conditions also relate to the fact that structural improvements are still needed in many sectors in these markets, including transportation, energy, agriculture and mineral sectors, as well as land, social and fiscal reforms. Some of these markets may also suffer from geopolitical conflict, while a number of African states have unresolved political differences internally, regionally and/or internationally.

Additionally, the Bank's operations in those markets may involve protracted negotiations with host governments, companies or other local entities and may be subject to instability arising from political, economic, military or legal disturbances. Both Mozambique and Angola impose certain restrictions due primarily to exchange policy controls and capital flows to and from other jurisdictions are likewise subject to such controls and restrictions. Therefore, the ability to transfer U.S. dollars and Euros directly from local banks, including the repatriation of profits, is subject to official vetting. Transfers above a threshold amount may require government approval, which may not be obtained or may be subject to delays.

Regarding Millennium bim ("**BIM**"), in Mozambique, the amount of dividends paid out to the Group in 2017 totalled EUR 13.2 million, while in Angolan the amount of dividends paid out to the Group in 2017 totalled EUR 21.5 million.

Any reduction in profits or increase in the responsibilities associated with the Bank's international operations may have a material adverse effect on the business, financial condition, results of operations and prospects of the Bank.

Mozambique

Mozambique faces important economic and financial challenges. After being one of the fastest growing economies in Sub-Saharan Africa, with six consecutive years of GDP growth rates above 6.5%, the Mozambican economy decelerated in to 3.8% both in 2016 and 2017 and slowed further in 2018 to 3.3% (source: Mozambique National Institute of Statistics, March 2019). The deceleration resulted from the fall in commodity prices, in particular gas, coal and aluminium, which caused a fall in export revenues and a slower pace of foreign direct investment. This led to the deterioration of public finances and to the depreciation of the Metical ("**MZN**"). According to the IMF (October 2018), the general gross government debt as a percentage of GDP rose from 62.4% in 2014 to 121.6% in 2016 and was 102.1% in 2017.

Following a period of deceleration in economic activity and increase of inflation, downgrading of the Republic of Mozambique rating, depreciation of metical and decrease in foreign direct investment, the Bank of Mozambique adopted a restrictive policy, with increases in the reference rate of interest and the minimum reserve requirements between October 2015 and October 2016. This set of factors constrained the economy, and reduced available liquidity, requiring strict liquidity management by banks, and an emphasis on raising funds, despite contributing to the improvement of net interest income. Interest rate levels have since reversed, with opposite effects on liquidity but also on interest income.

According to an International Monetary Fund statement dated 23 April 2016, existing debt guaranteed by the State of Mozambique in an amount over USD 1 billion had not been previously disclosed to the International Monetary Fund. Following this disclosure, the economic program supported by the International Monetary Fund was suspended. According to an International Monetary Fund statement dated 13 December 2016, discussions were initiated on a possible new agreement with the government of Mozambique, and the terms of reference for an external audit were agreed.

In the statements dated 16 January 2017 and 17 July 2017, the Ministry of Economy and Finance of Mozambique informed holders of bonds issued by the Republic of Mozambique, specifically "US 726,524 million, 10.5%, repayable securities in 2023" that interest due on 18 January 2017 and 18 July 2017, would not be paid. On 6 November 2018, the Ministry of Economy and Finance of the Republic of Mozambique announced that it had reached an agreement in principle on the key commercial terms of a proposed restructuring transaction relating to "Mozambique's USD 726,524,000 10.5 per cent. Notes due 2023" with four members of the Global Group of Mozambique Bondholders, being funds managed or advised by Farallon Capital Europe LLP, Greylock Capital Management, LLC, Mangart Capital Advisors SA and Pharo Management LLC. The mentioned bondholders currently own or control approximately 60% of the outstanding bonds. The agreement in principle reached by the parties, and the support of the mentioned bondholders for the proposed restructuring, is conditional on the parties reaching agreement on mutually satisfactory documentation setting out the detailed terms of the restructuring including implementation, and the mentioned Ministry obtaining all necessary approvals, including Parliamentary and government approvals in Mozambique.

In June 2017, the Attorney General's Office of the Republic of Mozambique published an Executive Summary regarding the above-mentioned external audit. On 24 June 2017, the International Monetary Fund released in a statement that due to the existence of information gaps in this audit, an International Monetary Fund mission would visit the country to discuss audit results and possible follow-up measures. Following this visit, the International Monetary Fund requested the government of Mozambique to obtain additional information on the use of the funds.

On 14 December 2017, in a statement from the International Monetary Fund staff, after the end of the mission held between 30 November and 13 December 2017, it was reiterated the need for the State of Mozambique to provide missing information.

In the statement of the Mozambican Attorney General's Office dated 29 January 2018, it is mentioned, among other things, that the Public Prosecutor submitted to the Administrative Court, on 26 January 2018, a complaint regarding the financial responsibility of public managers and companies participated by the state, participants in the execution and management of contracts for financing, supplying and providing services related to debts not disclosed to the International Monetary Fund.

The deterioration of its fiscal position in the following months led the Mozambican authorities to miss interest payments on dollar bonds due on 18 January 2017 and on 18 July 2017.

Against this background, the Mozambican authorities were urged to implement quick and decisive measures to avoid further deterioration of the country's economic and financial condition and to strengthen transparency and governance and resumed negotiations with the IMF conducive to financial and technical support. The policies implemented since then by the government seem to have precluded a worsening of the economic and financial situation and contributed to the stabilisation of the exchange and to an improvement in some activity sectors. However, the economic and financial situation remains challenging and further delays in the negotiations with the IMF and the implementation of structural reforms and the prescribed policies could worsen the country's economic and financial conditions and lead to a further loss of confidence of foreign investors and donors. Furthermore, any downward movements in the prices of commodities, namely aluminium and coal, could negatively impact the reform effort. Finally, a deterioration of the economic and financial situation may contribute to the rise of political tensions amid 2019 presidential elections (Frelimo and Renamo, the two main political parties in Mozambique, have been holding start-stop talks aimed at ending a military conflict that was resumed in 2013). Any of these may negatively affect the business environment.

Any of the foregoing may negatively affect the Bank's business, financial condition, results of operations and prospects.

As at 31 December 2018, BIM’s exposure to the State of Mozambique classified as Financial assets measured at amortised cost – Debt Instruments amount to EUR 656.3 million. These public debt securities mostly have a maturity of less than one year. As at 31 December 2018, the Group also has a direct exposure to the State of Mozambique in the amount of EUR 375.9 million (of which EUR 356.5 million is denominated in MZN, EUR 3.9 million is denominated in USD and EUR 15.6 million denominated in Rands) and an indirect exposure resulting from sovereign guarantees received in the amount of EUR 51.2 million is denominated in USD. The amount of guarantees and irrevocable commitments granted was EUR 42.9 million (of which EUR 2.4 million is denominated in MZN, EUR 40.5 million is denominated in USD and EUR 89,000 is denominated in Rands).

As at 31 December 2018, considering the 66.7% indirect investment in BIM, the Group's interest in BIM's equity amounted to EUR 315 million, with the exchange translation reserve associated with this participation, accounted in Group's consolidated equity, a negative amount of EUR 112 million. BIM's contribution to consolidated net income for 2018, attributable to the shareholders of the Bank, amounts to EUR 62.8 million.

Angola

The Angolan economy is expected to experience a gradual recovery in the coming years, supported by a broad economic reform program. The real GDP growth rate, which dropped to -2.6% in 2016 (source: IMF, WEO October 2018) and -0.2% in 2017, is projected to return to positive levels in 2019 (source: IMF, December 2018). The steep fall of oil prices recorded from the second half of 2014 to early 2016 significantly reduced fiscal revenues and foreign exchange earnings from energy sector exports, a development that has especially hampered private consumption and public investment, leading to a reduction of the Angolan GDP growth rate. The developments in international oil markets also led to a scarcity of U.S. dollars in the Angolan economy, which in turn pressured the value of the Angolan Kwanza against the American currency downwards, leading to a rise in inflation and imposing the need for a more restrictive monetary policy and for a significant fiscal effort to ensure public debt sustainability. Angola was considered a hyperinflationary economy in 2017.

Against this background, Angola's new government, which was elected in August 2017, has been taking important policy actions aimed at mitigating the impact of the oil price shock, restore macroeconomic stability and pave the way for sustainable growth, namely by enacting strategies conducive to a more diversified economic structure, to the safety of the banking system and to a more flexible exchange rate regime. On request of Angolan government, on 7 December 2018, the IMF approved a three-year program to support Angola's economic reform program (IMF, Press Release No. 18/463), which amounts to USD 3.7 billion.

Any material relapse in the price of this crucial commodity and/or any slippages in the implementation of the structural reforms and measures agreed with the IMF under the economic reform programme could lead to a worsening of its economic and financial conditions and derail the gradual recovery projections. Any of the foregoing may negatively affect the Bank's business, financial condition, results of operations and prospects.

The Bank's highly liquid assets may not cover liabilities to its customer base.

The Bank's main source of funding is its customer deposits (88% of the Bank's funding as at 31 December 2018). However, the persistence of interest rates at historically low levels (that are negative in some cases) over the past few years has resulted in the Bank investing deposits into instruments with higher potential yield. The Bank's other possible funding sources include money market instruments, medium and long term bonds, covered bonds, commercial paper, medium term structured products and the securitisation of its loan portfolio. The Bank has increasingly strengthened its own funds through capital increases (the most recent ones, amounting to EUR 1.33 billion and EUR 174.6 million through the Rights Offering and the private placement of 157,437,395 new shares, subscribed by Chiado, an affiliate of Fosun, completed in February 2017 and November 2016 respectively, following the capital increase amounting to EUR 481.2 million as a result of the public offer of securities, completed in June 2015, the share capital increases in cash of EUR 2.25 billion completed in July 2014 and the share capital increase of EUR 500 million completed in October 2012) and the June 2012 GSIs of EUR 3 billion (which GSIs have, as of 9 February 2017, been repaid in full).

The Bank's liquidity coverage ratio ("**LCR**") and the net stable funding ratio ("**NSFR**") recorded as at 31 December 2018 were 218% and 133%, respectively, compared to a regulatory requirement of 100% (fully implemented) for both ratios. The leverage ratio stood at 6.2% (fully implemented) as at 31 December 2018, compared to a reference value of 3% (fully implemented).

In case the Bank is unable to maintain its buffer of liquid assets, its ability to repay its liabilities will be limited, which may represent a substantial adverse effect in its business, financial condition, results of operations and prospects.

The results of additional stress tests could result in a need to increase capital or a loss of public confidence in the Group.

National and international regulators, including the IMF, the ECB and the EBA, have been conducting stress tests on the banking sector. In an EU-wide stress test conducted by the EBA in 2018, the Bank's capital depletion under the hypothetical adverse scenario used was below the average suffered by the 48 major European banks that were tested directly by the EBA (-300 basis points of CET1 capital, versus an average depletion of -395 basis points for the EBA banks).

The disclosure of the results of these stress tests may also result in a reduction in confidence in a particular bank or the banking system as a whole. The Bank cannot exclude the need for additional provisions for impairments. Consequently, new stress tests could adversely affect the cost of funding for the Bank and have a materially adverse impact on its business, financial condition, results of operations and prospects.

As a consequence of SREP, excluding P2G, the minimum Group CET1 phased-in ratio required is 9.6250% (4.5% Pillar 1, 2.25% Pillar 2 requirements, 2.5% CBR and 0.375% O-SIFI), the Group Tier

1 ratio is 11.125% and the Group total capital ratio is 13.125% from 31 December 2018. The Group's CET1 ratio as at 31 December 2018 was 12.0% (fully implemented).

SREP may increase and an additional cushion may be requested. In addition, Polish SREP requirements for 2019 are as follows: CET1 phased-in ratio required is 13.51%, the Tier 1 is 16.20% and the total capital ratio is 19.77% from 1 January 2019. Bank Millennium's CET1, Tier 1 and total capital ratios as at 31 December 2018 were 19.77%, 19.77% and 21.68%, respectively.

The Bank's ability to achieve certain targets is dependent upon certain assumptions involving factors that are significantly or entirely beyond the Bank's control and are subject to known and unknown risks, uncertainties and other factors.

The achievement of the Bank's internal targets will depend on the verification of assumptions involving factors that are significantly or entirely beyond the Bank's control and subject to known and unknown risks, uncertainties and other factors that may result in management failing to achieve these targets. These factors include those described elsewhere in this section and, in particular:

- the Bank's ability to successfully implement its strategy;
- the Bank's ability to successfully implement its funding and capital plans;
- the successful implementation of economic reforms in Portugal;
- the Bank's ability to access funding in the capital markets;
- the level of the Bank's LLRs against NPEs;
- the Bank's ability to reduce NPEs;
- the quality of the Bank's assets;
- the Bank's ability to reduce costs;
- the financial condition of the Bank's customers;
- reductions to the Bank's ratings;
- growth of the financial markets in the countries in which the Bank operates;
- the Bank's ability to grow internationally;
- future market conditions;
- currency fluctuations;
- the actions of regulators;
- changes to the political, social and regulatory framework in which the Bank operates;
- macroeconomic or technological trends or conditions, including inflation and consumer confidence,

and other risk factors identified in this Base Prospectus. If one or more of these assumptions is inaccurate, the Bank may be unable to achieve one or more of its targets, which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank regularly uses financial models in the course of its operations. These financial models help inform the Bank of the value of certain of its assets (such as certain loans, financial instruments, including illiquid financial instruments where market prices are not readily available, goodwill or other intangible assets) and liabilities (such as the Bank's defined benefit obligations and provisioning) as well as the Bank's risk exposure. These financial models also generally require the Bank to make assumptions, judgements and estimates which, in many cases, are inherently uncertain, including expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults. Such assumptions, judgements and estimates may need to be updated to reflect changing facts, trends and market conditions and may result in a decrease in the value of, and consequently an impairment of, the Bank's assets, an increase in the Bank's liabilities or an increase in the Bank's risk exposure, any of which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. Property prices in Portugal have remained largely flat since 2000, particularly in comparison to property prices in Spain.

In particular, recent historic market volatility and illiquidity has challenged the factual bases of certain underlying assumptions and made it difficult to value some of the Bank's financial instruments. Decreased valuations reflecting prevailing market conditions, faulty assumptions or illiquidity, may result in changes in the fair values of these instruments, which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is vulnerable to fluctuations in interest rates, which may negatively affect net interest income and lead to net loss and other adverse consequences.

At the end of December 2018, the interest applied by the ECB to the main refinancing operations is 0%, while the one that applies to permanent deposit facilities is -0.4%. These two interest rates, which serve as determinant references for the level at which market interest rates are established (in particular, Euribor), were consecutively reduced in the past 5 years.

The Bank's profitability depends largely on its ability to generate a net interest income (the difference between the interest rates received in credit operations and the interest rates paid to deposits).

A significant part of the Bank's funding comes from retail deposits. In a negative interest rate environment, the Bank may not be able to reduce the remuneration rate of such deposits consistently with the reduction of the interest rate applicable to credit operations. On the other hand, very low interest rates may result in a reduction of deposits stock and force the Bank to resort to more expensive financing instruments.

The majority of the Bank's credit portfolio is comprised of variable interest rate loans, linked to Euribor. A continuous decline in or maintenance of market interest rates at the current low levels could lead to the erosion of the Bank's net interest income, which the Bank (given the current environment in which it operates), may not be able to mitigate through the increase of its loan portfolio. This could result in material adverse effects on the Bank's business, financial condition, results of operations and prospects.

Interest rates are highly sensitive to many factors beyond the Bank's control, including policy changes of the monetary authorities and other national and international political constraints. Changes in market interest rates could affect the interest rates the Bank charges on interest-earning assets differently from those it pays on interest-bearing liabilities. These differences could reduce the Bank's net interest income.

Although the data released for the Eurozone related to GDP and inflation confirm a scenario of weak economic dynamics and absence of inflationary risks, an increase of interest rates in the Eurozone could increase the costs associated with debt repayment in Portugal and aggravate the financial conditions of the country in general, namely if the interest rate increase is not adequate for the particular macroeconomic conditions of the Portuguese economy. An increase in interest rates could reduce demand for loans and the Bank's capacity to grant loans to customers, contribute to increased loan default and/or increased interest expense with deposits. This could result in material adverse effects on the Bank's business, financial condition, results of operations and prospects.

Interest rate changes or volatility may materially and adversely affect the Bank's net income, business, financial condition, results of operations and prospects.

Law No. 32/2018, of 18 July, amending Decree-Law No. 74-A/2017, of 23 June, on credit agreements for consumers relating to residential real estate property, entered into force on 19 July 2018 and, in the context of residential loan agreements, imposes on banking institutions the obligation to reflect the existence of negative rates in the calculation of interest rates applicable to the loans.

According to this new law, when the sum of the relevant index rate (such as EURIBOR) and the relevant margin is negative, this negative interest rate amount will have to either (i) be discounted from the principal amounts outstanding of the relevant loans or (ii) be converted into a credit which may in the future set off against positive interest rates (and ultimately be paid to the borrowers if it has not fully been set off at maturity). This could result in material adverse effects on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to reputational risks, including those arising from rumours that affect its image and customer relations.

Reputational risk is inherent to the Bank's business activity. Negative public opinion towards the Bank or the financial services sector as a whole could result from real or perceived practices in the banking sector, such as money laundering, terrorism financing, the fraudulent sale of financial products or breach of competition rules, or a departure from the way that the Group conducts, or is perceived to conduct, its business. Negative publicity and negative public opinion, particularly in relation to pending litigation or enquiries by regulators that could be resolved against the Bank's favour, could adversely affect the Bank's ability to maintain and attract customers and counterparties, the loss of which could adversely affect the Bank's business, financial condition and future prospects, due, for instance, to a run on deposits and subsequent lack of funding sources.

The Bank may be unable to detect money laundering, terrorism financing, tax evasion or tax avoidance behaviour by clients, which could be attributed to the Bank. Failure to manage such risk could lead to reputational damage and to financial penalties for failure to comply with required legal procedures or other aspects of applicable laws and regulations, which could materially adversely affect the Bank's business, results of operations, financial condition and prospects.

The Bank has a limited number of customers who are classified as politically exposed persons pursuant to the applicable legislation, including Law No. 83/2017, of 18 August and Notice No. 5/2013 or No. 2/2018, of Banco de Portugal (as applicable), as amended. Although the Bank exercises increasingly stricter scrutiny of transactions with politically exposed persons in order to ensure compliance with applicable laws, the services provided to these individuals may expose the Bank to reputational risks, notwithstanding the Bank's compliance with applicable laws.

The Bank may have difficulty in hiring and retaining board members and qualified personnel.

The Bank's ability to successfully implement its strategy depends on its ability to recruit and maintain the most qualified and competent members for its governing bodies and for employment positions in

Portugal and other countries. The composition of the Board of Directors of the Bank and/or its Executive Committee might change due primarily to decisions made by the shareholders or by the Board of Directors or due to other circumstances.

Regarding the international operations, there has been a high staff turnover in the Bank's operations in Poland and Mozambique. In Poland, 1,356 employees left the Bank and 1,687 employees were hired in 2018, with the total number of employees by the end of 2018 being 6,132. In Mozambique, the bank maintained its trend of growth in the number of employees with the recruitment of 151 employees. 167 employees left the Bank, thus, the Bank had 2,461 employees by the end of 2018.

The inability to attract and retain qualified and competent members for its governing bodies and/or other employee positions could limit or delay the implementation of the Bank's strategy, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The coverage of pension fund liabilities could be insufficient, which would require an increase in contributions, and the computation of additional actuarial losses could be influenced by changes to assumptions.

The Bank has undertaken the obligation to pay pensions to its employees upon retirement or due to disability and other obligations, in accordance with the terms established in the Collective Labour Agreement of the Banking Sector. The Bank's liabilities are primarily covered by the pension fund, which is managed by Ocidental-Sociedade Gestora de Fundos de Pensões, S.A. The total number of the pension fund participants was 27,381 as at 31 December 2018 and 27,454 as at 31 December 2017.

The liabilities related to retirement pensions and other employee benefits were wholly funded at levels above the minimum limits defined by Banco de Portugal, presenting a coverage level of 100% at the end of 2018 (104% as at 31 December 2017). As at 31 December 2018, the liabilities related to the pension fund and other employee benefits reached EUR 3,066 million, compared with EUR 3,050 million recorded as at 31 December 2017. In 2018, the pension fund recorded a positive 0.2% rate of return, whereas in 2017 it stood at positive 4.2%.

Regulation (EU) No. 475/2012, of 5 June, which amended IAS 19, eliminated the option to defer the recognition of gains and losses, which is known as the corridor method.

The level of coverage of pension fund liabilities could turn out to be insufficient. If the deterioration of global financial markets leads to lower investment income and, consequently, a lower value of the fund, this would result in actuarial losses for the year, which would be recognised against reserves in the financial year in which they were recorded. As at 31 December 2018, the Bank used a discount rate of 2.1% to measure its liability for the defined benefit pension plans of its employees and managers, equivalent to the rate used in its accounts as at 31 December 2017. In the financial statements with reference to 31 December 2018, the discount rate was at 2.1% and the pension growth rate 0% until 2019 and 0.5% after 2019. The Bank shall re-evaluate the adequacy of its actuarial assumptions for the calculation of its liabilities with pensions on a semi-annual basis. A decrease in level of the interest rates for the liabilities liquidation deadline or an increase in the pensions growth rate would imply a decrease in the Bank's own capital. A decrease of 25 bps in the discount rate results in a decrease of around EUR 128 million in the Bank's own capital, excluding the tax effect. An increase of 25 bps in the pensions' growth rate results implies a reduction of around EUR 120 million in the Bank's own capital, excluding the tax effect.

Actuarial gains and losses resulting from the differences between the assumptions used and actual values (experience gains and losses) and the changes in the actuarial assumptions are recognised against shareholder equity. In 2018, actuarial differences were recorded representing negative EUR 98 million (positive EUR 29 million as at 31 December 2017). If there are shortfalls in the pension fund's rate of return, the Bank may have to increase its contributions, which would have an impact on the Bank's regulatory capital ratios. The Bank cannot guarantee that changes will not take place in the actuarial assumptions relating to the pension obligations and other employee benefits. Any changes in the assumptions could lead to additional actuarial losses which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Finally, the value of assets that are part of the pension fund depends on the future evolution of capital markets and of the real estate market. A decline in the capital markets and of the real estate market could cause the value of the portfolio's assets to become insufficient to cover the liabilities assumed by the pension fund, adversely affecting capital ratios and the Bank's business, financial condition, own capital and prospects.

Labour disputes or other industrial actions could disrupt Bank operations or make them more costly to run.

The Bank is exposed to the risk of labour disputes and other industrial actions. 83.6% of the Bank's employees in Portugal and 78.6% of all its employees were members of labour unions at the end of 2017 and the Bank may experience strikes, work stoppages or other industrial actions in the future. Any of these actions could, possibly for a significant period of time, result in disruption to the Bank's activity and increased salaries and benefits granted to employees or otherwise have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to market risk, which could result in the devaluation of investment holdings or affect its trading results.

The performance of the financial markets could cause changes in the value of the Bank's investment and trading portfolios. Changes in the interest rate level, yield curve and spreads could reduce the Bank's net interest margin. Changes in foreign exchange rates could affect the value of its assets and liabilities denominated in foreign currencies and could affect the results of trading. The main measure used by the Bank in evaluating general market risks (including interest rate risk, foreign exchange rate risk and equity price risk) is Value at Risk ("**VaR**"). VaR is calculated based on analytical approximation defined in the methodology adopted by Risk Metrics (1996). It is calculated using a 10 business day time horizon and a unilateral statistical confidence interval of 99%. At 31 December 2017, the average VaR for the global trading portfolio (according to prudential allocation) was below EUR 3.5 million and as at 31 December 2018 was EUR 2.8 million. The interest rate risk derived from the operations of the banking book is assessed through a risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated balance sheet. The sensitivity is determined by the difference between the present value of the interest rate mismatch (discounted at market interest rates) and the value of the same mismatch discounted at rates with +100 basis points, worth positive EUR 138 million, as at 31 December 2018 and the value of the same mismatch discounted at rates with -100 basis points, worth negative EUR 29 million, for the currency in which the Bank has the most significant position, the Euro.

The portfolio of shares, accounted either in trading or at the fair value captions totalled EUR 76.7 million as at 31 December 2018 (EUR 4.9 million in the caption "Financial assets at Fair value through profit or loss – Held for trading", EUR 24.1 million in the caption "Financial assets at Fair value through profit or loss – not held for trading mandatorily at fair value through profit or loss" and EUR 47.7 million in the caption "Financial assets at Fair value through other comprehensive income"), compared to EUR 49.0 million as at 31 December 2017 (EUR 2.1 million in the caption "Financial assets at Fair value through profit or loss – Held for trading", EUR 46.9 million in the caption "Financial assets available for sale") and EUR 55.7 million as at 31 December 2016 (EUR 2.1 million in the caption "Financial assets at Fair value through profit or loss – Held for trading", EUR 53.6 million in the caption "Financial assets available for sale"). Any depreciation in the value of the

Bank's share portfolio, could have a material adverse effect on its financial condition and results of operations.

The Bank has significant exposure to participation units in closed-end funds, which are companies with annual audited accounts, resulting from the transfer of restructured loans. The securities classified as level 3 include units in restructuring funds in the amount of EUR 1,007.0 million (EUR 1,022.1 million as at 31 December 2017) as at 31 December 2018 which value resulted from the 'Net assets attributable to unit holders' ("**NAV**") quote determined by the management company and after considering the effects of the last audited accounts for the respective funds. As from 1 January 2018, following the implementation of the IFRS 9, the participation units started to be recorded at fair value through profit and loss.

The Bank has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, including the use of derivatives to hedge certain products offered to its customers, and the Bank's risk exposure is continuously monitored. However, it is difficult to accurately predict changes in market conditions and to foresee the effects that these changes might have on the Bank's financial condition and results of operations. Any failure in risk management or control policies targeting market risk could have a negative impact on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to compliance risk, which may lead to claims of non-compliance with regulations and lawsuits by public agencies, regulatory agencies and other parties.

The Bank operates in a highly regulated industry. Therefore, it is subject to claims of non-compliance with regulations and lawsuits by public agencies, regulatory agencies and other parties.

The Bank's regulators frequently conduct inspections and request information in respect of the Bank's or its clients' activities and transactions. Any inspections or other proceedings that are unfavourable to the Bank may result in sanctions, limitations on its business opportunities, or a reduction of its growth potential, and may have an adverse effect on the Bank's ability to comply with certain contractual obligations or retain certain commercial relationships.

The Bank is subject to provisioning requirements, minimum cash level, credit qualification, record-keeping, privacy, liquidity, permitted investments, contingency, and other prudential and behavioural requirements which have associated costs; any increase or change in the criteria of these requirements could have an impact on the Bank's operations and results.

The Bank is also subject to rules and regulations related to the prevention of money laundering, bribery and terrorism financing. Compliance with anti-money laundering, anti-bribery and counter-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences and consequences in the Bank's relationship with its clients, partners, service providers and other third parties. Although the Bank believes that its current anti-money laundering, anti-bribery and counter-terrorism financing policies and procedures are adequate to ensure compliance with applicable legislation, the Bank cannot guarantee that it has in the past or will comply, at all times, with all applicable rules or that its regulations for fighting money laundering, bribery and terrorism financing as extended to the whole Group are applied by its employees under all circumstances.

The Bank is subject to competition regulations. In particular, the Bank is subject to laws prohibiting the abuse of a dominant market position and prohibiting agreements and/or concerted practices between business entities that aim to prevent, restrict or distort competition, or have the effect of preventing, restricting or distorting competition. In cases where the Bank is found to have infringed the relevant rules of Portuguese and/or EU competition law, the Bank is subject to the risk of fines of up to 10% of its consolidated annual turnover in addition to a public announcement of any sanctions issued. In addition to penalties imposed by the EC and/or the Portuguese Competition Authority, the Bank may be ordered by these entities or by national courts, as applicable, to discontinue certain practices, comply with behavioural or structural remedies, or pay damages to third parties that demonstrate that they have been harmed by the Bank's infringement of the competition rules, whether based on an earlier infringement decision by the relevant authority or independent of any such decision. The Bank may also be subject to similar consequences in other jurisdictions where it is active, as imposed by competition authorities or national courts of such jurisdictions. This can lead to material adverse effects on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to certain operational risks, which may include interruptions in the services provided, errors, fraud attributable to third parties, omissions and delays in the provision of services and implementation of requirements for risk management.

In its normal activity and as a result of its organisational structure, the Bank is subject to certain operational risks, including interruptions in the services provided, errors, fraud attributable to third parties, and omissions and delays in the provision of services and implementation of requirements for risk management. A majority of the Bank's operational losses in 2016 and the six months ended 30 June 2017 were caused by frauds and execution failures and a large portion of the operational losses had low material significance, under EUR 100,000 (95% of all operational losses Group wide). In fact about 74% of the cases recorded in the six months ended 30 June 2017 had a financial impact of less than EUR 5,000 each. The Bank continually monitors operational risks by means of, among other actions, advanced administrative and information systems and insurance coverage with respect to certain operational risks. However, it is not possible to guarantee that the monitoring and prevention of these risks will be fully effective. Any lack of success in the implementation of the Bank's risk management and control policies could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Bank faces technological risks, and a failure in the Bank's information technology systems could result in, among other things, trading losses, losses in customer deposits and investments, accounting and financial reporting errors and breaches in data security.

The operations developed by the Group, in Portugal and internationally, have an infrastructure of information systems that is externalised, but also common and integrated, promoting higher overall efficiency. The Bank's operations depend heavily on their respective computer processing capabilities, especially following the centralisation of the information systems. Computer processing capabilities include record-keeping, financial reporting and other systems, including systems for monitoring points of sale and internal accounting systems. In March 2013, the Bank renewed the outsourcing agreement with IBM, which includes the management of computer infrastructures—central system, department systems and server farm for systems—some specific areas of application development and IT support services to the Bank's organic units.

The strategy for outsourcing the Group's IT services includes the outsourcing of non-differentiating functions and without impact on the definition of commercial and business strategies. The agreement with IBM was signed for the first time in 2003. In 2013, after a new direct negotiation with IBM, some application development services were outsourced, grouping various contracts with smaller companies and enabling global management of these services. The agreements have been signed for a 10 year period, being renegotiated every two years, taking into consideration the impacts of technological evolution (consolidation, virtualisation and cloud computing) and of changes in demand and market prices.

Regarding the security of the information systems, the Bank has continued to pursue a strategy aligned with good international practices. However, it is not possible to guarantee to potential investors complete identification and timely correction of all problems related to the informational technology systems, or systematic success in the implementation of technological improvements. A failure in the Bank's information technology systems could result in, among other things, trading losses, losses in customer deposits and investments, accounting and financial reporting errors and breaches in data security. The occurrence of any of the aforementioned events could have a significant and negative effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to the risk of changes in the relationship with its partners.

Some of the Bank's activities are carried out in partnership with other entities that are not under the control of the Bank, including Millenniumbcp Ageas. Therefore, the Bank does not have the ability to control the decisions of these entities or ensure full compliance with the agreements that established such partnerships. Any decision or action by these entities and/or their breach of such agreements may have a material adverse effect on the Bank's reputation, business, financial condition, results of operations and prospects.

As part of a process aiming to refocus on core activities, defined as a priority in the Strategic Plan, the Bank agreed with the international insurance group Ageas to a partial recast of the strategic partnership agreements entered into in 2004, which included the sale of its 49% interest in the insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental-Companhia Portuguesa de Seguros, S.A. and in Médis – Companhia Portuguesa de Seguros de Saúde, S.A., subject to the required regulatory authorisation from the relevant authorities, for a base price of EUR 122.5 million, subject to a medium-term performance adjustment. The net contribution of Millennium bcp Ageas was EUR 35.4 million in 2018. Ageas and the Bank also agreed that the joint venture would upstream excess capital totalling EUR 290 million to its shareholders, which was carried out in 2014 in accordance with the proportion of the stakes held by BCP and Ageas.

Following the sale, the Bank continues, now in tandem with other banking and non-banking distribution channels, to distribute non-life insurance products from Ocidental-Companhia Portuguesa de Seguros, S.A. and Médis-Companhia Portuguesa de Seguros de Saúde, S.A..

In February 2009, the Bank carried out financial transactions relating to the strategic partnership agreements established with Sonangol (a company that held, as at 30 June 2017, 15.24% of the Bank's share capital and voting rights) and Banco Privado Atlântico, S.A. ("**BPA**") (in which BMA held a shareholding of 6.66%), as a result of which the Bank reduced its stake in BMA to 52.7% through BMA's share capital increase of USD 105,752,496.80. In April 2012, the Bank reduced its stake in BMA to 50.1%, following BMA's share capital increase, which was fully subscribed to by Global Pactum—Gestão de Activos (main shareholder of BPA), in line with the partnership agreement entered into with Sonangol and BPA. Within the scope of this partnership, the Bank, Sonangol and BPA entered in May 2008 into a shareholders' agreement regarding BMA, which included, among others, clauses on corporate bodies and preferential rights in case of transfer of BMA's shares. On 8 October 2015, BMA and BPA announced their merger to create one of the largest privately-owned banks in the country. This merger was completed on 22 April 2016, resulting in the creation of a significant institution in Angola (Banco Millennium Atlântico) with a market share of 11% in terms of credit and of 9% in deposits (source: Banco Nacional de Angola). This operation generated a positive impact on the phased-in capital ratio of around 40 basis points. It is not possible to predict in advance the success of the merged bank, nor whether the current partnership will remain the same.

Transactions in the Bank's own portfolio involve risks.

The Bank carries out various proprietary treasury activities, including the placement of deposits denominated in Euro and other currencies in the interbank market, as well as trading in primary and secondary markets for government securities. The management of the Bank's own portfolio includes taking positions in fixed income and equity markets, both via spot market and through derivative products and other financial instruments. In spite of the Bank's limited level of involvement in these activities, trading on account of its own portfolio carries risks, since its results depend partly on market conditions. A reduction in the value of financial assets held due primarily to market conditions, or any other such conditions outside the control of the Bank, could require a corresponding loss recognition that may impact the Bank's balance sheet. Moreover, the Bank relies on a vast range of risk reporting and internal management tools in order to be able to report its exposure to such transactions correctly and in due time. Future results arising from trading on account of its own portfolio will depend partly on market conditions, and the Bank may incur significant losses resulting from adverse changes in the fair value of financial assets, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

Hedging operations carried out by the Bank may not be adequate to prevent losses.

The Bank carries out hedging transactions to reduce its exposure to different types of risks associated with its business. Many of its hedging strategies are based on historical patterns of transactions and correlations. Consequently, unexpected market developments might negatively affect the Bank's hedging strategies.

Furthermore, the Bank does not hedge all of its risk exposure in all market environments or against all types of risks and in some cases a hedge may not be available to the Bank. Moreover, the way that gains or losses arising from certain ineffective hedges are recognised may result in additional volatility in its reported earnings. The Group employs derivatives and other financial instruments to hedge its exposure to interest rate and foreign exchange risk resulting from financing and investment activities. Hedging derivatives are recognised at their fair value and the profits and losses resulting from their valuation are recognised against the results. The Bank may still incur losses from changes in the fair value of derivatives and other financial instruments that qualify as fair value hedges. If any of its hedging instruments or strategies are inefficient, the Bank could incur losses which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Bank faces exchange rate risk related to its international operations.

All of the Bank’s international operations are directly or indirectly exposed to exchange rate risk, which could adversely affect the Bank's results. Any devaluation of these currencies relative to the Euro could have a negative impact on the Bank's business, financial condition, results of operations and prospects.

As at 31 December 2018, the loans-to-deposits ratio in Poland and Mozambique was 80% and 45%, respectively. The Bank's loan portfolio also includes loans in foreign currency, where the losses are assumed by customers and recorded in the profit and loss account under impairment. The use of funding in foreign currency in some countries of Eastern Europe exposes some of the Bank's customers to exchange rate risk, affecting the financial condition of these entities and, consequently, the net income of the Bank. Although Bank Millennium stopped granting new foreign currency loans in Poland by the end of 2008, it still holds a considerable loan portfolio in foreign currency, mainly in Swiss francs (as at 31 December 2018, 26.5% of the total loan portfolio and 51% of the total mortgage loan book), and therefore the Bank's net income could be significantly affected by the need to undertake additional payments for impairment in the loan portfolio and by the high cost of zloty swaps. On 15 January 2015, the Swiss National Bank discontinued its minimum exchange rate which had been set at EUR/CHF 1.20 in September 2011. Simultaneously, the Swiss National Bank lowered the interest rate on sight deposit account balances that exceed a given exemption threshold by 0.5% to −0.75%. As a consequence, on the next day the Swiss franc appreciated 15% to around EUR/CHF 1.04 and the main index on the Swiss stock exchange went down around 8.7%. The EUR/CHF exchange rate is now free float. Net income may also be adversely affected if Poland does not join the Eurozone in the medium term as is currently expected. Similarly, net income may be affected if institutional investors pool their assets in established, rather than emerging, markets. This risk is exacerbated in the context of greater political instability related to reform of the European institutional framework, which has already had repercussions on the Swiss franc exchange rate.

The Polish President announced a proposal of a plan for CHF-denominated mortgage loans in August 2016, according to which banks must return the cost of excessive foreign exchange spreads they charged their clients, potentially equalling several billion zloty. If this proposal enters into force, it could have a material adverse effect on the Bank's, business, financial condition, results of operations and prospects. See "*The Bank faces exposure to risks in its businesses in Europe (Poland) and Africa (Angola and Mozambique)*".

The Bank might be exposed to non-identified risks or to an unexpected level of risks, notwithstanding the risk management policy pursued by the Bank.

The Bank is exposed to a series of risks, including, among others, credit risk, market risk, operational risk and liquidity risk. Although careful methodologies have been implemented for the management of each type of risk to which the Bank is exposed, when faced with exceptionally adverse scenarios, the policies and procedures used by the Bank in the identification, monitoring and management of these risks might not prove to be totally effective. The Bank's risk management methods are based on a combination of human and technical controls and supervision, which are subject to errors and defects. Some of the Bank's methods of managing risks are based on internally developed controls and on historic data on market behaviour, also supported by common market practices. These methods might not adequately predict future losses, in particular when related to relevant market fluctuations, which could be considerably higher than those observed in other periods. These methods might also be ineffective in protecting against losses caused by technical errors, if the implemented testing and control systems are not effective in the prevention of software and hardware technical defects. Any errors or failures in the implementation of such risk management systems, as well as their possible inability to identify all the risks or risk levels to which the Bank is exposed, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank may not be able to generate income to recover deferred taxes. Potential dilution of the shareholders' position may result from the conversion into capital of a potential special reserve that may have to be established according to the applicable legal framework, in particular in the case of negative net individual results. Changes in the law or a different interpretation of the relevant provisions of law may have an adverse impact on the capital ratio.

The Bank's deferred tax assets ("**DTAs**") (on a consolidated basis) as at 31 December 2018 corresponded to EUR 2,917 million, compared to EUR 3,138 million as at 31 December 2017, and were generated by tax losses and temporary differences. The most notable sources of the Bank's DTAs non-dependent on future profitability (on an individual basis) are impairment losses amounting to EUR 973 million and related employee benefits amounting to EUR 837 million.

Deferred taxes are calculated on the basis of the tax rates which are expected to be applicable at the time of the reversal of the temporary differences, which correspond to the approved or substantially approved rates at the time of the balance sheet. Assets and liabilities for deferred taxes are presented for their net value when, pursuant to the applicable laws, current tax assets may be compensated with current tax liabilities and when the deferred taxes relate to the same tax.

If the Bank is not able to generate enough taxable income to enable the absorption of the temporary differences deductible for tax purposes, the deferred taxes may not be recovered. Additionally, the Bank may be forced to alter its evaluation as a result of corrections to the taxable income or to tax losses that it may be subject to or as a result of reductions of the tax rates.

The recoverability of DTAs depends on the implementation of the strategy of the Bank's Board of Directors, namely the generation of estimated taxable income and its interpretation of tax legislation.

Any changes in the assumptions used in estimating future profits or tax legislation may have material impacts on deferred tax assets.

The assessment of the recoverability of DTAs was carried based on the respective financial statements prepared under the budget process for 2019 and adjusted according to the strategic plan approved by the elected governing bodies, which support future taxable income, considering the macroeconomic and competitive environment.

To estimate taxable profits for the periods 2019 and following, the following main assumptions were considered:

- In the absence of specific rules regarding the tax regime for credit impairment and guarantees for taxation periods beginning on or after 1 January 2019, the tax rules considered, that were in force in 2018, similar to the one's in force in 2015, 2016 and 2017, and through Decree-Laws published at the end of each of the referred years established that the Notice of Bank of Portugal No. 3/95 should be considered for the purposes of calculating the maximum limits of impairment losses accepted for tax purposes. In applying these rules, the following assumptions were considered in general terms:

a) non-deductible expenses related to charge in credit impairments were estimated based on the average percentage of amounts not deducted for tax purposes in the last years, compared to the amounts of impairment charges recorded in those years;

b) impairment reversals not accepted for tax purposes were estimated based on the Reduction Plan of Non-Performing Assets 2019-2021 and also based on the average reversal percentage observed in the last years;

c) the average percentages concerned were segregated, depending on the existence or absence of a mortgage guarantee, the eligibility for the special regime applicable to deferred tax assets and according to the classification of clients as Non Performing Exposures;

- In the absence of a transitional regime that establishes the tax treatment to be given to the transition adjustments resulting from the adoption of IFRS 9, the general rules of the IRC Code have been applied;

- The deductions related to impairment of financial assets were projected based on the destination (sale or settlement) and the estimated date of the respective operations;

- The deductions related to employee benefits were projected based on their estimated payments or deduction plans, in accordance with information provided by the actuary of the pension fund.

The projections made take into consideration the Group's strategic priorities, essentially reflecting the projection of the Bank's medium-term business in Portugal in terms of results generation, and are globally consistent with the Reduction Plan of Non-Performing Assets 2019-2021, underlining:

- Improvement of the net interest income, considering interest rate curves used under the scope of the projections of net interest income in line with the market forecasts;

- Evolution of the ratio loans and advances over the balance sheet resources from customer by approximately 100%in Portugal;

- Decrease in the cost of risk, supported by the expectation of a gradual recovery of economic activity, consubstantiating a stabilization of the business risk, as well as the reduction of the non-core portfolio. In this way, the gradual convergence of the cost of credit risk (up to 2023) is estimated to be close to those currently observed in other European countries, including in the Iberian Peninsula.

- Control of the operating expenses, notwithstanding the investments planned by the Bank in the context of the expected deepening of the digitization and expansion of its commercial activities;

- Positive net income, projecting the favourable evolution of the ROE and maintaining of the CET1 ratio fully implemented at levels appropriate to the requirements and benchmarks. From 2024 onwards, it is estimated an annual growth of the Net income before income taxes, which reflects a partial convergence to the expected level of ROE stabilized term.

The analyses made allow the conclusion of the recoverability of the total DTAs recognised as at 31 December 2018.

Law 61/2014, of 26 August 2014, approved an optional framework, with the possibility of subsequent waiver, according to which, upon certain events (including a) annual net losses on the separate financial statements, as well as b) liquidation as a result of voluntary dissolution, insolvency decided by the court or withdrawal of the respective authorization), the DTAs that have resulted from the non-deduction of expenses and of negative asset variations resulting from impairment losses in credits and from post-employment benefits or long-term employments, will be converted into tax credits. In the case of a), a special reserve must be created in the amount of the tax credit resulting from the terms of such Law, enhanced with an increase of 10%, which is intended exclusively to be incorporated into the share capital. The creation of such special reserve implies a creation, simultaneously, of conversion rights and of a right to demand the issue of shares by the Bank in an amount equivalent to such special reserve granted to the Portuguese Republic ("**State Rights**"), such rights being acquirable by the shareholders through payment to the Portuguese State of the same amount. The tax credits can be offset against tax debts of the beneficiaries (or of any entity with head office in Portugal within the same group to which the special regime foreseen in the Corporate Tax Code is applicable or within the same prudential consolidation perimeter for the purpose of Regulation (EU) no. 575/2013, of the European Parliament and of the Council) or reimbursed by the Portuguese Republic. Due to this framework, the recovery of the DTAs covered by Law 61/2014's optional framework is not dependent on future profitability.

Law 23/2016, of 19 August, limited the scope of the regime, determining that tax assets originated in expenses or negative asset variations accounted for after 1 January 2016 are not eligible for the optional framework. The framework set out in Law 61/2014, as amended by Law 23/2016, was further developed by (a) Ministerial Order ("*Portaria*") 259/2016, of 4 October 2016, on the control and use of the tax credit and (b) Ministerial Order ("*Portaria*") 293-A/2016, of 18 November 2016 (as amended by Ministerial Order ("*Portaria*") 272/2017, of 13 September 2017), concerning the conditions and proceedings for the acquisition by shareholders of the referred State Rights. Pursuant to this legislation, among other aspects, such rights are subject to an acquisition right by the shareholders on the date of creation of the State Rights exercisable on periods to be established by the Board of Directors up to 10 years from the date of their creation, and the issuing bank has to deposit in the name of the Portuguese State the amount of the price corresponding to the exercise of the acquisition right of all the conversion rights, within three months from the date of the confirmation of the tax credit (resulting from the conversion of DTAs) by the Portuguese Tax Authorities, ahead and independently of their acquisition. Such deposit is redeemed when and to the extent that the State Rights are acquired by shareholders or are exercised by the State.

As disclosed in due course, pursuant to the General Meeting held on 15 October 2014, the Bank adopted the optional framework approved by Law 61/2014 of 26 August 2014, described above. The Group's CET1 ratio, fully implemented as at 31 December 2018, corresponds to 12.1% and already incorporates the effects of the application of the new framework which became effective on 1 January 2015.

The Bank's net result (on an individual basis) as at 31 December 2018 was EUR 59 million; there is no guarantee that the net result in the following years will be positive.

If the Bank registers a net loss as at the end of a financial year, on an individual basis, then, under the provisions of Law 61/2014, of 26 August 2014, as amended, the Portuguese Republic will be granted State Rights, exercisable after the period of up to 10 years, during which shareholders will have the opportunity to acquire such conversion rights from the State. If shares are finally issued pursuant to the exercise of such conversion rights, this would dilute the remaining shareholders of the Bank.

Among other factors that may affect the recoverability of the deferred tax assets and their composition regarding the deferred tax assets that fall within the scope of Law no. 61/2014, of 26 August 2014, the interpretation of the tax law is relevant, as well as the performance of several operations in 2016, 2017 and 2018. In this context, the Bank considered that the thresholds provided for in Banco de Portugal Notice 3/95 for the purposes of tax deductibility of credit impairments occurred in 2016, 2017 and 2018, including the effects of the transition in the individual accounts of the Bank from the adjusted accounting rules to the international accounting rules, as adopted by the EU, will be maintained. Regulatory Decree no. 5/2016, of 28 November, which came into force the following day, and Regulatory Decree no. 11/2017, of 28 December, which came into force the following day, and Regulatory Decree no. 13/2018, of 28 December, which came into force the following day, confirmed that assumption. In the absence of specific rules regarding the tax regime for credit impairment and guarantees for the taxation periods beginning on or after 1 January 2019, the maintenance of the tax rules in force in 2017 and 2018 was considered in the estimate of taxable profit for the period, which tax rules stipulate that Banco de Portugal Notice No. 3/95 should be considered for calculating the maximum limits of impairment losses accepted for tax purposes.

In the 2015 and 2016 financial years, the Bank registered deferred tax assets regarding expenses and negative asset variations with post-employment or long term employment benefits and credit impairment losses accounted for up to 31 December 2014, which assets the Bank deems eligible for the purposes of the framework approved by Law 61/2014, of 26 August. A change in law or a different interpretation of the law, or the non-performance of the abovementioned operations could have an adverse impact on the Bank's capital ratio.

On 18 November 2016, the Regulatory Decree no. 5/2016, concerning the maximum amounts of impairment losses and other value corrections for a specific credit risk deductible for purposes of assessment of taxable income in corporate income tax, was published. Among other aspects, the regulatory decree provided that, regarding the provisions for impairments registered under Banco de Portugal Notice 3/95 and subject to annulment or reduction under Banco de Portugal Notice 5/2015, when calculating their taxable income regarding tax year 2016, taxpayers might choose to consider the positive difference (assessed as at 1 January 2016) between the amount of provisions for losses for credit impairments (constituted under Banco de Portugal Notice 3/95) and the impairments constituted as of 1 January 2016 relating to the same credits in accordance with the applicable accounting provisions, only for the part that remains unused and exceeds the tax losses computed in tax periods initiated on or after 1 January 2012 still available for deduction. The amount which is not considered for the calculation of taxable income under this framework should be deducted from the balance of the tax losses mentioned above. The Bank opted to apply this transitional regime provided for in the regulatory decree in 2016.

Any of the aforementioned could result in a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank applied IFRS 9 in the period beginning on 1 January 2018. Since no specific tax treatment was established regarding the transition adjustment to IFRS 9, the Bank considered the application of the Corporate Income Tax general rules. Any new transitional regime established for those purposes or different interpretation on the tax treatment of the adoption of IFRS 9 could result in a material adverse effect on the recovery of deferred taxes.

The Bank is subject to the risk of internal and external fraud, crime, cybercrime, or other types of misconduct by employees or third parties which could have a material adverse effect on the Bank.

The Bank is subject to the risk of fraud, crime, money laundering, cybercrime and other types of misconduct by employees and third parties, as well as to unauthorised transactions by employees, third party service providers and external staff, including "rogue trading". This type of risk could result in breaches of law, rules, regulations and internal policies, losses, claims, fines, regulatory action, legal proceedings or reputational damage.

In the area of payments, over the past years the Bank and especially the Bank's clients have been subject to cybercrime and fraud in the form of phishing and malware. European law tends to hold the Bank liable unless it provides proof of intentional misconduct or gross negligence by the client. Other forms of theft include violent robberies of ATMs, in which criminals use combustible gas, explosives or vehicles and heavy equipment to gain access to cash stored in ATMs.

The Bank may be subject to disruptions of its operating or information systems, arising from criminal acts by individuals and groups via cyberspace, which may interrupt the service to clients.

The Bank remains potentially exposed to the risk that the procedures implemented and the measures adopted with respect to the storage and processing of personal data relating to its customers may prove to be inadequate and/or not in compliance with the laws and regulations in force from time to time and/or may not be promptly or properly implemented by employees and associates, especially considering the imminent entry into force of the "General Data Protection Regulation" (Regulation (EU) 2016/679 of the European Parliament and of the council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC). Thus, the data could be subject to damage, loss, theft, disclosure or processing for purposes other than those authorised by the customers, or even use by unauthorised parties (whether third parties or employees of companies of the Bank). If any of these circumstances occur there could be a material adverse effect on the Bank's business, including its reputation, financial condition, results of operation or prospects.

Failure of the Bank's information technology systems could lead to a breach of regulations and (contractual) obligations and have a material adverse effect on the Bank's reputation, results of operations, financial condition and prospects. The continuous efforts of individuals and groups, including organised crime, via cyberspace to commit fraud through electronic channels or to gain access to information technology systems used by the Bank (including with respect to clients' and Bank information held on those systems and transactions processed through these systems) are a growing threat to the Bank. The manifestations of risks to technology—including cyber security—change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential attacks via cyberspace, it is possible that future attacks may lead to significant breaches of security and loss of (personal) data. In addition, the Group may as a result not be able to access data or operate its systems, it may not be able to recover data, or establishing that data is not compromised may be very time consuming and costly.

There is a risk that cyber-security risk is not adequately managed or, even if adequately managed, a cyber-attack can take place and be successful, which could lead to breach of regulations, investigations and administrative enforcement by supervisory authorities and claims that may materially and adversely affect the Bank's business, reputation, results of operations, financial condition, prospects and its position in legal proceedings.

RISKS ASSOCIATED WITH THE COVERED BONDS ISSUED UNDER THE PROGRAMME

Obligations under the Covered Bonds

The Covered Bonds will not represent an obligation or be the responsibility of the Arrangers, the Common Representative or the Dealers or any person other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its officers, members, directors, employees, security holders or incorporators.

Extended Maturity of the Covered Bonds

Unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such provisions, an Extended Maturity Date will apply to each Series of Covered Bonds issued under the Programme. If an Extended Maturity Date is specified in the applicable Final Terms (or, in the case of Exempt Covered Bonds, in the applicable Pricing Supplement) as applying to a Series of Covered Bonds and the Issuer fails to redeem at par all of those Covered Bonds in full on the Maturity Date, the Maturity of the Principal Amount Outstanding of the Covered Bonds will automatically be extended on a monthly basis for up to one year to the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms (or, in the case of Exempt Covered Bonds, in the applicable Pricing Supplement). In that event, the Issuer may redeem at par, all or part of the Principal Amount Outstanding of those Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, up to and including, the Extended Maturity Date, subject as otherwise provided in the applicable Final Terms (or, in the case of Exempt Covered Bonds, in the applicable Pricing Supplement). In that event also, the interest payable on the Principal Amount Outstanding of those Covered Bonds will change as provided in the applicable Final Terms (or, in the case of Exempt Covered Bonds, in the applicable Pricing Supplement) and such interest may apply on a fixed or floating basis. The extension of the maturity of the Principal Amount Outstanding of those Covered Bonds from the Maturity Date up to the Extended Maturity Date will not result in any right of the holders of Covered Bonds to accelerate payments on those Covered Bonds or constitute an event of default for any purpose and no payment will be due to the holders of Covered Bonds in that event other than as set out in the Terms and Conditions of the Covered Bonds.

Benefit of special creditor privilege ("*privilégio creditório*")

The holders of Covered Bonds issued by the Issuer under the Programme whether outstanding at the date hereof or in the future benefit from a special creditor privilege ("*privilégio creditório*") over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The Covered Bonds Law establishes that the Common Representative and any Hedge Counterparties at the date hereof and in the future are also preferred creditors of the Issuer which benefit from the abovementioned special creditor privilege ("*privilégio creditório*"). None of the assets comprised in the Cover Pool are or will be exclusively available to meet the claims of the holders of certain Covered Bonds ahead of other holders of Covered Bonds or of Other Preferred Creditors of the Issuer at the date hereof or in the future.

Dynamic Nature of the Cover Pool

The Cover Pool may contain mortgage credits, other eligible assets, substitution assets and hedging contracts, in all cases subject to the limitations provided for in the Covered Bonds Law. The Covered Bonds Law permits the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the composition of mortgage credits (and other permitted assets) comprised in the Cover Pool will change from time to time in accordance with the Covered Bonds Law. See *The Covered Bonds Law*.

Other Assets/Hedging Contracts

The Covered Bonds Law permits the inclusion in the Cover Pool of other eligible assets and hedging contracts subject to certain restrictions under the Covered Bonds Law. The aggregate amount of other eligible assets cannot exceed 20% of the total value of the mortgage credits and other eligible assets comprised in the Cover Pool. See *Characteristics of the Cover Pool*.

Hedging Contracts

Hedging contracts can be entered into exclusively to hedge risks such as interest rate risk, exchange rate risk and liquidity risk. The Issuer is entitled but not required to enter into hedging contracts under the Covered Bonds Law, except if the Covered Bonds and the Cover Pool are denominated in different currencies, in which case the Issuer shall hedge any rate risk coverage. See *Characteristics of the Cover Pool – Hedging Contracts*.

Value of security over residential property

As described above, the holders of Covered Bonds benefit from a special creditor privilege ("*privilégio creditório*") over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The security for a mortgage credit included in the Cover Pool consists of, among other things, a mortgage over a property granted in favour of the Issuer. The value of this property and accordingly the level of recovery on the enforcement of the mortgage, may be affected by, among other things, a decline in the value of the relevant property and no assurance can be given that the values of the relevant properties will not decline in the future. A situation where a mortgage has to be enforced to pay the holders of Covered Bonds is, however, highly unlikely because the Covered Bonds Law establishes that any mortgage credits which are delinquent for over 90 days must be substituted. See *The Covered Bonds Law*.

Amortisation of Mortgage Credits

Mortgage credits which are included in the Cover Pool are and will generally be subject to amortisation of principal and payment of interest on a monthly basis. They are also subject to early repayment of principal at any time in whole or part by the relevant borrowers. Early repayments of principal on mortgage credits may result in the Issuer being required to include further mortgage credits and/or substitution assets in the Cover Pool in order for the Issuer to comply with the financial matching requirements under the Covered Bonds Law.

No Due Diligence

None of the Arrangers or the Dealers has or will undertake any investigations, searches or other actions in respect of any assets contained or to be contained in the Cover Pool but will instead rely on representations and warranties provided by the Issuer in the Programme Agreement.

Administrative co-operation in the field of taxation

Under EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), EU Member States are required to provide to the Tax Authorities of other EU Member States details of payments of interest (or income deemed equivalent for these purposes) paid by a person within its jurisdiction to an individual resident in that other EU Member State. In this respect it should be noted that the Savings Directive, as amended by Council Directive

2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive co-operation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. Notwithstanding the repeal of the Savings Directive as of 1 January 2016, certain provisions will continue to apply for a transitional period.

The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including depositary and custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers not only to personal information such as name, address, state of residence, tax identification number and date and place of birth, but also to the account balance at the end of the calendar year, and (i) in case of depository accounts, the total gross amount of interest paid or credited to the account during the calendar year; or, (ii) in the case of custodial accounts, the total gross amount of interest, dividends and any other income generated, as well as the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

Portugal has implemented Directive 2011/16/EU through Decree-Law No. 61/2013, of 10 May 2013. Also, Council Directive 2014/107/EU was implemented through Decree-Law No. 64/2016 of 11 October 2016. Recently, Law No. 17/2019 of 14 February 2019, introduced by the regime for the automatic exchange of financial information to be carried out by financial institutions to the Portuguese Tax Authority with respect to accounts held by holders or beneficiaries resident in the Portuguese territory with a balance or value that exceeds EUR 50,000. This regime covers information related to years 2018 and following.

U.S. Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and, potentially, a 30% withholding tax with respect to: (i) certain payments from sources within the United States, (ii) "**foreign passthru payments**" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. While the Covered Bonds are cleared by Interbolsa, in all but the most remote circumstances it is not expected that FATCA will affect the amount of any payment received by Interbolsa. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It may also affect payment to any ultimate investor that fails to provide its broker (or other custodian or intermediary form which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding.

Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax advisor to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Covered Bonds are discharged once it has made payment via the Interbolsa system and the Issuer therefore has no responsibility for any amount thereafter transmitted through the ICSDs or Interbolsa and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "**IGA**") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) form payments they make. Prospective investors should refer to "*Taxation – Foreign Account Tax Compliance Act*".

Harmonisation of the EU Covered Bond Framework

In March 2018, the European Commission published legislative proposals for a more harmonised EU covered bond framework. The proposals are made up of a draft directive (replacing current article 52(4) of the UCITS Directive) and intended to establish a revised base-line definition of covered bonds for EU regulatory purposes; and a draft regulation (amending article 129 of the EU Capital Requirements Regulation and certain related provisions) intended to strengthen the requirements for covered bonds to receive preferential capital treatment. Helpfully, the draft directive provides for permanent grandfathering with respect to certain requirements for article 52(4) UCITS Directive compliant covered bonds issued before the relevant application date, although a similar provision included in the draft amending regulation does not seem to provide for the full necessary adjustment. The proposals are now subject to the usual EU legislative process. As a result, the final position, including the date of entry into force and the date of application of the new regime (aspects of which will require transposition by member states through national laws) are not yet known. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

Change of law

The Terms and Conditions of the Covered Bonds are governed by Portuguese law in effect as at the date of issue of the relevant Covered Bonds. No assurance can be given as to the impact of any possible judicial decision or change to Portuguese laws, including the Covered Bonds Law, or administrative practice after the date of issue of the relevant Covered Bonds.

Risks related to withholding tax

Under Portuguese law, income derived from the Covered Bonds integrated in and held through a centralised system managed by Portuguese resident entities (such as the Portuguese Centralised System of Registration of Securities ("**Central de Valores Mobiliários**"), managed by Interbolsa, by other European Union or European Economic Area entities that manage international clearing systems (in the latter case if there is administrative co-operation for tax purposes with the relevant country which is equivalent to that in place within the European Union), or, when authorised by the member of the government in charge of finance (currently the Finance Minister), in other centralised systems held by non-resident investors (both individual and corporate) eligible for the debt securities special tax exemption regime which was approved by Decree-Law No. 193/2005, of 7 November 2005, as amended, ("**the special regime approved by Decree-Law No. 193/2005**") may benefit from withholding tax exemption, provided that certain procedures and certification requirements are complied with.

Failure to comply with procedures, declarations, certifications or others, will result in the application of the relevant Portuguese domestic withholding tax to the payments without giving rise to an obligation to gross up by the Bank.

It should also be noted that, if interest and other income derived from the Covered Bonds issued by the Bank is paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities (e.g. typically "jumbo" accounts) such income will be subject to withholding tax in Portugal at a rate of 35% unless the beneficial owner of the income is disclosed. Failure by the investors to comply with this disclosure obligation will result in the application of the said Portuguese withholding tax at a rate of 35% and the Bank will not be required to gross up payments in respect of any withheld accounts in accordance with Condition 7 (*Taxation*).

Further, interest and other types of investment income obtained by non-resident holders (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable that are domiciled in a country, territory or region included in the "tax havens" list approved by Ministerial Order No. 150/2004 of 13 February 2004, as amended from time to time (hereafter "**Ministerial Order No. 150/2004**"), is subject to withholding tax at 35%, which is the final tax on that income, unless the special regime approved by Decree-Law No. 193/2005 applies and the beneficial owners are central banks and government agencies, international organisations recognised by the Portuguese state, residents in a country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force.

The Bank will not be required to gross up payments in respect of any of such non-resident holders, in accordance with Condition 7 (*Taxation*).

See details of the Portuguese taxation regime in "*Taxation – Portugal*".

The secondary market generally

Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Covered Bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risks that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Covered Bonds; (ii) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds; and (iii) the Investor's Currency-equivalent market value of the Covered Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Covered Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. A rating agency may lower or withdraw its rating of the Covered Bonds and that action may reduce the market value of the Covered Bonds.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

Risks related to the structure of a particular issue of Covered Bonds

A wide range of Covered Bonds may be issued under the Programme. Covered Bonds may have features which contain particular risks for potential investors who should consider the terms of the Covered Bonds before investing.

If the Issuer has the right to redeem the Covered Bonds at its option, this may limit the market value of the Covered Bonds concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Covered Bonds include a feature to convert the interest basis from a fixed rate to a floating rate or vice versa, this may affect the secondary market and the market value of the Covered Bonds concerned.

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market and the market value of such Covered Bonds as the change of interest basis may result in a lower interest return for investors. Where the Covered Bonds convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Covered Bonds tends to be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. Where the Covered Bonds convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Covered Bonds and could affect the market value of an investment in the relevant Covered Bonds.

Covered Bonds which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The reform and regulation of "benchmarks" may adversely affect the value of Covered Bonds linked to or referencing such "benchmarks".

Interest rates and indices which are deemed to be "benchmarks" (such as LIBOR or EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, to disappear entirely or to have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to or referencing such a "benchmark".

The Benchmarks Regulation was published in the Official Journal of the European Union on 29 June 2016 and has applied, subject to certain transitional provisions, from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the European Union. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-European Union based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by European Union supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-European Union based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Covered Bonds linked to or referencing a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant "benchmark".

More broadly, any of the national or international reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the UK Financial Conduct Authority ("**FCA**") confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcements**"). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("**SONIA**") over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate ("**ESTER**") as the new risk free rate. ESTER is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds/notes). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, LIBOR and EURIBOR will continue to be supported going forwards. This may cause LIBOR and EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain "benchmarks" (including LIBOR and EURIBOR): (i) discourage market participants from continuing to administer or contribute to a "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of national or international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to, referencing or otherwise dependent (in whole or in part) upon a "benchmark".

The Conditions provide for certain fallback arrangements in the event that a Benchmark Event occurs that are not subject to the consent of the holders of the Covered Bonds in relation to Covered Bonds for which Screen Rate Determination applies, including if an Original Reference Rate and/or any page on which an Original Reference Rate may be published, becomes unavailable, or if the Issuer, the Calculation Agent, any Paying Agent or any other party responsible for the calculation of the Rate of Interest (as specified in the applicable Final Terms) are no longer permitted lawfully to calculate interest on any Notes by reference to such an Original Reference Rate under the Benchmarks Regulation or otherwise. Either (i) the Issuer will appoint an Independent Adviser to determine a Successor Rate or, failing which, an Alternative Reference Rate to be used in place of the Original Reference Rate or (ii) if the Issuer is unable to appoint an Independent Adviser or the Independent Adviser appointed is unable to determine the relevant rates, the Issuer may (after consulting with the Independent Adviser (if any)) determine a Successor Rate or, failing which an Alternative Reference Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Reference Rate to determine the Rate of Interest may result in the Covered Bonds performing differently (including paying a lower Rate of Interest for any Interest Period) than they would do if the Original Reference Rate were to continue to apply.

Furthermore, if a Successor Rate or Alternative Reference Rate is determined by an Independent Adviser or the Issuer, as the case may be, the Conditions provide that the Issuer may vary the Conditions and the Set of Agency Procedures as necessary, to ensure the proper operation of such Successor Rate or Alternative Reference Rate, without any requirement for consent or approval of the holders of the Covered Bonds.

If a Successor Rate or Alternative Reference Rate is determined by an Independent Adviser or, as the case may be, the Issuer, the Conditions also provide that an Adjustment Spread may be determined by the Independent Adviser or, as the case may be, the Issuer to be applied to such Successor Rate or Alternative Reference Rate. The aim of the Adjustment Spread is to reduce or eliminate, so far as is reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as the case may be) to holders of the Covered Bonds as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Reference Rate. However, there is no guarantee that such an Adjustment Spread will be determined or applied, or that the application of an Adjustment Spread will either reduce or eliminate economic prejudice to holders of the Covered Bonds. If no Adjustment

Spread is determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Rate of Interest. Furthermore, there is no guarantee that a Successor Rate or an Alternative Reference Rate will be determined or applied.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Rate is determined or, in relation to Floating Rate Covered Bonds in respect of which the above fallback arrangements do not apply, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser and the potential for further regulatory developments, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on the Covered Bonds.

Any of the above matters, which are not subject to the approval of the holders of the Covered Bonds, or any other significant change to the setting or existence of the Original Reference Rate could adversely affect the ability of the Issuer to meet its obligations under the Covered Bonds and could have a material adverse effect on the value or liquidity of, and the amount payable under, the Covered Bonds.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Covered Bonds linked to or referencing a "benchmark".

DOCUMENTS INCORPORATED BY REFERENCE

The following parts of the documents identified below, which have previously been published and have been filed with the Central Bank, shall be incorporated in, and to form part of, this Base Prospectus:

(a) the 2017 Annual Report of the Group, including, without limitation, the following audited consolidated financial statements, notes and audit report set out at the following pages:

Balance Sheet	Page 164
Income Statement	Page 162
Cash Flows Statement	Page 165
Statement of Changes in Equity	Page 166
Statement of Comprehensive Income	Page 163
Notes to the Consolidated Financial Statements	Pages 167 to 352
Audit Report	Pages 538 to 547

(b) the 2018 Annual Report of the Group, including, without limitation, the following audited consolidated financial statements, notes and audit report set out at the following pages[8]:

Balance Sheet	Page 161 of the pdf document
Income Statement	Page 158 of the pdf document
Cash Flows Statement	Page 162 of the pdf document
Statement of Changes in Equity	Page 163 of the pdf document
Statement of Comprehensive Income	Pages 159 to 160 of the pdf document
Notes to the Consolidated Financial Statements	Pages 164 to 379 of the pdf document
Audit Report	Pages 592 to 602 of the pdf document

(c) the unaudited and un-reviewed earnings press release and earnings presentation of the BCP Group, in each case as at, and for the three month period ended 31 March 2019, including, without limitation, the following unaudited and un-reviewed consolidated balance sheet and consolidated income statement set out at the following pages of the earnings press release:

Balance Sheet	Page 16
Income Statement	Page 15

(d) solely for the purposes of any issues of Covered Bonds which are expressed to be consolidated and form a single Series with a Tranche of Covered Bonds issued in earlier Base Prospectuses published by the Issuer, the terms and conditions of the Covered Bonds, on pages 40 to 63 (inclusive) of the Base Prospectus dated 5 June 2007, on pages 50 to 74

[8] The audited financial statements for the financial year ended 31 December 2018 will be subject to the approval of the general meeting of shareholders to be held on the 22 May 2019.

(inclusive) of the Base Prospectus dated 4 August 2008, on pages 55 to 79 (inclusive) of the Base Prospectus dated 23 July 2009, on page 59 to 84 (inclusive) of the Base Prospectus dated 6 May 2010, on pages 74 to 99 (inclusive) of the Base Prospectus dated 29 June 2012, on pages 81 to 105 (inclusive) of the Base Prospectus dated 10 July 2013, on pages 107 to 139 (inclusive) of the Base Prospectus dated 14 August 2014, on pages 106 to 138 (inclusive) of the Base Prospectus dated 23 October 2015 and on pages 119 to 151 (inclusive) of the Base Prospectus dated 20 December 2016 each prepared by the Issuer in connection with the Programme.

The documents incorporated by reference in (a) to (c) above are a direct and accurate translation from their original Portuguese form. In the event of a discrepancy the original Portuguese version will prevail.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank in accordance with Article 16 of the Prospectus Directive. The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Covered Bonds.

Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall to the extent applicable (whether expressly, by implication or otherwise) be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered offices of the Issuer and from the specified offices of the Agent and of the Common Representative for the time being. Documents referred to in (a) and (b) above can be viewed electronically and free of charge at the Issuer's website at the following links (https://ind.millenniumbcp.pt/relcontas/2017/files/RCBCP2017.en.pdf, and https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/Apresentacao_de_Resultados/2018/RABCP2018.pdf respectively). Documents referred to in (c) above can be viewed electronically and free of charge at the Bank's website (https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/Apresentacao_de_Resultados/2019/Earnings_Millenniumbcp_1Q19_09052019.pdf and https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/Apresentacao_de_Resultados/2019/EarningsPres_1Q19_09052019.pdf, respectively). Earlier Base Prospectuses published by the Issuer referred to in (d) above can be viewed electronically and free of charge at the following links:

(a) Base Prospectus dated 5 June 2007: https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB05062007.pdf;

(b) Base Prospectus dated 4 August 2008: https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB04082008.pdf;

(c) Base Prospectus dated 23 July 2009: https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB23072009.pdf;

(d) Base Prospectus dated 6 May 2010:

https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB06052010.pdf;

(e) Base Prospectus dated 29 June 2012: https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB29062012.pdf;

(f) Base Prospectus dated 10 July 2013: https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB10072013.pdf;

(g) Base Prospectus dated 14 August 2014: https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB14082014.pdf;

(h) Base Prospectus dated 23 October 2015: https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB23102015.pdf; and

(i) Base Prospectus dated 20 December 2016: https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/Base-Prospectus-28042017.pdf.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

The Bank confirms that any non-incorporated parts of a document referred to herein are either not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Covered Bonds denominated in any currency agreed between the Issuer and the relevant Dealer, subject as set out herein. An overview of the terms and conditions of the Programme and the Covered Bonds appears under *Overview of the Covered Bonds Programme*. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer prior to the issue of those Covered Bonds and will be set out in the Terms and Conditions of the Covered Bonds applicable to the Covered Bonds as completed by the applicable Final Terms attached to such Covered Bonds, or, in the case of Exempt Covered Bonds, the applicable Pricing Supplement, as more fully described under *Final Terms for Covered Bonds* and *Pricing Supplement for Exempt Covered Bonds* below.

This Base Prospectus will only be valid for admitting Covered Bonds to trading on Euronext Dublin's regulated market during the period of 12 months after the date of approval of this Base Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding on all Covered Bonds previously or simultaneously issued under the Programme, does not exceed Euro 12,500,000,000 (subject to increase in accordance with the Programme Agreement (as defined in *Definitions*)) or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

(a) the euro equivalent of Covered Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Covered Bonds, or, in the case of Exempt Covered Bonds, the applicable Pricing Supplement) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Covered Bonds or on the preceding day on which commercial banks and foreign exchange markets are open for business in London and Lisbon, in each case, on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the Lisbon foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation; and

(b) the euro equivalent of Zero Coupon Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds or, in the case of Exempt Covered Bonds, the applicable Pricing Supplement) and other Covered Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

FORM OF THE COVERED BONDS AND CLEARING SYSTEM

Any reference in this section to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement" where relevant.

The Covered Bonds will be held through a central securities depositary ("**CSD**") which will be Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the Central de Valores Mobiliários ("**Interbolsa**").

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Interbolsa currently in effect. The information in this section concerning Interbolsa has been obtained from sources that the Issuer believes to be reliable, but none of the Arrangers or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of Interbolsa are advised to confirm the continued applicability of the rules, regulations and procedures of Interbolsa. None of the Issuer, the Arrangers or any of the Dealers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, interests in the Covered Bonds held through the facilities of Interbolsa or for maintaining, supervising or reviewing any records relating to such interests.

Interbolsa holds securities for its participants and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its participants. Interbolsa provides various services including safekeeping, administration, clearance and settlement of domestically and internationally traded securities and securities lending and borrowing.

The address of Interbolsa is Avenida da Boavista, 3433, 4100-138 Oporto, Portugal, the address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg.

The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws or “blue sky” laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction (see *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*). Accordingly, the Covered Bonds will only be issued outside the United States in reliance upon Regulation S.

The Covered Bonds are held through Interbolsa

General

Interbolsa holds securities through a centralised system ("*sistema centralizado*") composed by interconnected securities accounts, through which such securities (and inherent rights) are held and transferred, and which allows Interbolsa to control at all times the amount of securities so held and transferred. Issuers of securities, financial intermediaries, the Bank of Portugal and Interbolsa, as the controlling entity, all participate in such centralised system.

The centralised securities system of Interbolsa provides for all the procedures required for the exercise of ownership rights inherent to the Covered Bonds.

In relation to each issue of securities, Interbolsa's centralised system comprises, inter alia, (i) the issue account, opened by the relevant issuer in the centralised system and which reflects the full amount of issued securities; and (ii) the control accounts opened by each of the financial intermediaries which participate in Interbolsa's centralised system, and which reflect the securities held by such participant on behalf of its customers in accordance with its individual securities accounts.

The Covered Bonds shall only be tradable in one specified denomination.

As of the date of this Base Prospectus, the Covered Bonds may only be issued in Euro, U.S. dollars, United Kingdom pounds sterling, Japanese Yen, Swiss Francs, Australian dollars and Canadian dollars.

The Covered Bonds will be attributed an International Securities Identification Number ("**ISIN**") code through the codification system of Interbolsa and will be accepted for clearing through the clearing system operated at Interbolsa and settled by Interbolsa's settlement system.

Form of the Covered Bonds

The Covered Bonds of each Series will be in book-entry form ("*forma escritural*") and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of the Covered Bonds. The Covered Bonds will be registered *("nominativas*") (i.e. Interbolsa, at the Issuer's request, can ask the Interbolsa Participants information regarding the identity of the holders of Covered Bonds and transmit such information to the Issuer).

The Covered Bonds of each Series will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by each Interbolsa Participant on behalf of the holders of the Covered Bonds. Such control accounts reflect at all times the aggregate of Covered Bonds held in the individual securities accounts opened by the holders of the Covered Bonds with each of the Interbolsa Participants. The expression "**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the records of an Interbolsa Participant as having an interest in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein.

The Covered Bonds may be eligible for Eurosystem monetary policy. Registering the Covered Bonds with Interbolsa, however, does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life, as such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Payment of principal and interest in respect of Covered Bonds

Payment of principal and interest in respect of the Covered Bonds will be (i) **if made in euro** (a) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the payment current-accounts used by the Interbolsa Participants for payments in respect of securities held through Interbolsa and thereafter (b) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; (ii) **if made in currencies other than euro** (a) transferred, on the payment date and according to the procedures and regulations of Interbolsa, from the account held by the relevant Paying Agent in the Foreign Currency Settlement System ("*Sistema de Liquidação em Moeda Estrangeira*"), managed by

Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Interbolsa Participants, and thereafter (b) transferred by such Interbolsa Participants from such relevant accounts to the accounts of the owners of Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the owners of Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer must provide Interbolsa with a prior notice of all payments in relation to Covered Bonds and all necessary information for that purpose. In particular, such notice must contain:

(a) the identity of the Paying Agent responsible for the relevant payment; and

(b) a statement of acceptance of such responsibility by the Paying Agent.

The Interbolsa Participant must, at the request of Interbolsa, inform the Paying Agent of the bank accounts to which the relevant payments shall be made. Interbolsa must notify the Paying Agent of the amounts to be settled, which Interbolsa calculates on the basis of the balances and on the tax rules governing the accounts of the Interbolsa Participants.

In the case of a partial payment, the amount held in the current account of the Paying Agent with the Bank of Portugal must be apportioned pro-rata between the accounts of the Interbolsa Participants. After a payment has been processed, whether in full or in part, the Paying Agent must confirm that fact to Interbolsa.

Procedures relating to Covered Bonds denominated in a currency other than Euro will be in accordance with the relevant Interbolsa procedures.

Transfer of Covered Bonds

Covered Bonds may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bonds. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese law and the applicable procedures of Interbolsa.

FINAL TERMS FOR COVERED BONDS

The form of Final Terms that will be issued in respect of each Tranche of Covered Bonds issued under the Programme, subject only to the deletion of non-applicable provisions, is set out below:

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS -** The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive (as defined below). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET -** Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")][MiFID II]; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Final Terms dated [ ]

Banco Comercial Português, S.A.

Legal Entity Identifier (LEI): JU1U6S0DG9YLT7N8ZV32

Issue of [ ]

[[ ]% Fixed Rate/Floating Rate/Zero Coupon] Covered Bonds due [ ]

under the Euro 12,500,000,000 Covered Bonds Programme

THE COVERED BONDS (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED BONDS ISSUED IN ACCORDANCE WITH DECREE-LAW 59/2006, OF 20 MARCH 2006 (AS AMENDED, THE "**COVERED BONDS LAW**") AND FURTHER APPLICABLE REGULATIONS. THE ISSUER HAS THE CAPACITY TO ISSUE COVERED BONDS IN ACCORDANCE WITH THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the "**Terms and Conditions**") set forth in the Base Prospectus dated 15 May

2019 [and the supplemental Base Prospectus dated [ ]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing during normal business hours at Banco Comercial Português, S.A., Praça Dom João 1, 28, 4000-295 Oporto, Portugal, physical copies may be obtained from the same address and electronic copies from the website of Euronext Dublin (www.ise.ie).]

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the "**Terms and Conditions**") set forth in the Base Prospectus dated [*original date*] which are incorporated by reference in the Base Prospectus dated 15 May 2019 [and the supplemental Base Prospectus dated [ ]]. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 15 May 2019 [and the supplemental Base Prospectus dated [ ]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 15 May 2019 [and the supplemental Prospectus dated [ ]]. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing during normal business hours at Banco Comercial Português, S.A., Praça Dom João 1, 28, 4000-295 Oporto, Portugal, physical copies may be obtained from the same address and electronic copies from the website of Euronext Dublin (www.ise.ie).]

1.	(i)	Series Number:	[ ]
	(ii)	Tranche Number:	[ ]
	(iii)	Date on which the Covered Bonds will be consolidated and form a single Series:	[The Covered Bonds will be consolidated and form a single Series with [ ] on the Issue Date]/[Not Applicable]
2.	Specified Currency:		[ ]
3.	Aggregate Nominal Amount of Covered Bonds:		
	(i)	Series:	[ ]
	(ii)	Tranche:	[ ]
4.	Issue Price:		[ ]% of the Aggregate Nominal Amount [plus accrued interest from [ ] (if applicable)]
5.	Specified Denominations:		[ ]
6.	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[ ] [Issue Date] [Not Applicable]
7.	Maturity Date:		[ ] [Interest Payment Date falling in or nearest to [ ]]

8.	Extended Maturity Date:	[Not Applicable] [ ]
9.	Interest Basis:	
	(i) Period to (and including) Maturity Date:	[[ ]% Fixed Rate] [[ ] month [LIBOR/EURIBOR] +/- [ ]% Floating Rate] [Zero Coupon] (further particulars specified in [14/15/16] below)
	(ii) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date:	[Not Applicable] [[ ]% Fixed Rate] [[ ] month [LIBOR/EURIBOR] +/- [ ]% Floating Rate] (further particulars specified in [14/15/16] below)
10.	Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date at [ ]% of their nominal amount.
11.	Change of Interest Basis:	[ ] [Not Applicable]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified in [17/18] below)] [Not Applicable]
13.	Date of [Board] approval for issuance of Covered Bonds obtained:	[ ] [Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Covered Bonds Provisions:	[Applicable/Not Applicable]
	(i) Rate (s) of Interest:	
	• To Maturity Date:	[Not Applicable] [[ ]% per annum payable in arrear on each Interest Payment Date]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable] [[ ]% per annum. payable in arrear on each Interest Payment Date]
	(ii) Interest Payment Date(s):	
	• To Maturity Date:	[Not Applicable] [[ ] in each year up to and including the Maturity Date / [ ]]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable] [[ ] in each month up to and including the Extended Maturity Date]/[ ]]

(iii) Day Count Fraction:

- To Maturity Date: [Not Applicable] [30/360] [Actual/Actual (ICMA)]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [30/360] [Actual/Actual (ICMA)]

(iv) Determination Date(s):

- To Maturity Date: [Not Applicable] [[ ] in each year]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [[ ] in each year]

15. Floating Rate Covered Bonds Provisions: [Applicable/Not Applicable]

(i) Specified Period(s)/ Specified Interest Payment Dates:

- To Maturity Date: [Not Applicable] [ ]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [ ]

(ii) Business Day Convention:

- To Maturity Date: [Not Applicable] [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention]

(iii) Additional Business Centre(s):

- To Maturity Date: [Not Applicable] [ ]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [ ]

(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:

	•	To Maturity Date:	[Not Applicable] [Screen Rate Determination/ISDA Determination]
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable] [Screen Rate Determination/ ISDA Determination]
(v)	Party responsible (the "**Calculation Agent**") for calculating the Rate of Interest and Interest Amount (if not the Agent):		
	•	To Maturity Date:	[Not Applicable] [ ]
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable] [ ]
(vi)	Screen Rate Determination:		[Applicable/Not Applicable]
	A.	To Maturity Date:	[Applicable/Not Applicable]
	•	Reference Rate:	[LIBOR/EURIBOR]
	•	Interest Determination Date:	[ ]
	•	Relevant Screen Page:	[Reuters Screen Page LIBOR01 (or any successor page)] [Reuters Screen Page EURIBOR01 (or any successor page)] [ ]
	B.	From Maturity Date up to Extended Maturity Date:	[Applicable]/[Not Applicable]
	•	Reference Rate:	[LIBOR/EURIBOR]
	•	Interest Determination Date:	[ ]
	•	Relevant Screen Page:	[Reuters Screen Page LIBOR01 (or any successor page)] [Reuters Screen Page EURIBOR01 (or any successor page)] [ ]
(vii)	ISDA Determination:		[Applicable/Not Applicable]
	A.	To Maturity Date:	[Applicable/Not Applicable]
	•	Floating Rate Option:	[ ]
	•	Designated Maturity:	[ ]

	•	Reset Date:	[ ]
	B.	From Maturity Date up to Extended Maturity Date:	[Applicable/Not Applicable]
	•	Floating Rate Option:	[ ]
	•	Designated Maturity:	[ ]
	•	Reset Date:	[ ]
(viii)	Margin (s):		
	•	To Maturity Date:	[Not Applicable] [[+/-] [ ]% per annum]
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable] [[+/-] [ ]% per annum]
(ix)	Minimum Rate of Interest:		
	•	To Maturity Date:	[Not Applicable] [[ ]% per annum]
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable] [[+/-] [ ]% per annum]
(x)	Maximum Rate of Interest:		
	•	To Maturity Date:	[Not Applicable] [[ ]% per annum]
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable] [[+/-] [ ]% per annum]
(xi)	Day Count Fraction:		
	•	To Maturity Date:	[Not Applicable] [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [30E/360] [30E/360 (ISDA)]
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable] [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360]

		[30/360] [30E/360] [30E/360 (ISDA)]
16.	Zero Coupon Covered Bonds Provisions:	[Applicable/Not Applicable]
	(i) Accrual Yield:	[ ]% per annum
	(ii) Reference Price:	[ ]

PROVISIONS RELATING TO REDEMPTION

17.	Issuer Call	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[ ]
	(ii) Optional Redemption Amount(s) of each Covered Bond:	[ ] per Covered Bond of [ ] Specified Denomination
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[Not Applicable] [ ]
	(b) Maximum Redemption Amount:	[Not Applicable] [ ]
	(iv) Notice period:	Minimum period: [ ] days Maximum period: [ ] days
18.	Investor Put	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[ ]
	(ii) Optional Redemption Amount(s) of each Covered Bond:	[ ] per Covered Bond of [ ] Specified Denomination
	(iii) Notice period:	Minimum period: [ ] days Maximum period: [ ] days
19.	Final Redemption Amount of each Covered Bond:	[ ] per Covered Bond of [ ] Specified Denomination
20.	Early Redemption Amount of each Covered Bond payable on an event of default:	[ ] per Covered Bond of [ ] Specified Denomination

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

21.	Form of Covered Bonds:	
	Form:	Book Entry Covered Bonds *nominativas*
22.	Additional Financial Centre(s):	[Not Applicable] [ ]

Signed on behalf Banco Comercial Português, S.A.:

By:______________________________
Duly authorised

PART B – OTHER INFORMATION

1. **Listing and Admission to trading**

(i)	Listing and Admission to trading:	[Application [has been/will be] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to the Official List of Euronext Dublin and trading on its regulated market with effect from [ ].] [Application [has been/will be] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of [Euronext Lisbon/London Stock Exchange and listing on the Official List of the UK Listing Authority] with effect from [ ].]
(ii)	Estimate of total expenses related to admission to trading:	[ ]

2. **Ratings**

Ratings:	The following ratings reflect rating assigned to the Covered Bonds issued under the Programme generally: [ ] by Moody's [ ] by Fitch [ ] by the relevant DBRS entity [The Covered Bonds to be issued [[have been]/[are expected to be]] rated [ ] by [ ].]

3. **Interests of Natural and Legal Persons Involved in the Issue**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the issue. [Certain [Dealers/Managers] and their affiliates have engaged, and may in the future engage, in investments, banking and or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary cover of business.]]

4. **Yield – Fixed Rate Covered Bonds only**

Indication of yield:	[Not Applicable] [ ]%

5. **Historic and Future Interest Rates – Floating Rate Covered Bonds only**

[Details of historic and future [LIBOR/EURIBOR] rates can be obtained from [Reuters] [ ].] [Not Applicable]

6. **Operational Information**

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	CFI:	[[See/[[*include code*], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
(iv)	FISN:	[[See/[[*include code*], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
(v)	Delivery:	Delivery [against/free of] payment

7. **Distribution**

(i)	If syndicated, names of Managers:	[Not Applicable/[ ]]
(ii)	Date of [Subscription] Agreement:	[ ]
(iii)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable/[ ]]
(v)	U.S. Selling Restrictions:	[Reg. S Compliance Category] [TEFRA C] [TEFRA rules not applicable]
(vi)	Prohibition of Sales to EEA Retail Investors:	[Not Applicable][Applicable] (*If the Covered Bonds clearly do not constitute "packaged products" or the Covered Bonds do constitute a "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Covered Bonds may constitute "packaged products" and no key information document will be prepared, "Applicable" should be specified.*)

8. **Third Party Information**

[[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

PRICING SUPPLEMENT FOR EXEMPT COVERED BONDS

The form of Pricing Supplement that will be issued in respect of each Tranche of Exempt Covered Bonds (herein also referred to as the "**Covered Bonds**") whatever the denomination of such Covered Bonds, subject only to the deletion of non-applicable provisions, is set out below. The Central Bank has neither approved nor reviewed information contained in this Pricing Supplement.

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) or a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[MIFID II product governance / target market – [*appropriate target market legend to be included*]]

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF THE EXEMPT COVERED BONDS DESCRIBED BELOW.

Pricing Supplement dated [ ]

Banco Comercial Português, S.A.

Issue of [*Aggregate Nominal Amount of Tranche*]

Legal Entity Identifier (LEI): JU1U6S0DG9YLT7N8ZV32

[[ ]% Fixed Rate/Floating Rate/Zero Coupon] Covered Bonds due [ ]

under the Euro 12,500,000,000 Covered Bonds Programme

THE COVERED BONDS (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED BONDS ISSUED IN ACCORDANCE WITH DECREE-LAW 59/2006, OF 20 MARCH 2006 (AS AMENDED, THE "**COVERED BONDS LAW**") AND FURTHER APPLICABLE REGULATIONS. THE ISSUER HAS THE CAPACITY TO ISSUE COVERED BONDS IN ACCORDANCE WITH THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement of the Exempt Covered Bonds described herein. This document must be read in conjunction with the Base Prospectus dated 15 May 2019 [and the supplemental Base Prospectus dated [*date*]] ([together] the Base Prospectus). Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Pricing Supplement and the Base Prospectus. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing during normal business hours at Banco Comercial

Português, S.A., Praça Dom João 1, 28, 4000-295 Oporto, Portugal, physical copies may be obtained from the same address and electronic copies from the website of Euronext Dublin (www.ise.ie).

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the "**Terms and Conditions**") set forth in the Base Prospectus.

(*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.*)

1.	Issuer:		Banco Comercial Português, S.A.
2.	(i)	Series Number:	[ ]
	(ii)	Tranche Number:	[ ] (*If fungible with an existing series, details of that series, including the date on which the Covered Bonds become fungible*)
3.	Specified Currency:		[ ] (*Note: Covered Bonds may only be issued in Euro, U.S. Dollars, Sterling, Japanese yen, Swiss francs, Australian Dollars and Canadian Dollars or any other currency as can be settled through Interbolsa from time to time*)
4.	Aggregate Nominal Amount of Covered Bonds:		
	(i)	Series:	[ ]
	(ii)	[Tranche:	[ ]]
5.	Issue Price:		[ ]% of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (if applicable)]
6.	Specified Denomination:		[ ]
7.	(i)	Issue Date:	[ ]
	(ii)	[Interest Commencement Date (if different from the Issue Date):	[*specify*/Issue Date/Not Applicable]] (*NB An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds*.)
8.	Maturity Date:		[*Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month*]]
9.	Extended Maturity Date:		[Applicable/Not Applicable]

		[*insert date*] (*If applicable, the date should be that falling one year after the Maturity Date. If not applicable, insert "Not Applicable*"). (*Extended Maturity Date must be Applicable to all issues of Covered Bonds, unless, the rating agencies which at the relevant time provide credit ratings for the Programme agree that Extended Maturity Date may be Not Applicable*)
10.	Interest Basis:	
	(i) Period to (and including) Maturity Date:	[[ ]% Fixed Rate] [[ ] month [LIBOR/EURIBOR/[ ]] +/- [ ]% Floating Rate] [Zero Coupon] (further particulars specified in [15/16/17] below)
	(ii) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date:	[Not Applicable] / [[ ]% Fixed Rate] [[ ] month [LIBOR/EURIBOR/[ ]] +/- [ ]% Floating Rate] (further particulars specified in paragraph [15/16/17] below) (*Insert "Not Applicable" only if Extended Maturity Date does not apply*)
11.	Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date at [ ]% of their nominal amount
12.	Change of Interest Basis:	[*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs [15 and 16] below and identify there*] [Not Applicable]
13.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified in paragraph [18/19] below)] [ ]
14.	[Date [Board] approval for issuance of Covered Bonds obtained]	

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Covered Bonds Provisions:	
	• To Maturity Date:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

•	From Maturity Date up to Extended Maturity Date:	[Applicable/Not Applicable] (*If subparagraphs (i) and (ii) not applicable, delete the remaining subparagraphs of this paragraph*) [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.*]
(i)	Rate [(s)] of Interest:	
	• To Maturity Date:	[ ]% per annum payable in arrear on each interest payment day
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [ ]% per annum. payable in arrear on each interest payment day [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date.*]
(ii)	Interest Payment Date(s):	
	• To Maturity Date:	[[ ] in each year up to and including the Maturity Date / [*specify other*]]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable] [[ ] in each month up to and including the Extended Maturity Date]/[*specify other*] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date*.]
(iii)	Day Count Fraction:	
	• To Maturity Date:	[30/360 or Actual/Actual (ICMA)]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable] [30/360 or Actual/Actual (ICMA)] *[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date*.]
(iv)	Determination Date(s):	
	• To Maturity Date:	*[Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)]* in each year]
	• From Maturity Date up to	[Not Applicable] *[Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert*

		Extended Maturity Date:	*such dates in the alternative*)] in each year *[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity* Date.]
16.	Floating Rate Covered Bonds Provisions:		
	•	To Maturity Date:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*.)
	•	From Maturity Date up to Extended Maturity Date:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*.) *[State "Not Applicable*" *unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	(i)	Specified Period(s)/Specified Interest Payment Dates:	
		• To Maturity Date:	[ ]
		• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [ ] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	(ii)	Business Day Convention:	
		• To Maturity Date:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
		• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention] *[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*
	(iii)	Additional Business Centre(s):	
		• To Maturity Date:	[Not Applicable]/ [ ]
		• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [ ] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]

(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:		
	•	To Maturity Date:	[Screen Rate Determination/ISDA Determination]
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [Screen Rate Determination/ ISDA Determination] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
(v)	Party responsible (the "**Calculation Agent**") for calculating the Rate of Interest and Interest Amount (if not the Agent):		
	•	To Maturity Date:	[Not Applicable] [ ]
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [ ] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date*.]
(vi)	Screen Rate Determination:		
	A.	To Maturity Date:	
	•	Reference Rate:	[LIBOR/EURIBOR/[ ]]
	•	Interest Determination Date:	[ ] *(Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR)*
	•	Relevant Screen Page:	[Reuters Screen Page LIBOR01 (or any successor page)] [Reuters Screen Page EURIBOR01 (or any successor page)] [ ]
	B.	From Maturity Date up to Extended Maturity Date:	[Not Applicable] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	•	Reference Rate:	[LIBOR/EURIBOR/[ ]]

- Interest Determination Date: [ ] *(Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR)*

- Relevant Screen Page: [Reuters Screen Page LIBOR01 (or any successor page)] [Reuters Screen Page EURIBOR01 (or any successor page)] [ ]

(vii) ISDA Determination:

A. To Maturity Date:

- Floating Rate Option: [ ]

- Designated Maturity: [ ]

- Reset Date: [ ]

B. From Maturity Date up to Extended Maturity Date: [Not Applicable]

[*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]

- Floating Rate Option: [ ]

- Designated Maturity: [ ]

- Reset Date: [ ]

(viii) Margin(s):

- To Maturity Date: [+/-] [ ]% per annum

- From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [+/-] [ ]% per annum]

  [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]

(ix) Minimum Rate of Interest:

- To Maturity Date: [ ]% per annum

- From Maturity [Not Applicable]/ [+/-] [ ]% per annum]

		Date up to Extended Maturity Date:	[*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	(x)	Maximum Rate of Interest:	
	•	To Maturity Date:	[ ]% per annum
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [+/-] [ ]% per annum] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	(xi)	Day Count Fraction:	
	•	To Maturity Date:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) (see Condition 4 (*Interest*))
	•	From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) (see Condition 4 (*Interest*)) [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
17.	Zero Coupon Covered Bonds Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Accrual Yield:	[ ]% per annum
	(ii)	Reference Price:	[ ]

PROVISIONS RELATING TO REDEMPTION

18.	Issuer Call		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[ ]
	(ii)	Optional Redemption Amount(s) of each	[ ] per Covered Bond of [ ] Specified Denomination

		Covered Bond:		
	(iii)	If redeemable in part:		
		(a)	Minimum Redemption Amount:	[ ]
		(b)	Maximum Redemption Amount:	[ ]
	(iv)	Notice period:		Minimum period: [ ] days Maximum period: [ ] days (*NB - When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
19.	Investor Put			[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Optional Redemption Date(s):		[ ]
	(ii)	Optional Redemption Amount(s) of each Covered Bond:		[ ] per Covered Bond of [ ] Specified Denomination
	(iii)	Notice period:		Minimum period: [ ] days Maximum period: [ ] days (NB - *When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
20.	Final Redemption Amount of each Covered Bond:			[ ] per Covered Bond of [ ] Specified Denomination
21.	Early Redemption Amount of each Covered Bond payable on an event of default:			[ ] per Covered Bond of [ ] Specified Denomination

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

22.	Form of Covered Bonds:	
	Form:	Book Entry Covered Bonds *nominativas*

23. Additional Financial Centre(s): [Not Applicable */give details] (Note that this item relates to the place of payment and not Interest Period end dates to which item 16(iii) relates*)

Signed on behalf Banco Comercial Português, S.A.:

By:_________________________________

Duly authorised

PART B – OTHER INFORMATION

1. **Listing and Admission to trading**

(i)	Listing and Admission to trading:	[Application [has been made/is expected to be made] by the Issuer (or on its behalf) for the Covered Bonds to be [listed/admitted to trading] on *[specify market - note this should not be a regulated market with effect from [ ]*.] [Not Applicable] *(When documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading*)
(ii)	Estimate of total expenses related to admission to trading:	[ ]

2. **Ratings**

Ratings:	The following ratings reflect rating assigned to the Covered Bonds issued under the Programme generally: [ ] by Moody's [ ] by Fitch [ ] by the relevant DBRS entity [The Covered Bonds to be issued [[have been]/[are expected to be]] rated *[insert details*] by *[insert the legal name of the relevant credit rating agency entity(ies*)].]

3. **Interests of Natural and Legal Persons Involved in the Issue**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the issue. [Certain [Dealers/Managers] and their affiliates have engaged, and may in the future engage, in investments, banking and or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary cover of business] - *Amend as appropriate if there are other interests]*

4. **Yield – Fixed Rate Covered Bonds only**

Indication of yield:	[Not Applicable] [ ] [The yield is calculated at the Issue Date on the basis of the Issue Price, using the formula set out in the Base Prospectus (see *General Information*). It is not an indication of future yield.]

5. **Operational Information**

(i)	ISIN:	[ ]

(ii)	Common Code:	[ ]
(iii)	CFI:	[[See/[[*include code*], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
(iv)	FISN:	[[See/[[*include code*], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
(v)	Delivery:	Delivery [against/free of] payment

6. **Distribution**

(i)	If syndicated, names of Managers:	[Not Applicable/give *names]*
(ii)	Date of [Subscription] Agreement:	[ ]
(iii)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable*/give name*]
(v)	U.S. Selling Restrictions:	[Reg. S Compliance Category] [TEFRA C] [TEFRA rules not applicable]
(vi)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the* Covered Bonds *clearly do not constitute "packaged" products or the* Covered Bonds *do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the* Covered Bonds *may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.*)

7. **Third Party Information**

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following, save for the text in the footnotes, are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Covered Bond. The applicable Pricing Supplement in relation to any Tranche of Exempt Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds. The applicable Final Terms (or the relevant provisions thereof) will be incorporated by reference into each Covered Bond. Reference should be made to "Final Terms for Covered Bonds" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

THE COVERED BONDS (AS DEFINED IN THESE TERMS AND CONDITIONS) ARE MORTGAGE COVERED BONDS ("OBRIGAÇÕES HIPOTECÁRIAS") ISSUED IN ACCORDANCE WITH THE COVERED BONDS LAW (AS DEFINED). THE ISSUER (AS DEFINED IN THESE TERMS AND CONDITIONS) IS A CREDIT INSTITUTION WITH THE CAPACITY TO ISSUE COVERED BONDS PURSUANT TO THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS LAW ARE SECURED ON THE ASSETS THAT COMPRISE THE COVER POOL (AS DEFINED BELOW) MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

This Covered Bond is one of a Series (as defined below) of mortgage covered bonds issued by Banco Comercial Português, S.A. (the "**Issuer**") in accordance with the procedures set out in the Set of Agency Procedures (as defined below).

References herein to the Covered Bonds shall be references to the Covered Bonds of this Series and shall mean the book-entries corresponding to the units of the Specified Denomination in the Specified Currency.

The Covered Bonds have the benefit of a set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time, the "**Set of Agency Procedures**") dated 15 May 2019 and made and agreed by Banco Comercial Português, S.A. (acting in its capacity as Agent and Paying Agent, which expressions shall include any successors, and as Issuer) and by any subsequent agent, paying agent and/or agent bank appointed by the Issuer.

The final terms for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to this Covered Bond which complete information regarding these Terms and Conditions (the "**Conditions**") or, if this Covered Bond is a Covered Bond which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an "**Exempt Covered Bond**"), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Covered Bond. References to the applicable Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to this Covered Bond. Any reference in the Conditions to "**applicable Final Terms**" or "**relevant Final Terms**" shall be deemed to include a reference to "**applicable Pricing Supplement**" or "**relevant Pricing Supplement**", respectively, where relevant.

Any reference to "**holders of Covered Bonds**" shall mean the persons in whose name the Covered Bonds are registered.

As used herein, "**Tranche**" means Covered Bonds which are identical in all respects (including as to listing) and Series means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single Series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

Copies of the Set of Agency Procedures are available for inspection during normal business hours at the specified office of each of the Paying Agents (such Paying Agents being together referred to as the "**Agents**"). Copies of the applicable Final Terms are obtainable during normal business hours at the specified office of each of the Agents. If the Covered Bonds are to be admitted to trading on the regulated market of Euronext Dublin the applicable Final Terms will be published on the website of Euronext Dublin (www.ise.ie). If this Covered Bond is an Exempt Covered Bond, the applicable Pricing Supplement will only be obtainable by a Covered Bonds holder holding one or more Covered Bond and such Covered Bonds holder must produce evidence satisfactory to the Issuer, the Common Representative and the relevant Paying Agent as to its holding of such Covered Bonds and identity. The Covered Bonds holders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Set of Agency Procedures and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Set of Agency Procedures.

Words and expressions defined in the Set of Agency Procedures or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Set of Agency Procedures and the applicable Final Terms, the applicable Final Terms will prevail.

As used herein, **outstanding** means in relation to the Covered Bonds all the Covered Bonds issued other than:

(a) those Covered Bonds which have been redeemed and cancelled pursuant to these Terms and Conditions;

(b) those Covered Bonds in respect of which the date for redemption under these Terms and Conditions has occurred and the redemption moneys (including all interest (if any) accrued to the date for redemption and any interest (if any) payable under these Terms and Conditions after that date) have been duly paid to or to the order of the Agent in the manner provided in the Set of Agency Procedures (and, where appropriate, notice to that effect has been given to the Covered Bonds holders in accordance with these Terms and Conditions) and remain available for payment against presentation of the relevant Covered Bonds as applicable;

(c) those Covered Bonds which have been purchased and cancelled under these Terms and Conditions; and

(d) those Covered Bonds which have become prescribed under these Terms and Conditions.

1. FORM, DENOMINATION AND TITLE

The Covered Bonds will be issued in book entry form, being *nominativas* (i.e. Interbolsa, at the Issuer's request, can ask the Affiliated Members of Interbolsa for information regarding the identity of the holders of Covered Bonds)

The Covered Bonds will be in book-entry form and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of the Covered Bonds. Each person shown in the records of an Interbolsa Participant as having an interest in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Where the applicable Final Terms specifies that an Extended Maturity Date applies to a Series of Covered Bonds, those Covered Bonds may be Fixed Rate Covered Bonds or Floating Rate Covered Bonds in respect of the period from the Issue Date to and including the Maturity Date and Fixed Rate Covered Bonds or Floating Rate Covered Bonds in respect of the period from the Maturity Date up to and including the Extended Maturity Date, subject as specified in the applicable Final Terms.

Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer, save that the denomination of each Covered Bond (other than an Exempt Covered Bond) will be at least EUR 100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or, in any case only if higher than EUR 100,000, any other specified denomination as may be allowed or required from time to time by the relevant central bank or supervisory authority (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Each series will have Covered Bonds of one denomination only.

Subject as set out below, title to the Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Set of Agency Procedures. The Issuer, the Paying Agents and the Common Representative will (except as otherwise required by law) deem and treat the registered holder of any Covered Bonds as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

2. TRANSFERS OF COVERED BONDS

The transferability of the Covered Bonds is not restricted.

Covered Bonds may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bond. No owner of a Covered Bond will be able to transfer such Covered Bond, except in accordance with Portuguese law and with the applicable procedures of Interbolsa.

The holders of Covered Bonds will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS OF THE COVERED BONDS

The Covered Bonds and any interest thereon constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and rank *pari passu* without any preference among themselves. The Covered Bonds are mortgage covered securities issued in accordance with the Covered Bonds Law, which are secured by the Cover Pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law, and rank *pari passu* with all other obligations of the Issuer under mortgage covered securities issued or to be issued by the Issuer pursuant to the Covered Bonds Law.

4. INTEREST

4.1 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Subject as provided in Condition 4.4, interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date (as specified in the relevant Final Terms).

Interest on Fixed Rate Covered Bonds will be calculated on the full nominal amount outstanding of the Fixed Rate Covered Bonds and will be paid to the Interbolsa Participants for distribution by them to accounts of entitled holders of the Covered Bonds in accordance with Interbolsa's usual rules and operating procedures. Such interest shall be calculated in respect of any period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1:

(i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:

(a) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(b) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

1. the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

2. the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the

Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

(i) "**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

(ii) "**Principal Amount Outstanding**" means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bond in respect thereof; and

(iii) "**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

4.2 Interest on Floating Rate Covered Bonds

(A) Interest Payment Dates

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(i) in any case where Specified Periods are specified in accordance with Condition 4.2(A)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(ii) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(iii) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(iv) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "**Business Day**" means a day which is both:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Lisbon and any Additional Business Centre(s) specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Lisbon and any Additional Business Centre(s)) and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(B) *Rate of Interest*

Floating Rate Covered Bonds

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

(i) *ISDA Determination for Floating Rate Covered Bonds*: Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph, "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives

Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the "**ISDA Definitions**") and under which:

1. the Floating Rate Option is as specified in the applicable Final Terms;

2. the Designated Maturity is the period specified in the applicable Final Terms; and

3. the relevant Reset Date is as specified in the applicable Final Terms.

For the purposes of this sub-paragraph 4.2(B), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Covered Bonds*: Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

1. the offered quotation (if there is only one quotation on the Relevant Screen Page); or

2. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) or, as applicable, the relevant Calculation Agent, of such offered quotations.

If the Relevant Screen Page is not available or if no offered quotations appear thereon, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date (as specified in the applicable Final Terms) in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date, one only or none of the Reference Banks provides the Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any). However, if one only or none of the Reference Banks provide the Agent with such offered rates at the Agent's request, the Rate of Interest for the relevant Interest Period will be the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any). If the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined on the Interest Determination Date for the last preceding Interest Period (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

In these Conditions, **Reference Banks** means those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page or, if applicable, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared.

(C) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 4.2 above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If no minimum interest rate is specified or if the minimum interest rate is specified as Not Applicable in the applicable Final Terms, then the minimum interest rate shall be zero.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 4.2 above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(D) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, will calculate the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination (each an "**Interest Amount**") for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(E) *Notification of Rate of Interest and Interest Amounts*

The Agent, or where the applicable Final Terms specifies a Calculation Agent for this purpose, the Calculation Agent so specified, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and to any Stock Exchange or other relevant competent listing authority or quotation system on which the relevant Floating Rate Covered Bonds are for the time being listed, quoted and/or traded and notice thereof to be published in accordance with Condition 11 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Common Representative and each Stock Exchange or other relevant authority on which the relevant Floating Rate Covered Bonds are for the time being listed or by which they have been admitted to listing and to the holders of Covered Bonds in accordance with Condition 11 (*Notices*). For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(F) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Agent or the Calculation Agent (if applicable) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents, any Calculation Agent, the Common Representative and all holders of Covered Bonds and (in the absence of wilful default or bad faith) no liability to the Issuer, any Calculation Agent, the holders of Covered

Bonds shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 *Accrual of interest*

Subject as provided in Condition 4.4, interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until (i) the date on which all amounts due in respect of such Covered Bond have been paid; and (ii) five days after the date on which the full amount of the moneys payable in respect of such Covered Bond has been received by the Agent and notice to that effect has been given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

4.4 *Interest Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date*

(A) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.7, the Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to Condition 4.3. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 4.4(B) on the principal amount outstanding of the Covered Bonds in arrear on the Interest Payment Date in each month after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date.

(B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.7, the rate of interest payable from time to time in respect of the principal amount outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.

(C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 4.4 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

(D) This Condition 4.4 shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds (in full) on the Maturity Date (or within two Business Days thereafter) and the maturity of those Covered Bonds is automatically extended up to the Extended Maturity Date in accordance with Condition 6.7.

4.5 Benchmark Replacement

This Condition 4.5 applies only where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined. If the Issuer determines that a Benchmark Event occurs in relation to the Original Reference Rate, then the following provisions shall apply to the Covered Bonds:

(A) the Issuer shall use reasonable endeavours, as soon as reasonably practicable, to appoint at its own expense an Independent Adviser to determine (without any requirement for the consent or approval of the holders of the Covered Bonds) (A) a Successor Rate or, failing which, an Alternative Reference Rate, for the purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Covered Bonds and (B) in either case, an Adjustment Spread. Without prejudice to the definitions thereof, for the purposes of determining any Successor Rate, Alternative Reference Rate and/or any Adjustment Spread, the Independent Adviser will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets;

(B) if the Issuer (i) is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Reference Rate in accordance with this Condition 4.5 prior to the relevant Interest Determination Date, the Issuer (acting in good faith and in a commercially reasonable manner and following consultation with the Independent Adviser in the event one has been appointed) may determine (A) a Successor Rate or, failing which, an Alternative Reference Rate and (B) in either case, an Adjustment Spread in accordance with this Condition 4.5. Without prejudice to the definitions thereof, for the purposes of determining any Successor Rate, Alternative Reference Rate and/or any Adjustment Spread, the Issuer will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets;

(C) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with paragraphs (i) or (ii) above, such Successor Rate or, failing which, Alternative Reference Rate (as applicable) shall be the Original Reference Rate (subject to the subsequent operation of, and to adjustment as provided in, this Condition 4.5);

(D) if the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or, as the case may be, the Issuer is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread;

(E) if the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and/or an Adjustment Spread in accordance with the above provisions, the Independent Adviser or, as the case may be, the Issuer may (without any requirement for the consent or approval of the holders of the Covered Bonds) also specify changes to these Conditions and/or the Set of Agency Procedures in order to ensure the proper operation of such Successor Rate or Alternative Reference Rate or any Adjustment Spread (as applicable), including, but not limited to, (A) the Day Count Fraction, Screen Page, Business Day, Interest Determination Date, Relevant Time and/or the definition of Reference Rate and (B) the method for determining the fall-back rate in relation to the Covered Bonds. For the avoidance of doubt, the Issuer and the Agent shall effect such consequential amendments to the Set of Agency Procedures and/or these Conditions as may be required in order to give effect to the application of this Condition 4.5. No consent shall be required from the holders of the Covered Bonds in connection with determining or giving effect to the Successor Rate, Alternative Reference Rate or any Adjustment Spread (as applicable) or such other changes, including for the execution of any documents or other steps to be taken by the Issuer or the Agent (if required or useful); and

(F) the Issuer shall promptly, following the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable), give notice thereof to the holders of the Covered Bonds in accordance with Condition 11 (*Notices*) and the Agent (if different from the Issuer). Such notice shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread (if any) and any consequential changes made to the Set of Agency Procedures and/or these Conditions (if any).

An Independent Adviser appointed pursuant to this Condition 4.5 shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Agent or the holders of the Covered Bonds for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 4.5.

Without prejudice to the obligations of the Issuer under this Condition 4.5, the Original Reference Rate and the other provisions in this Condition 4.5 will continue to apply (i) if the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) is unable to or does not determine a Successor Rate or an Alternative Reference Rate in accordance with this Condition 4.5, and (ii) where the Independent Adviser or, as the case may be, the Issuer does determine a Successor Rate or Alternative Reference Rate, unless and until the Agent (if different from the Issuer) and (in accordance with Condition 11 (*Notices*)) the holders of the Covered Bonds have been notified of the Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread (if any) and any consequential changes made to the Set of Agency Procedures and the Conditions (if any).

5. PAYMENTS

5.1 Method of payment

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively);

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee; and

(iii) payments in US dollars will be made by a transfer to a US dollar account maintained by the payee with a bank outside the United States (which expression as used in this Condition 5 (*Payments*), means the United States of America including the States, and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction or by cheque drawn on a US bank. In no event will payment be made by a cheque mailed to an address in the United States. All payments of interest will be made to accounts outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to any Interbolsa regulations, fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*).

5.2 Payments Subject to Fiscal and Other Laws

Payments will be subject in all cases to the provisions of Condition 7 (*Taxation*), to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto. Any such amounts withheld or deducted will be treated as paid for all purposes under the Covered Bonds, and no additional amounts will be paid on the Covered Bonds with respect to any such withholding or deduction.

5.3 Payments in relation to Covered Bonds

Payment of principal and interest in respect of the Covered Bonds will be (i) **if made in euro** (a) credited, according to the procedures and regulations of Interbolsa, by the relevant Paying Agent (acting on behalf of the Issuer) to the payment current-accounts used by the Interbolsa Participants for payments in respect of securities held through Interbolsa and thereafter (b) credited by such Interbolsa Participants from the aforementioned payment current-accounts to the accounts of the owners of those Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; (ii) **if made in currencies other than euro** (a) transferred, on the payment date and according to the procedures and regulations of Interbolsa, from the account held by the relevant Paying Agent in the Foreign Currency Settlement System (*Sistema de Liquidação em Moeda Estrangeira*), managed by Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Interbolsa Participants, and thereafter (b) transferred by such Interbolsa Participants from such relevant accounts to the accounts of the owners of Covered Bonds or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the owners of Covered Bonds, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

5.4 Payment Day

If the date for payment of any amount in respect of any Covered Bond is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, Payment Day means any day which (subject to Condition 8 (*Prescription*)) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Financial Centre specified in the applicable Final Terms; and

(ii) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and

(iii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

5.5 Interpretation of principal

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

(i) the Final Redemption Amount of the Covered Bonds;

(ii) the Optional Redemption Amount(s) (if any) of the Covered Bonds; and

(iii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

6. REDEMPTION AND PURCHASE

6.1 Final redemption

Subject to Condition 6.7, unless previously redeemed or purchased and cancelled or extended as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms, in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

6.2 Redemption at the option of the Issuer (Call Option)

If Issuer Call option is specified in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms[9] to the Common Representative, the Agent and, in accordance with Condition 11 (*Notices*), the holders of Covered Bonds (which notice shall be

[9] When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent).

irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. The Optional Redemption Amount will be the specified percentage of the nominal amount of the Covered Bonds stated in the applicable Final Terms. In the case of a partial redemption of Covered Bonds the nominal amount of all outstanding Covered Bonds will be redeemed proportionally.

6.3 Redemption at the option of the holders of Covered Bonds (Put Option)

If Investor Put option is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms[10] the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount as specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. To exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a Put Notice) and in which the holder must specify a bank account to which payment is to be made under this Condition. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. The right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent.

6.4 Purchases

The Issuer or any of its subsidiaries may at any time purchase or otherwise acquire Covered Bonds at any price in the open market or otherwise. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to the Paying Agent for cancellation.

6.5 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled. All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.4 shall be cancelled by Interbolsa and cannot be held, reissued or resold.

6.6 Late payment on Zero Coupon Covered Bonds

If the amount payable in respect of any Zero Coupon Covered Bond to which Condition 6.7 does not apply, upon redemption of such Zero Coupon Covered Bond pursuant to paragraph 6.1, 6.2 or 6.3 or upon its becoming due and repayable as provided in Condition 9 (*Events of Default – Insolvency Event and Enforcement*) is improperly withheld or refused,

[10] When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent).

the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

$$“\mathrm{RP}” \times (1 + \mathrm{AY})_{y}$$

where:

"RP" means the Reference Price; and

"AY" means the Accrual Yield expressed as a decimal; and

"y" is a fraction, the denominator of which is 360 and the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and

(ii) the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Agent and notice to that effect has been given to the holders of Covered Bonds either in accordance with Condition 11 (*Notices*) or individually.

6.7 Extension of Maturity up to Extended Maturity Date

(A) An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such Extended Maturity Date provisions.

(B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the Issuer fails to redeem all of those Covered Bonds in full on the Maturity Date or within two Business Days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. The Issuer shall give to the holders of Covered Bonds (in accordance with Condition 11 (*Notices*)), the Agent and the other Paying Agents, notice of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.

(C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 6.7 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the

Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Terms and Conditions.

(D) Any extension of the maturity of Covered Bonds under this Condition 6.7 shall be irrevocable. Where this Condition 6.7 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 6.7 shall not constitute an event of default for any purpose or give any holder of Covered Bonds any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms and Conditions.

(E) In the event of the extension of the maturity of Covered Bonds under this Condition 6.7, interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4.4.

(F) If the Issuer redeems part and not all of the principal amount outstanding of Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.

(G) If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 6.7, subject to otherwise provided for in the applicable Final Terms, for so long as any of those Covered Bonds remains in issue, the Issuer shall not issue any further mortgage covered bonds, unless the proceeds of issue of such further mortgage covered securities are applied by the Issuer on issue in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

(H) This Condition 6.7 shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds in full on the Maturity Date (or within two Business Days thereafter).

7. TAXATION

7.1 Payments free of taxes

All payments of principal and interest in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, any Taxes unless the Issuer or any Paying Agent (as the case may be) is required by law to make any such payment subject to any such withholding or deduction. In that event, the Issuer or any Paying Agent (as the case may be) shall be entitled to withhold or deduct the required amount for or on account of Tax from such payment and shall account to the relevant Tax Authorities for the amount so withheld or deducted.

7.2 No payment of additional amounts

Neither the Issuer nor the Paying Agent will be obliged to pay any additional amounts to the holders of Covered Bonds in respect of any Tax Deduction made in accordance with Condition 7.1.

7.3 *Taxing Jurisdiction*

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Portuguese Republic, references in these Terms and Conditions to the Portuguese Republic shall be construed as references to the Portuguese Republic and/or such other jurisdiction.

7.4 *Tax Deduction not event of default*

Notwithstanding that the Issuer or any Paying Agent is required to make a Tax Deduction in accordance with Condition 7.1, this shall not constitute an event of default by the Issuer.

8. PRESCRIPTION

The Covered Bonds will become void unless presented for payment within 20 years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date therefor, subject in each case to the provisions of Condition 5 (*Payments*). As used in these Terms and Conditions, "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

9. EVENTS OF DEFAULT – INSOLVENCY EVENT AND ENFORCEMENT

9.1 *Insolvency Event*

Pursuant to the Covered Bonds Law, if an Insolvency Event in respect of the Issuer occurs, the holders of Covered Bonds may approve a Resolution, by a majority of 2/3 of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding, to determine the serving of an Acceleration Notice, in which case all outstanding Covered Bonds shall immediately become due and payable each at their Early Redemption Amount together with accrued interest.

For the purposes of these Terms and Conditions: "**Insolvency Event**" means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-Law No. 199/2006, of 25 October 2006, Decree-Law No. 298/92 of 31 December 1992 and/ or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-Law No. 53/2004 of 18 March 2004).

9.2 *Enforcement*

(A) Following the approval of a Resolution as described in Condition 9.1, the holders of the Covered Bonds (or the Common Representative on their behalf, provided it has been indemnified and/or secured to its satisfaction) may at any time after service of an Acceleration Notice, at its discretion and without further notice, take such proceedings against the Issuer, and/or any other person as it may deem fit to enforce the provisions of the Covered Bonds.

(B) In exercising any of its powers and discretions the Common Representative shall only have regard to the interests of the holders of Covered Bonds of all Series.

(C) No holder of Covered Bonds shall be entitled to proceed directly against the Issuer or to take any action with respect to the Common Representative Appointment Agreement, the Covered Bonds or any other Programme Document unless the

Common Representative, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

10. AGENT AND PAYING AGENT

(A) The names of the Agent and the Paying Agent and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Agents will be specified in the applicable Final Terms. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint such other bank to act as such in its place.

(B) The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) there will at all times be an Agent;

(ii) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Agent) in Portugal capable of making payment in respect of the Covered Bonds as contemplated by these Terms and Conditions of the Covered Bonds, the Agency Terms and applicable Portuguese law and regulation; and

(iii) so long as any of the Covered Bonds are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant Stock Exchange or as the case may be, other relevant authority).

11. NOTICES

All notices regarding the Covered Bonds shall be valid if published in the *Financial Times* or another English language daily newspaper of general circulation in Ireland approved by the Trustee and (so long as the relevant Covered Bonds are admitted to trading on, and listed on the official list of, Euronext Dublin), any notice shall also be published in accordance with any relevant listing rules. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange (or any other relevant authority) on which the Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication in all the relevant newspapers.

All notices regarding the Covered Bonds shall comply with the requirements of Interbolsa and of Portuguese law generally.

12. MEETINGS OF HOLDERS OF COVERED BONDS

(A) The Portuguese Companies Code contains provisions for convening meetings of the holders of Covered Bonds to consider any matter attributed to them by law and in their common interest (which provisions are described and supplemented in the Common Representative Appointment Agreement), including the modification by

Resolution of these Terms and Conditions or the provisions of the Common Representative Appointment Agreement.

(B) The quorum at any meeting convened to vote on: (i) a Resolution not regarding a Reserved Matter will be any person or persons holding or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding; or (ii) a Resolution regarding a Reserved Matter of the Covered Bonds, will be any person or persons holding or representing at least 50% of the Principal Amount Outstanding of the Covered Bonds then outstanding so held or represented or, at any adjourned meeting, any person being or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding. Each Covered Bond grants its holder one vote.

(C) The majorities required to approve a Resolution at any meeting convened in accordance with the applicable rules shall be: (i) if in respect to a Resolution not regarding a Reserved Matter, the majority of the votes cast at the relevant meeting; (ii) if in respect to a Resolution regarding a Reserved Matter except for the one set out in (iii) below, at least 50% of the Principal Amount Outstanding of the Covered Bonds then outstanding or, at any adjourned meeting 2/3 of the votes cast at the relevant meeting; or (iii) if in respect to a Resolution regarding an increase in the obligations of the holders of Covered Bonds, all holders of the relevant Series of Covered Bonds.

For the purposes of these Terms and Conditions, a "**Reserved Matter**" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 12(C)(ii);

(D) A Resolution approved at any meeting of the holders of Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of Covered Bonds of such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

(E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*) or to direct the Common Representative to take any enforcement action (each a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

(F) Any such meeting to consider a Programme Resolution may be convened by the Common Representative or, if it refuses to convene such a meeting, by the Chairman of the General Meeting of Shareholders of the Issuer; if both the Common Representative and the Chairman of the General Meeting of Shareholders of the Issuer refuses to convene the meeting, then 5% of the holders of Covered Bonds of any Series may petition the court to order a meeting to be convened.

(G) A Programme Resolution passed at any meeting of the holders of Covered Bonds of all Series shall be binding on all holders of Covered Bonds of all Series, whether or not they are present at the meeting.

(H) In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any Series not denominated in euro shall be converted into euro at the relevant exchange rate at the date of the meeting.

13. INDEMNIFICATION OF THE COMMON REPRESENTATIVE CONTRACTING WITH THE ISSUER

(A) If, in connection with the exercise of its powers and discretions, the Common Representative is of the opinion that the interests of the holders of Covered Bonds of any one or more Series would be materially prejudiced thereby, the Common Representative shall not exercise such powers and discretions without the approval of such holders of Covered Bonds by a Resolution or by a written resolution of such holders of Covered Bonds of at least the majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

(B) The Common Representative shall not be required to expend its own funds or otherwise incur or risk incurring any liability in the performance of its duties or in the exercise of any of its rights, powers, authorities or discretions if it has grounds for believing the repayment of such funds is not reasonably assured to it under the Covered Bonds Law or if it has not been provided with adequate indemnity against or security for such risk or liability. Notwithstanding any Programme Resolution or any other Resolution approved at any meeting or any written resolution of any holders of Covered Bonds, the Common Representative may (i) refrain from taking any action until it has been provided with sufficient funds or adequate indemnity against or security for any liability it may incur as a result of any such actions and (ii) refrain from doing anything which might in its opinion be contrary to any law of any jurisdiction or which might otherwise render it liable to any person and (iii) do anything which is in its opinion necessary to comply with any such law, and in no circumstances shall be liable to the holders of Covered Bonds for any consequences of such actions or inaction. The Common Representative Appointment Agreement contains further provisions for the indemnification of the Common Representative and for its relief from responsibility.

14. OVERCOLLATERALISATION, VALUATION OF COVER POOL AND ISSUER COVENANTS

14.1 Maintenance of overcollateralisation

For so long as the Covered Bonds are outstanding, the Value (determined in accordance with the Covered Bonds Law and the Bank of Portugal Regulations) of the Cover Pool maintained by the Issuer shall at all times be a minimum of 105.26% of the aggregate Value of all outstanding Covered Bonds issued under the Programme less any Covered Bonds held by the

Issuer pursuant to article 21.2 of the Covered Bonds Law and not cancelled or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor (the "**Overcollateralisation Percentage**"), provided that:

(i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26%; and

(ii) (A) so long as the Covered Bonds are rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of this Condition 14, unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody's, being reduced, removed, suspended or placed on credit watch and (B) so long as the Covered Bonds are not rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of this Condition 14.

14.2 Issuer Covenants

For so long as any of the Covered Bonds are outstanding, the Issuer shall ensure that:

(A) *Loan to Value*: the Value of a Mortgage Credit granted by the Issuer may not exceed either 80% of the Current Property Value, in case of a Property intended primarily for residential purposes, or 60% of the Current Property Value, in case of a Property intended primarily for commercial purposes;

(B) *Asset Cover*: the aggregate value of the Other Assets may not exceed 20% of the aggregate value of the Cover Pool;

(C) *Average Maturity*: the remaining average Maturity of all outstanding Covered Bonds is at all times shorter than the remaining average Maturity of the Cover Pool entered in the Register;

(D) *Interest Cover*: the total amount of interest receivable on the Cover Pool will at all times be at least equal to or exceed the total amount of interest payable on the outstanding Covered Bonds;

(E) *Valuations*: all the required valuations of Covered Bonds, Mortgage Credits, Hedging Contracts, Other Assets and Properties will be made in compliance with the requirements of the Covered Bonds Law and the Bank of Portugal Regulations (in particular Regulation 5/2006 and Regulation 6/2006);

(F) *Cover Pool Monitor*: the Cover Pool Monitor will be provided with all necessary elements and information to monitor compliance by the Issuer of this Condition 14 in accordance with the Covered Bonds Law;

(G) *Mortgage Credits*: the Mortgage Credits included in the Cover Pool are not Non-Performing Mortgage Credits; and

(H) *Liabilities*: The net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis points parallel shifts of the yield curve.

15. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the holders of Covered Bonds to create and issue further securities with the same terms and conditions of the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

16. GOVERNING LAW

The Common Representative Appointment Agreement, the Set of Agency Procedures, the Covered Bonds and the other Programme Documents are governed by, and shall be construed in accordance with, Portuguese law.

17. DEFINITIONS

In these Terms and Conditions, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*).

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as applicable) to the holders of the Covered Bonds as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(b) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(c) if no such customary market usage is recognised or acknowledged, the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)), in each case in its discretion and acting in good faith and in a commercially reasonable manner, determines to be appropriate.

"**Agent**" means Banco Comercial Português, S.A., in its capacity as Agent with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal.

"**Alternative Reference Rate**" means the rate that the Independent Adviser or, as the case may be, the Issuer determines has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate period and in the same Specified Currency as the Covered Bonds, or, if the Independent Adviser or, as the case may be, the Issuer determines that there is no such rate, such other rate as the Independent Adviser or, as the case may be, the Issuer determines in its discretion is most comparable to the Original Reference Rate.

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/ 2006, Instruction 13/2006, Regulation 7/2006 and Regulation 8/2006 and any relevant regulation that may be issued by the Bank of Portugal in the future.

"**Benchmark Event**" means:

(a) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(b) a public statement by the administrator of the Original Reference Rate stating that it will, by a specified date on or prior to a specified date within the following six months, cease to publish the Original Reference Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(c) a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate has been or will be, by a specified date within the following six months, permanently or indefinitely discontinued; or

(d) a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case by a specified date within the following six months; or

(e) it has, or will on or prior to a specified date within the following six months, become unlawful for the Issuer or the Agent, as the case may be, to calculate any payments due to be made to the holders of the Covered Bonds using the Original Reference Rate.

"**Clearstream, Luxembourg**" means Clearstream Banking *société anonyme*, Luxembourg.

"**CMVM**" means the *Comissão do Mercado de Valores Mobiliários*, the Portuguese Securities Market Commission.

"**Common Representative**" means Deutsche Trustee Company Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

"**Cover Pool**" means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register.

"**Cover Pool Monitor**" means Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 20161389, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon.

"**Covered Bond**" means any mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and "**Covered Bonds**" shall be construed accordingly.

"**Covered Bonds Law**" means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-Law No. 59/2006, of 20 March 2006, as amended.

"**Current Property Value**" means, in relation to a Property securing a Mortgage Credit, the updated Property Valuation of such Property.

"**Euro**", "**€**" or "**euro**" means the lawful currency of member states of the European Union that adopt the single currency introduced in accordance with the Treaty.

"**Euroclear**" means Euroclear Bank S.A./N.V.

"**Euronext Dublin**" means the Irish Stock Exchange trading as Euronext Dublin.

"**Final Terms**" means, in relation to each Tranche, the applicable final terms attached to such Covered Bonds.

"**Hedging Contracts**" means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rate, exchange or liquidity risks in relation to the Cover Pool.

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case selected and appointed by the Issuer.

"**Instruction 13/2006**" means the regulatory instruction ("*Instrução*") No. 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Interbolsa**" means Interbolsa **-** Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., as operator of the Central de Valores Mobiliários.

"**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

"**Interest Determination Date**" means, in respect of Floating Rate Covered Bonds where Screen Rate Determination applies, the date(s) specified in the applicable Final Terms on which the Rate of Interest for an Interest Period is to be determined.

"**Interest Amount**" means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

"**Loan to Value**" means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Property Value of the Property securing such Mortgage Credit.

"**Maturity**" means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable.

"**Mortgage**" means, in respect of any Mortgage Credit, the charge by way of legal mortgage over the relevant Property together with all other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

"**Mortgage Credit**" means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

(a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which (a) is secured by first ranking mortgages over residential or commercial real estate located in an EU member state; or

(b) secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or

(c) secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

"**Non-Performing Mortgage Credits**" means, with respect to a Mortgage Credit, that such Mortgage Credit:

(a) is in the course of being foreclosed or otherwise enforced; or

(b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

"**Original Reference Rate**" means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) applicable to the Covered Bonds.

"**Other Assets**" means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

(a) deposits with the Bank of Portugal, in cash or securities eligible for credit transactions in the Eurosystem;

(b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least equal to "A-" or equivalent; and

(c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal; For the avoidance of doubt, the Other

Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

"**Other Preferred Creditors**" means the Common Representative (or any successor thereof) and the Hedge Counterparties.

"**Overcollateralisation Percentage**" means 105.26% or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26%; and (ii) (A) so long as the Covered Bonds are rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14, unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by any Rating Agency being reduced, removed, suspended or placed on credit watch and (B) so long as the Covered Bonds are not rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14.

"**Paying Agents**" means the paying agents named in the Set of Agency Procedures together with any successor or additional paying agents appointed from time to time in connection with the Covered Bonds under the Set of Agency Procedures.

"**Programme Resolution**" means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

"**Property**" means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and "**Properties**" means all of them.

"**Property Valuation**" means, in relation to any Property:

(a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and

(b) the amount determined by resorting to the use of adequate and recognised indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

"**Register**" means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulations.

"**Regulation 5/2006**" means the regulatory notice ("*Aviso*") No. 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 6/2006**" means the regulatory notice ("*Aviso*") No. 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 7/2006**" means the regulatory notice ("*Aviso*") No. 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation 8/2006**" means the regulatory notice ("*Aviso*") No. 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation S**" means Regulation S under the Securities Act.

"**Relevant Date**" means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

"**Relevant Nominating Body**" means in respect of a benchmark or screen rate (as applicable):

(a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof.

"**Reserved Matter**" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 12(C)(ii).

"**Resolution**" means a resolution adopted at a duly convened meeting of holders of Covered Bonds and approved in accordance with the applicable provisions.

"**Securities Act**" means the United States Securities Act of 1933, as amended.

"**Set of Agency Procedures**" means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 15 May 2019 and made and agreed by Banco Comercial Português, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by any subsequent agent, paying agent or agent bank appointed by the Issuer.

"**Stock Exchange**" means Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

"**Successor Rate**" means the rate that the Independent Adviser or, as the case may be, the Issuer determines is a successor to, or replacement of, the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

"**TARGET2 Day**" means any day on which the TARGET2 System is open.

"**TARGET2 System**" means the Trans-European Automated Real-time Gross Settlement Express Transfer System.

"**Tax**" shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions shall be construed accordingly.

"**Tax Authority**" means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function including the Irish Revenue Commissioners and H.M. Revenue and Customs.

"**Tax Deduction**" means any deduction or withholding on account of Tax.

"**Terms and Conditions**" means in relation to the Covered Bonds, the terms and conditions to be applicable to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"**Treaty**" means the treaty establishing the European Communities, as amended by the Treaty on European Union.

"**Value**" means:

(a) in relation to a Mortgage Credit, (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; and (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;

(b) in relation to any Other Assets:

    (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;

    (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

CHARACTERISTICS OF THE COVER POOL

INTRODUCTION – CAPACITY TO ISSUE COVERED BONDS

In general, only duly licensed credit institutions allowed by law to grant mortgage loans, and having own funds not lower than EUR 7,500,000, may issue covered bonds. The Issuer complies with these requirements and is thus allowed to issue covered bonds under the Covered Bonds Law.

ISSUER REQUIRED TO MAINTAIN COVER POOL

The Issuer may issue Covered Bonds only if it maintains a related Cover Pool in compliance with the Covered Bonds Law. The Cover Pool contains mortgage credit assets, substitution assets and other eligible assets subject to the limitations provided for in the Covered Bonds Law. The Covered Bonds Law allows for the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the mortgage credit assets (and other permitted assets) to be comprised in the Cover Pool may change from time to time after the date hereof in order to ensure compliance with the requirements of the Covered Bonds Law and with the Bank of Portugal Regulations (as defined in *Definitions*).

To enable it to issue Covered Bonds, the Issuer has established and will maintain a segregated register (the "**Register**") in relation to the Cover Pool for the purposes of the Covered Bonds Law.

The Issuer plans to issue from time to time further Covered Bonds and will include in the relevant Cover Pool additional mortgage credit assets or substitution assets as security for those Covered Bonds in accordance with relevant provisions of the Covered Bonds Law, as further detailed below.

The Issuer is required, as soon as practicable after becoming aware that it has contravened the provisions of the Covered Bonds Law, to take all possible steps to prevent the contravention from continuing or being repeated.

ELIGIBILITY CRITERIA FOR ASSETS COMPRISED IN THE COVER POOL

Only mortgage credits or receivables which comply with the legal eligibility criteria described below may be included in the Cover Pool:

Mortgage Credits Eligibility Criteria

Mortgage Credits should be pecuniary receivables of the Issuer not yet matured, which are neither subject to conditions nor encumbered, judicially seized or apprehended and which a) are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State; or b) are secured by a junior mortgage but where all mortgage credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or c) are secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing the characteristics described above.

"Other Assets" Eligibility Criteria:

The following assets may also be included in the Cover Pool as Other Assets:

(a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the European Central Bank and the national central banks of the Member States whose currency is the euro);

(b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating given at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least equal to "A-" or equivalent; and

(c) other assets meeting both the low risk and high liquidity requirements of the Bank of Portugal Regulations.

The aggregate value of the Other Assets may not exceed 20% of the aggregate value of mortgage assets and other assets allocated as collateral to all Covered Bonds issued by the Issuer.

At the date of this Base Prospectus, the Issuer intends to include in the Cover Pool mortgage credits which are located in Portugal and secured primarily on residential property for the purposes of the Covered Bonds Law. The Cover Pool may also include mortgage credit that has been granted under the subsidised credit regime, pursuant to Decree-Law No. 349/98 of 11 November 1998.

The Issuer does not intend at the date of this Base Prospectus to include either (i) Mortgage Credits which have their primary security over commercial property or (ii) Mortgage Credits in respect of which the associated Property is located for the purposes of the Covered Bonds Law outside Portugal without first notifying (in each case for so long as the Covered Bonds are rated by such rating agency) Moody's, Fitch and the relevant DBRS entity to ascertain whether any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Covered Bonds.

Asset-backed securities that do not comply with paragraph 1 of Article 80 of Guideline ECB/2014/60 are not included in the Cover Pool at the date of this Base Prospectus and will not be included by the Issuer in the Cover Pool for as long as this Base Prospectus's validity has not expired.

HEDGING CONTRACTS

The Covered Bonds Law allows the Cover Pool to include hedging contracts aimed exclusively at hedging risks, namely interest rate, exchange rate or liquidity risks. These hedging contracts will form part of the Cover Pool and may be taken into account in the assessment of the financial ratios and requirements of the Covered Bonds Law and described in this section.

Pursuant to the requirements of the Covered Bonds Law, any such hedging contract can only be entered into (i) in a regulated market of an EU Member State, or (ii) recognised market of an OECD country, or (iii) with a counterparty which is a credit institution with a rating of at least "A-" or equivalent. The Covered Bonds Law empowers the Bank of Portugal to develop, by regulatory notice ("*Aviso*"), the eligibility criteria for hedging contracts to form part of the Cover Pool.

Also pursuant to the Covered Bonds Law, the Register shall, in relation to each Hedging Contract, identify (i) the Covered Bonds to which the relevant Hedging Contract relates; (ii) the corresponding Cover Pool; (iii) the nominal value of the Hedging Contract; (iv) the Hedge Counterparty; and (v) the commencement date and the maturity date of such Hedging Contract.

If a particular Tranche of Covered Bonds is issued in a denomination other than the euro, the Issuer must enter into Hedging Contracts for the purpose of hedging any currency exchange risk.

Interest rate exposure of the Issuer relating to Mortgage Credits, as and when comprised in the Cover Pool, will be managed through Hedging Contracts. Interest rate swaps will be entered into with a Hedge Counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer. The Hedging Contracts will qualify as derivative financial instruments for the purposes of the Covered Bonds Law.

The terms of any Hedging Contracts to be entered into with a Hedge Counterparty, will include, among other termination events, provisions that provide that if the rating of any Hedge Counterparty short-term Issuer Default Rating (IDR) falls below "F1" by Fitch, and as a result of such downgrade the then current rating of the Covered Bonds is downgraded or placed under review for possible downgrade, or the rating of any Hedge Counterparty long-term IDR falls below "A" by Fitch, and as a result of such downgrade the then current rating of the Covered Bonds is downgraded or placed under review for possible downgrade, or if the rating of any Hedge Counterparty long-term unsecured, unsubordinated debt obligations falls below "A3" by Moody's (or ceases to be rated) at any time, the Hedge Counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Hedging Contract, subject to any applicable Rating Agencies' criteria regarding Hedge Counterparty exposures; (ii) arranging for its obligations under the Hedging Contracts to be transferred to an entity with ratings given pursuant to the criteria of the relevant rating agency; (iii) procuring another entity with ratings given pursuant to the criteria of the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (iv) taking such other action as it may agree with the relevant rating agency. A failure to take such steps will allow the Issuer to terminate the Hedging Contracts.

LOAN-TO-VALUE RESTRICTIONS

Pursuant to the Covered Bonds Law, the amount of any mortgage credit asset included in the Cover Pool may not exceed (i) the value of the corresponding Mortgage, and (ii) 80% of the value of the Property, if it is residential property, or 60% of the value of the Property, if it is commercial property. See *Valuation of Cover Pool* below.

WEIGHTED AVERAGE TERM TO MATURITY

The Covered Bonds Law sets out certain criteria, including matching weighted average term to maturity, which are required to be met by the Issuer in respect of its Cover Pool. In any case, the average maturity of the outstanding Covered Bonds may not exceed, at any time, the average maturity of the Mortgage Credits and Other Assets allocated to the relevant issuance.

OVERCOLLATERALISATION

Pursuant to the Covered Bonds Law, the nominal principal amount of any Covered Bonds outstanding may not exceed 95% of the aggregate nominal amount of the Cover Pool less any Covered Bonds acquired by the Issuer pursuant to the Covered Bonds Law and not cancelled. In addition, the aggregate amount of interest payable to the holders of Covered Bonds may not exceed, at any time, the amount of interest to be collected under the Cover Pool (including both the Mortgage Credits and the Other Assets) allocated to the Covered Bonds.

In compliance with the above legal requirements, Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to over-collateralise the Cover Pool with respect to outstanding Covered Bonds at a minimum level of 105.26% or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26%; and (ii) (A) so long as the Covered Bonds are rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14, unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody's being reduced, removed, suspended or placed on credit watch; and (B) so long as the Covered Bonds are not rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*). See *Terms and Conditions of the Covered Bonds*.

For the purposes of the calculation by the Issuer and the Cover Pool Monitor of the level of overcollateralisation referred to above:

(a) Mortgage Credits shall be included at their outstanding principal amount, together with any accrued but unpaid interest;

(b) the Covered Bonds shall be accounted according to the nominal value of outstanding principal, together with accrued but unpaid interest;

(c) in relation to any Other Assets:

  (i) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

  (ii) securities eligible for Eurosystem credit transactions shall be accounted for by one value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

Also for the purpose of these calculations the Issuer and the Cover Pool Monitor shall use the exchange rates published by the European Central Bank as a reference.

In addition, the net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis point parallel shifts in the yield curve.

COMPLIANCE WITH FINANCIAL REQUIREMENTS

The Cover Pool Monitor must monitor the Issuer's compliance with the financial requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations described in this section. The Issuer must, as soon as practicable after becoming aware that it has failed to comply with any provisions of the Covered Bonds Law summarised herein (or when it is reasonable to expect that they will not be complied with), take all steps to comply with that provision, by undertaking one or more of the following procedures:

(a) allocating new mortgage credit assets, with or without substitution of those already allocated to the Covered Bonds; and/or

(b) allocating additional Other Assets; and/or

(c) acquiring Covered Bonds in the secondary market.

VALUATION OF COVER POOL

The Covered Bonds Law sets out certain requirements and criteria which are required to be met by the Issuer in respect of the valuation of Mortgage Credits comprised in the Cover Pool.

The Covered Bonds Law empowers the Bank of Portugal to specify, by regulatory notice ("*Aviso*"), requirements in relation to the valuation basis and methodology, time of valuation and any other matters that it considers relevant for determining the value of mortgage credit assets or Other Assets for the purposes of the Covered Bonds Law. The Covered Bonds Law also empowers the Bank of Portugal to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of substitution assets that are to be comprised in the Cover Pool. These requirements are set out in Regulation 6/2006 and Regulation 5/2006.

Valuation of Properties

General Overview

The value of each Property associated with a Mortgage Credit comprised in the Cover Pool corresponds to the commercial value of such Property, determined in accordance with prudent criteria and taking into consideration (i) the sustainable long term characteristics of such Property, (ii) the standard conditions of the local market, (iii) the current use of the relevant Property, and (iv) any alternative uses of the Property in question.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by the Issuer to each of the Properties related to Mortgage Credits comprised in the Cover Pool may not be higher than the market value of such Property. For these purposes, the "**market value**" of each Property shall correspond to the price by which the relevant Property can be purchased by a third party able to complete such purchase on the date of the valuation of the Property, assuming that (i) the Property is publicly put on sale, (ii) the market conditions allow for a regular transfer of such Property, and (iii) there is a normal period of time to, considering the nature of the Property in question, negotiate the purchase and sale of such Property.

Valuation by expert

Prior to the inclusion in the Cover Pool of the related Mortgage Credit, each Property must be valued by a real estate valuation expert. Such valuation shall be reviewed by a real estate valuation expert whenever (i) the information available to the Issuer indicates that there may have been a substantial decrease in the value of the Property or (ii) the value of the Property may have materially decreased in relation to general market prices.

A valuation made by a real estate valuation expert prior to the enactment of Regulation 5/2006 may, however, be used by the Issuer provided that:

(a) the valuations are carried out by a valuation expert who is independent from the credit analysis and credit decision process within the Group;

(b) the valuations are subject to a written report from the valuation expert that includes in a clear and accurate way elements that allow the understanding of the analysis and conclusions of the valuation expert;

(c) the Properties have been valued in light of the corresponding market value or the value of the mortgaged Property, as established by Regulation ("*Aviso*") 5/2006; and

(d) there has been no evidence that the relevant Property is over-valued at the time of allocation of the relevant Mortgage Credit to the issue of Covered Bonds.

The real estate valuation experts appointed from time to time by the Issuer to conduct the required valuation of Properties shall be independent and be adequately qualified and experienced for the performance of their functions. The Issuer may not appoint a real estate valuation expert with any potential conflicts of interest, notably where there is (i) any specific interest of the real estate valuation expert in the Property subject to the valuation, (ii) any relationship, commercial or personal, with the borrower of the Mortgage Credit related to the Property subject to valuation, or (iii) where the remuneration of the valuation expert is dependent on the valuation of the relevant Property.

The Issuer may appoint a valuation expert within the Group, provided such valuation expert is independent from the credit analysis and decision making process within the Group.

The selection of real estate valuation experts by the Issuer must ensure adequate diversification and rotation, and the Issuer shall maintain a permanent and updated list of selected valuation experts, setting out the criteria which have led to the respective selection, as well as the Properties valued by each valuation expert. This list shall be sent to the Bank of Portugal by the end of January in each year, indicating, if applicable, any changes made to such list from the list submitted the previous year.

Under Regulation 5/2006, the Bank of Portugal may, in relation to a given Property, require the Issuer to appoint another valuation expert, in particular when the value resulting from the previous valuation raises doubts as to its correctness.

Methods of valuation

The Issuer must ensure that each real estate valuation expert it appoints uses one of the following methods of valuation, which shall be chosen in light of the specific characteristics of the Property subject to valuation, as well as of the specific conditions of the local market:

(a) Cost method;

(b) Income method; or

(c) Comparison method.

Valuation report

Each real estate valuation expert appointed by the Issuer shall prepare a report in relation to the valuation of each Property, setting out, in a clear and detailed manner, all the elements relevant for the full understanding of the analysis and conclusions of such valuation, in particular:

(a) the identification of the relevant Property, with a detailed description of its characteristics;

(b) a description and basis of the method(s) of valuation, any parameters used and/or assumptions adopted, identifying the manner in which the volatility effects of the short term market or the market temporary conditions were taken into account;

(c) a description of possible qualifications to the analysis;

(d) the valuation of the Property, in terms of both the value of the mortgaged Property and of the market value of the Property;

(e) a statement of the valuation expert that he has effected the valuation according to the applicable requirements set out in the Covered Bonds Law and in the Bank of Portugal Regulations; and

(f) the date of the valuation and the identification and the signature of the valuation expert.

Subsequent valuations of Properties and subsequent update of the value of Properties

In respect of Mortgage Credits that exceed (i) 5% of the own funds of the Issuer or (ii) EUR 500,000, in the case of residential Properties, or EUR 1,000,000, in the case of commercial Properties, the valuation of the relevant Property shall be reviewed by a real estate valuation expert at least every three years.

The Issuer shall also perform any internal check of the value of each of the Properties once every three years, for residential Properties, and at least once a year for commercial Properties. The Issuer may be required to conduct Property valuations whenever there is relevant information that indicates that a substantial decrease of the Property value has taken place or that the Property value may have suffered a material decline in relation to standard market prices.

For the purpose of conducting an update of the valuation of the Properties, the Issuer may resort to recognised indices or statistical methods. In this case, the Issuer shall send the Bank of Portugal a report with the detailed description of such indices and statistical methods, as well as the grounds for their use, together with an opinion on the adequacy of such indices and statistical methods produced by a reputable independent valuation expert.

All subsequent updates of the value of the Properties shall be documented by the Issuer, setting out the description of the relevant criteria and the frequency of the review.

The Issuer shall provide the Cover Pool Monitor with all information necessary for the Cover Pool Monitor to supervise compliance by the Issuer with the requirements set forth in the Covered Bonds Law and in Regulation 5/2006 relating to the valuation of the Properties securing the Mortgage Credits comprised in the Cover Pool.

Valuation of Other Assets

Pursuant to Regulation 6/2006, the Other Assets shall be valued as follows:

(a) the deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

(b) the securities eligible for Eurosystem credit transactions shall be for by the value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to the nominal value of such securities, including accrued but unpaid interest.

Insurance

Pursuant to the Covered Bonds Law, if any property mortgaged as security for payment of interest and principal in relation to a mortgage credit asset comprised in the Cover Pool does not have an adequate insurance policy contracted by the relevant owner, the Issuer must obtain such insurance coverage adequate to the risks inherent to the relevant property. The Issuer must bear the costs of such insurance. In any case, the insurance policy attached to any property included in the Cover Pool must provide for a full coverage, allowing, in case of total loss, for such property to be rebuilt.

Any compensation due under any such insurance policies must be paid directly to the Issuer, up to the limit of the relevant Mortgage Credit.

COVER POOL SEGREGATED REGISTER AND SPECIAL CREDITOR PRIVILEGE

Autonomous pool of assets and segregated register

Pursuant to the Covered Bonds Law, the Cover Pool constitutes an autonomous pool of assets ("*património autónomo*"), not liable for any general indebtedness incurred by the Issuer until all amounts due to the holders of Covered Bonds and the Other Preferred Creditors are fully paid and discharged.

The Covered Bonds Law provides that the appropriate particulars of each asset comprised in the Cover Pool (including Mortgage Credits, Other Assets and Hedging Contracts) must be recorded in a segregated register within, and maintained by, the Issuer. Such register must record the following:

(i) the outstanding principal amount;

(ii) the applicable interest rate;

(iii) the applicable maturity;

(iv) the notary's office where the relevant mortgage was entered into, when applicable; and

(v) the reference regarding the definitive inscription of the mortgages in the corresponding real estate registry.

Pursuant to article 4.3 of the Covered Bonds Law, the Cover Pool is identified in the transaction documents by a code. The key to such code is deposited with the Bank of Portugal which has promulgated, by regulatory notice ("*Aviso*"), the conditions under which the holders of Covered Bonds may have access to the segregated register of the Cover Pool.

Special creditor privilege

Under the Covered Bonds Law, the holders of Covered Bonds enjoy a special creditor privilege over the Cover Pool (including the Mortgage Credits, the Other Assets and the Hedging Contracts) with preference over any other general creditor, in relation to the repayment of principal and payment of interest due under the Covered Bonds. Pursuant to the Covered Bonds Law, this special creditor privilege applies automatically for the benefit of the holders of Covered Bonds, the Common Representative and the Hedge Counterparties and is not subject to registration.

The mortgages created as security for the mortgage credit assets comprised in the Cover Pool shall prevail over all other real estate preferential claims.

DOCUMENTS AVAILABLE REGARDING THE COVER POOL

On a quarterly basis, the Issuer produces an investor report (the "**Investor Report**") containing key information regarding characteristics of the Cover Pool, outstanding Covered Bonds and Other Assets, as at the last business day of each calendar quarter. The Investor Report is produced and distributed by the end of the calendar month following each calendar quarter, and distributed to the Rating Agencies and Cover Pool Monitor, via electronic mail. The issuer makes the Investor Report available to investors by sending it to Bloomberg L.P.'s financial portal (http://www.bloomberg.com/), via electronic mail, as well as by publishing it in on the Issuer's corporate website (www.millenniumbcp.pt).

INSOLVENCY OF THE ISSUER

The Covered Bonds Law governs, to a certain extent, the impact on the Covered Bonds of a possible insolvency or winding-up of the Issuer, so as to ensure due protection to the holders of Covered Bonds. In the event of dissolution and winding-up (including on grounds of insolvency) of the Issuer, the Covered Bonds Law establishes that the Cover Pool shall be segregated from the insolvency estate of the Issuer and will not form part thereof until full payment of any amounts due to the holders of Covered Bonds. The amounts corresponding to payment of interest and repayment of principal of the Mortgage Credits and Other Assets will not form part of the insolvency estate of the Issuer.

The Cover Pool will, in such an event, be separated from the Issuer's insolvency estate so as to be autonomously managed until full payment of the amounts due to the holders of Covered Bonds and the Other Preferred Creditors. In this situation, pursuant to the Covered Bonds Law, the holders of Covered Bonds are entitled to adopt a resolution approving the immediate acceleration of the Covered Bonds by a majority of at least two thirds of the votes of the holders of Covered Bonds then outstanding, in which case the entity appointed to manage the Cover Pool shall provide for the liquidation thereof to the benefit of the holders of Covered Bonds.

If an Insolvency Event occurs in relation to the Issuer, the plan for the voluntary dissolution and winding-up of the Issuer, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Banking Law, shall identify a Substitute Credit Institution appointed to (i) manage the Cover Pool allocated to the outstanding Covered Bonds and (ii) ensure that the payments of any amounts due to the holders of such Covered Bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

In addition, if the authorisation of the Issuer to act as a credit institution in Portugal is revoked, the Bank of Portugal is required, simultaneously with the decision to revoke such authorisation, to appoint a Substitute Credit Institution to manage the Cover Pool allocated to the Covered Bonds outstanding and to ensure that payments due to the holders of such Covered Bonds are made.

The fees to be paid to the appointed Substitute Credit Institution shall be determined by the Bank of Portugal at the time of such appointment and shall be paid out of the Cover Pool.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall:

(i) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes;

(ii) perform all acts and things necessary or desirable for the prudent management of the Cover Pool and respective guarantees in order to ensure the timely payment of all amounts due to holders of Covered Bonds including, without limitation:

   a. selling the Mortgage Credits comprised in the Cover Pool;

   b. ensuring the timely collection in respect of the Mortgage Credits comprised in the Cover Pool; and

   c. performing administrative services in connection with such Mortgage Credits;

(iii) maintain and keep updated a segregated register of the Cover Pool in accordance with the Covered Bonds Law; and

(iv) prepare an annual financial report in relation to the Cover Pool and the outstanding Covered Bonds, which report shall be the subject of an audit report produced by an independent auditor. The independent auditor shall be appointed as Cover Pool Monitor by the Substitute Credit Institution in accordance with Article 34 of the Covered Bonds Law.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under such Mortgage Credits.

COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS

Deutsche Trustee Company Limited, with registered office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, has been appointed by the Issuer as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law and in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement.

The Issuer has appointed the Common Representative to represent the holders of Covered Bonds. According to the Covered Bonds Law and to the relevant provisions of the Portuguese Companies Code, the Common Representative may be entitled to perform all the necessary acts and actions in order to ensure protection of the holders of Covered Bonds, namely: (a) to represent the holders of Covered Bonds in respect of all matters arising from the issuance of the Covered Bonds and to enforce on their behalf their legal or contractual rights; (b) to enforce any decision taken by the general meetings of the holders of Covered Bonds, in particular those where the acceleration of the Covered Bonds may be decided; (c) to represent the holders of Covered Bonds in any judicial proceedings, including judicial proceedings against the Issuer and, in particular, in the context of any winding-up, dissolution or insolvency commenced by or against the Issuer; (d) to collect and examine all the relevant documentation in respect of the Issuer which is provided to its shareholders; and (e) to provide the holders of Covered Bonds with all relevant information regarding the issuance of the Covered Bonds it may become aware of by virtue of its role as Common Representative under the Common Representative Appointment Agreement.

The holders of the Covered Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions and the Common Representative Appointment Agreement, remove the Common Representative and appoint a new common representative.

COVER POOL MONITOR

APPOINTMENT OF A COVER POOL MONITOR

The Covered Bonds Law requires that the Board of Directors of the Issuer appoints a qualified person or entity to be the monitor of the Cover Pool (the "**Cover Pool Monitor**") who shall be responsible, for the benefit of the holders of Covered Bonds, for monitoring the compliance by the Issuer of the requirements contained in the Covered Bonds Law and the Bank of Portugal Regulations.

Pursuant to the Covered Bonds Law, the Cover Pool Monitor must be an independent auditor registered with the CMVM. For these purposes, an independent auditor must be an auditor which is not related with or associated to any group of specific interests within the issuing entity and is not in a position that hinders its ability to make independent analysis and decisions. In particular, such independent auditor shall not (i) hold 2% or more of the share capital of the Issuer, either directly or on behalf of a third party; or (ii) have been re-elected for more than two terms either consecutive or not.

The Issuer is responsible for paying any remuneration or other money payable to the Cover Pool Monitor in connection with the Cover Pool Monitor's responsibilities in respect of the Issuer and the holders of Covered Bonds.

ROLE OF THE COVER POOL MONITOR

Pursuant to the Cover Pool Monitor Agreement, dated 15 May 2019, the Issuer appointed Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A.. Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. is registered with the CMVM under registration number 20161389.

The Cover Pool Monitor Agreement reflects the requirements of the Covered Bonds Law in relation to the appointment of a monitor in respect of the requirements (namely, financial requirements and the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Covered Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool, the resignation of the Cover Pool Monitor and the replacement by the Issuer of the Cover Pool Monitor.

DUTIES AND POWERS OF THE COVER POOL MONITOR

In accordance with the Covered Bonds Law, the Cover Pool Monitor is required to monitor, for the benefit of the holders of the Covered Bonds, compliance by the Issuer of the financial and prudential requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations in respect of the Cover Pool. In particular, the Cover Pool Monitor shall be engaged to assess compliance by the Issuer with the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*).

Pursuant to the Covered Bonds Law and the Bank of Portugal Regulations, the Cover Pool Monitor is entitled to be provided with all information required to monitor compliance by the Issuer with the requirements relating to outstanding Covered Bonds and the Cover Pool.

In the performance of its duties, the Cover Pool Monitor must produce an annual report with an assessment of the Issuer's compliance with the requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations, in particular those requirements relating to the level of collateralisation, the loan-to-value ratios limitations and the valuation of assets comprised in the Cover Pool. The Cover Pool Monitor must also prepare opinions certifying the statements of the management body of the Issuer, relating to information and documentation filed with the Bank of Portugal.

The Cover Pool Monitor must notify the Issuer, as soon as reasonably practicable, after becoming aware that the Issuer has contravened any of the provisions of the Covered Bonds Law and/or that any of the requirements of the Cover Pool are not being complied with. If the situation remains unremedied within 10 business days after such notification, the Cover Pool Monitor will notify the Arrangers and the relevant Dealers of the contravention or non-compliance. For the purposes of this notification, the Cover Pool Monitor will develop quarterly procedures to be defined with the Issuer.

The Covered Bonds Law empowers the Bank of Portugal to promulgate, by regulatory notice ("*Aviso*"), requirements applicable to the content and disclosure of any reports of the Cover Pool Monitor.

REMUNERATION AND TERMINATION OF THE APPOINTMENT OF THE COVER POOL MONITOR

In accordance with the Cover Pool Monitor Agreement, the Cover Pool Monitor shall be remunerated by the Issuer for its services as Cover Pool Monitor at a rate as may from time to time be agreed between the Issuer and the Cover Pool Monitor.

The Issuer may at any time terminate the appointment of the Cover Pool Monitor and appoint a new entity to act in such capacity. Any such termination shall not become effective until a new cover pool monitor is appointed in accordance with the terms of the Cover Pool Monitor Agreement. Additionally, the Cover Pool Monitor may retire at any time upon giving not less than three calendar months' notice in writing to the Issuer. Such retirement shall not become effective until the appointment of a new cover pool monitor.

DESCRIPTION OF THE BUSINESS OF THE GROUP

A. Description of the Business of the Group

Overview

The Group is one of the largest privately owned banking groups based in Portugal, in terms of assets, credit and deposits. The Group offers a wide range of banking products and related financial services, both in Portugal and internationally, namely demand accounts, instruments of payment, savings and investment products, mortgage loans, consumer credit, commercial banking, leasing, factoring, insurance, private banking and asset management, among others, and its customers are served on a segmented basis. Internationally, the Group has significant operations in Poland, Angola (on 22 April 2016, Banco Millennium Angola, SA ("**BMA**") merged with Banco Privado Atlântico, S.A. ("**BPA**") and as a result the Group deconsolidated the Angola operation which is now consolidated under the equity method) and Mozambique. In addition, the Bank has a presence in Switzerland, the Cayman Islands and Macao.

In accordance with IFRS as endorsed by the European Union, the Group had, at the end of 2018, total assets in the amount of EUR 75,923 million and total customer funds (including customer deposits, debt securities, assets under management, assets placed with customers and insurance products (savings and investments) in the sum of EUR 74,023 million. Loans to customers (gross) amounted to EUR 51,015 million (of which EUR 48.4 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers", EUR 2.3 billion were recorded in the caption "Debt securities held associated with credit operations" and EUR 0.291 billion were recorded in the caption "Financial assets not held for trading mandatorily at fair value through profit or loss - Loans and advances to customers at fair value"). According to the interpretation of the CRD IV/CRR, CET 1 fully-implemented ratio pro forma reached 12.0%, as at 31 December 2018. Based on the latest available data from Banco de Portugal, the Group accounted for 17.4% of loans to customers (gross) and 17.5% of deposits in the Portuguese banking sector on 30 November 2018.

In addition, on 31 December 2018, the Bank was the fifth largest company listed on Euronext Lisbon in terms of market capitalisation (EUR 3,469 million).

The Bank is registered with the Commercial Registry Office of Oporto under the sole commercial registration and tax identification number 501 525 882 and its registered offices are located at Praça Dom João I, 28, 4000–295 Oporto, with telephone number +351 211 134 001.

The Bank operates notably under the Portuguese Companies Code and the Banking Law.

Bank History

BCP was incorporated on 17 June 1985 as a limited liability company ("*sociedade anónima*") organised under the laws of Portugal following the deregulation of the Portuguese banking industry. BCP was founded by a group of over 200 shareholders and a team of experienced banking professionals who sought to capitalise on the opportunity to form an independent financial institution that would serve the then underdeveloped Portuguese financial market more effectively than state-owned banks.

While the Bank's development was initially characterised by organic growth, a series of strategic acquisitions helped solidify its position in the Portuguese market and increase its offering of financial products and services. In March 1995, BCP acquired control of Banco Português do Atlântico, S.A. ("**Atlântico**"), which was then the largest private bank in Portugal. This was followed by a joint takeover bid for the whole share capital of Atlântico. In June 2000, Atlântico was merged into BCP.

In 2000, BCP also acquired Império, along with Banco Mello and Banco Pinto & Sotto Mayor. In 2004, with a view to strengthening its focus on the core business of distribution of financial products and optimising capital consumption, BCP sold insurers Império Bonança, Seguro Directo, Impergesto and Servicomercial to the Caixa Geral de Depósitos group. BCP also entered into agreements with Fortis (currently Ageas) for the sale of a controlling stake and management control of insurers Ocidental - Companhia Portuguesa de Seguros, S.A., Ocidental - Companhia Portuguesa de Seguros de Vida, S.A. and Médis - Companhia Portuguesa de Seguros de Saúde, S.A., as well as the pension fund manager PensõesGere - Sociedade Gestora de Fundos de Pensões, S.A.

After the consolidation of its position in the Portuguese banking market, the Bank focused on the development of its retail business in new regions, with the goal of attaining significant positions in emerging markets in Europe and in Africa. The Bank concentrated on businesses with strong growth prospects in foreign markets with a close historical connection to Portugal or that have large communities of Portuguese origin (such as Angola, Mozambique, the United States, Canada, France, Luxembourg and Macao), as well as in markets where the Bank's successful Portuguese business model can be effectively exported and tailored to suit such local markets (such as Poland, Greece and Romania). The Bank has pursued a consistent strategy of market segmentation. Until 2003, these segments were served through autonomous distribution networks operating under a variety of brand names. In October 2003, BCP began the process of replacing these brands in Portugal with a single brand name Millennium bcp. The rebranding in other markets was completed in 2006. All operations of the Bank are now carried out under the "Millennium" brand. In Portugal, the Bank also operates under the "ActivoBank" brand.

In 2004, the Bank also sold its non-life insurance businesses and divested a portion of its life insurance business by entering into a joint venture with Ageas (formerly Fortis), named Millenniumbcp Ageas, of which 51% is held by Ageas and 49% by the Bank.

In recent years, the Bank has refocused on operations that it considers core to its business. As part of this refocus, the Bank divested several of its international operations (in France, Luxembourg, United States, Canada, Greece, Turkey and Romania), while retaining commercial protocols to facilitate remittances from Portuguese emigrants in some markets. In 2010, the Bank transformed its Macao off-shore branch into an on-shore branch.

In February 2012, the Bank adopted a management restructuring through the introduction of a one-tier management and supervisory model, composed of the Board of Directors, including an Executive Committee and Audit Committee (the latter comprising non-executive members, in accordance with the applicable law), and of the Statutory Auditor. In December 2012, the Bank prepared and presented to the Portuguese government a Restructuring Plan, required by national law and by the applicable European rules on matters of State aid. The Restructuring Plan was formally submitted by the Portuguese government to the EC and, in July 2013, the Bank agreed with the EC a Restructuring Plan, entailing an improvement of the profitability of the Bank in Portugal through continued cost reduction. In September 2013, the DG Comp announced its formal decision in connection with its agreement with the Portuguese authorities concerning the Bank's Restructuring Plan. Pursuant to the decision, the Bank's Restructuring Plan was found in compliance with the European Union's rules relating to State aid, demonstrating the Bank's viability without continued State support. The approved Restructuring Plan aimed at strengthening the Bank's strategy by focusing on its core activities.

In May 2014, as part of a process aiming to refocus on core activities defined as a priority in its Strategic Plan, the Bank announced that it agreed with the international insurance group Ageas a partial recast of the strategic partnership agreements entered into in 2004, which included the sale of its 49% interest in the (currently jointly owned) insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental – Companhia Portuguesa de Seguros, S.A. and Médis – Companhia Portuguesa de Seguros de Saúde, S.A.

In April 2016, the Bank announced the conclusion of the merger between BMA and BPA, resulting in Angola's second-largest private sector bank in terms of loans to the economy, with a market share of approximately 10% by business volume.

BCP has announced in January 2017 a EUR 1.3 billion rights issue with transferable pre-emptive subscription rights. The aim of this transaction was to bring forward the full repayment of remaining Government Subscribed Securities and the removal of key State-aid related restrictions, including dividend ban, risk of potential sale of core businesses and tail risk of conversion. This transaction was designed to strengthening the balance sheet through the improvement of CET1 FL ratio and Texas ratio, bringing them in line with new industry benchmarks and above current regulatory requirements.

The Bank has successfully executed an operational turnaround, reinforcing its financial and capital position despite the adverse setting of the banking sector in the core Portuguese market. This position reflects the Bank's relentless path and the compounding of multiple achievements, such as a 30% cost reduction in Portugal since 2011, and a 60% reduction in Group NPE since 2013 (from EUR 13.7 billion to EUR 5.5 billion in 2018). Three distinctive competences were at the core of this turnaround: a customer-oriented relationship model, market-leading efficiency, and a competitive international portfolio.

B. Business Overview

Nature of Operations and Principal Activities

The Group is engaged in a wide variety of banking and related financial services activities, in Portugal and internationally. The Bank operates in foreign markets, being present in the following markets: Poland, Switzerland, Mozambique and Angola (through its associated company Banco Millennium Atlântico). In Portugal, the Bank's operations are primarily in retail banking, but it also offers a complete range of additional financial services (in accordance with Article 3 of the articles of association of the Bank, which provides that "the purpose of the Bank is to engage in banking activities with such latitude as may be permitted by law"). The Bank also engages in a number of international activities and partnerships.

The Bank's banking products and services include demand accounts, instruments of payment, savings and investments, mortgage loans, consumer credit, commercial banking, leasing, factoring, insurance, private banking and asset management, among others. The Bank's domestic retail banking activities are conducted mainly through its marketing and distribution network in Portugal, which follows a segmented approach to the Portuguese retail banking market and serves the diverse banking needs of specific groups of customers. Back office operations for the distribution network are integrated in order to explore economies of scale.

The Bank has subsidiaries that offer additional financial services, including investment banking, asset management and insurance. These subsidiaries generally distribute their products through the Bank's distribution networks. The Bank's retail banking and related financial services activities, together with its international operations and partnerships, are described in greater detail below.

Strategy

The Bank is now ready to embark on a new cycle of growth with profitability, requiring complementary capabilities to cope with the evolving context and the need to secure a fully sustainable position. These include leading digital, mobile, and analytics capabilities (preparing the organisation to be competitive in the new age) and integration in value chains and ecosystems (embedding into its customers' needs and reach), complemented by a robust balance sheet and rigorous capital allocation and shaped by strong governance (continuing its effort to de-risk the portfolio and reinforcing focus on value-added business).

Against this backdrop, the Bank has defined five overarching priorities for the future:

Talent mobilisation, which will entail energising employees to drive the Bank's agenda as a team, promoting greater engagement and proactivity, and empowering decision making in a collaborative model. The Bank's talent will also be reinvigorated by developing a merit-based growth model and fostering the development of new capabilities. Finally, the Bank will review its compensation processes across teams to ensure alignment with the new agenda and performance.

Mobile-centric digitisation, aspiring to double down on efforts to transform customer experience and enable productivity gains across geographies, reemphasizing Millennium's innovation trademark. The main priorities consist of redesigning the digital experience from a mobile-centric approach, transforming top customer journeys, setting up a convenient and productive omnichannel model, and transforming operations through the deployment of NextGen technologies (such as robotics and natural language processing). In parallel, an IT strategy focused on upgrading technology, data, security, and ways of working will enable these levers.

Growth and leadership in Portugal, aiming to maximise the potential of the unique position in which the Bank emerges out of the financial crisis (the largest private Portuguese bank) implying a renewed commitment to grow the customer base and expand relationships. This will materialise into helping Portuguese businesses thrive (e.g., building a position as the preferred partner for sound small businesses), while serving its individual customers across their full range of needs. The Group further aspires to capture the full potential of ActivoBank's (a digital platform bank) simple and value-based offer and assess potential internationalisation options.

Growth in international footprint, with the objective of capitalising on the opportunities offered by the high-growth intrinsics of markets where the Bank has a presence and competitive advantage. This implies growing in Poland by deepening retail relationships and enlarging the customer business base; a step change in Switzerland by growing existing business and exploring new markets and digital advice; leveraging market leadership in Mozambique to focus on profitability and capturing the tailwinds of large commodity investments planned; building on its position in Angola as a trusted and sound business partner with unique local relationships; and exploring emerging China related opportunities (trade and investment flows, payments, private banking).

Business model sustainability, maintaining as a clear priority the improvement of its credit portfolio quality by reducing the NPE stock (reduction to EUR 3 billion by 2021) and simultaneously lowering the cost of risk. Risk and compliance governance will also be strengthened to ensure a sustainable growth of credit volume with a sound risk profile.

The successful execution of these priorities should enable the Bank to accomplish a set of strategic objectives for 2021: franchise growth (over 6 million active customers[11]), readiness for the future (from 55% to over 60% digital customers by 2021), a sustainable business model (45% reduction of NPE stock, reaching approximately EUR 3 billion), and attractive returns for shareholders (approximately 40% cost-to-income and approximately 10% ROE in 2021).

Business Model

The internal organisational model of the Bank covers four business areas: Retail, Companies, Asset Management & Private Banking and Business Abroad (Europe, Africa and Other), and two support units: Processes and Banking Services and Corporate Areas.

Regarding the internal organisation and decision-making structure, it is important to note the existence of a series of Commissions and Sub-Commissions directly appointed by the Executive

[11] Customers with a debit or credit card movement in the past three months, or who have assets greater than or equal to €100.

Commission which, apart from the Directors who are specifically entrusted with the monitoring of matters, include the employees of the Bank or Group who are the heads of their respective areas.

As at 15 January 2019, there were 14 Commissions and two Sub-Commissions aimed at facilitating the coordination of current managerial decisions, involving the senior management of the units included in each business area, with a view to reconciling perspectives and supporting the managerial decision-making process of the Executive Commission, as follows:

a) **Costs and Investments Commission**: This Commission has the mission of regular follow-ups on the evolution and optimisation of the contracts for the purchase of goods and services which are more significant for the Bank and of the respective negotiations and costs authorisation;

   One Sub-Commission operates under the Costs and Investments Commission, the **Costs and Investments Sub-Commission** whose mission is the regular follow-up of the evolution and optimisation of the contracts for the purchase of goods and services which are more significant for the Bank and of the respective negotiations; also issues of opinions or authorisation of costs for all the purchases of goods and services that are not within the competence of the coordinator managers, in accordance with the regulations in effect;

b) **Corporate & Investment Banking Commission**: The primary mission of this Commission is the assessment of the business context and proposal of commercial actions that are appropriate for these corporate segments; the business main risk indicators and of the models for the articulation of the business concerning its migration in the value proposal and the interconnection of the Bank's networks;

c) **Human Resources Commission**: The primary mission of this Commission is the definition of the strategy and approval of the Bank's human resources policies, including the overview of the top 10 Key Performance Indicators ("**KPIs**"), contracts and internal mobility, span of control, compensation, benefits and recognition programmes. The Human Resources Commission is internally aiming to reinforce the culture, strategic alignment and mobilisation, and externally, in terms of value proposal and image, as well as the approach/relationship with relevant stakeholders, and the identification of policies, practices and systems to introduce/recommend actions in other countries where the Group operates are also functions of this Commission;

d) **Retail Commission**: This Commission is entrusted to follow-up on the performance of the commercial networks, segments and channels (objective fulfilment levels and evolution) and to assess the business context and definition of commercial action priorities. This Commission also analyses the main indicators for products and services and the decisions on changes to the Bank's product range, as well of the main indicators for quality and customer experience, claims and customer satisfaction (external and internal);

e) **Compliance Commission**: The main mission of this Commission is to ensure and to follow-up that all of the Group's institutions adopt and comply with the internal and external regulations that frame its activities, with the relevant contractual commitments and with the organisation's ethical values so as to help mitigate the risk of such institutions incurring sanctions or significant asset or reputation losses;

f) **Capital Assets and Liabilities Management Commission** ("**CALCO**"): This Commissions is entrusted in monitoring and managing market risks associated to assets and liabilities, planning and making capital allocation proposals and proposals to define policies for liquidity and market risk management, in terms of the Group consolidated balance sheet;

g) **Credit Commission**: This Commission decides on credit proposals transversally related with the banking activity of the Group and issues an advisory opinion on the credit proposals made by entities operating abroad and part of the Group;

h) **Risk Commission**: The main duty of this Commission is the definition of the framework and of the Group's risk management instruments and policies, establishing the respective principles, rules, limits and practices for the Group's entities, taking into account the risk thresholds set forth in the Risk Appetite Statement ("**RAS**"). This commission is responsible for monitoring compliance of group risk levels with the RAS, implementation of processes and action plans to mitigate eventual deviations versus RAS metrics, including a proposal for adjustment to such metrics, in cooperation with the Committee for Risk Assessment;

One Sub-Commission operates under the Risk Commission, the **Monitoring and Validation of Models Sub-Commission**: That monitors and confirms the validity of the various models used by the Bank’s risk management function, including the technical analysis of models, indicators and monitoring results, qualitative validations, backtesting, benchmarking and analysis of adequacy and adhesion to the reality meant to be modeled. It also identifies the measures necessary to improve model quality and propose to the Risk Commission the methodology to assess model risk and respective tolerance level;

i) **Pension Funds Risk Monitoring Commission**: This Commission is entrusted for monitoring the performance and risk of the Group's pension funds and the establishment of appropriate investment policies and hedging strategies;

j) **Quality Security and Data Protection Commission**: The primary mission of this Commission is to define policies for information systems, physical security, data quality and management, disaster recovery plan and business continuity at Group level, ensuring compliance with the legal and regulatory requirements and the safety requirements and articulating between areas resulting from the application of risk management criteria and international standards. This Commission decides and prioritises the implementation of initiatives/projects for the improvement of the security systems in view of the risks and prioritises the implementation of initiatives/projects for the improvement of the security systems in view of the risks and vulnerabilities identified;

k) **Operational Risk and Internal Control Monitoring Commission**: This Commission promotes the spreading of an operational risk management culture and ensures the monitoring of the metrics to assess the evolution shown by risk levels, efficiency and the processes' productivity and the performance of the parties intervening in operating risk management. The Commission appraises proposals made to improve the processes for the reinforcement of the internal control environment and monitors the making of the internal control reports for the Group's entities;

l) **Project Mobilizar Commission**: The main mission of this Commission is analysing and approving different initiatives to put into action in each of the five areas of the Mobilizar Plan, as well as eventual corrective measures required to meet the goals set forth. This Commission also overviews progress of initiatives approved, of compliance with the respective budgets, of the evolution of the results achieved and of the main KPI in each of the plan's areas;

m) **Work Relations Commission**: This Commission is a privileged forum for dialogue and interaction with the employees' representatives (unions and workers committee), where relevant issues for strengthening work bonds are clarified and debated;

n) **Monitoring NPA (*non-performing assets*) Commission**: This Commission is entrusted for following-up the credit exposure and the contracting process; the credit portfolio's quality and the main risk and performance indicators; the counterparty risk and the largest exposures concentration risk and the impairment and the main processes that are object of a separate assessment.

Other Financial Services in Portugal

Mortgage Lending

The Bank entered the mortgage lending business in 1992, when it launched, in association with Cariplo – Cassa di Risparmio delle Provincie Lombarda S.p.A. (now a part of the Italian financial group Banca Intesa), an autonomous mortgage bank, Banco de Investimento Imobiliário, S.A. ("**BII**"). BII was 69.9% owned by the Group, with the remaining 30.1% being owned by Banca Intesa. BII previously distributed its mortgage products through the Bank's marketing and distribution networks, as well as through its own retail outlets. On 21 September 2005, the Bank reached an agreement with Banca Intesa for the unwinding of the joint venture arrangements in relation to BII. In October 2005, the Bank acquired 30.1% of the capital of BII owned by Banca Intesa, becoming the sole shareholder of BII. Currently, BII is running a book of outstanding mortgage credit originating from mid-2007, which will progressively be reduced over time. The Bank runs the Portuguese mortgage business directly.

Online Banking

ActivoBank is a leading internet bank in Portugal. Launched in 2010, ActivoBank offers a streamlined and convenient service with an emphasis on emerging distribution and communication channels (e.g. internet banking, mobile banking). ActivoBank targets younger, technologically savvy customers who prefer simple, modern banking products and services.

ActivoBank's main goal is to maintain a strong focus on its online presence through its website and social media. The pillar of ActivoBank's client relationship is based on online channels, despite also having 15 physical branches, as at 31 December 2018. ActivoBank was the first Portuguese bank to launch an exclusive application for smartphones. ActivoBank continues to invest heavily in developing new services and features, in alignment with new trends, with a primary emphasis on innovation.

Insurance

The Bank has an interest in insurance activities through Millenniumbcp Ageas, a joint venture with Ageas for bancassurance business in Portugal. On 26 May 2014, as part of a process aiming to refocus on core activities defined as a priority in its Strategic Plan, the Bank announced that it had agreed with the international insurance group Ageas a partial recast of the strategic partnership agreements entered into in 2004, which included the sale of its 49% interest in the (at that time jointly owned) insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental – Companhia Portuguesa de Seguros, S.A. and Médis – Companhia Portuguesa de Seguros de Saúde, S.A. Currently, the Group holds 49% of Millenniumbcp Ageas' share capital in the life insurance business, while the remaining 51% is held by Ageas.

On 28 July 2014, the Bank announced about the qualifying holding of Ageas and Ocidental Vida that was a result of Ageas and Ocidental Vida having subscribed, respectively, 280,490,558 and 408,855,693 ordinary shares in the rights issue launched by the Bank on 27 June 2014, pursuant to the subscription rights attributed to them considering their participation in BCP prior to the rights issue of 156,623,179 shares in case of Ageas and of 233,631,825 shares in case of Ocidental Vida. Following the settlement of the rights issue on 23 July 2014 and allotment of the oversubscription on 24 July, the number of shares held by Ageas increased to 437,113,737 and the number of shares held by Ocidental Vida increased to 652,087,518, thus the Ageas Group increased its participation to 1,089,201,255 shares that correspond to 2.01% of the issued share capital and of voting rights of the Bank.

On 16 June 2015, the Bank announced to have received a notification from Ageas Group informing that its holding in the share capital of the Bank had fallen below the 2% threshold of qualifying holding. The dilution of the former qualifying holding was a result of the Bank's exchange offer of some of its subordinated debt and preference shares for ordinary shares, causing the issuance of 4,844,313,860 new shares, which increased the total outstanding ordinary shares in BCP to 59,039,023,275. At that date, the Ageas Group's holding was 1.84%.

Foreign Business

BCP has concentrated on those businesses with strong growth prospects in foreign markets with a close historical connection to Portugal or that have large communities of residents with a Portuguese heritage (such as Angola and Mozambique), as well as in markets to which the Bank's successful business model in Portugal can be effectively exported and tailored to suit local markets, in particular in Poland.

Poland

In Poland, the Bank operates through Bank Millennium, S.A. ("**Bank Millennium**"), and focuses its offerings on individuals and small and medium-sized companies. Bank Millennium is a full service national bank which, jointly with its subsidiaries, offers a complete range of financial products and services, including deposit-taking, savings and investment products, short-, medium- and long-term lending (including mortgage lending and consumer credit), debit and credit cards, fund transfers and other payment methods, mutual funds, insurance, leasing, treasury services and money market transactions.

In 1998, the Bank entered into a partnership agreement with the Polish financial group, BBG, pursuant to which the Bank launched a retail operation with BBG in the Polish market under the "Millennium" brand.

The Bank now owns 50.1% of Bank Millennium.

At 30 October 2017, Bank Millennium announced its Strategic Plan for 2020, called “Strategy 2020”, including the following targets for that year: net earnings of 1 billion zlotys[12], core income up by 30% from 2017 and a 40% cost to income, keeping cost of risk in line with the historical average.

In 2018, Bank Millennium recorded net income totalling EUR 178.4 million (EUR 89.4 million of which attributable to the Bank), an increase of 11.7%, excluding foreign exchange effect, when compared to EUR 159.8 million (EUR 80.3 million of which attributable to the Bank) in the same period of the previous year.

Banking income was up 6.1% to EUR 639.8 million in 2018, positively influenced by the performance of the net interest income, which increased 8.1% versus 2017. Operating costs recorded

[12] Excluding extraordinary legal, regulatory and tax events

an increase of 5.4% to EUR 297.4 million, due to the rise in staff costs (+7.0%) and in other costs (+3.9%). The cost-to-income ratio[13] stood at 46.5% and ROE was 9.6%, translating an improvement in profitability and in operational efficiency. The cost of risk stood at 48 basis points accrued since the beginning of the year and the loans to deposits ratio at around 80%. Bank Millennium keeps comfortable levels in terms of capital, liquidity and quality of assets. The Total Consolidated Capital Ratio of Bank Millennium stood at 23.8% and Common Equity Tier 1 at 21.9%, comfortably above of the minimum capital regulatory thresholds.

As at 31 December 2018, customer funds stood at to EUR 17.391 million, which represents an increase of 12.2%, compared to EUR 15,499 million on 31 December 2017, excluding foreign exchange effect, and loans to customers increased 11.5% from EUR 11,383 million to EUR 12,678 million (EUR 12,387 million recorded in "Financial assets at amortised cost – Loans and advances to customers"; EUR 291 million recorded in "Financial assets at fair value through profit or loss – Financial assets not held for trading mandatorily at fair value through profit or loss"), excluding foreign exchange effect. The number of employees totalled 6,132 at the end of December 2018. On that date, the Issuer had 361 branches, six more than in December 2017.

Bank Millennium reached an agreement for the acquisition of a 99.79% stake in eurobank from Société Générale Financial Services Holding, a subsidiary of Société Générale S.A. The acquisition of eurobank allows Bank Millennium to strengthen its position in the Polish banking sector and represents a profitable deployment of Bank Millennium's excess capital and liquidity. Bank Millennium's CET1 ratio stood at 19.77% as at 31 December 2018, comfortably above regulatory requirements. Taking into consideration the planned acquisition of eurobank, the Management Board of Bank Millennium submitted to the Annual General Meeting a proposal of full retention of 2018 net profit in Bank's own funds.

Mozambique

The Bank has had banking operations in Mozambique since 1995. Banco Internacional de Moçambique ("**Millennium bim**") is the second Mozambique's largest bank in terms of assets, loans and deposits market shares. The 3 pillars of the strategic plan of Millennium bim for 2018 are: Human resources; Management of risk, ensuring i) prudence in liquidity management, ii) reduction of the exposure to high risk clients, replacing it with new credit with a better risk and iii) providing support to clients in a proactive manner to avoid default situations and, consequently, recording impairments; and Earnings, maintaining i) focus on increasing the number of clients as a way to ensure a sustained net income, ii) reduction of operating costs in spite of the inflationary context and currency depreciation, and iii) good solvency and efficiency ratios, ensuring the achievement of a solid and distinctive position in the market.

During 2018, Millennium bim recorded a net income of EUR 94.1 million, an increase of 10.6%, compared to EUR 85.1 million in December 2017 excluding foreign exchange effect, when compared to the same period of the previous year. In this period, banking income[14] grew 7.8% amounting to EUR 241.6 million, excluding foreign exchange effect, driven by the increase of 5.9% in net interest income and other income (+37.6%), despite the reduction of the commissions (-1.7%). Operating costs increased 7.5% to EUR 91.4 million, excluding foreign exchange effect, and cost-to-income stood at 37.8%. ROE stood at 22.2%. Loan impairment amounted to EUR 34.0 million (EUR 28.0 million recorded in December 2017, excluding foreign exchange effect) and the cost of risk increased from 295 basis points to 431 basis points. As at 31 December 2018, Millennium bim had a capital ratio of 39.0%.

[13] As used in this Base Prospectus, "**cost to income ratio**" means operating costs divided by net operating revenues

[14] Banking income or net operating revenues is the sum of net interest income, dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings.

Total customer funds in 2018 stood at EUR 1,571 million, up from the EUR 1,413 million, excluding foreign exchange effect, recorded in December 2017, showing an increase of 11.1%. Loans to customers (gross) amounted to EUR 802 million in 2018, compared to EUR 965 million in December 2017, a decrease of 16.9%, excluding foreign exchange effect.

As at 31 December 2018, Millennium bim had 193 branches, seven more than in the same period of 2017. At that date, the bank had 2,476 employees (excluding employees from SIM, the insurance company) and had 2,461 employees as at 31 December 2018.

Angola

BMA was incorporated on 3 April 2006, as a result of the transformation of the BCP branch in Angola into a bank incorporated under the laws of the Republic of Angola.

On 8 October 2015, the Bank announced it had signed a memorandum of understanding with the main shareholder of BPA for the merger of BMA with BPA. The public deed for the merger was executed on 22 April 2016. Following the merger, BCP owns 22.5% of the share capital of Banco Millennium Atlântico.

In the context of the BMA merger with BPA, BMA was considered a discontinued operation in March 2016. As of the completion of the merger in May 2016, the new merged entity in which the Bank maintains a 22.5% shareholding, Banco Millennium Atlântico, is consolidated using the equity method.

Banco Millennium Atlântico contribution to the Group earnings in 2018 was EUR 21.4 million which compares to EUR 0.1 million in 2017.

Macao

The Group's presence in Macao goes back to 1993, initially through an off shore license. In 2010, the Group began operating its first fully licensed (on shore) branch in Macao. This branch is directed at providing services to the Bank's network through support to individual and company customers, broadening the base of local customers and expanding the activity around the China-Macao-Portuguese speaking countries platform, focusing on the offer of investment banking services.

As at 31 December 2018, customer funds stood at EUR 531 million and gross loans reached EUR 411 million. In 2018, net income amounted to EUR 11.8 million.

Switzerland

Millennium Banque Privée, incorporated in Switzerland in 2003, is a private banking platform that provides discretionary management services to individual customers of the Group with large assets, as well as financial advisory and orders execution services.

As at 31 December 2018, total customer funds amounted to EUR 2,906 million and loans to customers (gross) amounted to EUR 334 million. In 2018, net income stood at EUR 6.7 million.

Cayman Islands

Millennium bcp Bank & Trust, with head office in the Cayman Islands, holds a category "B" banking license, and provides international banking services to customers that are not resident in Portugal. The Cayman Islands are considered a cooperating jurisdiction by Banco de Portugal.

As at 31 December 2018, Bank & Trust's customer funds stood at EUR 23 million and Bank & Trust's gross loans reached EUR 14 million. In 2018, Bank & Trust's net income amounted to EUR 4.5 million.

Other

The Bank also has ten representative offices (one in the United Kingdom, one in Germany, three in Switzerland, two in Brazil, one in Venezuela, one in China in Canton and one in South Africa), and five commercial protocols (Canada, United States, Spain, France and Luxembourg).

International Partnerships

Ageas

In 2005, the Group and Fortis (currently, Ageas) established a joint venture for bancassurance business, through the insurance company Millennium bcp Fortis (currently, Millenniumbcp Ageas). The Group holds 49% of Millenniumbcp Ageas' share capital, while the remaining 51% is held by Ageas. In September 2005, Ageas increased its shareholding in the Bank to 4.99%. As a consequence of the two Bank share capital increases that took place in 2006, Ageas' shareholding in the Bank decreased to 4.94%. In September 2007, Ageas disposed of its qualifying holding in the share capital of the Bank.

On 26 May 2014, the Bank announced that, as part of a process aiming to refocus on core activities defined as a priority in its Strategic Plan, it had agreed with the international insurance group Ageas to partially recast the strategic partnership agreements entered into in 2004. These include the sale of its 49% interest in the (at that time jointly owned) insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental-Companhia Portuguesa de Seguros, S.A. and Médis - Companhia Portuguesa de Seguros de Saúde, S.A., for a base price of EUR 122.5 million, subject to a medium term performance adjustment. In 2013, the non-life activity posted gross inflows of EUR 251 million and a net profit of EUR 12 million.

On 28 July 2014, the Bank announced that Ageas, on behalf of itself and its subsidiary Ocidental-Companhia Portuguesa de Seguros de Vida, S.A. ("**Ocidental Vida**"), had acquired a qualifying holding in the share capital of the Bank. The qualifying holding was a result of Ageas and Ocidental Vida having subscribed, respectively, 280,490,558 and 408,855,693 ordinary shares in the rights issue launched by the Bank on 27 June 2014, pursuant to the subscription rights attributed to them considering their participation in the Bank prior to the rights issue (156,623,179 shares in case of Ageas and of 233,631,825 shares in case of Ocidental Vida).

Following the settlement of the rights issue, on 23 July 2014, and allotment of the oversubscription, on 24 July, the number of shares held by Ageas increased to 437,113,737 and the number of shares held by Ocidental Vida increased to 652,087,518, thus Ageas Insurance International Group (i.e. Ageas and Ocidental Vida) increased its participation to 1,089,201,255 shares that correspond to 2.01% of the issued share capital and of voting rights of BCP.

On 16 June 2015, the Bank announced that it had received an announcement from Ageas, issued on behalf of itself and Ocidental Vida, informing that Ageas Insurance International Group (i.e. Ageas and Ocidental Vida) holding in the share capital of the Bank had fallen below the 2% threshold of qualifying holding (1.84%). The dilution of the former qualifying holding is a result of BCP's exchange offer of some of its subordinated debt and preference shares for ordinary shares, causing the issuance of 4,844,313,860 new shares, which increased the total outstanding ordinary shares in BCP to 59,039,023,275.

Sonangol and BPA

Following the announcement made by the Bank on 8 October 2015, the Bank informed on 25 April 2016 that the public deed for the merger of Banco Millennium Angola, S.A. with Banco Privado Atlântico, S.A. had been executed.

Recent developments in 2018 and 2019

On 30 May 2018, the Bank concluded with 63.04% of the share capital represented, the Annual General Meeting of Shareholders, with the following resolutions:

Item One – Approval of the individual and consolidated annual report, balance sheet and financial statements of 2017;

Item Two – Approval of the proposal for the appropriation of profits from 2017;

Item Three – Approval of a vote of trust and praise addressed to the Board of Directors, including to the Executive Committee and to the Audit Committee and each one of their members, as well as to the Chartered Accountant and its representative;

Item Four – Approval of the remuneration policy of Members of Management and Supervision Bodies;

Item Five – Approval of the proposal to change the Retirement Regulations for Executive Directors of Banco Comercial Português, S.A. contemplating the possibility of attribution of a unique contribution for the purposes of retirement supplement of the members of the Executive Committee;

Item Six – Approval of the internal policy for the selection and evaluation of the adequacy of the members of the management and supervision bodies;

Item Seven – Regarding the articles of association, approval of: alteration of articles 10.º, 13.º, 15.º, 17.º, 25.º, 28.º, 29.º, 35.º, 36.º, 37.º and 38.º; addition of new articles 40.º to 45.º; renumbering of current articles 40.º and following, changing the current articles 40.º, 41.º and 48.º; and amendment of article 29.º, the entering into force of the latter being subject to the suspensive condition of approval by the European Central Bank;

Item Eight – Election of the Board of Directors for the term-of-office beginning in 2018, including the Audit Committee. The effects of this proposal are subject to obtaining from the European Central Bank the authorisation for the exercise of functions for the majority of the members of the Board of Directors, Audit Committee and Executive Committee.

Item Nine – Election of the Remuneration and Welfare Board for the term-of-office beginning in 2018;

Item Ten – Approval of the acquisition and sale of own shares and bonds.

On 23 July 2018, the Bank informed that, following the decision received from the ECB, the Board of Directors elected on the Annual General Meeting of Shareholders held on 30 May 2018, started its term of office, on that date.

On 9 October 2018, the Bank informed that S&P Global Ratings Europe Limited upgraded the Bank's long-term issuer credit rating to BB from BB- and affirmed its short-term counterparty credit rating at B. The outlook is stable. The Stand Alone Credit Profile (SACP) was also upgraded to bb from bb-. The resolution counterparty ratings were upgraded to BBB- / A-3 from BB+/B. S&P Global Ratings

Europe Limited recognized BCP's progress in reducing the stock of NPEs and recovering profitability in Portugal.

On 16 October 2018, the Bank informed that Moody's upgraded by one-notch the Bank's long-term deposit and senior unsecured debt ratings to Ba3 from B1, reflecting, essentially, the upgrade of the Bank's BCA to b1 from b2 and an unchanged moderate government support for BCP. The Bank also informed that Moody's kept the positive outlook on BCP ratings. The upgrade of BCA reflected the Bank's improvement credit fundamentals demonstrated by: i) declining NPA ratio; ii) enhanced risk-absorption capacity; and iii) improving domestic bottom-line profitability, which is enhanced by the positive contribution from bank's international operations. Besides the deposits and senior unsecured rating the following ratings were also upgraded: Counterparty risk assessment upgraded from Ba1 (cr) to Baa3 (cr); Counterparty risk ratings upgraded from Ba2 to Ba1; Subordinated debt upgraded from B3 to B2; Subordinated MTN Program upgraded from (P)B3 to (P)B2; Preferred Stock non-cumulative upgraded from Caa2 (hyb) to Caa1 (hyb).

On 5 November 2018, the Bank concluded with 62.1% of the share capital represented, a General Meeting of Shareholders, with the following resolutions:

Item One – Approval of the alteration of the articles of association through the modification of number 2 of article 54 of the Bank’s Articles of Association;

Item Two – Approval of reformulation of the items of own capital with the special purpose of unequivocally reinforcing the future conditions for the existence of funds able of being classified by the regulators as distributable by means of the reduction of the amount of the share capital in 875,738,053.72 Euros, without changing the existing number of shares (without nominal value) and without altering the net equity, with the consequent alteration of number 1 of article 4 of the articles of association.

On 5 November 2018, the Bank informed that its subsidiary Bank Millennium, in which it owns a 50.1% stake, announced, on that date, that it reached an agreement for the acquisition of a 99.79% stake in eurobank from Société Générale Financial Services Holding, a subsidiary of Société Générale S.A., for an estimated total consideration of 1,833 million zlotys, a 1.20x Price/Book Value (final purchase price subject to customary Net Asset Value adjustment at closing), to be paid in cash and fully financed from internal sources of Bank Millennium.

The acquisition of eurobank allows Bank Millennium to strengthen its position in the Polish banking sector. Furthermore, it will increase Bank Millennium’s client base, allowing it to reach the top 6 in Polish banking sector by number of retail clients, as well as boosting Bank Millennium’s geographic presence to smaller cities across Poland. It represents a profitable deployment of Bank Millennium’s excess capital and liquidity. Bank Millennium’s CET1 ratio is expected to stand at 15.9% after completion, comfortably above regulatory requirements.

The transaction is expected to close by the end of the second quarter of 2019, subject to regulatory approvals, and is estimated to be earnings accretive for the Bank on a consolidated basis from 2020, already including integration costs, with an approximate impact of -40 basis points on its consolidated CET1 ratio and of -30 basis points on its consolidated total capital ratio expected on the date of transaction.

On 5 November 2018, the Bank informed that the EBA has published, on that date, the results of the 2018 EU-wide stress test, which has involved a significant sample of banks in the European Union, with outcomes for 48 banks having been disclosed.

The EBA-led stress test was conducted in articulation with the ECB. Besides the coordination of the exercise, the EBA was responsible for running the exercise for the major banks in the Euro Area. ECB has conducted a parallel stress test for other banks under its supervision, including BCP.

The Bank's CET1 phased-in ratio stood at 9.14% under the adverse scenario, a 384 basis points aggravation from end-2017, comparing favourably to an average 410 basis points aggravation for the 48 banks tested by EBA (300 basis points aggravation, comparing to 395 basis points, respectively, under a fully implemented basis).

On 6 December 2018, the Bank informed that Fitch France – Société par Actions Simplifiée upgraded the Bank's long-term issuer credit rating to BB from BB-. The outlook is stable. The Viability Rating was upgraded to bb from bb-, reflecting the Bank's stronger fundamentals, driven by, in particular, improving operating profitability and the meaningful progress in reducing problem assets.

On 24 January 2019, the Bank informed that it has fixed, on that date, the terms of an issue of perpetual subordinated notes intended to be qualified as Additional Tier 1.

The Bank also informed that the issue, in the amount of €400 million and with no defined tenor, foresees a call option from the end of the fifth year and an interest rate of 9.25% per year during the first 5 years, and was settled on 31 January 2019.

The Bank also informed that the transaction was placed with a very diversified group of European institutional investors. The demand, which exceeded 160% of the amount of the issue, and the promptness with which the transaction was executed attested the Bank's capacity to successfully access the various segments of international capital markets.

Lastly, the issue, being the first Euro denominated Additional Tier 1 issue executed in the European capital markets in 2019, was part of the Bank's strategy for the reinforcement and diversification of its capital base and MREL eligible liabilities and for the strengthening of its presence in capital markets.

On 28 March 2019, the Bank informed that DBRS Ratings GmbH upgraded by one notch the long-term Deposits ratings. The long-term Deposits ratings have been positioned one notch above BCP's Intrinsic Assessment at BBB (low), the first level of investment grade. The Bank also informed that, concurrently, DBRS Ratings GmbH also upgraded the short-term Deposits ratings of BCP to R-2 (middle). The Trend remains positive. Lastly, this action reflected the introduction in Portugal of full depositor preference in bank insolvency and resolution proceedings with the implementation of Portuguese Law No. 23/2019 from March 14, 2019. This Law also introduced a new class of debt, the Senior Non-Preferred Debt that will rank below preferential Senior debt, but above Subordinated Debt.

On 1 April 2019, the Bank informed that Moody's Investors Service España, S.A. improved, among others, the Bank's long-term senior debt rating to Ba2 from Ba3, reflecting, essentially, the improvement of BCP's credit profile, following a significant reduction of problematic assets and the improvement of the domestic profitability metrics, as well as Moody's Investors Service España, S.A.'s expectation that the Bank's financial fundamentals will continue to improve gradually in 2019.

On 23 April 2019, the Bank informed that its Board of Directors, at a meeting held that day, approved:

• To request the Chairman of the Board of the General Meeting to convene the Annual General Meeting on May 22, at 2:30 p.m., at the premises of BCP, at TagusPark, in Oeiras;

• Based on the consolidated results for the year 2018, publicly disclosed on 21 February 2019, to propose to the Annual General Meeting the distribution of a €0.002 dividend per share, and the distribution of results amounting to €12,587,009.00 to Employees, pursuant to the process of compensation for the reduction of wages agreed under the Collective Labour Agreement, as published on 29 March 2014, in the Bulletin of Labour and Employment no. 12;

• The co-optation of Mr. Fernando Costa Lima as non-executive Director and member of the Audit Committee, thus filling the vacancy in the Board of Directors, proposing to the General Meeting the ratification of such co-optation.

The Bank also informed that the call notice of the Annual General Meeting, with the agenda thereon and other proposals of the Board of Directors would be disclosed in due time in compliance with the legally established deadline.

On 29 April 2019, the Bank published the Annual General Meeting call notice, that shall address the following agenda:

Item One – To resolve upon the individual and consolidated annual report, balance sheet and financial statements of 2018, including the Corporate Governance Report;

Item Two – To resolve upon the proposal for the appropriation of profits for the 2018 financial year;

Item Three – To carry out a generic appraisal of the management and supervision of the company;

Item Four – To resolve upon the remuneration policy of Members of Management and Supervision Bodies;

Item Five – To resolve upon the alteration of the articles of association, giving a new wording to paragraph c) of article 14 and to nr. 1 of article 10, adding two new numbers 2 and 3 to article 10 with the consequent renumbering of current nrs. 2 and 3;

Item Six – To resolve upon the cooptation of one Director for the exercise of functions in the term-of-office ending in 2021, filling in a member vacancy in the Audit Committee;

Item Seven – To resolve upon the appointment of Chairperson of the Audit Committee to exercise functions during the term-of-office ending in 2021;

Item Eight – To resolve upon the election of a member for the Remunerations and Welfare Board, filling in an existing vacancy in this corporate body;

Item Nine – To resolve upon the election of the Single Auditor and his/her alternate;

Item Ten – To resolve upon the selection of the External Auditor; and

Item Eleven – To resolve upon the acquisition and sale of own shares and bonds.

The Annual General Meeting is scheduled to be held on 22 May 2019.

C. Principal Markets and Competition

The Portuguese banking market has become well-developed, including both strong domestic and foreign competitors. These competitors follow a multi-product, multi-channel and multi-client segmented approach, offering a broad range of services from retail products to investment banking coupled with sophisticated payment capability. Foreign banks are present in the Portuguese market, in areas such as corporate banking, asset management, private banking and brokerage services, as well as universal banking services, namely traditional retail banking.

Domestic banking penetration levels rank favourably on a comparable basis and branch network and automated channels are widely disseminated across the country. There has been significant development of remote access to banking services (ATM, home banking, and mobile banking) together with market intelligence techniques enabling banks to accurately track customers' requirements and augment customer proximity. Cross-selling has benefited from the use of such techniques and has increased the proportion of banks' non-interest income over the years.

The Portuguese banking sector will face the potential entry of new and disruptive players benefiting from the PSD2 environment. This is happening against a backdrop of progressive change towards a new digital age in which consumers' behaviour and expectations are evolving. Current trends point to an accelerated mobile / digital banking adoption and customers demanding personalization. Also, security and trust have reinforced the importance of digitalisation given cyber-risk concerns and cases of misselling. Advances in the ability to deploy technologies (e.g., robotics, machine learning) and the expanded capabilities these enable are setting new ways of working, requiring new skills.

The deregulation and liberalisation process experienced by the Portuguese banking sector, including Eurozone participation, catalysed an increase in business and competition, particularly in the credit market. Customer loans and advances increased significantly in advance of the implementation of the euro and during the early years of economic convergence and integration within the single currency project (Source: Banco de Portugal).

At the same time, the Portuguese banking system experienced a consolidation, which was driven by the need to achieve economies of scale and operating synergies. More recently, against the background of the financial instability beginning in the summer of 2007 and the subsequent euro periphery crisis, deleveraging and strategic repositioning took place. Some foreigner players reappraised their presence and business models and networks developed in Portugal. More recently, major banks in the Portuguese banking system have rationalised their operating structures.

The Portuguese banking market is concentrated with the biggest five banks representing 80% of the market share in terms of business volumes. The Bank is the largest private sector bank in Portugal in terms of business volumes (market share of 18% by gross loans + customer funds), generates 30% of the system core net income and is the most efficient bank in Portugal with only 13% of the system branch network.

The growing maturity of the domestic market and globalisation trends led domestic banks to further develop their operations abroad, namely in countries with which Portugal had strong economic and historical relations. Hence, currently, the biggest domestic banking groups manage operations in European and African countries, which bear an increasing strategic relevance for their businesses.

The Portuguese Competition Authority ensures compliance with Portuguese competition rules, asserting regulatory powers over competition in all sectors of the economy, including regulated sectors in coordination with the relevant sector regulators. Banco de Portugal is responsible for the prudential and market conduct supervision, ensuring the stability of the financial system as well as compliance with rules of conduct and transparency for banks' customers. As the national supervisory authority, Banco de Portugal is part of the Single Supervisory Mechanism, the European banking supervision system, entrusted with the safety and robustness of European banks. National competition authorities and the EC have parallel competencies for enforcing European antitrust laws in close co-operation.

In Portugal, the Bank competes primarily with the four other major Portuguese banking groups: Caixa Geral de Depósitos, Banco Santander Totta, CaixaBank/BPI and Novo Banco. BCP's extensive distribution network, which is the second largest, has enabled it to maintain a reference position among its competitors. According to system data from Banco de Portugal, as at 30 November 2018, BCP had a market share of 17.4% of loans to customers (gross) and 17.5% of deposits in its domestic market.

As at the end of 2018, 336 credit institutions, financial companies and payment institutions were registered in Portugal, of which 140 were banks (Source: Banco de Portugal). Financial institutions with head offices in the European Economic Area providing cross-border services amounted to 912, as at the end of 2018 (according to the last data available from Banco de Portugal). Common indicators do not indicate levels of concentration significantly divergent from those of the Eurozone. For instance, as of 2017, the total asset share of the five largest credit institutions represented 73% for Portugal, which is above Germany's 30% but below Greece with 97%, Estonia with 90%, Lithuania with 90%, the Netherlands and Cyprus with 84% Malta with 81% and Slovakia with 75% and Croatia with 73% and (for the EU28 it was 62% and for the euro area it was 64%) (Source: European Central Bank).

The following table shows the development of the percentage of the Bank's market share in Portugal in terms of loans to customers as at 30 November 2018 (last available data) and as at 31 December 2017 and 2016:

	As at 30 November 2018	*As at 31 December*	
		2017	*2016*
Loans to customers	17.4%	17.4%	17.8%

Sources: BCP, Banco de Portugal.

The following table shows the number and geographic location of the Bank's branches as at 31 December 2018, 2017 and 2016:

	2018	*2017*	*2016*
Portugal...	545	578	618
Bank Millennium in Poland................................	361	355	368
Millennium bim in Mozambique	193	186	176
Banco Millennium Angola..................................	0	0	0
Millennium Banque Privée in Switzerland	1	1	1
Total in the International activity........................	555	542	545
	1100	1120	1163

The following table illustrates the competitive environment in Portugal for the two years ended 31 December 2017 and 2016:

	As at 31 December	
	2017	*2016*
Number of banks[(1)]..	28	28
Number of branches..	4,411	4,454
Population (thousands)..	10,291	10,310
Inhabitants per branch...	2,333	2,315
Branches per bank...	158	159

Sources: Portuguese Banking Association and Portugal's National Statistics Institute.
(1) Banks associated with the Portuguese Banking Association.

The Bank is also subject to strong competition in the international markets in which it operates.

The banking sector in Poland is characterised by a relatively low concentration sustaining strong competitive pressure. However, significant opportunities have led to increased competition in recent years, driven by privatisation and consolidation initiatives. In addition, in Poland, EU integration has created strong incentives for the cross-border provision of financial services and for cross-border mergers, which have resulted in significantly increased competition from foreign banks. As at December 2018, Bank Millennium's market share in Poland, according to the Bank's estimates derived from data published by the National Bank of Poland, was 4.6% of loans to customers (gross) and 5.3% of deposits.

In Mozambique, Millennium bim is the market leader with a market share of 22.7% of loans to customers and 26.1% of deposits in December 2018, according to the Bank of Mozambique. Currently, 19 banks operate in Mozambique and management expects increasing competition from foreign banks, particularly those based in South Africa and Portugal (Source: Bank of Mozambique).

Banco Millennium Angola merged with Banco Privado Atlântico, resulting in the second-largest private sector bank in terms of loans to the economy, with a market share of approximately 10% by business volume: market share above 11% in terms of loans and above 12% in terms of deposits (Source: Bank of Angola).

Third party information

Information sourced from Banco de Portugal, Portuguese Banking Association (*Associação Portuguesa de Bancos*), Portugal's National Statistics Institute (*Instituto Nacional de Estatística*), the National Bank of Poland, the Bank of Mozambique, the Bank of Angola and from other sources mentioned in this Base Prospectus has been accurately reproduced and, so far as the Issuer is aware and is able to ascertain from information published by such entities, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Where information from third parties is referenced in this Base Prospectus, the source of the information is identified alongside each statement.

D. Trends Information

Despite the acceleration of the economic recovery in Portugal, the stabilisation of the banking industry and the decrease in public and private indebtedness, Portuguese banks continued to operate in a challenging environment in 2018. Banks are operating within a context of very low interest rates, exercising pressure on the net interest income. Moreover, Portuguese Banks still have a significant number of non-interest bearing assets in their balance sheets. In addition, the context is marked by fast technological evolution and, pursuant to the Payment Services Directive 2 ("**PSD2**"), by the competition from new players in the market (Fintechs). There are also new regulatory requirements, namely, as a result of the adoption of IFRS16[15] as of January 2019.

Banco de Portugal's forecasts for the Portuguese economy, from 2018 to 2021, point towards the slowdown of the recovery of economic activity, converging to the expected growth domestic product ("**GDP**") growth for the Euro Area. GDP is expected to have grown, on average, 2.1% in 2018, 1.8% in 2019, 1.7% in 2020 and 1.6% in 2021, after having grown 2.8% in 2017. It is expected that the contribution provided by net exports will gradually decrease its importance in GDP's growth between 2018 and 2021. According to the projections by the Ministry of Finance, the public deficit should decrease to 0.5% of the GDP in 2018, the lowest ever since Portugal joined the Euro Area. A surplus is expected as soon as 2020.

[15] IFRS: International Financial Reporting Standards as adopted by the European Union.

The four rating agencies that rate the Portuguese Republic upgraded their ratings (two in 2017 and two in 2018). At the end of October 2018, four rating agencies assigned an investment grade rating to the Portuguese Republic, which translated, together with the improvement of the market's perception of the Portuguese Republic, into a sharp decrease in sovereign risk premiums and bank premiums.

In accordance with Banco de Portugal, Portuguese banks resort to the European Central Bank ("**ECB**") in the amount of EUR 18.9 billion at the end of December 2018. These figures are consistent with the downwards trend in place since the second half of 2013. These figures show an improvement in the liquidity position of the domestic banks which has benefited from the resilient performance of deposits, namely from individuals (+3.8% year-on-year at December 2018, with demand deposits up 15.9% and term deposits up 3.8%, also year-on-year).

Moreover, the deleveraging of the Portuguese financial sector continues and the total loans to individuals increased 0.1% and loans to companies decreased 0.3%, year-on-year, respectively, in December 2018. The loans-to-deposits ratio of the banking sector in Portugal stood at 87% at the end of December 2018 versus 128% at the end of 2012 and 158% at the end of 2010.

The loans granted by BCP continued to decrease but reflects two different dynamics: the non-performing exposures ("**NPE**") portfolio decreased by EUR 2.1 billion in December 2018, year-on-year, and the performing portfolio increased by EUR 2.2 billion (in Portugal: NPE portfolio decreased by EUR 2.0 billion and performing portfolio increased by EUR 1.1 billion). At the same time, deposits also continued to grow: +4.6% year-on-year, in Portugal, in December 2018. As BCP has excess liquidity (loans-to-deposits ratio stood at 87% in December 2018), it decided to reduce its use of funding from the ECB to EUR 2.7 billion in December 2018. In the first quarter of 2019, these trends will remain in place with the Bank now focused on growing volumes but with the performing portfolio growth being compensated by the NPE reduction. As a result loans-to-deposits ratio will remain below 100% and ECB funding will remain below EUR 4 billion.

At the end of December 2018, BCP was the largest Portuguese private sector bank, with a robust asset structure, a fully implemented CET1 ratio of 12.0%, above regulatory requirements (SREP) and a loans-to-deposits ratio of 87%.

The low level of interest rates is contributing to decrease the spread on term deposits of the Portuguese banks, a trend which continued, albeit at a slower pace, in 2018, more than offsetting the lower spreads in credit. The rates of the term deposits reached, by the end of December 2018, values around 15 basis points, and the portfolio's average rate should converge to these levels over the course of 2019.

The price effect on the net interest income should continue to be globally positive, translating the improvement of the net interest income on operations with customers (differential between the loans average rate and the average rate at which the banks remunerate the deposits). The profitability of the Portuguese banks is expected to continue to be constrained by the prospects of continuation of a low short term interest rates environment.

Several institutions should continue to apply restructuring plans, to increase operating efficiency and the adjustment of business models, which translates into the decrease in the number of branches and employees and in the release of capital allocated to non-core activities. Profitability in the banking industry is still affected by a high NPE stock.

BCP Group has a relevant exposure to Poland where there are risks due to legislative amendments with impact on the Polish financial system, including the ones related to the issue of the conversion of the credits into Swiss francs in Poland. It is worth mentioning that Bank Millennium has been reducing its foreign currency mortgage loans portfolio on average circa of 8% per year and that currently it represents only 27% of the total loans portfolio in Poland.

There are still some risks related to the economic environment experienced by some African countries, with potential impact on the Group, namely Angola and Mozambique, whose economic activity is decelerating, with high inflation and faced a significant depreciation of their currencies in 2017. In Mozambique the situation should improve once an agreement with the International Monetary Fund is reached.

There is great focus on the management of the stock of problematic assets and respective coverage levels by loan loss reserves ("**LLRs**"). BCP has presented a new Strategic Plan (Mobilizing Millennium: 2021 Ambitions and Strategic Plan) which includes a new target of NPEs reduction: 45% reduction of NPE stock from 2018, reaching approximately EUR 3 billion by 2021.

It is not yet possible to determine what will be the final impact of the resolution of Banco Espírito Santo, S.A. ("**BES**") on BCP as an institution participating in the resolution fund created by Decree-Law no. 31-A/2012, of 10 February (the "**Resolution Fund**"). On 28 March 2018, following the disclosure of the 2017 annual results by Novo Banco, S.A. ("**Novo Banco**"), the Resolution Fund made a communication on the activation of the contingent capitalisation mechanism established in the agreements entered into in connection with the sale of Novo Banco ("**CCA**") totalling EUR 792 million.

On 24 May 2018, the Resolution Fund communicated having disbursed to Novo Banco the abovementioned funds, of which EUR 430 million were from a loan from the Portuguese State and the remaining amount were from the Resolution Fund's own resources.

In its 2018 annual results press release, Novo Banco states that in connection with the impact of losses related to the sale and write-downs of legacy assets, Novo Banco will request a compensation of EUR 1,149 million under the existing CCA. 69% of this amount results from the losses incurred on the assets included in the CCA and 31% due to regulatory requirements for capital increase in the adjustment of the transitional period of capital ratios and to the impact of IFRS 9. For 2017 and 2018, Novo Banco will have received a total of Euros 1.9 billion out of the maximum of Euros 3.89 billion defined under the CCA.

On 1 March 2019, the Resolution Fund stated that the amount to be paid by the Resolution Fund in 2019 to Novo Banco under the CCA will be carried out after the legal certification of Novo Banco's accounts and following a verification procedure by an independent entity, to ascertain that the amount to be paid by the Fund has been correctly accounted for.

The Bank has been notified by the Banco de Portugal on the Single Resolution Board's decision regarding the minimum requirement for own funds and eligible instruments ("**MREL**") for the resolution group headed by the Bank, at a sub-consolidated level, which includes the operations based in Portugal, Switzerland and Cayman, and excludes the operations based in Mozambique and Poland (the "**Resolution Group**").

The MREL requirement has been set at 26.61% of its risk-weighted assets for the Resolution Group based on the data of 30 June 2017. Moreover, the Bank has been informed that the MREL requirement needs to be met by 1 July 2022.

This is fully aligned with the Bank's expectations and generally consistent with the funding projections already included in the Bank's strategic Plan for the period 2018-2021, which underpins the medium term performance targets disclosed to the market with the results announcement for 2018. Nevertheless, it must be noted that the MREL requirement may be adjusted in the future by the competent authorities, to reflect their assessment of the underlying risks, business evolution or changes in the profile of the Bank's assets and liabilities.

E. Summary of the developments between 2011 and 2018 of some relevant indicators of the Bank[16]

The Bank has successfully executed an operational turnaround, reinforcing its financial and capital position despite adverse market conditions in the Portuguese banking sector. This position is reflected by multiple achievements, such as the reduction of the commercial gap from EUR 20.5 billion at 31 December 2011 to EUR -7.1 billion at 31 December 2018, following a significant deleveraging (net loans decreased by 30% and deposits increased by 16%), a recovery of net interest income in Portugal from EUR 343 million to EUR 808 million in 2017 and EUR 803 million in 2018, a reduction of operating costs from EUR 853 million in 2013 to EUR 588 million in 2017 and EUR 641 million in 2018 and a reduction of cost of risk from 157 bp in 2013 to 105 in 2018. Pre-provision profit increased from EUR 474 million in 2013 to EUR 1,243 million in 2017 and EUR 1,159 million in 2018. As a percentage of assets pre-provision profit increased from 0.6% in 2013 to 1.7% in 2017 and 1.5% in 2018. As a result of the significant deleveraging, reliance on ECB funding as decreased from EUR 10 billion in 2013 to EUR 2.7 billion as at 31 December 2018.

The Balance sheet breakdown as at 31 December 2018 is, on the assets side: loans and advances to customers (including debt securities and commercial paper) in the amount of EUR 51.0 billion (EUR 48.4 billion recorded in "Loans and advances to customers"; EUR 2.3 billion recorded in "Debt securities held associated with credit operations" and EUR 0.291 billion recorded in "Financial assets not held for trading mandatorily at fair value through profit or loss - Loans and advances to customers at fair value"), securities portfolio (including financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and debt securities held not associated with credit operations) in the amount of EUR 16.3 billion and other assets net in the amount of EUR 5.3 billion; and on the liabilities side: deposits in the amount of EUR 55.2 billion (this includes deposits from customers included in the financial liabilities designated at fair value though profit or loss), money market net (the difference between resources from credit institutions and cash and deposits at central banks, loans to credit institutions and loan agreements) in the amount of EUR 2.0 billion, debt issued by the Bank in the amount of EUR 3.7[17] billion and shareholders' equity in the amount of EUR 7.0 billion. The Balance sheet breakdown as at 31 December 2011, is on the assets side: loans and advances to customers in the amount of EUR 68.0 billion, securities in the amount of EUR 12.1 billion and other assets net in the amount of EUR 3.2 billion; and on the liabilities side: deposits in the amount of EUR 47.5 billion, money market net in the amount of EUR 12.9 billion, debt issued by the Bank in the amount of EUR 18.5 billion and shareholders' equity in the amount of EUR 4.4 billion.

The breakdown by instrument of the outstanding amounts of the debt issued by the Bank as at 31 December 2018 (EUR 3.7[18] billion) is as follows (which are recorded in the captions "Financial liabilities at amortised cost – non subordinated debt securities issued", "Financial liabilities at amortised cost –subordinated debt" and "Financial liabilities at fair value through profit or loss"):

[16] In this section, the terms listed below shall have the following meaning:
"**Net loans**" means loans to customers at amortised cost net of impairment, debt instruments at amortised cost associated to credit operations net of impairment and balance sheet amount of loans to customers at fair value through profit or loss;
"**Commercial gap**" means loans to customers (gross) minus on-balance sheet customer funds;
"**Net Interest Margin**" means net interest income for the period as a percentage of average interest earning assets;
"**Cost of time deposits**" means spread on term deposits book minus 3m Euribor;
"**Total funding costs**" means interest expenses divided by interest bearing liabilities;
"**Performing loans**" means loans to customers (gross) minus the stock of non-performing exposures.
"**Pre-provision profit**" means net interest income, dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings minus operating costs.
[17] Excludes loan agreements.
[18] Excludes loan agreements.

MTN (EUR 0.4 billion), Bonds and Certificates (EUR 0.1 billion), Covered Bonds (EUR 1.0 billion), Securitizations (EUR 0.3 billion), Subordinated debt (Euros 1.1 billion) and Loan agreements (EUR 1.8 billion). As at 31 December 2011, the breakdown by instrument of the outstanding amounts of the debt issued by the Bank (EUR 18.5 billion) was as follows: MTN (EUR 7.6 billion), Bonds and Certificates (EUR 4.1 billion), Covered Bonds (EUR 3.3 billion), Securitizations (EUR 1.2 billion), Subordinated debt (EUR 1.1 billion) and Loan agreements (EUR 1.2 billion).

The amount of the debt outstanding repaid from 2011-2016 was on average EUR 2.3 billion per year, the same amount as in 2017 (EUR 2.3 billion of debt repaid). In 2018 the amount of debt repayments totalled EUR 0.7 billion. The amounts of debt to be repaid are EUR 0.4 billion in 2019 and EUR 5.2 in the years after 2019. Future debt repayments (medium-long term) are significantly lower than in the past.

The securities portfolio totalled EUR 12.1 billion as at December 2011 of which EUR 7.3 billion is sovereign debt (Portuguese Government Bonds totalled EUR 4.7 billion of which EUR 3.0 billion are Bonds and EUR 1.7 billion are T-Bills, Polish Government Bonds totalled EUR 0.8 billion; Mozambican Government Bonds totalled EUR 0.3 billion and other totalled EUR 1.5 billion) and EUR 4.8 billion other instruments. The securities portfolio totalled EUR 16.3 billion as at 31 December 2018 of which EUR 13.1 billion is sovereign debt (Portuguese Government Bonds totalled EUR 6.6 billion of which EUR 5.8 billion are Bonds and EUR 0.9 billion are T-Bills, Polish Government Bonds totalled EUR 4.9 billion; Mozambican Government Bonds totalled EUR 0.7 billion and other totalled EUR 0.9 billion) and EUR 3.2 billion other instruments.

Consolidated	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Contribution to consolidated results of international operations *(€ mn)*	-	-	159	178	170	173	175	187
Net loans (*€ bn*)	68,0	62,6	56,8	53,7	52	48	47,6	48,1
Deposits (*€ bn*)	47,5	49,4	49,0	49,8	51,5	48,8	51,2	55,2
Commercial gap (*€ bn*)	20,5	13,2	7,8	3,9	0,4	-0,8	-3,6	-7,1
ECB funding (*total collateral*) (*€ bn*)	15,7	22,3	19,9	14,2	13,9	12,1	12,8	16,9
ECB funding (*€ bn*)	12,4	10,5	10,0	6,6	5,3	4,4	3,0	2,7

Individual (Portugal)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Net Interest Income (*€ mn*)	343	527	711	736	808	803
Net Interest Margin (*%*)	0,6%	1,0%	1,5%	1,6%	1,8%	1,8%
Cost of time deposits (*bps*)	-239	-173	-123	-83	-69	-56
Total funding costs (*%*)	2,41%	1,92%	1,21%	0,78%	0,44%	0,33%
Operating costs (*€ mn)*	853	690	644	624	588	641
Number of branches(*)	774	695	671	618	578	546
Number of employees(**)	8 584	7 795	7 459	7 333	7 189	7 095
Impairment charges (*€ mn*)	743	1 021	730	1 045	533	391
Cost of risk (*bps*)	157	233	175	266	140	105
Performing loans (*€ bn*)	34,5	32,9	31,8	30,8	31,2	32,4
Customer deposits (*Term deposits*) (*€ bn*)	24,9	24,3	21,9	19,9	18,9	18,2
Customer deposits (*On-demand deposits*) (*€ bn*)	9,0	10,1	12,9	14,1	16,4	19,5

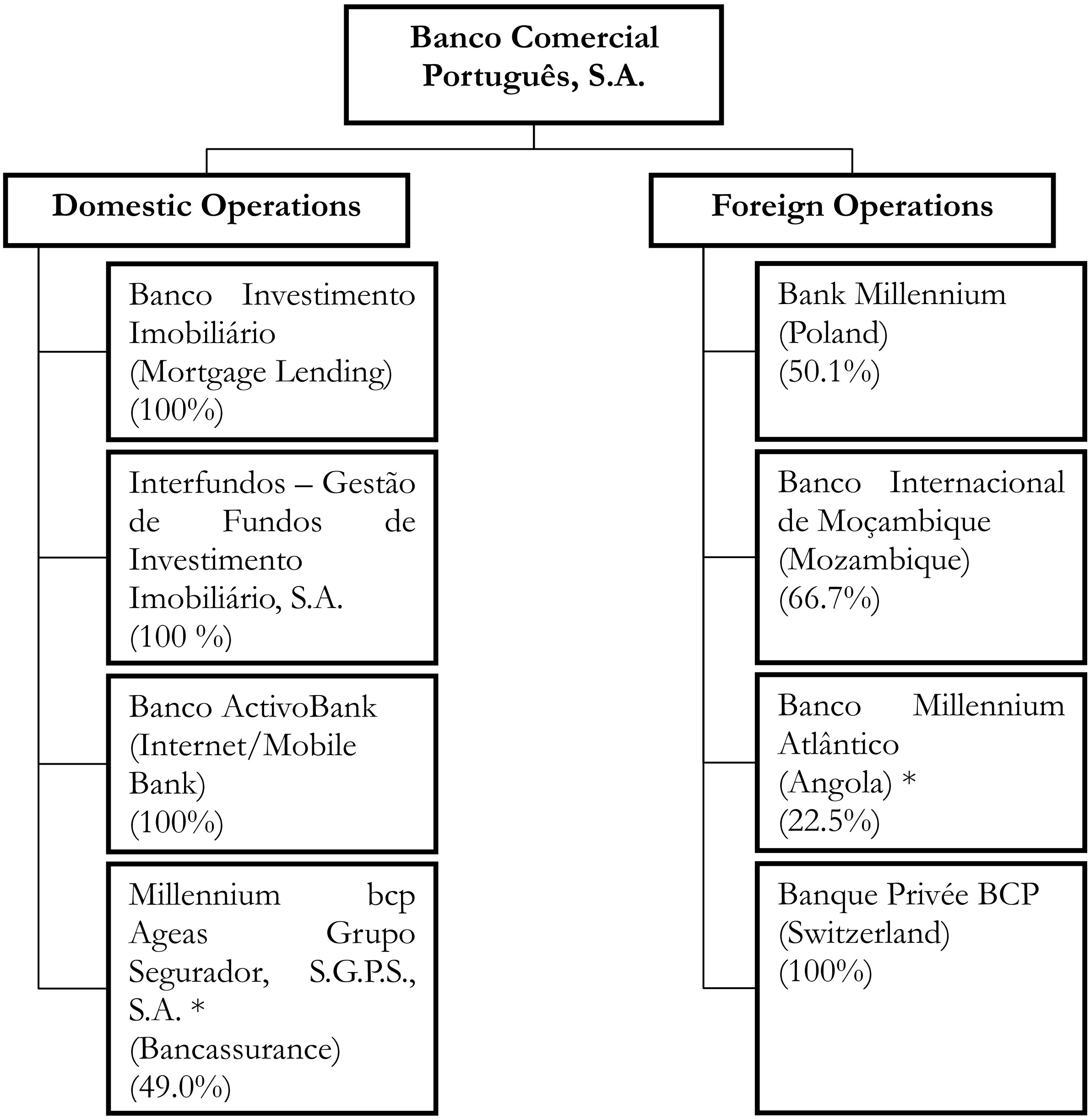
(*) 885 in 2011

(**) 9,959 in 2011

F. Organisational Structure

The Bank and the Group

The following diagram summarises the organisational structure of the principal subsidiaries of the Group as at 31 December 2018:



* Consolidated by the equity method.

In addition, the Bank's subsidiary, Millennium bcp – Prestação de Serviços ACE represents its associates regarding third parties, namely in the areas of IT, operational, administrative and procurement. The Bank is, directly or indirectly, the ultimate holding company of all the companies in the Group and is not dependent upon other entities within the Group. However, being the ultimate holding company of the Group, the activities developed by the other members of the Group have an impact on the Bank.

Ownership and Control

The Bank is not aware of any shareholder or group of connected shareholders who directly or indirectly control the Bank.

Significant Subsidiaries

The following is a list of the main subsidiaries of the Bank as of 31 December 2018:

Subsidiary companies	***Head Office***	***Activity***	***% held by the Group***	***% held by the Bank***
Banco de Investimento Imobiliário, S.A.	Lisbon	Banking	100	100
Banco ActivoBank, S.A.	Lisbon	Banking	100	100
Banco Millennium Atlântico, S.A...............	Luanda	Banking	22.5	–
Bank Millennium, S.A.	Warsaw	Banking	50.1	50.1
Banque Privée BCP (Suisse) S.A................	Geneva	Banking	100	100
Banco Internacional de .... Moçambique, S.A.	Maputo	Banking	66.7	–
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Oeiras	Investment fund management	100	100
Millennium bcp - Prestação .... de Serviços, A. C. E.	Lisbon	Services	96.2	85.7
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Oeiras	Holding company	49	49

General information

So far as the Bank is aware, there are no arrangements in place, the operation of which may result in a change of control of the Bank.

The Bank has made no material investments since the date of the last published financial statements and the Bank has not made relevant firm commitments on future investments.

There have been no recent events particular to the Bank, which are to a material extent relevant to the evaluation of the Bank's solvency.

G. Share Capital

The authorised, issued and fully paid up share capital of the Bank is EUR 4,725,000,000.00 divided into 15,113,989,952 shares with no nominal value. The shares are ordinary, issued in a dematerialised book-entry form (*escriturais*) and *nominativas*, and are integrated in a centralised system recognised under the Portuguese Securities Code (*Central de Valores Mobiliários*) managed by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., with its registered office at Avenida da Boavista, 3433, 4100-138 Oporto.

H. Legislation regulating the activity of the Bank

The Bank is governed by European Union rules, banking and commercial Portuguese laws on limited liability companies (*sociedades anónimas*) – notably by the Portuguese Companies Code – and, in particular, by the Banking Law, by the Portuguese Securities Code (*Código dos Valores Mobiliários*) and other complementary legislation.

In general terms, the Bank's activity as a credit institution is subject to the supervision of Banco de Portugal, to the supervision of the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) as an issuer and a financial intermediary and to the supervision of the Portuguese Insurance and Pension Funds Supervisory Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF)*) as the tied insurance intermediary.

I. Recent developments on the banking regulation

Regulatory and capital requirements

Capital requirements

Basel III and CRD IV/CRR: On 12 September 2010, the Basel Committee on Banking Supervision ("**BCBS**") announced a new capital agreement on banking supervision known as Basel III, which revises most of the capital and liquidity minimum requirements. The Basel III framework sets out enhanced standards to strengthen financial institutions' capital base, improve risk management and governance, and increase transparency for market participants. It builds on the 'Basel II' three-pillar architecture, according to which: (i) Pillar 1 (minimum prudential requirements) sets the binding minimum level of capital banks and investment firms need to face major risks; (ii) Pillar 2 (supervisory review) allows supervisors to evaluate institution-specific risks and impose additional capital charges to face them; (iii) Pillar 3 (market discipline) aims to increase transparency in banks' financial reporting allowing marketplace participants to better reward well-managed banks.

Implementation of the Basel III framework in the EU began in 2013 and is to be gradually phased in up to 2019. In 2013, the EU adopted the 'CRD IV package', the third set of amendments to the original Capital Requirements Directive (CRD) recast in 2006, following two earlier sets of revisions adopted in 2009 (CRD II) and 2010 (CRD III). The CRD IV package is comprised of a directive (CRD IV) governing the access to banking activity, and a regulation (CRR) establishing how to calculate the amount of capital that banks and investment firms must set aside; it also lays down requirements on reporting and liquidity.

This agreement has more demanding requirements for capital which will gradually be introduced over a transition period to ease the impact on the international financial system. In addition to the minimum capital requirement for CET1 capital of 4.5 % of RWA as of 1 January 2014, of 6% for Tier 1 capital ratio and the total capital ratio of 8.0% the following requirements were introduced:

(i) an additional capital conservation ratio requirement of 2.5% over common equity, with a progressive implementation from 2016 to 2019;

(ii) a countercyclical capital buffer, which will be between 0.0% and 2.5% of RWA with the ability to absorb losses as a function of the credit cycle subject to its application by national supervisory authorities;

(iii) a systemic risk buffer and a buffer for other systemically important institution; and

(iv) the leverage ratio of 3.0%, yet still subject to some adjustments and thus not yet implemented.

On 1 January 2014, the adoption of CRD IV/CRR was complemented by the entering into force of the Notice 6/2013 of Banco de Portugal, which established how the transitional provisions of the CRR would apply to minimum capital requirements and the respective calculation. Notice 6/2013 of Banco de Portugal has been revoked by Notice 10/2017 of Banco de Portugal, which regulates the prudential treatment of qualified holdings outside the financial sector when certain limits are exceeded, the percentage applicable for the purposes of calculation of the liquidity outflows corresponding to stable retail deposits, as well as the percentages applicable for the purposes of calculating the deduction from CET1 capital for deferred tax assets, existing before 1 January 2014, that rely on future profitability.

In May 2014, Banco de Portugal issued a series of recommendations with respect to banks' capital plans, in order to ensure an adequate transition to the full implementation of CRD IV/CRR and prepare major Portuguese banks for the ECB's comprehensive assessment exercise of the banking system.

On 23 November 2014, Decree-Law No. 157/2014, of 24 October 2014 ("**Decree-Law No. 157/2014**"), entered into force, amending the Banking Law, and implementing CRD IV and CRR at domestic level.

On 23 November 2016, the European Commission presented a comprehensive package of reforms to further strengthen the resilience of EU banks ("**EU Banking Reforms**") which proposals amend many of the existing provisions set forth in CRD IV and the BRRD (as defined below) and in the Single Resolution Mechanism Regulation. On 25 May 2018, the Council of the EU agreed its stance on the EU Banking Reforms and asked the presidency to start negotiations with the European Parliament. The European Parliament confirmed its position on the EU Banking Reforms at its June 2018 plenary. The European Parliament and Council of the EU reached agreement on the main elements of the EU Banking Reforms in late 2018, which were endorsed by the Committee of Permanent Representatives ("**COREPER**") on 30 November 2018 and approved by the Economic and Financial Affairs Council on 4 December 2018. In February 2019, COREPER endorsed the positions agreed with the European Parliament on all elements of the EU Banking Reforms. The agreed text was adopted by the European Parliament on 16 April 2019. COREPER approved the EU Banking Reforms on 7 May 2019 and it is expected that the Council of the EU will formally approve the EU Banking Reforms on 14 May 2019.

The CRD-V package amendments contain three groups of provisions, covering capital and liquidity requirements, aspects of proportionality, and the EU's resolution framework.

The European Parliament, the Council and the EC agreed in October 2017 on some elements of the review of the CRD-V package, namely creation of a new category of unsecured debt in bank creditors' insolvency ranking, on the implementation of the IFRS 9 and on rules limiting large exposures to a single counterparty. On 1 January 2018, Regulation (EU) 2017/2395 of the European Parliament and of the Council, of 12 December 2017, entered into force, amending the CRR as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. The remaining matters of the ongoing CRD IV/CRR revision are subject to final agreement by the EU authorities.

In December 2017, the Basel Committee published revisions to the Basel III framework, the so-called "finalization of Basel III reforms", which main objective is to reduce excessive variability of RWA. The agreed reforms address the following topics:

(i) Improvement of the standardised approaches for credit risk;

(ii) Constraints to the use of internal models: banks may, for example, for their exposures to large and mid-sized corporates no longer use own estimates for two parameters (the loss-given-default and exposure at default) but rather use fixed values instead. Moreover, after the reform, internal ratings-based approaches will no longer be allowed for exposures to equities;

(iii) Improvement of the operational risk framework: current approaches are replaced with a single risk-sensitive standardised approach to be used by all banks; internal models will no longer be allowed to address losses that stem from misconduct, inadequate systems and controls, *etc.*;

(iv) Introduction of a leverage ratio buffer for G-SIIs; and

(v) Introduction of a different output floor set at 72.5% introducing a limit to the regulatory capital benefits that a bank using internal models can derive compared to the standardised approaches.

The revised standardised approach, internal models, operational risk framework, and leverage ratio for G-SIIs shall all become applicable as of 1 January 2022. The output floor will be phased-in and will only become fully effective as of January 2027 (2022: 50%, 2023: 55%, 2024: 60%, 2025: 65%, 2026: 70% and 2027: 72.5%). However, in addition, supervisors may at national discretion cap the increase in a bank's total RWA that results from the application of the output floor during its phase-in period.

The implementation of the BCBS 2017's agreement in the EU will require amendments to existing EU legislation, predominantly to CRR.

CRD IV empowers the EBA to draw up regulatory technical standards that specify some of the aspects covered by the amended diplomas. Upon the respective adoption by the EC these norms are directly applicable under Portuguese law. Guidelines are subject to their adoption by the Competent Authority.

Under the guidance of the Single Supervisory Mechanism (SSM), the conclusions of the supervisory review take the form of prudential requirements (Pillar 2) being set to be held in excess of the minimum capital requirements (Pillar 1). Banks are required to maintain a total capital requirement that includes CET1 instruments and other capital instruments and are also subject to the overall capital requirement that also includes the combined own funds buffer requirement.

As at 31 December 2018, the Bank's fully implemented CET1 ratio was 12.0%. Starting from the “Total Equity attributable to the Banks shareholders” (EUR 5,780 million), deducting EUR 665 million of DTAs, EUR 125 million of EL gap and summing EUR 34 of other items one reaches to the CET1 which as at 31 December 2018 stood at EUR 5,024 million.

The capital ratio has increased from 6.4% at the end of December 2009 to 9.3% at the end of December 2011 (both figures refer to the CT1 ratio calculated according to the definition of Banco de Portugal) and to 11.1% at the end of December 2016, 11.9% at the end of December 2017 and 12.0% at the end of December 2018 (these three figures refer to CET1 fully implemented ratio, calculated according to CRDIV/CRR).

Capital buffers: The criteria for maintenance by credit institutions and certain investment companies of additional own funds' buffers include:

(a) a capital conservation buffer;

(b) the institution's specific countercyclical capital buffer;

(c) the systemic risk buffer, also referred to as SII buffer; and

(d) an O-SII buffer (for other systemically important institutions at a national level).

The combined buffer requirement with which each institution is required to comply corresponds to the sum of the capital conservation buffer, the institution-specific countercyclical capital buffer, and the higher of the O-SII buffer and the systemic risk buffer (except where the latter only applies to risk exposures in the Member State which activated the measure, in which case it is additive).

These measures have the objective of safeguarding financial stability, by strengthening the resilience of the financial sector and preventing systemic risk. The set of instruments and intermediate objectives will be revised and adjusted by the competent authorities where necessary to better safeguard financial stability. In addition, other macroprudential policy instruments may be activated if deemed necessary. Failure to comply with these buffers implies restrictions on distributions relating to CET1 own funds as well as an obligation to submit to the competent authorities a capital conservation plan within 5 Business Days of the breach.

Capital conservation buffer: The new regulatory framework provides that the capital conservation buffer requirement, which aims to accommodate losses from a potential adverse scenario, can be gradually implemented from 1 January 2016 onwards. However, the national macroprudential authority may impose a shorter transitional period or even frontload the total buffer. The Bank has a requirement (at an individual and consolidated level) to maintain a minimum CET1 capital buffer of 2.5% from 2019 onwards, as provided in Article 23 of Decree-Law No. 157/2014.

Countercyclical buffer: The countercyclical capital buffer is one of the main macroprudential instruments introduced by the new regulatory framework, aiming to improve the banking system's resilience to periods of excessive credit growth. The establishment of variable capital requirements over the cycle is expected to contribute to mitigating the pro-cyclicality of banks' credit policies. The following apply to this buffer:

(i) the rate will be set between 0% and 2.5% of the total risk exposure amount;

(ii) the rate is calibrated in steps of 0.25 percentage points or multiples of 0.25 percentage points; and

(iii) in exceptional cases, the rate may be set at a level above 2.5%.

The buffer rate for each institution, known as the "institution-specific countercyclical buffer rate", is a weighted average of the countercyclical buffer rates that apply in the countries where the credit exposures of that institution are located. This requirement is met with CET1 capital. Under the SSM, the ECB can propose higher minimum capital requirements than the ones defined by the national authorities. This capital buffer will apply to all credit risk exposures, whose counterpart is the Portuguese private non-financial sector, of credit institutions and investment firms subject to the supervision of Banco de Portugal or the ECB (SSM), as applicable.

The countercyclical buffer rate for credit exposures to the domestic counterparties (Portugal) will remain at zero per cent of the total risk exposure amount in effect since 1 January 2019. This decision is reviewed on a quarterly basis by Banco de Portugal, the next decision to be taken by 31 March 2019. As at 31 December 2018 the weighted average of the countercyclical buffer rates that apply in the countries where the Bank is located was also zero per cent.

Systemic risk buffer: In order to calculate the systemic risk buffer, Banco de Portugal categorises institutions as O-SIIs or G-SIIs. Banco de Portugal can also impose a systemic risk buffer of CET1 capital on an individual, sub-consolidated or consolidated basis of at least 1% of the risk exposure to which such buffer is applicable, to prevent or reduce the long-term non-cyclic systemic or macroprudential risks that present a risk of disruption in the financial system and the Portuguese economy.

On 29 July 2016, Banco de Portugal decided to apply a two-year phase-in regime of the other O-SII buffer. On December 2017, Banco de Portugal kept unchanged both the methodology and the O-SII capital buffer levels, but decided to extend the phase-in period – the initial two-year period was converted into a four-year period:

(i) The timeline for the phase-in of the O-SII buffer is 25% as of 1 January 2018, 50% as of 1 January 2019, 75% as of 1 January 2020 and 100% as of 1 January 2021;

(ii) These buffers shall consist of CET1 capital on a consolidated basis;

(iii) These buffers apply from 1 January 2018; and

(iv) The O-SII buffer rates range from 0.25% to 1% of the total risk exposure (maximum level of 2%).

On 30 November 2018, Banco de Portugal disclosed that it had conducted the annual reassessment of the list of institutions identified as 'other systemically important institutions' (O-SIIs) and the respective capital buffers, which remained unchanged from the previous assessment.

In this context, the Group, having been classified as an O-SII will have to maintain a buffer of CET1 of 0.375% of the total risk exposure applicable from 1 January 2019 growing to 0.563% as of 1 January 2020 and to 0.750% as of 1 January 2021.

These buffers are revised each year or in the event of a significant restructuring process, particularly, a merger or acquisition.

Leverage ratio

The leverage ratio has been introduced under Basel III and the CRD IV/CRR as a complementary tool to the existing risk-based capital adequacy requirements. In November 2016, the EC published a legislative proposal endorsing a minimum 3% Tier 1 leverage ratio for all CRR firms in the EU. In February 2019 the EU ambassadors endorsed the full package of risk reduction measures, namely the Leverage Ratio. On 16 April 2019, the European Parliament endorsed the provisional agreement reached, at the beginning of December 2018, during the political trilogues, between the EU Member States. The legislative texts still need to be formally adopted by the Council of the EU.

The leverage ratio is a (non-risk-sensitive) measure of a bank's ability to meet its long-term financial obligations, calculated by dividing the Bank's Tier 1 capital by its average total consolidated assets and expressed as a percentage. Stricter requirements may be demanded only from G-SIIs. A G-SII could face additional requirements, although it is currently not anticipated that Portuguese banks may be classified as G-SIIs.

The Bank's leverage ratio was 6.2% fully implemented, as at 31 December 2018, calculated according to the current non–binding definitions.

Liquidity requirements

Basel III and CRD IV/CRR, provide for the setting of short- and long-term liquidity ratios and funding ratios, namely the LCR and the NSFR (NSFR will become binding after the publication of the proposals amending CRD IV/CRR).

The Bank's LCR calculated in accordance with the Delegated Regulation (EU) 2015/61 of the EC, of 10 October 2014, and the NSFR estimated in accordance with Basel III methodology that supported the ECB's Short-Term Exercise report, were 218% and 133%, respectively, as at 31 December 2018, higher than the reference value of 100% (fully implemented).

The LCR requires that banks have sufficient high-quality liquid assets ("**HQLA**") in their liquidity buffer to cover the difference between the expected cash outflows and the expected capped cash inflows over a 30-day stressed period. The value of the ratio is to be no lower than 100% (the stock of HQLAs should at least equal total net cash outflows). In relation to the LCR, the EBA:

(i) defined assets as 'extremely high' and of 'high' quality;

(ii) put in place operational requirements for the holdings of liquid assets;

(iii) recommended that all types of bonds issued or guaranteed by Member States' central governments and central banks in local currency as well as those issued or guaranteed by supranational institutions should be considered transferrable extremely high quality assets;

(iv) stated that the credit quality standards and eligibility of covered bonds, bonds, RMBS and bonds issued by local government entities should be considered highly liquid and credit quality assets; and

(v) recommended that common equity shares should be considered high quality liquid assets.

The NSFR, which is expected to soon become a minimum standard (awaiting the Council's final approval of the legislative proposals amending the current CDR IV/CRR), is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The ratio aims at ensuring that the funding of illiquid assets is made through stable sources, both in normal as well as adverse conditions. On December 2015, the EBA published a report that includes methodologies for determining the amounts of stable funding available and required, as well as uniform definitions for the calculation of the NSFR.

Banking Union

In an effort to harmonise the regulation and supervision of banking activities across the EU and especially in the Eurozone, the EC established a new common regulation (Single Rule Book) and a common supervisory architecture (European Supervisor Authorities together with Nacional Competent Authorities. The key-elements of the Banking Union are the Single Supervisory Mechanism ("**SSM**"), the Single Resolution Mechanism ("**SRM**") and the European Deposits Insurance Scheme ("**EDIS**"):

(i) The SSM, which assigns the role of direct banking sector supervisor to the ECB in order to ensure that the largest banks in Europe are independently supervised under common rules (operating since 4 November 2014);

(ii) The SRM, which is responsible for planning for the worst-case scenario, namely the failure of a bank, to ensure that the situation can be resolved in an orderly manner;

(iii) On 24 November 2015, the EC presented a legislative proposal that aims to add another element to the Banking Union, namely the EDIS, which is to be built on the basis of existing national Deposit Guarantee Scheme (DGSs), but yet to be implemented.

Furthermore, the underlying resolution rules were changed through the provisions of the BRRD, according to which resolutions shall mainly be financed by banks' shareholders and creditors. Where necessary, financing can also be provided, on a complementary basis, by the newly established SRF, which is financed by the European banking industry. The SRF is only expected to reach its target funding level in 2023. Members of the Eurozone are automatically part of the Banking Union, while other Member States may opt in.

The Single Supervisory Mechanism

The Banking Union assigns specific tasks to the ECB concerning policies relating to the prudential supervision of credit institutions. According to the regulation, the SSM is intended to ensure that the EU policy relating to the prudential supervision of credit institutions is implemented in a coherent and effective manner, that the single rulebook for financial services is applied in the same manner to credit institutions in all Member States concerned and that those credit institutions are subject to supervision of the highest quality, unfettered by other non-prudential considerations.

The ECB directly supervises approximately 120 financial institutions, including (since 4 November 2014) the Bank, that are considered to be systemically relevant, given their dimension and importance in the banking system of each Member State. The ECB's supervision of the approximately 6,000 other financial entities is exercised in conjunction with national authorities. The "SSM Regulation" and the "SSM Framework Regulation" provide the legal basis for the operational arrangements of the SSM.

The SSM is also responsible for regularly assessing and measuring the risks for each bank and, consequently, the capital and liquidity adequacy of credit institutions through the global evaluation of own funds adequacy, by means of the SREP:

(i) During the SREP, the supervisor not only defines banks' capital requirements (e.g. Pillar 2 capital requirements ("**P2R**") and Pillar 2 capital guidance ("**P2G**")), but may also decide to impose additional measures on banks, including liquidity and qualitative measures;

(ii) The prudential requirements require banks to maintain a total SREP capital requirement ("**TSCR**") that includes CET1 instruments and other capital instruments;

(iii) Banks are also subject to the overall capital requirement that includes, in addition to the TSCR, additional capital buffers, namely "the combined buffer", comprised of the countercyclical capital buffer, capital conservation buffer and systemic buffer, as described above; and

(iv) The P2G is to be made up entirely of CET1 capital. Failure to comply with the P2G is not itself a breach of own funds requirements. The P2G is not relevant for purposes of the Minimum Distributable Amount ("**MDA**"). The MDA is the maximum amount a bank is allowed to pay out, for example for bonuses or dividends. A bank whose capital ratio falls below the MDA trigger point faces restrictions on the amount of distributable profits.

The EBA issues guidelines on common procedures and methodologies for the SREP. These guidelines introduce consistent methodologies for the assessment of risks to capital and risks to liquidity, and for the assessment of the Bank's capital and liquidity adequacy. Changes to guidelines, after being endorsed by the competent authorities may also have implications on the Bank's compliance of supervisory requirements.

The Single Resolution Mechanism, the Resolution Fund and the sale of Novo Banco

The BRRD established a framework for the recovery and resolution of credit institutions and investment firms. The BRRD was implemented in Portugal through Law No. 23-A/2015, of 26 March (which amended the Banking Law).

In the event of a bank's critical financial condition ("fail or likely to fail"), the Banking Union's framework was designed to minimise the impact of any particular bank's financial difficulties on the financial system and on taxpayers. Under the envisaged SRM, shareholders of the institution would be the first to bear losses, before that institution's lenders in accordance with the applicable creditor hierarchy set out under applicable legislation. To that end, resolution authorities were given the power to allocate losses to shareholders and creditors (including the Holders) (the "bail in" tool, as per Article 43 of the BRRD), in line with the valuation of the failing business and according to the sequence provided in Article 48 of the BRRD. Shareholders and creditors must therefore absorb losses for at least 8% of their total liabilities, including own funds, before any use of the resolution fund.

Guaranteed deposits are expected to be safeguarded and creditors should not bear losses greater than those that they would have suffered had the institution been liquidated under ordinary insolvency proceedings. The BRRD contemplates that subordinated liabilities may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool.

As such, the Banking Union and, in particular, the use of resolution tools and powers provided for by the Banking Union may disrupt the rights of shareholders and creditors. In particular, the power of the authorities to transfer the shares or all or part of the assets of an institution to a private purchaser without the consent of shareholders affects the property rights of shareholders. In addition, the power to decide which liabilities to transfer out of a failing institution based upon the objectives of ensuring the continuity of services and avoiding adverse effects on financial stability may affect the equal treatment of creditors.

To avoid institutions structuring their liabilities in a manner that impedes the effectiveness of the bail-in tool, the BRRD requires that institutions meet at all times a minimum requirement for own funds and eligible liabilities ("**MREL**") expressed as a percentage of the total liabilities and own funds of the institution. When determining MREL in accordance with points (a) and (b) of Article 45(6) of the BRRD and in applying the bail-in tool, the resolution authority should ensure that the institution is capable of absorbing an adequate amount of losses and that the post-resolution entity is recapitalised by an amount sufficient to meet ongoing capital prudential requirements after resolution, while sustaining sufficient market confidence. The resolution authority should also take into account the assessments made by the competent authority on the business model, funding model, and risk profile of the institution in order to set prudential requirements.

By delivering a comprehensive framework that ensures that shareholders and creditors bear the cost of bank failure, the BRRD aims at:

(i) safeguarding the continuity of essential banking operations;

(ii) protecting the depositors, the client's assets and the public funds;

(iii) risks to financial stability; and

(iv) avoiding the unnecessary destruction of value.

Accordingly, resolution powers include, among others:

- the power to reduce, including to reduce to zero, the principal amount of or outstanding amount due in respect of eligible liabilities, of an institution under resolution;

- the power to convert eligible liabilities of an institution under resolution into ordinary shares or other instruments of ownership of that institution;

- the power to cancel debt instruments issued by an institution under resolution except for secured liabilities subject to Article 44(2) of the BRRD; and

- the power to reduce, including to reduce to zero, the nominal amount of shares or other instruments of ownership of an institution under resolution and to cancel such shares or other instruments of ownership.

These powers conferred to resolution authorities are such as to ensure that capital instruments (including Additional Tier 1 and Tier 2 instruments) absorb losses at the point of non-viability of the issuing institution. Accordingly, the BRRD contemplates that resolution authorities may require the write down of such capital instruments in full or on a permanent basis, or their conversion in full into CET1 instruments, to the extent required and up to their capacity, at the point of non-viability immediately before the application of any other resolution action, if any.

The BRRD provides, inter alia, that resolution authorities shall exercise the write down power of reducing or converting at the point of non-viability of the issuing institution, according to an order of priority of credits in normal insolvency procedures, in a way that results in:

(i) CET1 instruments being written down in proportion to the relevant losses; and

(ii) the principal amount of other capital instruments being written down and/or converted into CET1 (Tier 1 and Tier 2 instruments).

Resolution authorities may also apply the bail-in tool to meet the resolution objectives, for any of the following purposes:

(i) to recapitalise an institution that meets the conditions for resolution to the extent sufficient to restore its ability to comply with the conditions for authorisation and to continue to carry out the activities for which it is authorised and to sustain sufficient market confidence in the institution or entity; or

(ii) to convert to equity or reduce the principal amount of claims or debt instruments that are transferred:

    (a) to a bridge institution with a view to providing capital for that bridge institution; or

    (b) under the sale of business tool or the asset separation tool.

When applying the bail-in tool, resolution authorities exercise the write-down and conversion powers meeting the following sequence:

1. Common Equity Tier 1;

2. Additional Tier 1 instruments;

3. Tier 2 instruments;

4. Other subordinated debt, in accordance with the normal insolvency hierarchy; and

5. Other eligible liabilities, in accordance with the normal insolvency hierarchy.

On 3 September 2016, the EC adopted the Delegated Regulation (EU) 2016/1450, of 23 May 2016, supplementing the BRRD regulatory technical standards, which entered into force on 23 September 2016, specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities. This directive requires that institutions meet the MREL to avoid excessive reliance on forms of funding that are excluded from bail-in or other resolution measures and prevent the risk of contagion to other institutions and "bank run" situations, since failure to meet the MREL would negatively impact the institutions' loss absorption and recapitalisation capacity and, ultimately, the overall effectiveness of resolution.

The MREL shall be calculated based on different components, namely:

- the loss absorption amount, based on the current capital requirements, including regulatory capital requirements (8% of RWA), the combined buffer requirements, and additional pillar 2 bank-specific requirements set by the supervisor;

- the recapitalisation amount (RCA), which aims to cover the capital requirements of the failing institution post-resolution, taking into account potential divestments and other resolution actions under the preferred resolution strategy, and the need to maintain sufficient market confidence; and

- adjustments to overall MREL target, namely the DGS adjustment, linked to any potential involvement of a DGS to protect insured depositors.

Resolution authorities may be able to require, on a case-by-case basis, the MREL to be wholly or partially composed of own funds or of a specific type of liabilities. Furthermore, the BRRD established a European system of financing arrangements to which each institution must contribute at least annually. The contribution of each institution shall be *pro-rata* to the amount of its liabilities (excluding own funds) less covered deposits, with respect to the aggregate liabilities (excluding own funds) less covered deposits of all the institutions authorised in the territory of a Member State. Those contributions shall also be adjusted in proportion to the risk profile of institutions.

The Single Resolution Board ("**SRB**") will engage with banking groups to draft a preferred resolution strategy, and an indicative MREL target will be set at consolidated level, subject to a phase in period. The phase in period, by decision of the SRB, can be extended over the initially envisaged 48 months, depending on the bank's and markets' underlying conditions. As further described in section C. Trends Information, the Bank has been notified by Banco de Portugal on the Single Resolution Board's decision regarding the MREL.

On 23 November 2016, the EC published proposals for certain amendments to the BRRD, which include certain proposals in relation to the quality and quantity of MREL required by European banks. On 16 April 2019, the European Parliament endorsed the provisional agreement reached, at the beginning of December 2018, during the political trilogues, between the EU Member States. The legislative texts still need to be formally adopted by the Council of the EU.

On 27 December 2017, Directive (EU) 2017/2399 of the European Parliament and of the Council, of 12 December 2017, amending the BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy was published in the Official Journal of the EU. The Directive entered into force on 28 December 2017 and was transposed to Portuguese legal framework by Law No. 23/2019, of 13 March, that also confers a preferential claim to all deposits vis-à-vis senior debt.

The SRM and SRF are regulated by Regulation (EU) No. 806/2014 of the European Parliament and of the Council, of 15 July 2014 ("**SRM Regulation**"), which also established the framework for recovery and resolution of credit institutions and the calculation method of the annual contributions for the funding of the resolution mechanism.

The main decision-making body of the SRM is the SRB which is responsible for:

(i) the planning and resolution phases of the Banking Union's cross-border and large banks, which are directly supervised by the ECB;

(ii) all resolution cases that require recourse to the SRF, irrespective of the size of the bank;

(iii) all banks in the Banking Union.

The SRM will work in close cooperation with, and will give instructions to, the national authorities of Member States, including Banco de Portugal, which is the national resolution authority in Portugal. The national authorities of participating Member States (including the Portuguese Republic) are responsible for planning and adopting resolution plans in respect of those banks for which the SRB is not directly responsible.

The SRF is financed through ex-ante contributions paid annually at individual level by all credit institutions within the Banking Union. Contributions to the SRF:

(i) take into account the annual target level of the SRF set by the SRB as well as the size and the risk profile of institutions;

(ii) are collected by national resolution authorities and transferred to the SRF by 30 June of every year (in accordance with Article 67(4) of the SRM Regulation and in accordance with the intergovernmental agreement on the transfer and mutualisation of contributions to the SRF ("**Intergovernmental Agreement**");

(iii) are calculated by the methodology as set out in the Commission Delegated Regulation (EU) 2015/63, of 21 October 2014 and the SRM Regulation; and

(iv) are calculated on the basis of the amount of liabilities deducted from the liability elements that belong to Tier 1 and additional own funds and the deposits covered by the Deposit Guarantee Scheme and subject to an adjustment in accordance with the risk profile of the participating institution, considering its solvability situation.

In 2015, following the establishment of the SRF, the Group made an initial EUR 31.4 million contribution. In accordance with the Intergovernmental Agreement, this amount was not transferred to the SRF but was used instead to partially cover the disbursements made by the Resolution Fund for resolution measures applied prior to the date of application of this Intergovernmental Agreement. Consequently, an equivalent amount will have to be transferred over a period of 8 years (starting in 2016) through periodic contributions to the SRF.

In accordance to SRM Regulation, the use of the SRF shall be contingent upon the entry into force of an agreement among the participating Member States on transferring the funds raised at national level towards the SRF as well as on a progressive merger of the different funds raised at national level to be allocated to national compartments of the SRF. This Regulation is applicable since 1 January 2016. As such, the SRF does not cover ongoing situations with the Resolution Fund as at 31 December 2015.

The Portuguese Resolution Fund

This fund consists of a resolution fund whose primary purpose has been to provide financial support for the application of resolution measures as determined by Banco de Portugal ("**Resolution Fund**"). The Resolution Fund foresees the participation of:

(i) credit institutions with a head office in Portugal, including the Bank;

(ii) branches of credit institutions in states that do not belong to the EU;

(iii) relevant companies for the management of payment systems subject to supervision of Banco de Portugal; and

(iv) certain types of investment companies.

Decree-Law No. 31-A/2012, of 10 February, which amended the Banking Law, also introduced, on terms subsequently amended by Law No 23-A/2015, of 26 March, the creation of the privileges accorded to claims associated with loans backed-up by deposits under the DGF, as well as credit secured by the DGF, the SICAM or the Resolution Fund, arising from the potential financial support that these institutions might give in the context of the implementation of resolution measures, within the limits of the applicable laws.

Pursuant to Banco de Portugal's Instruction No. 32/2018, of 19 December, in 2019 Portuguese banks will pay contributions to the Resolution Fund at a 0.057% base rate, which represents an increase from the 0.0459% rate applied in 2018.

Increases in the base rate in future years may reduce the Bank's profitability. The contribution of the Bank to the National Resolution Fund was EUR 12.1 million in 2018, EUR 8.5 million in 2017 and EUR 5.7 million in 2016. The ex-ante contributions for the Resolution Fund are calculated in the same way as the abovementioned SRF contributions are calculated.

According to Article 14(5) of Law No. 23-A/2015, of 26 March 2015, and without prejudice to the ex-ante and ex-post contributions regulated by the regime, further ex-ante and ex-post contributions can be charged for the Resolution Fund in accordance with the regime of Decree-Law no. 24/2013, of 19 February 2013, if these contributions are intended to enable the compliance with the obligations undertaken or to be undertaken by the Resolution Fund by virtue of having financially supported resolution measures until 31 December 2014.

Application of resolution measures to two Portuguese banks

Pursuant to the decision by Banco de Portugal on 3 August 2014 to apply to BES a resolution measure consisting in the transfer of most of its business to a bridge bank - the Novo Banco - the Resolution Fund participated in the recapitalisation of Novo Banco in the amount of EUR 4.9 billion. The Resolution Fund owned in full all of Novo Banco's initial equity, valued at EUR 4.9 billion as at 31 December 2015 (of which EUR 3.9 billion from a loan granted by the State, EUR 700 million from a loan granted by a group of credit institutions, including the Bank, that are members of the Resolution Fund, and the remaining amount from the mobilisation of resources available to the Resolution Fund).

As announced on 29 December 2015, Banco de Portugal transferred to the Resolution Fund the responsibilities arising from the "[...] *possible negative effects of future decisions, resulting from the resolution process (of BES), which result in liabilities or contingencies*".

On 7 July 2016, the Resolution Fund stated that it would analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3 August 2014. Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors whose credits have not been transferred to Novo Banco suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

On 4 January 2017, Banco de Portugal announced that Lone Star was the prospective purchaser best placed to successfully complete the negotiating process for the sale of Novo Banco. On 31 March 2017, Banco de Portugal made a communication on the sale of Novo Banco, where it stated the following:

"Banco de Portugal selected today the company LONE STAR to conclude the sale of Novo Banco. The sale agreement documentation was already signed by the Resolution Fund.

In accordance with the sale agreement, Lone Star will make capital injections into Novo Banco totalling 1,000 million Euros, 750 million Euros of which at the moment the operation is completed and 250 million Euros during the following 3 years. Via this capital injection, the company Lone Star will become the owner of 75% of the share capital of Novo Banco and the Resolution Fund will own the remaining 25%.

The conditions agreed also include the existence of a contingent capitalisation mechanism up to a maximum of EUR 3,890 million, according to which the Resolution Fund, as shareholder, commits to carry out capital injections if certain cumulative conditions materialise. These are related with: i) the performance of a defined group of assets of Novo Banco and ii) the performance shown by the bank's capitalisation levels.

The potential capital injections to be made in accordance with this contingent mechanism benefit from a capital buffer resulting from the capital injection to be made, in accordance with the terms and conditions of the operation, and are subject to an absolute maximum threshold.

The conditions agreed also foresee mechanisms to safeguard the interests of the Resolution Fund, to line up the incentives and supervision, despite the limitations resulting from the application of State aid rules.

The completion of the sale depends on receiving the usual regulatory authorisations (including from the European Central Bank and from the European Commission) and also on the execution of a liabilities management exercise, subject to the bondholders joining in, which will encompass the unsubordinated bonds of Novo Banco and generate at least 500 million Euros in own funds eligible for CET1, by offering new bonds."

The aforementioned "liability management exercise" was successfully completed on 4 October 2017.

On 1 September 2017, BCP announced that, after having conveyed reservations regarding the contingent capitalisation obligation by the Portuguese Resolution Fund (Fundo de Resolução) which was announced to be included in a sale agreement of Novo Banco, it had decided, in light of the legal deadline and as a precaution, to promote administrative legal proceedings with a view that it was subject to judicial review.

This process, which is centred exclusively on the capitalisation obligation referred to above, does not entail the suspension of the sale of Novo Banco, S.A. which was completed on 18 October 2017.

On 18 October 2017, according to a press release of Banco de Portugal, and following the resolution of the Council of Ministers no 151-A/2017, on 2 October 2017, Banco de Portugal and the Resolution

Fund concluded the sale of Novo Banco to Lone Star, with an injection by the new shareholder of €750 million, followed by a further injection of €250 million by the end of 2017.

As of this date, Novo Banco is held by Lone Star and the Resolution Fund, holding respectively 75% and 25% of the share capital.

On 28 March 2018, the Resolution Fund made a communication on the activation of the contingent mechanism, following the disclosure of the 2017 annual results by Novo Banco, totalling EUR 792 million.

On 24 May 2018 the Resolution Fund communicated having disbursed to Novo Banco the abovementioned funds, of which EUR 430 million stemming from a loan from the Portuguese State and the remaining amount from the Fund's own resources. The loan from the Portuguese State follows from a general framework agreement celebrated in October 2017 between the Resolution Fund and the State, in which a credit line of up to EUR 1000 million is provided to Resolution Fund subject to an annual limit of EUR 850 million. The loans mature in 31 December 2046.

In its 2018 annual results press release, Novo Banco states that "in connection with the impact of losses related to the sale and write-downs of legacy assets, Novo Banco will request a compensation of EUR 1,149 million under the existing CCA. 69% of this amount results from the losses incurred on the assets included in the CCA and 31% due to regulatory requirements for capital increase in the adjustment of the transitional period of capital ratios and to the impact of IFRS 9. On 1 March 2019, the Resolution Fund stated that the amount to be paid by the Resolution Fund in 2019 to Novo Banco under the CCA will be carried out after the legal certification of Novo Banco's accounts and following a verification procedure by an independent entity, to ascertain that the amount to be paid by the Fund has been correctly accounted for.

Novo Banco is held by Lone Star and the Resolution Fund, corresponding to 75% and 25% of the share capital respectively. According to publicly available information, the volume of litigation associated with the BES resolution process is high. The losses that the Resolution Fund may incur as a result of any such uncertainties (including, *inter alia*, litigation associated with the sale of Novo Banco and, in particular, the above-mentioned contingent capitalisation mechanism) have not been clearly quantified and, therefore, it is not possible as at this date to quantify the impacts that the resolution of BES may have on the Bank.

Banco de Portugal decided on 19 and 20 December 2015 to apply a resolution measure to Banco Internacional do Funchal S.A. ("**BANIF**"). In January 2013, BANIF was recapitalised by the Portuguese State in the amount of EUR 1,100 million (EUR 700 million in the form of special shares and EUR 400 million in hybrid instruments). BANIF was sold to Banco Santander Totta, S.A. ("**BST**") on 20 December 2015 but some of the assets and liabilities were transferred to a special purpose vehicle, Oitante, S.A., that, as at 30 June 2018, was held by the Resolution Fund. According to Banco de Portugal, the adjustments associated with the agreement between the Portuguese and European authorities and BST involved estimated public support to cover future contingencies, of which EUR 489 million contributed by the Resolution Fund, which was funded by a loan from the State. As at May 2018, this loan amounts to EUR 365 million.

On 28 September 2016, the Resolution Fund and the Ministry of Finance announced the extension of the EUR 3.9 billion loan originally granted to the Resolution Fund in 2014 for the financing of the resolution measure applied to BES. According to the Resolution Fund, the extension of the maturity of the loan ensures the capacity of the Resolution Fund to meet its obligations in full through its regular revenues, regardless of the positive or negative contingencies to which the Resolution Fund is exposed. Therefore, according to the Ministry of Finance, there would be no need to levy extraordinary contributions to finance the Resolution Fund, thereby contributing to broadly maintain the stability of contributions demanded of the banking sector at current levels and any increase or decrease in the responsibilities resulting from the materialisation of future contingencies will only determine the adjustment of the maturity of loans granted by the Portuguese State and by the participating banks to the Resolution Fund.

In March 2017, the conditions for loans granted by the Portuguese State to the Resolution Fund were altered. The maturity of the loans was revised to December 2046, so that the annual payment owed by the banks is met by the income from the regular contribution charged to the banking sector, keeping the banks' contributions similar to current levels.

The European Deposit Guarantee System

On 16 April 2014, the European Parliament and the Council adopted Directive 2014/49/EU on DGS ("**DGS Directive**"). The Directive encompasses the harmonisation of the funding mechanisms of DGS, the introduction of risk-based contributions and the harmonisation of the scope of products and depositors covered. In accordance with the DGS Directive, each credit institution should be part of a DGS recognised under this Directive, thereby ensuring a high level of consumer protection and a level playing field between credit institutions, while also preventing regulatory arbitrage. The DGS Directive sets the harmonised coverage level at EUR 100,000 and retains the principle of a harmonised limit per depositor rather than per deposit (such limit to be applied, in principle, to each identifiable depositor, except for collective investment undertakings subject to special protection rules). Each institution's contribution to DGS will be based on the amount of covered deposits and the degree of risk incurred by the respective member. The DGS Directive was transposed into the Portuguese law by Law no. 23-A/2015, of 26 March.

According to the BRRD, and consequently the Banking Law, with the amendments of Law No. 23-A/2015, of 26 March 2015, banks must ensure that by 3 July 2024 the financial resources available to a DGS amount to a target-level of 0.8% of the amount of DGF-covered deposits.

If, after this target level is reached for the first time, the available financial resources are reduced to less than two thirds of the target level, the ex-ante contributions are set by Banco de Portugal at a level that allows the target level to be reached within six years. If the available financial resources are not sufficient to reimburse the depositors, in the event of unavailability of deposits, DGS members must pay ex-post contributions not exceeding 0.5% of the DGF-covered deposits for the exercise period of the DGF. In exceptional circumstances, the DGS can request a higher amount of contribution with the approval of Banco de Portugal.

The exemption from the immediate payment of ex-ante contributions shall not exceed 30% of the total amount of contributions raised. This possibility depends on the credit institutions undertaking irrevocable payment commitments, to pay part of or the whole amount of the contribution which has not been paid in cash to the DGF, that are fully backed by collateral composed of low-risk assets unencumbered by any third-party rights and partly or wholly pledged in favour of the DGF at DGF's request.

The additional indirect costs of the deposit guarantee systems may be significant and can consist of costs associated with the provision of detailed information to clients about products, costs of compliance with specific regulations on advertising for deposits or other products similar to deposits.

J. Management, Audit Committee and Statutory Auditor

On 28 February 2012, the Bank adopted a one-tiered corporate governance model, with one Board of Directors within which there is an Executive Committee, an Audit Committee, a Remunerations and Welfare Board and a Board for International Strategy, plus a Statutory Auditor.

Board of Directors

According to the articles of association of the Bank, the Board of Directors is composed of a minimum of 15 and a maximum of 19 members, elected by the General Meeting of Shareholders.

The General Meeting of Shareholders held on 30 May 2018 approved the election of the Board of Directors for the 2018/2021 term of office, including the Audit Committee.

Currently, following persons exercise functions as members of the Board of Directors of BCP:

Chairman:	Nuno Manuel da Silva Amado
Vice-Chairmen:	Jorge Manuel Baptista Magalhães Correia Valter Rui Dias de Barros Miguel Maya Dias Pinheiro
Members:	Ana Paula Alcobia Gray Cidália Maria Mota Lopes João Nuno de Oliveira Jorge Palma José Manuel Alves Elias da Costa José Miguel Bensliman Schorcht da Silva Pessanha Lingjiang Xu Maria José Henriques Barreto de Matos de Campos Miguel de Campos Pereira de Bragança Rui Manuel da Silva Teixeira Teófilo César Ferreira da Fonseca Wan Sin Long Xiao Xu Gu

Positions held outside the Group by the abovementioned members of the Board of Directors that are relevant to the Group:

Name	**Position**	**Company**
Nuno Manuel da Silva Amado	Vice-Chairman	APB-Associação Portuguesa de Bancos (in representation of BCP)
	Member of the Supervisory Board	EDP-Energias de Portugal, S.A. (in representation of BCP)
	Member	Institut Internacional D'Études Bancaires
	Member of the Board of Auditors	Fundação Bial
	Effective member of the Plenary	Universidade de Lisboa
	Effective member	Conselho Económico e Social (CES)
Cidália Maria Mota Lopes	Professor and Member of the Scientific Board	Coimbra Business School - Instituto Superior de Contabilidade e Administração de Coimbra (ISCAC) on tax issues
	Invited Professor at the Masters Degree in Accounting and Finance	School of Economics of the University of Coimbra
	Member of the Scientific	Portuguese Fiscal Association

	Board	(AFP)
	Member of the Ethical Committee	Instituto Politécnico de Coimbra
Jorge Manuel Baptista Magalhães Correia	Chairman of the Executive Committee	Fidelidade – Companhia de Seguros S.A.
	Chairman of the Board of Directors	Luz Saúde, S.A.
	Member of the Board of Directors	REN- Redes Eléctricas Nacionais, SGPS, S.A.
José Miguel Bensliman Schorcht da Silva Pessanha	Vice-Chairman of the Board of Directors	Millenniumbcp Ageas Grupo Segurador, SGPS, S.A.
	Vice-Chairman of the Board of Directors	Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
	Vice-Chairman of the Board of Directors	Ocidental – Sociedade Gestora de Fundos de Pensões S.A.
Lingjiang Xu	Chairman of the Board of Directors	Longrun Portugal, SGPS, S.A.
	Member of the Board of Directors	Fidelidade – Companhia de Seguros, S.A.
Miguel de Campos Pereira de Bragança	Manager	Quinta das Almoínhas Velhas- Imobiliária Lda.
	Member of the Board	Fundação da Casa de Bragança
	Non-executive Member of the Board	SIBS, SGPS, S.A. and SIBS Forward Payment Solutions, S.A. (in representation of BCP)
	Member of Board	Unicre- Instituição Financeira de Crédito, S.A. (pending authorisation)
Miguel Maya Dias Pinheiro	Member of the Senior Board	Alumni Clube ISCTE
Rui Manuel da Silva Teixeira	Member of the Remunerations Committee	Unicre
	Member of the Board of Directors	Millenniumbcp Ageas Grupo Segurador, SGPS, S.A.
	Member of the Board of Directors	Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
	Member of the Board of Directors	Ocidental – Sociedade Gestora de Fundos de Pensões, S.A.
Valter Rui Dias de Barros	Coordinator of the Management Commission	Instituto de Gestão de Activos e Participações do Estado (IGAPE) (Angola)
Xiao Xu Gu (Julia Gu)	Senior Management	Fosun High Technology (Group) Co., Ltd.
	Chairman	Zhangxingbao (Shanghai) Network Technology Co., Ltd. (subsidiary of Fosun)
	Member of the Board of Directors	MYBank

To the best of the Issuer's knowledge, none of the abovementioned members of the Board of Directors of the Bank has any external activity relevant for the Bank other than the ones listed above.

For all the purposes resulting from the functions of the members of the Board of Directors, their professional domicile is at Av. Prof. Dr. Cavaco Silva (Parque das Tecnologias), Edifício 1, no. 32, Piso 2, 2744-256 Porto Salvo.

Executive Committee

Under the terms of the law and of the Articles of Association of the Bank, the Board of Directors appointed an Executive Committee on 24 July 2018, composed of six of its members, which performs all the Bank's current management functions that are not to be exercised by the Board of Directors. The members of the Executive Committee are as follows:

Chairman:	Miguel Maya Dias Pinheiro
First Vice-Chairman:	Miguel de Campos Pereira de Bragança
Second Vice-Chairman:	João Nuno de Oliveira Jorge Palma
Members:	José Miguel Bensliman Schorcht da Silva Pessanha Maria José Henriques Barreto de Matos de Campos Rui Manuel da Silva Teixeira

Audit Committee

Under the terms of the articles of association of the Bank, the Bank's supervision pertains to an Audit Committee elected by the General Meeting of Shareholders and composed of a minimum of three and a maximum of five members.

The Audit Committee, created in accordance with the provisions of number 1 of Article 278 of the Portuguese Companies Code and in accordance with Article 39 of the articles of association of the Bank, is particularly responsible for (amid the remaining powers attributed to it by law):

(a) Monitoring the Bank's management;

(b) Verifying the compliance with the law and the articles of association;

(c) Verifying the regularity of the books, accounting records and documents supporting them;

(d) Verifying the accuracy of the financial statements;

(e) Supervising the efficiency of the risk management system, the internal control system and the internal audit system;

(f) Receiving the communications stating irregularities reported by shareholders, employees of the Bank or others;

(g) Monitoring the preparation and disclosure of financial information;

(h) Proposing to the General Meeting of Shareholders the election of the Chartered Accountant and of the External Auditor;

(i) Supervising the audit of the annual report and financial statements of the Bank;

(j) Verify the Statutory Auditor's independence, namely regarding the rendering of non-audit services;

(k) Engaging the provision of services by experts to assist one or several of its members in the exercise of their functions. This engagement and the remuneration of the experts must take into account the importance of the issues committed to them and the Bank's economic situation; and

(l) Complying with all the other duties attributed to it by the law or by the Articles of Association.

The Audit Committee is composed of the following members:

Members:	Cidália Maria Mota Lopes
	Valter Rui Dias de Barros
	Wan Sin Long

Statements regarding the Members of Management and Supervision Bodies

To the best of the Issuer's knowledge and in its understanding, having made enquiries, there are no potential conflicts of interests between the duties of any member of the management and supervision bodies identified above towards the Issuer or towards any other Group company and his/her personal interests and duties. There are non-executive members of the Board of Directors with functions in other financial institutions that can be considered competitors of the Bank. For this situation, the General Meeting of Shareholders held on 28 February 2012 resolved to authorise the presence of those members in the Board of Directors, which was also authorised in the General Meeting of Shareholders held on 11 May 2015, and the General Meeting of Shareholders held on 30 May 2018, where the majority of the current members of the Board of Directors were elected, with the mention of the adoption of a restrictive regime of access to sensitive information.

Statutory Auditor

The current Statutory Auditor and External Auditor of the Bank, Deloitte & Associados SROC, S.A., and alternatively Carlos Luís Oliveira de Melo Loureiro, ROC No. 572, were elected at the General Meeting of Shareholders held on 21 April 2016, for the triennial 2016/2018, by a majority of 99.1233% and 94.9982% of the votes cast, respectively.

The term of office of the Statutory Auditor and External Auditor began on 5 May 2016, after the first quarter's financial statements were presented to the Board of Directors.

There are no potential conflicts of interest between the duties to the Bank of the persons listed above and their private interest or duties.

Evolution of the Solvency Ratio in 2018

The estimated CET1 ratio as at 31 December 2018 stood at 12.1% on a phased-in basis and 12.0% on a fully-implemented basis, -119 basis points and +11 basis points, respectively, comparing to the 13.2% and 11.9% ratios recorded in the same period of 2017 and above the minimum ratios defined in the SREP for 2018 (CET1 8.81%, Tier 1 10.31% and Total 12.31%). CET1 SREP requirement of 8.81% applied to 2018 and 9.625% is the CET1 SREP requirement for 2019.

The CET1 fully-implemented ratio’s favourable evolution was mainly determined by net income, partially offset by the IFRS9 adoption impact, by the deduction of irrevocable payment commitments for the Single Resolution Fund and the Deposits Guarantee Fund, and by the increase of the Risk Weighted Assets. The fully-implemented total capital ratio additionally benefited from the issuance of Tier 2 bonds by Bank Millennium and the Bank in December 2017.

SOLVENCY RATIOS

		Euro million
	31 Dec. 18	**31 Dec. 17**
FULLY IMPLEMENTED		
Own funds		
Common Equity Tier 1 (CET1)	5,024	4,738
Tier 1	5,103	4,809
Total Capital	**5,663**	**5,457**
Risk weighted assets	**41,814**	**39,799**
Solvency ratios		
CET1	12.0%	11.9%
Tier 1	12.2%	12.1%
Total capital	13.5%	13.7%
PHASED-IN		
CET1	12.1%	13.2%

Note: The capital ratios as at 31 December 2018 are estimated including the positive accumulated net income, not audited. The capital ratios as at 31 December 2017 include the positive accumulated net income.

THE PORTUGUESE MORTGAGE MARKET AND THE SERVICING OF THE COVER POOL

PORTUGUESE MORTGAGE MARKET

Since Portugal joined the EU in 1986, the country has steadily improved its living standards. GDP per capita in purchasing power has increased from less than 60% of the EU average in 1986 to 77% in 2017[19].

The EU integration process during the 1990s provided a favourable environment of political and financial stability, which was conducive to a strong expansion of the mortgage business in Portugal. The "EU convergence momentum" has moderated significantly since 2001 leading to a prolonged period of gradual adjustment in the construction business and weak housing dynamics.

The Portuguese economy has not been immune to the global recession. The abrupt change in global financial markets, mainly in relation to access to capital, coupled with high indebtedness levels, led the Portuguese government to request external assistance by mid-2011. From May 2011 to May 2014 Portugal was under a specific economic and adjustment programme that has entailed a wide range set of structural reforms, which were expected to allow for stable public finances and stronger economic growth over the long term.

Notwithstanding the longer term positive effects expected to emanate from the PAEF and its conclusion[20] in May 2014, the austerity coupled with adverse external and financial conditions significantly constrained the country's ability to grow in the 2011-2013 period. Following these three consecutive years of recession, the Portuguese economy has been recovering, supported by the growth of exports and less depressed levels of domestic demand. Between 2014 and 2018, the economic activity, measured by real GDP growth rate, grew near 10%[21] in accumulated terms and is expected to continue its recovery trend in 2019 supported by both external and internal demand.

In spite of recent improvements, the economic and financial context remains challenging for Portugal. Lower public spending, a higher tax burden and still stringent regulations are expected to continue to affect the mortgage markets. Business volumes, which have fallen significantly during the crisis, as demand collapsed and home supply adjusted downwards, showed signs of stabilization in the last months of 2018[22] and house prices are moving up.[23]

The outlook for mortgage markets is brighter on the back of the rebound in the overall economic activity and the meaningful deleverage achieved by households and consistent signs of an upswing in construction. The rental market is still undeveloped but is starting to gain importance after the reforms implemented during the PAEF, ending a string of years in which the demand and supply for own housing purposes was a key feature of EMU integration dynamics. In addition, foreign demand for housing, especially in the prime segment, has been a worth noting lever.

1. **Long-term developments**

The Portuguese economy has recorded a decent performance over the past 33 years, driven by the process of EU integration – "cohesion" (1986-1993) and then "convergence" (1993-1998) – but has lately shown some difficulties in adjusting to the monetary union (1999 to date).

19 Eurostat, March 2019
20 Statement by the EC, ECB and IMF on the Twelfth Review Mission to Portugal, 2 May 2014
21 Portugal's National Statistics Institute, March 2019
22 Bank of Portugal, March 2019
23 Portugal's National Statistics Institute, March 2019

During the first two phases, from the high levels of unemployment, inflation and public deficit recorded in the mid-1980s, Portugal managed to comply with the Maastricht criteria only ten years later. The country's unemployment rate declined from 9% to 4%; inflation dropped from close to 30% in 1985 to 2% in the late 1990s. Over those years, real GDP growth averaged 3.5% per year. The three-month Lisbon interbank offer rate moved from 10% in 1993 to about 3% by the end of the decade.

The ongoing deregulation and liberalisation of the banking and financial markets led to growing competition among market participants. Demand for residential property was strong. The growth rate of credit granted to households rose quickly for most of the 1990s, topping 38% year-on-year in 1998.

After 2000, the Portuguese economy convergence process stalled. The loss of the exchange rate instrument, greater emphasis on productivity gains and flexible markets and increasing competition all resulted in the Portuguese economy facing great difficulties in the global marketplace. At a domestic level, households' build-up of debt, uncertainty and fiscal policy constraints led to a downward adjustment of spending patterns. In sharp contrast with the 90s' performance, real GDP growth averaged only 0.9% from 2000 to 2009 (comparing with 1.7% for the Eurozone average)[24].

Despite a more adverse economic climate and the end of public subsidies for housing loans after 2002, housing loans continued to grow for most of the decade. More sophisticated scoring systems, judicious allocation of capital, strong home-ownership ratio and financial innovation contributed to easing households' financial burden and contain credit risks. Credit delinquency remained rather low throughout the period.

However, the degree of indebtedness across certain sectors of the economy, including households, continued to increase steadily. These circumstances put the Portuguese economy in a rather vulnerable position for what was to happen in 2007/2008 as the subprime meltdown morphed into a full-blown global financial crisis. This event severely restricted the access of Portuguese issuers to funding and unravelled a recession which, together with the eruption of the European sovereign debt crisis in 2010, provoked a jump in mortgage credit delinquency that greatly damaged the housing market. New mortgage lending collapsed, foreclosures spiked and house prices fell.

2. Current situation

(a) The economy

The intensification of the European sovereign crisis put the Portuguese debt-driven growth model to an end. Back in April 2011, the Portuguese government negotiated the PAEF with the IMF, the ECB and the EC envisioning a total of EUR 78 billion of institutional funding through 2014, conditional on Portugal achieving several goals in terms of consolidation of public finances, implementation of structural reforms and support to the financial system.

In the short term, the structural reforms and readjustment of the productive structure had a negative impact on Portuguese economic activity, which contracted by 7%, in accumulated terms, between 2011 and 2013[25].

However, as a result of the structural reforms and the fiscal consolidation, the economic situation eventually improved. Since the last quarter of 2013, the year-on-year GDP growth rates have turned positive, beginning a period of sustained recovery of economic activity, which has been supported by growth of exports, alongside an improving trend in domestic demand. Recently, the recovery gained further breadth, with GDP recording annual growth rates above 2.0% in 2017 and 2018[26]. In line with

---

[24] Portugal's National Statistics Institute and Bank of Portugal, September 2017
[25] Portugal's National Statistics Institute, March 2019
[26] Portugal’s National Statistics Institute, March 2019

the economy's recovery, the unemployment rate declined to 7.0% in 2018, after reaching a peak of 17.5% in the first quarter of 2013[27]. The consolidated value of the gross debt of the public administration declined from 130.6% of GDP in 2014 to 121.5% of GDP in 2018[28] and the public deficit, which was 11.2% of GDP in 2010, decreased to 3.0% in 2017[29] and to 0.5% in 2018[30]. The restructuring of balance sheets in both the public and private sectors, and growth in exports have helped to reduce the external imbalance, leading to significant improvements in current and capital account balances, which have been recording consecutive surpluses since 2012.[31]

In spite of recent improvements, the Portuguese economic context still presents risks. Externally, risks relate, in particular, to the possibility of a global economic slowdown in a context of greater volatility in international financial markets, and to political uncertainty associated with the fears regarding the integrity of the EU, amid the rise of populism and negotiations for the United Kingdom's exit from the EU, and to the intensification of geopolitical tensions worldwide.

These aspects, combined with internal risks related to the process of reducing private and public sector debt, the potential need to implement further structural reforms in the labour and products and services markets, the pressure of a still high tax burden on the real disposable income of families and companies, the possibility of political turbulence following the 2019-Fall parliamentary elections in Portugal, which may not give a parliamentary absolute majority to any of the parties, and the need to reduce the stock of non-performing loans, in order to improve the financial sector stability, represent a challenging economic and political environment.

(b) The housing market

The housing market has been stricken hard by the overall economic crisis as the demand for big tickets such as houses was sharply cut back in a context of high uncertainty, reduced income and a dearth of supply of mortgage financing. However, in 2013 this depressing trend started to give way to a recovery that has since been gaining considerable traction, benefiting from the rebound in the overall economic activity and a surge in the involvement of foreign investors in the residential real estate. As a result, the number and value of transactions in the residential real estate market have soared and house prices have risen strongly and consistently (the annual growth rate in 2016 and 2017 was 7.1% and 9.2%[32], respectively). The evolution of the demand for new housing loans has mirrored the trends of the overall housing market albeit with some lag as cash-only transactions gained considerable prominence. Residential permits issued and new dwellings completed, which had been declining since 2002, contributing to some rebalancing of the residential property market, have embarked on an upward trajectory since 2016. Credit delinquencies have recently been stabilizing, reflecting a marked improvement in the unemployment rate and historical low Euribor rates, the main indexer in Portuguese housing loans, which have mitigated the impact of higher prices on house affordability, thereby contributing to maintain mortgage instalments at low values.

Despite higher property prices, the demand for homes is expected to remain robust, reflecting the improvement of overall economic and financial conditions, the improvement in households' confidence indicators, and the steady decrease of households' indebtedness levels, which reduced from 93.9% of GDP in 2012 to 70.6% of GDP in 2018[33], and also the continued interest of non-residents in Portuguese housing market. The pace of house prices increase should, however, moderate as the supply of residential buildings picks up in response to the on-going dynamism of the housing sector as reflected in the improved confidence readings in the housing market.

27 Portugal’s National Statistics Institute, March 2019
28 Bank of Portugal, March 2019
29 Portugal’s National Statistics Institute, March 2019
30 Portugal’s National Statistics Institute, March 2019
31 Bank of Portugal, March 2019
32 Portugal's National Statistics Institute, March 2019
33 Bank of Portugal, March 2019

The residential mortgage market credit delinquency ranks below other credit segments, and has been moving downwards continuously after peaking in June 2016[34], though it still stands above the pre-crisis levels. The exceptionally low reference interest rates, the recovery of economic activity and the concomitant reduction in unemployment will probably keep nudging non-performing loans lower. Most of the mortgage lending is done at a variable interest rate, usually indexed to the average three-month or six-month Euribor, with a one-month lag. Although fixed-rate lending or capped-rate alternatives have been increasing, its share in the total outstanding mortgage book is still quite limited. The spread charged over the benchmark interest rate is a function of several factors: the individual's credit assessment; the loan-to-value level; the banking relationship; other collateral arrangements; and global market conditions. The widespread use of contracts at variable interest rate makes households exposed to interest rate risk. However, during the crisis this feature eased the debt servicing burden. Debt service capacity should continue to benefit from an overall environment of low interest rates and responsible lending policies.

The ratio of mortgages outstanding per nominal GDP moved upwards consistently, from slightly less than 20% at the end of 1995 to a peak of about 65% by the end of 2012[35]. Since then, the ratio has been falling and in 2018 it reached 46%.The mortgage business share in total lending to private individuals has grown over the years, standing currently slightly above 80% of total, at around EUR 93 billion (excluding securitised loans)[36]. Portuguese households have been steadily reducing their indebtedness ratios. In fact, household loans declined from almost 90% of disposable income in 2009 to 70% in 2017[37]. Moreover, taking into account the asset side, and according to Bank of Portugal's estimates, households' global financial situation is not as perilous as it might have seemed, as financial wealth is roughly three times higher than households' total financial debt, excluding real estate assets.

The residential mortgage legal framework has changed over the years, from a highly regulated market with few institutions qualified to grant mortgage loans, to a more liberal setting. Subsidised mortgage schemes were discontinued (2002) and the terms of the loan were liberalised (2005). In 2007 a cap on prepayment penalties, conditional on the type of interest rate indexer (variable or fixed), as well as specific rounding procedures for the interest rate charged were introduced. Lenders have to disclose a full set of the loan conditions when publicising product offers. This set of rules enhances both competition and transparency in the marketplace.

B. The Residential Mortgage business of the Bank

In 1992, the Bank established, in association with Cariplo, an autonomous residential mortgage bank – Banco de Investimento Imobiliário S.A. ("**BII**"). Until December 2000, all residential mortgage loan business generated by Bank's branch network and by BII's own branches was booked at and administered by BII. In December 2000, all residential mortgage loans granted by BII to clients of the Group were separated from BII's portfolio and migrated into the Bank's. Since then, the Bank has granted mortgage loans to its clients directly.

Origination

The Bank's residential mortgages are originated at branch level as a result of direct contact by borrowers. Until 2011, applications could also be submitted by real estate agents (which would nevertheless require customers to go to a branch to deliver the required information).

[34] Bank of Portugal, March 2019
[35] Bank of Portugal, March 2019
[36] Bank of Portugal, March 2019
[37] Bank of Portugal and Statistics Portugal, March 2019

Underwriting

The Bank's residential mortgage loan applications data and prospective borrowers' and guarantors' details are introduced at branch level through an electronic front-end system application linked to an automatic decision-making support process and an electronic underwriting and pricing workflow.

Appropriate behaviour or application probability of default ("**PD**") models (according to customer segment and risk portfolio) are embedded in the automatic decision-making support process and generate a credit risk rating assigned to the customer. As a general rule, PD models are calibrated annually. PD models performance is monitored by independent teams at Models Monitoring and Validation Cabinet (*Gabinete de Acompanhamento e Validação de Modelos*). Although rarely used, a rating override facility may be performed at the Rating Division (*Direção de Rating*).

Income checking is based on income tax statements or salary slips. Additional layers of risk assessment are considered in credit underwriting: filters (Bank of Portugal's Credit Bureau information, negative risk filters, product specifications, financial and real estate criteria), minimum down payment, loan-to-value ratio, risk assessment using PD models and Debt Service to Income ratio or assessment of financial available capacity using customers' financial information at the Bank.

Information available at the Bank of Portugal's credit bureau is checked automatically.

Electronic workflow where credit applications are automatically processed will define, according to the automatic decision-making support message and underwriting empowerment rules (defined per credit regulations), whether the underwriting decision will be made by credit officers at the branch or at the Credit Division (*Direção de Crédito*) and which commercial level will be establishing the pricing conditions.

The branch credit committee is empowered to underwrite by automated models according to predefined rules and constraints, if no filters apply, and taking also into account the customer's probability of default and additional underwriting criteria.

If the branch credit committee is not empowered to underwrite the credit risk, the loan application can be forwarded electronically to the Credit Division.

At the Credit Division, additional enquiries may be made, notably on borrowers' and guarantors' (if any) delinquency records at the Bank, information on total borrowings and credit in arrears or in default at the Bank of Portugal's credit bureau, bank accounts information on the Bank's Customer Information System, bank account statements at other banks and additional information collected by the branch officers (e.g. other assets owned by the client).

Underwriting decisions are sent electronically to the branch and, in the case of an "accept" decision, a real estate appraisal is automatically requested from a randomly selected independent appraiser. The Credit Division's agreed period of response is 48 hours.

The issue of a formal letter of approval, loan agreement contract and loan disbursement occurs only after confirmation of all data provided by the Contracting Area (*Direção de Operações – Departamento Operacional de Crédito*).

Insurance Cover

Life and property insurance coverage is required, although the former is waived in some exceptional cases. While life insurance covers the amount of the loan, property insurance covers the replacement cost of a reconstruction of the property.

Mortgage Products

Under the laws of the Portuguese Republic, since 2 November 2002 the maturity of new residential mortgage loans is freely agreed among the parties. The maturity of mortgage loans originated in the Group cannot exceed 40 years. Shorter maturity loans are common, with the most recent ones having an average maturity of approximately 34 years. The vast majority of residential mortgage loans pay interest on a floating rate basis indexed to three-month EURIBOR, with a spread depending on the LTV ratio and customer risk grade. Most loans, once fully drawn up, must be repaid in instalments, with payments of interest and principal being made by direct debit, usually on a monthly basis, although different amortisation profiles or interest-only payment periods may be agreed with the borrowers. Since 2013, the mortgage loan amount cannot exceed 90% of the purchase price in the property contract.

Arrears Procedures

In Retail Network, delinquencies persisting for less than 60 days are dealt with directly at branch level (this may be extended to 90 days if the customer only has overdrafts in his current account). Branch officials receive a daily report on arrears, on which they are expected to take appropriate action depending on their relationship with the borrower. Seven days after the first day of arrears the bank initiates a remote communication plan with the borrowers, using SMS, CAT and the Internet and all branches receive lists of these customers in their working lines (in the IT tool they use daily) in order to contact each of them. More recently, the bank has invested on increasing its effectiveness with the remote communication collecting procedures, using statistic decision models in order to define the load, channel and periodicity of those remote collecting attempts.

Once 60 days' overdue, loans are transferred to the retail recovery department. Everyday a centralised strategy team runs a segmentation decision tree on the newcomers, defining which team will be responsible for the next recovery actions. Customers can be segmented into 4 categories: Leasing (for customers with a leasing dominant exposure), SME's, individuals with collateralised loans and uncollateralised customers. On that same day, newcomers in the retail recovery department are distributed to the teams that are responsible for managing each segment.

When distributed, each team / recovery manager will apply the collections and recovery strategies that are defined for each segment. That may include phone contacts, emails and SMS in order to collect or restructure the loans in debt or even meetings with customers (although not very frequent). If these attempts are unsuccessful, the recovery manager will proceed to the judicial execution of the debt (if applicable), calling upon external lawyers.

Throughout the whole recovery process, a set of letters following a sequential pattern is sent to the borrower and any guarantors in order to inform the debtors of their failure to pay and facilitate the recovery process by warning them about the next steps.

The team that receives the customers for treatment and, usually, the same recovery manager, will be responsible for handling the recovery procedure until it ends, whether that happens with a recovery or with a write-off. This means the customer is managed on an end-to-end approach when in the retail recovery department.

USE OF PROCEEDS

The net proceeds resulting from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.

THE COVERED BONDS LAW

FRAMEWORK

The Covered Bonds Law introduced a framework for the issuance of asset covered debt securities into Portuguese law.

The Covered Bonds Law has been supplemented by secondary legislation issued by the Bank of Portugal (the "**Bank of Portugal Regulations**"), which comprises both regulations ("*Avisos*") and instructions ("*Instruções"*). The Bank of Portugal Regulations address matters such as the segregation of cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties.

ISSUERS OF COVERED BONDS

Mortgage covered bonds ("*obrigações hipotecárias*") may be issued by credit institutions (the "**Institutions**") legally authorised to grant credit guaranteed by mortgages over property and having own funds amounting to no less than EUR 7,500,000. Institutions can either be universal credit institutions ("**Credit Institutions**") or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (the "**Mortgage Credit Institutions**").

If the issuer of covered bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue covered bonds directly, maintaining the underlying cover pool on its balance sheet.

If the issuer of covered bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting, acquiring and selling (i) credits guaranteed by mortgages and (ii) credits to, or guaranteed by, the central public administration, regional or local authorities of any EU Member State. Mortgage Credit Institutions may thus issue covered bonds backed by credits originated by itself or otherwise acquired from third party originators.

In the event of insolvency, winding-up and dissolution of an Institution, the cover pool over which the holders of covered bonds have a special creditor privilege will be segregated from the insolvent estate of such Institution and will form an autonomous pool of assets managed in favour and to the benefit of the holders of covered bonds and other preferred creditors as specified in the Covered Bonds Law. In this respect, the Covered Bonds Law establishes a special regime which prevails over general Portuguese insolvency regulations.

If the cover assets are insufficient to meet interest and principal payments due on the covered bonds of the insolvent Institution, the holders of covered bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.

COVER ASSETS

The following assets are eligible to collateralise issues of covered bonds made by an Institution in accordance with the Covered Bonds Law:

- Pecuniary credit receivables secured by a Mortgage and/or any Additional Security which are not yet matured, and which are neither subject to conditions nor encumbered, judicially seized or apprehended, and

  (a) which are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State; or

(b) are secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or

(c) are secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing paragraph (a) or (b) above.

- Other assets (up to 20% of the aggregate cover pool), such as:

  (a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem;

  (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating of at least "A-" or equivalent; and

  (c) other assets complying simultaneously with the requisites of low risk and high and high liquidity as defined by the Bank of Portugal.

The geographical scope of eligible assets is restricted to credits guaranteed by mortgages on property located in the EU.

Hedging contracts may also be included in the cover pool for hedging purposes, namely to hedge interest rate, exchange rate and liquidity risks. The Bank of Portugal Regulations contain certain rules governing the limits and conditions for the use of these hedging contracts.

The cover pool is of a dynamic nature. Accordingly, the Institution may be required, or may otherwise decide, to include new assets in such cover pool or substitute assets in case the existing ones no longer comply with the applicable financial and prudential requirements.

Furthermore, an Institution is required by the Covered Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts.

VALUATION AND LTV CRITERIA

Institutions are required to conduct valuations of mortgage properties and periodic updates of such valuations in accordance with the rules defined by the Bank of Portugal (in particular, pursuant to Regulation 5/2006, which establishes rules on the methods and frequency of the valuations of assets and derivatives).

The maximum Loan to Value for residential mortgages is 80% and 60% for commercial mortgages loans.

The value of each property securing a mortgage credit comprised in a cover pool corresponds to the commercial value of such property, determined in accordance with criteria of prudence and taking into consideration (i) the sustainable long term characteristics of such property, (ii) the standard conditions of the local market, (iii) the current use of the relevant property, and (iv) any alternative uses of each such property.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by an issuer of covered bonds to each of the properties securing mortgage credits comprised in a cover pool may not be higher than the market value of the relevant properties. For these purposes, the market value of each property corresponds to the price by which such property can be purchased by a third party purchaser on the date of the valuation of such property, assuming that (i) the property is publicly put on sale, (ii) the market conditions allow for a regular transfer of the property and (iii) there is a normal period of time to negotiate the corresponding purchase and sale, considering the nature of the property.

Regulation 5/2006 contains detailed provisions regarding valuation of properties securing mortgage credits included in a cover pool (including subsequent valuations), the methods and frequency for such valuations, the appointment, remuneration and role of the real estate valuation experts and transitional provisions concerning valuations made prior to the enactment of the Bank of Portugal Regulations.

ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS

The Covered Bonds Law and the Bank of Portugal Regulations establish asset and liabilities matching requirements namely, the global nominal value of the outstanding covered bonds cannot exceed 95% of the global value of the mortgage credits and other assets at any time comprised in the relevant cover pool.

- The average maturity of outstanding mortgage covered bonds cannot exceed the average maturity of the mortgage credits and substitution assets allocated to the relevant issue of covered bonds.

- The total amount of interest to be paid by an Institution under any covered bonds shall not exceed, at any time, the amount of interest to be collected from the mortgage credits and other assets comprised in the corresponding cover pool – this means, therefore, that under the Covered Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of covered bonds.

- The net present value of the liabilities arising from issues of covered bonds pursuant to the Covered Bonds Law cannot exceed the net present value of the cover pool allocated to such covered bonds, including any hedging contracts also comprised in the cover pool. This ratio must also be met for 200 basis points parallel shifts in the yield curve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

(i) the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;

(ii) the covered bonds shall be accounted according to the nominal value of outstanding principal, including accrued but unpaid interest; and

(iii) in relation to any other assets:

 (a) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

 (b) securities eligible for Eurosystem credit transactions shall be accounted for under margin valuation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant covered bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the provision of liquidity in connection with the liabilities arising under the covered bonds. The credit facility counterparty must have a minimum credit rating of "A-" or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated "A-" or above. If a particular issue of covered bonds is denominated in a currency other than the currency of the Cover

Pool, the Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (i) allocating new mortgage credits, (ii) purchasing outstanding covered bonds in the secondary market and/or (iii) allocating other eligible assets.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law and the Bank of Portugal Regulations, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or pledged if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and any redemptions occurred.

COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

Also, a common representative of the holders of the covered bonds must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS

Asset segregation

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. This information will be deposited with the Bank of Portugal in the form of a code key. If the holders of covered bonds decide to accelerate the relevant covered bonds pursuant to article 4 paragraph 5 of the Covered Bonds Law, the common representative of such holders shall request the Bank of Portugal to disclose the information associated with such code key.

The assets included in the register maintained by the Institution will form a segregate estate over which the holders of the covered bonds will have a special creditor privilege ("*privilégio creditório*"), in particular in the case of winding-up and dissolution of the Institution.

In the event of insolvency of the Institution, the assets allocated to one or more issues of covered bonds will be segregated from the corresponding insolvent estate and will be managed autonomously by a third party until full payment of the amounts due to the holders of covered bonds. In any case, and even if the Institution is declared insolvent, the Covered Bonds Law determines that timely payments of interest and reimbursements under the covered bonds shall continue to be carried out.

In the case of voluntary dissolution of an Institution, the plan for such dissolution and winding-up, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Banking Law, shall identify a Substitute Credit Institution appointed to (i) manage the relevant cover pool allocated to the covered bonds outstanding, and (ii) ensure that the payments of any amounts due to the holders of such covered bonds are made. Such project shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following insolvency of the Institution shall: (i) immediately upon being appointed, prepare an opening balance sheet in relation to the cover pool, supplemented by the corresponding explanatory notes; (ii) perform all acts and things necessary or convenient for the prudent management of the cover pool, including, without limitation, selling the mortgage credits comprised in the cover pool; ensuring the timely collection in respect of the mortgage assets comprised in the cover pool; and performing all other acts and administrative services in connection with such mortgage assets and related mortgages and additional security; (iii) maintain and keep updated a segregated register of the cover pool in accordance with the Covered Bonds Law; and (iv) prepare an annual financial report in relation to the cover pool and the outstanding covered bonds, which report shall be the subject of an auditing report produced by an independent auditor who shall be appointed as cover pool monitor by the Substitute Credit Institution.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following the insolvency of an Institution shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under the mortgage credits comprised in the relevant cover pool.

Preferential status for covered bonds holders

Pursuant to the Covered Bonds Law, holders of covered bonds benefit from a special creditor privilege over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant covered bonds.

The mortgages that serve as collateral for the entitlements of the holders of covered bonds prevail over any real estate preferential claims. If the assets comprised in the cover pool are not enough to pay interest and principal under the covered bonds, the holders of covered bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege over such cover pool.

Accordingly, these counterparties will have similar rights to those of the holders of the covered bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of all Series of Covered Bonds then outstanding may decide, by a 2/3 majority vote, to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant covered bonds in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such Covered Bonds.

TAXATION

Portugal

The following is a general summary of the Issuer's understanding of current law and practice in Portugal as in effect on the date of this Base Prospectus in relation to certain current relevant aspects to Portuguese taxation of the Covered Bonds and is subject to changes in such laws, including changes that could have a retroactive effect. Potentially applicable transitional rules have not been considered. The following summary is intended as a general guide only and is not exhaustive. It is not intended to be, nor should it be considered to be, legal or tax advice to any holder of Covered Bonds. It neither takes into account nor discusses investors' individual circumstances or the tax laws of any country other than Portugal, and it relates only to the position of persons who are absolute beneficial owners of the Covered Bonds. Prospective investors are advised to consult their own tax advisers as to the Portuguese or other tax consequences of the purchase, ownership and disposal of Covered Bonds. Tax consequences may differ according to the provisions of different double taxation treaties, as well as according to a prospective investor's particular circumstances.

The reference to "interest", "other investment income" and "capital gains" in the paragraphs below means "interest", "other investment income" and "capital gains" as understood in Portuguese tax law. The statements below do not take into account different definitions of "interest", "other investment income" or "capital gains" which may prevail under any other law or which may be used in the Terms and Conditions of the Covered Bonds or any related documentation.

Economic benefits derived from interest, amortisation, reimbursement premiums and other instances of remuneration arising from the Covered Bonds are designated as investment income for Portuguese tax purposes. In the case of zero coupon Covered Bonds, the difference between the redemption value and the subscription cost is regarded as investment income and is taxed accordingly.

Gains obtained with the repayment of Covered Bonds or of any other debt securities are qualified as capital gains for Portuguese tax purposes.

1. Covered Bonds not held through a centralised control system

Portuguese resident holders and non-resident holders with a Portuguese permanent establishment

Interest and other types of investment income obtained on Covered Bonds by a Portuguese resident individual is subject to withholding tax at 28%, which, if such income is not earned as business or professional income, is the final tax on that income unless the individual elects to include it in his/ her taxable income subject to tax at progressive rates of up to 53%.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35%, unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

In the case of zero coupon Covered Bonds, the difference between the redemption value and the subscription cost is regarded as investment income and is taxed accordingly.

Gains obtained on the disposal or the refund of the Covered Bonds by an individual resident in Portugal for tax purposes are subject to Portuguese capital gains taxation on the positive difference between such gains and gains on other securities and losses in securities. Tax applies at 28%, which is the final tax on that income, unless the individual elects to include it in his/her taxable income, subject to tax at progressive rates of up to 53%. Accrued interest qualifies as interest for tax purposes.

Stamp tax at 10% applies to the acquisition through gift or inheritance of Covered Bonds by an individual who is domiciled in Portugal. An exemption applies to transfers in favour of the spouse (or person living together as spouse), descendants and parents/grandparents.

Interest or other investment income derived from the Covered Bonds and capital gains realised with the transfer of the Covered Bonds by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable profits and are subject to corporate tax at 21% or 17% on the first EUR 15,000 in the case of small and medium-sized enterprises and may be subject to a municipal surcharge ("*derrama municipal*") of up to 1.5%. A state surcharge ("*derrama estadual*") also applies at 3% on taxable profits in excess of EUR 1,500,000 up to EUR 7,500,000, at 5% on taxable profits in excess of EUR 7,500,000 up to EUR 35,000,000 and at 9% on taxable profits in excess of EUR 35,000,000.

Withholding tax at 25% applies to interest and other investment income, which is deemed a payment on account of the final tax due. The withholding (and final) tax rate is 21% in the case of entities benefiting from a tax exemption under Articles 9 and 10 of the corporate tax code that does not apply to investment income.

Financial institutions, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds, collective investment undertakings and some exempt entities, among other entities, are not subject to withholding tax.

The acquisition of Covered Bonds through gift or inheritance by a Portuguese resident legal person or a non-resident acting through a Portuguese permanent establishment is subject to corporate income tax at 21% or 17% on the first EUR 15,000 in the case of small and medium-sized enterprises and may be subject to a municipal surcharge ("*derrama municipal*") of up to 1.5%. A state surcharge ("*derrama estadual*") also applies at 3% on taxable profits in excess of EUR 1,500,000 up to EUR 7,500,000, at 5% on taxable profits in excess of EUR 7,500,000 up to EUR 35,000,000 and at 9% on taxable profits in excess of EUR 35,000,000.

There is neither wealth nor estate tax in Portugal.

Non-resident holders without a Portuguese permanent establishment

Interest and other types of investment income obtained by non-resident holders without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at 28% (individuals) or 25% (legal persons), which is the final tax on that income. The rate is 35% in the case of individuals or legal persons domiciled in a country, territory or region included in the "tax havens" list approved by Ministerial Order No. 150/2004 of 13 February 2004, as amended from time to time (hereafter "**Ministerial Order No. 150/2004**").

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35%, unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Under the tax treaties entered into by Portugal, the withholding tax rate may be reduced to 15, 12, 10 or 5%, depending on the applicable treaty and provided that the relevant formalities (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income) are met.

The reduction may apply at source or through the refund of the excess tax. The forms currently applicable for these purposes were approved by Order ("*Despacho*") No. 4743-A/2008 (2nd series), as rectified on 29 February 2008, published in the Portuguese official gazette, 2nd series, No. 43, of 29 February 2008 of the Portuguese Minister of State and Finance and may be available for viewing at www.portaldasfinancas.gov.pt.

According to information provided by Euroclear and Clearstream, Luxembourg (the "**ICSDs**"), the ICSDs do not offer any tax relief to the holders of Covered Bonds (other than Book Entry Covered Bonds) issued by the Bank acting through its head office.

Interest paid to an associated company of the Bank which is resident in the European Union is exempt from withholding tax.

For these purposes, an "**associated company of the Bank**" is:

(i) A company which is subject to one of the taxes on profits listed in Article 3 (a) (iii) of Council Directive 2003/49/EC without being exempt, which takes one of the forms listed in the Annex to that Directive, which is considered to be resident in an EU Member State and is not, within the meaning of a double taxation convention on income concluded with a third state, considered to be resident for tax purposes outside the European Community; and

(ii) Which holds a minimum direct holding of 25% in capital of the Bank, or is directly held by the Bank in at least 25% or which is directly held in at least 25% by a company which holds at least 25% of the capital of the Bank; and

(iii) Provided that the holding has been maintained for an uninterrupted period of at least two years. If the minimum holding period is met after the date the withholding tax becomes due, a refund may be obtained.

The associated company of the Bank to which payments are made must be the beneficial owner of the interest, which will be the case if it receives the interest for its own account and not as an intermediary, either as a representative, a trustee or authorised signatory, for some other person.

Capital gains obtained on the disposal or the refund of the Covered Bonds by an individual non-resident in Portugal for tax purposes are subject to Portuguese capital gains taxation on the positive difference between such gains and gains on other securities and losses in securities. Tax applies at 28%. An exemption applies to non-resident individuals, unless they are resident in a country, territory or region included in Ministerial Order No. 150/2004. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis. Accrued interest qualifies as interest for tax purposes.

Gains obtained on the disposal or the refund of Covered Bonds by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the holder is (a) more than 25% directly or indirectly, held by Portuguese resident entities or (b) if the holder is resident in a country, territory or region subject to a clearly more favourable tax regime included in Ministerial Order No. 150/2004. Accrued interest qualifies as interest for tax purposes. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

No stamp tax applies to the acquisition through gift and inheritance of Covered Bonds by an individual who is not domiciled in Portugal.

The acquisition of Covered Bonds through gift or inheritance by a non-resident legal person is subject to corporate tax at 25%. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

There is neither wealth nor estate tax in Portugal.

2. Covered Bonds held through a centralised control system

The regime described above corresponds to the general tax treatment of investment income and capital gains on Covered Bonds and to the acquisition through gift or inheritance of such Covered Bonds.

Nevertheless, pursuant to the Special Taxation Regime for Debt Securities, approved by Decree-Law No. 193/2005, of 7 November 2005, as amended from time to time (hereafter "**the special regime approved by Decree-Law No. 193/2005**"), investment income and gains on the disposal or the refund of debt securities issued by Portuguese resident entities, such as the Covered Bonds, may be exempt from Portuguese income tax, provided that the debt securities are integrated in a centralised system managed by Portuguese resident entities (such as the Central de Valores Mobiliários, managed by Interbolsa), by other European Union or European Economic Area entities that manage international clearing systems (in the latter case if there is administrative co-operation for tax purposes with the relevant country which is equivalent to that in place within the European Union), or, when authorised by the member of the government in charge of finance (currently the Finance Minister), in other centralised systems and:

(i) the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and

(ii) the beneficial owners are central banks and government agencies, international organisations recognised by the Portuguese state, residents in a country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force or other non-resident entities which are not domiciled in a country, territory or region subject to a clearly more favourable tax regime included in Ministerial Order No. 150/2004.

The special regime approved by Decree-Law No. 193/2005 sets out the detailed rules and procedures to be followed on the proof of non-residence by the holders of Covered Bonds to which it applies.

Under these rules, the direct register entity is to obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity that is entitled to the exemption. As a general rule, the proof of non-residence by the holders of Covered Bonds should be provided to, and received by, the direct register entities prior to the relevant date for payment of any interest, or the redemption date (for zero coupon Covered Bonds), and, in the case of domestically cleared Covered Bonds, prior to the transfer of Covered Bonds, as the case may be.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Base Prospectus.

(a) Domestically Cleared Covered Bonds

The beneficial owner of Covered Bonds must provide proof of non-residence in Portuguese territory substantially in the terms set forth below.

(i) If a holder of Covered Bonds is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese state, a declaration of tax residence issued by the holder of Covered Bonds, duly signed and authenticated or proof pursuant to paragraph (iv) below;

(ii) If the beneficial owner of Covered Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the holder of Covered Bonds and its domicile; or (C) proof of non residence, pursuant to the terms of paragraph (iv) below;

(iii) If the beneficial owner of Covered Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence and the law of incorporation; or (B) proof of non-residence pursuant to the terms of paragraph (iv) below;

(iv) In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant Tax Authorities; or (B) a document issued by the relevant Portuguese consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable.

There are rules on the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the holder of Covered Bonds must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3-year period starting on the date such document is issued. The holder of Covered Bonds must inform the register entity immediately of any change that may preclude the tax exemption from applying. In the other cases, proof of non-residence is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption.

(b) Internationally Cleared Covered Bonds

If the Covered Bonds are registered in an account with an international clearing system, prior to the relevant date for payment of any interest or the redemption date (for Zero Coupon Covered Bonds), the entity managing such system is to provide to the direct register entity or its representative the identification and number of securities, as well as the income and, when applicable, the tax withheld, itemised by type of beneficial owner, as follows: (i) Portuguese resident entities or permanent establishments of non-resident entities to which the income is attributable which are not exempt from tax and are subject to withholding tax; (ii) Entities domiciled in a country, territory, or region subject to a clearly more favourable tax regime included in Ministerial Order No. 150/2004, which are not exempt from tax and are subject to withholding tax ; (iii) Portuguese resident entities or permanent establishments of non-resident entities to which the income is attributable which are exempt from tax and are not subject to withholding tax; (iv) other non-Portuguese resident entities.

In addition, the international clearing system managing entity is to provide to the direct register entity, in relation to each income payment, at least the following information concerning each of the beneficiaries mentioned in items (i), (ii) and (iii) above: name and address, tax identification number, if applicable, identification of the securities held and amount thereof and amount of income.

No Portuguese exemption shall apply at source under the special regime approved by Decree-Law No. 193/2005 if the above rules and procedures are not followed. Accordingly, the general Portuguese tax provisions shall apply as described above.

If the conditions for an exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the regime approved by Decree-Law No. 193/2005.

The refund claim is to be submitted to the direct or indirect register entity of the Covered Bonds within 6 months from the date the withholding took place.

The refund of withholding tax in other circumstances or after the above 6 months period is to be claimed to the Portuguese Tax Authorities within 2 years from the end of the year in which tax was withheld. The refund is to be made within 3 months, after which interest is due.

The forms currently applicable for the above purposes were approved by Order ("*Despacho*") No. 2937/2014 of the Portuguese Secretary of State for Tax Affairs, published in the Portuguese official gazette, 2nd series, No. 37, of 21 February 2014 and may be available for viewing and downloading at www.portaldasfinanças.gov.pt.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Portugal) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. The United States has reached a Model 1 intergovernmental agreement with Portugal, signed on 6 August 2015 and ratified by Portugal on 5 August 2016 which is already in force. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA with respect to payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on Covered Bonds, such withholding would not apply prior to 1 January 2019 and Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Covered Bonds as described under *Terms and Conditions of the Covered Bonds – Further Issues* that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Portugal has implemented, through Law 82-B/2014, of 31 December 2014 and Decree-Law 64/2016, of 11 October 2016, the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the "**Financial Reporting Regime**") in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America. Ministerial Order 302-A/2016, of 2 December 2016, has approved the relevant forms to use to comply with such reporting obligations.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in Covered Bonds.

The Issuer is not obliged to gross up any amounts which may be withheld or deducted pursuant to FATCA.

The proposed financial transactions tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate. Joint statements by participating Member States indicated an intention to implement the FTT by 1 January 2016, which did not take place.

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

Administrative co-operation in the field of taxation

Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including depositary and custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers not only to personal information such as name, address, state of residence, tax identification number and date and place of birth, but also to the account balance at the end of the calendar year, and (a) in case of depository accounts, the total gross amount of interest paid or credited to the account during the calendar year; or, (b) in the case of custodial accounts, the total gross amount of interest, dividends and any other income generated, as well as the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

Portugal has implemented Directive 2011/16/EU through Decree-Law No. 61/2013, of 10 May 2013. Also, Council Directive 2014/107/EU was implemented through Decree-Law No. 64/2016, of 11 October 2016. Recently, Law no. 17/2019, of 14 February 2019, introduced the regime for the automatic exchange of financial information to be carried out by financial institutions to the

Portuguese Tax Authority with respect to accounts held by holders or beneficiaries resident in the Portuguese territory with a balance or value that exceeds € 50,000. This regime covers information related to years 2018 and following.

SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS AND SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement dated 15 May 2019, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds.

In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws or “blue sky laws” of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Covered Bonds are initially being offered and sold only outside the United States in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

The Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. The applicable Final Terms (or, in the case of Exempt Covered Bonds, the applicable Pricing Supplement) will identify whether TEFRA C rules apply or whether TEFRA is not applicable.

Each Dealer has agreed (and each further Dealer named in a Final Terms will be required to agree) that it will not offer or sell Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of which such Covered Bonds are part, as determined and certified to the Agent by such Dealer (in the case of a non-syndicated issue) or the relevant Lead Dealer (in the case of a syndicated issue) within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act, and it will have sent to each dealer to which it sells Covered Bonds during the Distribution Compliance Period a confirmation or other notice setting out the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have meanings given to them by Regulation S.

Accordingly, the Notes are being offered and sold only outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S.

Until 40 days after the completion of the distribution of all Covered Bonds of the Tranche of which such Covered Bonds are a part, an offer or sale of the Covered Bonds within the United States by any dealer whether or not participating in the offering of such Tranche may violate the registration requirements of the Securities Act.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**"). Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Prohibition of sales to EEA Retail Investors

Unless the Final Terms in respect of any Covered Bonds (or Pricing Supplement, in the case of Exempt Covered Bonds) specify "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression retail investor means a person who is one (or more) of the following:

 (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

 (ii) a customer within the meaning of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016, on insurance distribution (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

 (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

If the Final Terms in respect of any Covered Bonds (or Pricing Supplement, in the case of Exempt Covered Bonds) specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor, as defined in the Prospectus Directive;

(b) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in paragraphs (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Covered Bonds**" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Covered Bonds in, from or otherwise involving, the United Kingdom.

Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree-Law No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999 as amended from time to time (Regulation No. 11971); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under paragraph (i) or (ii) above must:

(A) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree-Law No. 385 of 1 September 1993, as amended (the "**Banking Act**"); and

(B) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article

129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

Portugal

In relation to the Covered Bonds each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Covered Bonds may not be and will not be offered to the public in Portugal under circumstances which are deemed to be a public offer ("*oferta pública*") under the Portuguese Securities Code (*Código dos Valores Mobiliários*) enacted by Decree-Law No. 486/99, of 13 November 1999, as amended (or under any legislation which may replace or complement it in this respect from time to time), unless the requirements and provisions applicable to the public offerings in Portugal are met and the registration or approval by the Portuguese Securities Market Commission ("*Comissão do Mercado de Valores Mobiliários*" ("**CMVM**")) is obtained or a recognition procedure is made with the CMVM. In addition, each Dealer has represented and agreed, an each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer ("*oferta pública*") of securities pursuant to the Portuguese Securities Code (or under any legislation which may replace or complement it in this respect from time to time), notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; or (ii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Base Prospectus or any other offering material relating to the Covered Bonds to the public in Portugal other than in compliance with all applicable provisions of the Portuguese Securities Code (or under any legislation which may replace or complement it in this respect from time to time), any regulations implementing the Prospectus Directive, and any applicable CMVM regulations and all relevant Portuguese securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Covered Bonds by it in Portugal or to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be including the publication of a base prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

France

Each Dealer and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has only made and will only make an offer of Covered Bonds to the public in France following the notification of the approval of this Base Prospectus to the *Autorité des marchés financiers* ("**AMF**") by the Central Bank of Ireland and in the period beginning on the date of the publication of the Final Terms relating to the offer of Covered Bonds and ending at the latest on the date which is 12 months after the date of the approval of this Base Prospectus by the Central Bank of Ireland, all in accordance with Articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF; or

(b) it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2, D.411-1 and D.411-3 of the French *Code monétaire et financier*.

General

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will, to the best of its knowledge, comply with all relevant securities laws, regulations and directives in each jurisdiction, in particular **Australia**, **South Africa** and **Canada**, in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefor.

Secondary Market Arrangements

The Issuer may enter into agreements with Dealers or other persons in relation to a Tranche or Series of Covered Bonds whereby such Dealers may agree to provide liquidity in those Covered Bonds through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements may agree to quote bid and offer prices for the relevant Covered Bonds at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Covered Bonds under the Programme will benefit from such agreements.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 7 May 2007, in accordance with the provisions of the Covered Bonds Law. The updates of the Programme were duly authorised by resolutions of the Board of Directors of the Issuer dated 17 July 2008, 21 July 2009, 19 April 2010 and by resolutions of the Executive Committee of the Issuer dated 19 June 2012, 10 July 2013, 5 August 2014, 20 October 2015, 13 December 2016 and 8 May 2019 in accordance with the provisions of the Covered Bonds Law.

Listing

Application has been made to Euronext Dublin for Covered Bonds issued under the Programme during the period of twelve months from the date of this Base Prospectus to be admitted to the Official List and to trading on its regulated market.

Clearing system

The Covered Bonds have been accepted for clearance through Interbolsa. The appropriate ISIN for each Tranche of Covered Bonds allocated by Interbolsa (and the appropriate Common Code for each such Tranche allocated by Euroclear or Clearstream, Luxembourg) will be specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Covered Bonds).

Any other relevant financial instrument codes, such as a Classification of Financial Instruments code ("**CFI**") and a Financial Instrument Short Name code ("**FISN**"), may also be specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Covered Bonds).

Yield

In relation to any Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price, using the formula set out below. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

$$P = \frac{C}{r}\left(1 - \left(1 + r\right) - n + A\left(1 + r\right) - n\right)$$

where:

"P" is the Issue Price of the Covered Bonds;

"C" is the annualised amount of interest payable;

"A" is the principal amount of Covered Bonds due on redemption;

"n" is time to maturity in years; and

"r" is the annualised yield.

Significant or material change

There has been no significant change in the financial or trading position of the Group since 31 March 2019. There has been no material adverse change in the prospects of the Issuer since the date of the last audited accounts, 31 December 2018[38].

Litigation

1. In 2012, the Portuguese Competition Authority initiated an administrative proceeding relating to competition restrictive practices. During the investigations, on 6 March 2013, several searches were conducted in the Bank's premises, as well as to at least eight other credit institutions, where documentation was seized in order to investigate allegations of exchange of privileged commercial information among Portuguese banks.

   The Portuguese Competition Authority has declared the administrative proceeding to stay under judicial secrecy, once it considered that the interests dealt with in the investigation, as well as the parties' rights, would not be compatible with the publicity of the process. On 2 June 2015, the Bank was notified of the Portuguese Competition Authority's notice of illegality in connection with an administrative offence, by which the Bank is accused of participating in an information exchange between banks of the system related to prices already approved and housing and consumer credit operations already granted or approved. In light of the accusations, the Bank filed a response to the note of illegality, to which may follow a judicial appeal. Note that the notification of a note of illegality does not constitute a final decision in relation to the accusations. According to the terms foreseen in the law, the illicit under investigation in this administrative proceeding may be punished with a fine up to a maximum limit of 10% of the defendant's annual consolidated turnover with reference to the year preceding the decision. However, judicial appeal against such decision is possible. In October 2016, the Lisbon Court of Appeals overruled an earlier decision by the Competition, Regulation and Supervision Court to suspend the Competition Authority's investigation.

   On 4 July 2017, the Competition Authority notified the Bank on the decision regarding the withdrawal of the suspension concerning the access to documents deemed as confidential and of the extension of the term for the making of a decision on the illicit act for more 40 days. The Portuguese Competition Authority refused the Bank's application for confidential treatment of some of the information in the Bank's defence against the notice of illegal act. In June 2018 the Bank filed an appeal with the Portuguese Competition, Regulation and Supervision Court (which is pending) and filed its defence against the notice of illegal act in a non-confidential version.

   On 5 November 2018, the Bank was notified of the ruling of the Portuguese Competition, Regulation and Supervision Court, that gives approval to the appeal presented by BCP, on the subject of secrecy, accepting, in its essence, our argument that the Portuguese Competition Authority, infringed on the right to a prior hearing.

   On 25 January 2019, the PCA granted the Bank a 10-business day period to provide summaries for the co-defendants' confidential information. On 4 February 2019, the Bank filed an appeal before the Competition Court and, on 11 February 2019, submitted a reply to the PCA (although restating its opposition to the PCA's request).

[38] The audited financial statements for the financial year ended 31 December 2018 will be subject to the approval of the general meeting of shareholders to be held on the 22 May 2019.

2. On 20 October 2014, the Bank became aware of a class action brought against Bank Millennium by a group of borrowers represented by the Municipal Consumer Ombudsman in Olsztyn. As other Polish banks in a similar situation, Bank Millennium was in the meantime notified of such class action, which seeks to assess the institution's "illicit" enrichment from certain clauses contained in the mortgage loan agreements denominated in Swiss francs. In the referred class action, clients have questioned a set of those agreements' clauses, notably those related with the spread bid-offer between Polish zloty and Swiss francs applicable in the conversion of credits. On 28 May 2015, the Regional Court of Warsaw issued a decision rejecting the class action on the grounds that the case cannot be heard in class action proceedings. The decision of the Regional Court of Warsaw is not final. On 3 July 2015, the claimants filed an appeal against this decision and the Court of Appeal upheld the appeal by refusing the dismissal of the claim.

   On 31 March 2016, the Regional Court in Warsaw issued a decision dismissing the Bank's motion for a security deposit to secure litigation costs. On 6 April 2016, the Bank filed an appeal against this decision.

   On 17 February 2016, the claimant filed a submission with the Regional Court in Warsaw, extending the claim again to include 1,041 group members. Bank Millennium has not yet been notified of this submission.

   On 2 August 2016 the Regional Court in Warsaw issued a decision ordering the publication of an announcement in the press concerning the commencement of action proceedings. Following the Bank's motion to repeal this decision, the Court suspended its execution, but, on 8 August 2016, it issued another decision for the case to be heard in the group action proceedings. On 31 August 2016, the Bank appealed this decision. On 16 December 2016 the Court of Appeal in Warsaw overruled decision of the Regional Court for the case to be heard in group action proceedings and referred the request for the case to be heard in group action proceedings to the Regional Court for re-examination. At a hearing on 15 March 2017 the Regional Court issued decision for the case to be heard in group action proceedings. On 18 April 2017 the Bank filed an appeal against the above decision; the date of reviewing the case by the Court of Appeal in Warsaw has not been scheduled yet. On 30 June 2017 the claimant filed a submission with the Regional Court in Warsaw, extending the claim again by a further 676 group members. The new value of the subject matter of the dispute was indicated as approx. PLN 132.7 million (approx. EUR 31 million, including the values provided in the statement of claim and the previous submissions concerning extension of the claims dated 4 March 2015 and 17 February 2016). The submission dated 30 June 2017 extending the claim has not yet been served on the Bank's counsel. On 28 September 2017 the Court of Appeal in Warsaw issued a decision dismissing the Bank's appeal against the decision of the Regional Court in Warsaw dated 15 March 2017; thus, the decision for the case to be heard in group action proceedings became final. On 20 November 2017 the Regional Court in Warsaw issued a decision ordering the publication of an announcement in the "Rzeczpospolita" newspaper concerning the commencement of group action proceedings. The announcement was published on 23 January 2018; the deadline for further borrowers to join the proceedings was 23 April 2018.

   In the last extension of claim (dated 24 April 2018), 382 new borrowers declared their accession to the group. Including all previous extensions of claim, the total number of declared members of the group is currently approx. 5,400 persons, while the total value of the subject matter of the dispute was indicated as approx. PLN 146 million (approx. EUR 34 million). The next stage of the proceedings will be establishing the composition of the group. As yet, the Regional Court in Warsaw has not set a deadline for the Bank to challenge the membership of particular individuals in the group.

On 3 December 2015, Bank Millennium received notice of a class action lawsuit lodged by a group of 454 borrowers represented by the Municipal Consumer Ombudsman in Olsztyn pertaining to low down payment insurance used with CHF-indexed mortgage loans. The plaintiffs demand the payment of the amount of PLN 3.5 million (approx. EUR 0.83 million) claiming for some clauses of the agreements pertaining to low down-payment insurance to be declared null and void. The Bank already contested the claim, demanding that the lawsuit be dismissed. The first hearing took place on 13 September 2016, the Court having ruled that the proceedings were admitted. On 16 February 2017, the Court of Appeal denied the appeal brought forward by the Bank and the previous sentence became definitive. On 30 March 2017 the Regional Court in Warsaw dismissed Bank's motion to oblige the plaintiff to provide security for costs of proceedings. On 10 April 2017 Bank filed a complaint to the Court of Appeal in Warsaw against the decision dismissing the motion to provide security. On 13 September 2017, the Court of Appeal in Warsaw dismissed the complaint against the decision of the Regional Court in Warsaw of 30 March 2017 on dismissal of the motion to provide security. The Regional Court in Warsaw announced the initiation of group proceedings in the daily newspaper "Rzeczpospolita", thus setting a period of three months for submitting statements on joining the group by the interested parties. Pursuant to the court´s order, the representative of the group filed with the Regional Court in Warsaw an update list of all the members of the group amounting to 709 persons and lodged a further claim for slightly above 5 million PLN altogether.

On 1 October 2018, the group's representative corrected the total amount of claims pursued in the proceedings and submitted a revised list of all group members, covering a total of 697 borrowers and 432 loan agreements. The value of the subject of the dispute, as updated by the claimant, is PLN 7,371,107.94.

On 21 November 2018, the Bank filed objections regarding the membership of individual persons in the group. The court also ordered the Bank to submit its objections as to the revised list of all group members by 28 January 2019.

The next stage of the proceedings is establishing the composition of the group (i.e. determining whether all persons who joined the proceedings may participate in the group).

3. On 28 December 2015 and 5 April 2016, Bank Millennium was notified of two cases filed by PCZ SA in the amount of PLN 150 million (approx. EUR 34.3 million) and by Europejska Fundacja Współpracy Polsko - Belgijskiej / European Foundation for Polish-Belgian Cooperation ("**EFWP-B**"), in the amount of PLN 521.9 million (approx. EUR 119.4 million) based on the same grounds. The claimants allege in their petitions that Bank Millennium misrepresented certain contractual clauses, which determined the maturity of the credits, causing losses to the claimants. In the case brought by EFWP-B a decision of the first instance of the Warsaw Regional Court is pending. As regards the case brought by PCZ SA, on 7 April 2017 the Wrocław Regional Court (first instance) issued a verdict favourable to Bank Millennium by rejecting the case. The plaintiff has lodged an appeal. On 21 December 2017, the Appeal Court of second instance in Wrocław has issued a verdict favourable to the Bank dismissing the appeal. This decision is final.

The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ S.A. against the Bank.

Favourable forecasts for the Bank, as regards dismissal of the suit brought by EFWP-B to the Warsaw Regional Court, have been confirmed by a renowned law firm representing the Bank in this proceeding.

4. On 19 January, 2018 the Bank has received the lawsuit petition of First Data Polska SA requesting the payment of 186.8 mln PLN (approx. EUR 43.5 million). First Data claims a share in an amount which the Bank has received in connection with the Visa Europe takeover transaction by Visa Inc. The plaintiff based its request on an agreement with the Bank on cooperation in scope of acceptance and settlement of operations conducted with the usage of Visa cards. The Bank does not accept the claim and filed the response to the lawsuit petition within the deadline set forth in the law.

5. On 3 January 2018, Bank Millennium was notified of a decision of the President of the Office of Competition and Consumer Protection (UOKiK), in which the President of UOKiK found infringement by the Bank of the rights of consumers. In the opinion of the President of UOKIK, the essence of the violation was that the Bank informed consumers (connected with 78 agreements), in response to their complaint, that the court verdict stating the abusiveness of the provisions of the loan agreement regarding exchange rates did not apply to them. According to the position of the President of UOKiK, the abusiveness of contract's clauses determined by the court in the course of abstract control is constitutive and effective for every contract from the beginning. As a result of the decision, the Bank had to: 1) send information of the UOKiK decision to the said 78 clients; 2) post the information on the decision and the decision itself on the website and on twitter, which it has already done; and 3) to pay a fine amounting to 20.7 mln PLN. The decision on the fine is not immediately enforceable. The decision of the President of UOKiK is not final. The Bank does not agree with this decision and lodged an appeal within the statutory time limit.

6. In October 2015, a set of companies connected to a group which has debts in default towards the Bank in the amount of approximately EUR 170 million, resulting from a financing agreement entered into in 2009 – such debts having been fully provisioned for in the Bank's accounts – brought a judicial proceeding against the Bank, after having received a notification from the Bank enforcing payment of such debts. In the judicial proceedings it is envisaged:

   (a) to deny the obligation of payment of those debts, by arguing the voidness and nullity of the respective agreement, but without the correspondent obligation of returning the amounts received;

   (b) that the Bank is also convicted to bear the amounts of approximately EUR 90 million and EUR 34 million related to other debts contracted by those entities with other banking institutions, as well as the amounts, in a total sum of approximately EUR 26 million, that the debtors would have already paid in the context of the respective financing agreements; and

   (c) to declare that the Bank is the owner of the object of the pledges associated with said financing agreements, which corresponds to approximately 340 million shares of the Bank itself, allegedly acquired at the request of, on behalf of and in the interest of the Bank.

   The Bank has filed its defence and counterclaim, reinforcing the demand for payment of the debt. The claimants filed their statements of defence regarding the counterclaim filed by the Bank and the Bank replied to those statements in July 2016.

   The Court issued a decision establishing the facts that are considered to be proven and those that must still be proven in court. The parties presented their requests for proof and each of the parties appointed its expert. The Court shall now issue a decision regarding the proof requested by the parties and appoint the third expert.

7. In 2013, the Bank filed a lawsuit against a former Chairman of its Board of Directors, his wife and an insurance company, requesting mainly that the following be recognised: (a) that the amount of the retirement instalments of the former Chairman, to be paid by the Bank, cannot exceed the highest fixed remuneration earned by the directors exercising functions in the Bank at any moment; (b) that the former Chairman cannot maintain, at the Bank's expenses, the unique benefits he had when still in active functions; and (c) that the wife of the former Chairman cannot benefit from a survival lifelong pension paid by the Bank in case of death of the former Chairman, under conditions different from the ones foreseen for the majority of the Bank's employees.

   On 25 May 2018 the court rejected the request made by the Bank consisting in the reduction of the pensions paid and to be paid and partially accepted a counter-claim, sentencing the Bank to compensate him for certain past and future expenses (that, as incurred as at 16 June 2016, the court computed in the amount of EUR 2,124,923.97), plus default interest accounted at the legal rate of 4% per year since the date of the reimbursement request up to their effective and full payment.

   The Bank disagrees with the interpretation adopted by the court and, on 12 July 2018, appealed to the Lisbon Court of Appeals.

   The lower stage court had to annul the sentence mentioned above.

   After several procedural extraordinary events, on 27 January 2019, the Court issued a new decision, which fully reproduces the previous one issued on 25 May 2018 as detailed above.

   BCP appealed the sentence to the Lisbon Court of Appeals requesting that the same be revoked and replaced by a decision accepting all the requests presented by the Bank. The Bank considers that the Court decided incorrectly in what regards evidence, namely regarding the relevant legal issues, and that the appeal has good chances of success, namely because, concerning the amounts received by the former director, the sentence upholds an original interpretation of the limit of article 402, no. 2, of the Portuguese Companies Code, going against all court decisions issued by superior courts and most of all the prior doctrine on these issues.

   Save as disclosed in this section entitled "Litigation" there are no, nor have there been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months before the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of the Issuer or the Group.

Accounts

The current auditors of the Issuer are Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ("**Deloitte**") (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon.

The financial statements of the Group for each of the financial years ended 31 December 2017 and 31 December 2018 were prepared in accordance with International Financial Reporting Standards as adopted by the EU and audited by Deloitte.

All financial information in this Base Prospectus relating to the Issuer for the years ended 31 December 2017 and 31 December 2018 has been extracted without material adjustment from the audited consolidated financial statements of the Issuer for the financial years then ended.

Documents available for inspection

For the period of 12 months following the date of this Base Prospectus, physical copies of the following documents will, when published, be available for inspection at and may be obtained free of charge from the registered offices of the Issuer and from the specified offices of the Common Representative and the Paying Agents for the time being:

(a) the constitutional documents (including the Articles of Association in English) of the Issuer;

(b) the audited consolidated financial statements of the Issuer and the auditor's report contained in the Issuer's Annual Report in respect of the financial years ended 31 December 2017 and 31 December 2018 in English;

(c) the most recently published audited annual consolidated financial statements of the Issuer and the most recently published unaudited interim consolidated financial statements (if any) of the Issuer (together with an English translation thereof);

(d) the Set of Agency Procedures dated 15 May 2019;

(e) the Common Representative Appointment Agreement dated 15 May 2019;

(f) this Base Prospectus; and

(g) any future prospectuses, offering circulars, information memoranda and supplements, including Final Terms and (in the case of Exempt Covered Bonds) Pricing Supplements (save that Pricing Supplements will only be available for inspection by a holder of such Covered Bond and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Covered Bonds and identity), to this Base Prospectus and any other documents incorporated herein or therein by reference.

The documents listed under paragraphs (a) to (c) above are a direct and accurate translation from the original Portuguese versions. In the event of a discrepancy, the Portuguese version will prevail.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Covered Bonds.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Covered Bonds issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer or its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purposes of this paragraph, the term "**affiliates**" includes parent companies.

DEFINITIONS

In this Base Prospectus, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*).

"**Additional Security**" means any other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of a Mortgage Credit.

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as applicable) to the holders of the Covered Bonds as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(b) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(c) if no such customary market usage is recognised or acknowledged, the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)), in each case in its discretion and acting in good faith and in a commercially reasonable manner, determines to be appropriate.

"**Agent**" means Banco Comercial Português, S.A., in its capacity as Agent, with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal.

"**Alternative Reference Rate**" means the rate that the Independent Adviser or, as the case may be, the Issuer determines has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate period and in the same Specified Currency as the Covered Bonds, or, if the Independent Adviser or, as the case may be, the Issuer determines that there is no such rate, such other rate as the Independent Adviser or, as the case may be, the Issuer determines in its discretion is most comparable to the Original Reference Rate.

"**Arranger**" means each of Barclays Bank PLC, the Co-Arranger and any other entity appointed as an arranger for the Programme and references in this Base Prospectus to the Arranger shall be references to the relevant Arranger.

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/2006, Instruction 13/2006, Regulation 7/2006 and Regulation 8/2006 and any applicable regulations which may be issued in the future.

"**Banking Law**" means Decree-Law No. 298/92, of 31 December 1992, as amended.

"**Base Prospectus**" means this base prospectus dated 15 May 2019 prepared in connection with the Programme.

"**BCP**" means Banco Comercial Português, S.A.

"**Benchmark Event**" means:

(a) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(b) a public statement by the administrator of the Original Reference Rate stating that it will, by a specified date on or prior to a specified date within the following six months, cease to publish the Original Reference Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(c) a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate has been or will be, by a specified date within the following six months, permanently or indefinitely discontinued; or

(d) a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case by a specified date within the following six months; or

(e) it has, or will on or prior to a specified date within the following six months, become unlawful for the Issuer or the Agent, as the case may be, to calculate any payments due to be made to the holders of the Covered Bonds using the Original Reference Rate.

"**Business Day**" means a day which is both: (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Lisbon and any Additional Business Centre(s) specified in the applicable Final Terms; (ii) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the TARGET2 system is open; and (iii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Lisbon and any Additional Business Centre(s)) and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

"**Capital Requirements Directive**" comprises Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast).

"**Central de Valores Mobiliários**" means the Portuguese Centralised System of Registration of Securities.

"**Clearing System**" means Interbolsa.

"**Clearstream, Luxembourg**" means Clearstream Banking *société anonyme*, Luxembourg.

"**CMVM**" means the Comissão do Mercado de Valores Mobiliários, the Portuguese Securities Market Commission.

"**Co-Arranger**" means Banco Comercial Português S.A. and, together with Barclays Bank PLC, the "**Arrangers**".

"**Common Representative**" means Deutsche Trustee Company Limited, in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement, having its registered office at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

"**Common Representative Appointment Agreement**" means the agreement dated 15 May 2019 entered into between the Issuer and the Common Representative and which sets out the terms and conditions upon and subject to which the Common Representative has agreed to act as Common Representative.

"**Cover Pool**" means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register.

"**Cover Pool Monitor**" means Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ("**Deloitte**") (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 20161389, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon.

"**Cover Pool Monitor Agreement**" means the agreement dated 15 May 2019 as amended and restated entered into between the Issuer and the Cover Pool Monitor.

"**Covered Bond**" means any mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and "**Covered Bonds**" shall be construed accordingly.

"**Covered Bonds Law**" means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-Law No. 59/2006, of 20 March 2006, as amended.

"**CRD IV/CRR**" means the Directive 2013/36/EU and Regulation EU 575/2013.

"**CSD**" means a central securities depositary.

"**Current Property Value**" means, in relation to a Property securing a Mortgage Credit, the updated Property Valuation of such Property.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

(a) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the

Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(b) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(c) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(d) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(e) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis set out in Condition 4.2(D)(v);

(f) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis set out in Condition 4.2(D)(vi); and

(g) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis set out in Condition 4.2(D)(vii).

"**DBRS**" means any entity that is part of DBRS Group and any successor to the Relevant Rating Agency.

"**Dealers**" means Banco Comercial Português S.A., Banco Santander Totta, S.A., Barclays Bank Ireland PLC, Barclays Bank PLC, BNP Paribas, BofA Securities Europe SA, Citigroup Global Markets Europe AG, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, HSBC France, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, NatWest Markets N.V., NatWest Markets Plc, Nomura International plc, Société Générale, UBS Europe SE and UniCredit Bank AG.

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

"**Distribution Compliance Period**" means the period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer(s) (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue) and as determined by the Agent under the Set of Agency Procedures.

"**ECB**" means the European Central Bank.

"**EEA**" means the European Economic Area.

"**EU**" means the European Union.

"**Euro**", "**€**" or "**euro**" means the lawful currency of Member States of the European Union that adopt the single currency introduced in accordance with the Treaty.

"**Euroclear**" means Euroclear Bank S.A./N.V.

"**Euronext Dublin**" means the Irish Stock Exchange plc trading as Euronext Dublin.

"**Eurosystem**" means the central banking system for the Euro.

"**Final Terms**" means, in relation to each Tranche, the applicable final terms attached to such Covered Bonds.

"**Fitch**" or "**Fitch Ratings**" means any entity that is part of Fitch Group and any successor to the relevant rating agency.

"**GBP**", "**£**"or "**pounds sterling**" means pounds sterling, the lawful currency of the United Kingdom.

"**Group**" means the Issuer and its subsidiaries.

"**Hedge Counterparties**" means the party or parties that, from time to time, will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

"**Hedging Contracts**" means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rate, exchange or liquidity risks in relation to the Cover Pool.

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case selected and appointed by the Issuer.

"**Insolvency Event**" means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-Law No. 199/2006 of 25 October 2006, Decree-Law No. 298/92 of 31 December 1992 and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-Law No. 53/2004 of 18 March 2004).

"**Instruction 13/2006**" means the regulatory instruction ("*Instrução*") No. 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Interbolsa**" means Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the Central de Valores Mobiliários.

"**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

"**Interest Amount**" means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

"**ISDA**" means the International Swaps and Derivatives Association Inc.

"**Issue Date**" means the date so specified in the applicable Final Terms being, in respect of any Covered Bond, the date of issue and purchase of such Covered Bond pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s).

"**Issuer**" means Banco Comercial Português, S.A.

"**Loan to Value**" means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Property Value of the Property securing such Mortgage Credit.

"**Maturity**" means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable.

"**MiFID II**" means the Directive 2014/65/UE of the European Parliament and of the Council, of 15 May 2014.

"**MiFIR**" means the Regulation 600/2014 of the European Parliament and of the Council, of 15 May 2014.

"**Moody's**" means any entity that is part of Moody's Group and any successor to the relevant Rating Agency.

"**Mortgage**" means, in respect of any Mortgage Credit, the charge by way of voluntary mortgage over the relevant Property the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

"**Mortgage Credit**" means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

(a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which (a) is secured by first ranking mortgages over residential or commercial real estate located in an EU member state; or

(b) secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or

(c) secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing paragraph (a) or (b) above.

"**Non-Performing Mortgage Credits**" means, with respect to a Mortgage Credit, that such Mortgage Credit:

(a) is in the course of being foreclosed or otherwise enforced; or

(b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

"**Original Reference Rate**" means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) applicable to the Covered Bonds.

"**Other Assets**" means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

(a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem;

(b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating given at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least "A-" or equivalent; and

(c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

"**Other Preferred Creditors**" means the Common Representative (or any successor thereof) and Hedge Counterparties.

"**Overcollateralisation Percentage**" means 105.26% or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26%; and (ii) (A) so long as the Covered Bonds are rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14 (Overcollateralisation, Valuation of Cover Pool and Issuer Covenants), unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody's being reduced, removed, suspended or placed on credit watch, and (B) so long as the Covered Bonds are not rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14 (Overcollateralisation, Valuation of Cover Pool and Issuer Covenants).

"**Paying Agents**" means the paying agents named in the Set of Agency Procedures together with any successor or additional paying agents appointed from time to time in connection with the Covered Bonds under the Set of Agency Procedures.

"**Portuguese Companies Code**" means the commercial companies code approved by Decree-Law No. 262/86, of 2 September 1986 (as amended from time to time).

"**Portuguese Securities Code**" means Decree-Law No. 486/99, of 13 November 1999 (as amended from time to time).

"**Principal Amount Outstanding**" means, in respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

"**Programme**" means the Euro 12,500,000,000 covered bonds programme established on 5 June 2007 and updated on 4 August 2008, on 23 July 2009, on 6 May 2010, on 29 June 2012, on 10 July 2013, on 14 August 2014, on 23 October 2015 and 20 December 2016 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

"**Programme Agreement**" means the agreement dated 15 May 2019 entered into between the Issuer and the Dealers.

"**Programme Documents**" means the Base Prospectus, the Programme Agreement, the Set of Agency Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme.

"**Programme Resolution**" means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

"**Property**" means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and "**Properties**" means all of them.

"**Property Valuation**" means, in relation to any Property:

(a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/ 2006; and

(b) the amount determined by resorting to the use of adequate and recognised indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

"**Prospectus Directive**" means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (as amended or superseded), and includes, where the context so requires, any relevant implementing measure in a relevant Member State of European Economic Area.

"**Rating**" means the then current rating of rated Covered Bonds given by the relevant Rating Agency and "Ratings" means all of such Ratings.

"**Rating Agencies**" means Moody's, Fitch, Standard & Poor's and DBRS as applicable.

"**Register**" means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulations.

"**Regulation 5/2006**" means the regulatory notice ("*Aviso*") No. 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 6/2006**" means the regulatory notice ("*Aviso*") No. 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 7/2006**" means the regulatory notice ("*Aviso*") No. 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation 8/2006**" means the regulatory notice ("*Aviso*") No. 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation S**" means Regulation S under the Securities Act.

"**Relevant Date**" means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

"**Relevant Member State**" means a Member State of the European Economic Area which has implemented the Prospectus Directive.

"**Relevant Nominating Body**" means in respect of a benchmark or screen rate (as applicable):

(a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof.

"**Reserved Matter**" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series; (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 12(C)(ii) of the Terms and Conditions.

"**Resolution**" means a resolution adopted at a duly convened meeting of holders of Covered Bonds and approved in accordance with the applicable provisions.

"**Securities Act**" means the United States Securities Act of 1933, as amended.

"**Series**" means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are: (i) expressed to be consolidated and form a single series; and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates, interest rates and/or Issue Prices.

"**Set of Agency Procedures**" means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 15 May 2019 and made and agreed by Banco Comercial Português, S.A. (acting in its capacity as Agent and Paying Agent, which expressions shall include any successors, and as Issuer) and by any subsequent agent, paying agent, and/or agent bank appointed by the Issuer.

"**Stabilisation Manager**" means the Dealer or Dealers (if any) named as the stabilisation manager(s) for a particular Tranche of Covered Bonds.

"**Standard & Poor's**" means any entity that is part of Standard & Poor’s Group and any successor to the relevant rating agency.

"**Statutory Auditor**" means Deloitte & Associados, SROC, S.A., member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 20161389, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon.

"**Stock Exchange**" means Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms or Pricing Supplement.

"**Substitute Credit Institution**" means the credit institution appointed in case of an Insolvency Event to manage the Cover Pool allocated to the outstanding Covered Bonds and to ensure the payments of the amounts due to the holders of such Covered Bonds.

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

"**Successor Rate**" means the rate that the Independent Adviser or, as the case may be, the Issuer determines is a successor to, or replacement of, the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

"**TARGET2 Day**" means any day on which the TARGET2 System is open.

"**TARGET2 System**" means the Trans-European Automated Real-time Gross Settlement Express Transfer system.

"**Tax**" shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and "Taxes", "taxation", "taxable" and comparable expressions shall be construed accordingly.

"**Tax Authority**" means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function including the Irish Revenue Commissioners and H.M. Revenue and Customs.

"**Tax Deduction**" means any deduction or withholding on account of Tax.

"**Terms and Conditions**" means in relation to the Covered Bonds, the terms and conditions to be endorsed on the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"**Tranche**" means Covered Bonds which are identical in all respects (including as to listing).

"**Treaty**" means the treaty establishing the European Communities, as amended by the Treaty on European Union.

"**U.S.$**", "**USD**" or "**U.S. dollars**" means United States dollars, the lawful currency of the United States of America.

"**Value**" means:

(a) in relation to a Mortgage Credit:

(i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; or

(ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register; and

(b) in relation to any Other Assets:

(i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register; or

(ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

REGISTERED OFFICE OF THE ISSUER

Banco Comercial Português, S.A.
Praça Dom João I, 28
4000-295 Oporto
Portugal

ARRANGER

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

CO-ARRANGER

Banco Comercial Português, S.A.
Avenida Prof. Dr. Cavaco Silva (Tagus Park), Building 2, Floor 2 A
2744-002 Porto Salvo
Portugal

COVER POOL MONITOR

Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A.
Av. Eng. Duarte Pacheco, 7
1070-100 Lisboa
Portugal

DEALERS

Banco Comercial Português, S.A.
Avenida Prof. Dr.
Cavaco Silva (Tagus Park)
Building 2, Floor 2 – Wing A
2744-002 Porto Salvo
Portugal

Banco Santander Totta, S.A.
Rua da Mesquita, nº 6, Torre B, 2º-A
1070-238 Lisboa
Portugal

Barclays Bank Ireland PLC
One Molesworth Street
Dublin 2
DO2RF29
Ireland

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

BofA Securities Europe SA
51 rue La Boétie
75008 Paris
France

Citigroup Global Markets Europe AG
Reuterweg 16
60323 Frankfurt am Main
Germany

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Commerzbank Aktiengesellschaft
Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main
Germany

Crédit Agricole Corporate and Investment Bank
12 place des Etats-Unis
CS 70052
92547 Montrouge CÉDEX
France

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ
United Kingdom

Deutsche Bank Aktiengesellschaft
Grosse Gallusstrasse 10-14
60272 Frankfurt am Main
Germany

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main
Platz der Republik
60325 Frankfurt am Main
Germany

HSBC France
103, avenue des Champs Elysees
75008 Paris
France

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Natixis
30 avenue
Pierre Mendés-France
75013 Paris
France

NatWest Markets N.V.
Claude Debussylaan 94
1082 MD Amsterdam
The Netherlands

NatWest Markets Plc
250 Bishopsgate
London EC2M 4AA
United Kingdom

Nomura International plc
1 Angel Lane
London EC4R 3AB
United Kingdom

Société Générale
29 Boulevard Haussmann
75009 Paris
France

UBS Europe SE
Bockenheimer Landstraße 2-4
60306 Frankfurt am Main
Germany

UniCredit Bank AG
Arabellastrasse 12
81925 Munich
Germany

COMMON REPRESENTATIVE

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

AGENT AND PAYING AGENT

Banco Comercial Português, S.A.
Av. Dr. Mário Soares (Tagus Park)
Building 7, Floor 1 – Wing B
2744-005 Porto Salvo
Portugal

LISTING AGENT

Maples and Calder
75 St. Stephen's Green
Dublin 2
Ireland

AUDITORS

Deloitte & Associados, SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Avenida Eng. Duarte Pacheco, 7
1070-100 Lisbon
Portugal

LEGAL ADVISERS TO THE ISSUER

as to Portuguese law

Morais Leitão, Galvão Teles, Soares da Silva & Associados, Sociedade de Advogados, SP, RL
Rua Castilho, 165
1070-050 Lisbon
Portugal

LEGAL ADVISERS TO THE ARRANGER AND THE DEALERS

as to Portuguese law

Vieira de Almeida & Associados
Sociedade de Advogados, S.P.R.L.
Rua Dom Luís I, 28
1200-151 Lisbon
Portugal

as to English law

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom