OFFERING CIRCULAR DATED 29 JANUARY 2019

BANCO COMERCIAL PORTUGUÊS, S.A.

(incorporated with limited liability in Portugal)

€400,000,000
Fixed Rate Reset Perpetual Temporary Write Down Additional Tier 1 Capital Notes
Issue Price: 100%

The €400,000,000 Fixed Rate Reset Perpetual Temporary Write Down Additional Tier 1 Capital Notes (the "**Notes**") will constitute undated, direct, unsecured and subordinated obligations of Banco Comercial Português, S.A. (the "**Issuer**", the "**Bank**" or "**BCP**"), a limited liability listed company organised under the laws of the Portuguese Republic, and will be issued in accordance with the Terms and Conditions of the Notes set out herein (the "**Conditions**").

The Notes will be denominated in euro and will bear interest on their Outstanding Principal Amount (each capitalised term as defined in the Conditions insofar as the context so permits) from time to time from (and including) 31 January 2019 (the "**Issue Date**") to (but excluding) 31 January 2024 (the "**First Call Date**") at a fixed rate of 9.25% per annum and thereafter at a rate of interest which will be reset on the First Call Date and on each fifth anniversary of the First Call Date thereafter. Interest will be payable quarterly in arrear on 31 January, 30 April, 31 July, and 31 October in each year from (and including) 30 April 2019 (each an "**Interest Payment Date**"), provided that any payment of interest may be cancelled, in whole or in part, in the sole and full discretion of the Issuer, and shall be cancelled (in whole or in part) in the circumstances described in Condition 6 (*Interest Cancellation*) or following the occurrence of a Trigger Event (as further described in Condition 7 (*Loss Absorption Following a Trigger Event*)). The European Central Bank (the "**ECB**"), Banco de Portugal, or such other or successor authority having primary responsibility for prudential supervision of the Issuer and/or its consolidated subsidiaries (the Issuer together with its consolidated subsidiaries, the "**Group**") (such authority, the "**Competent Authority**") may also direct the Issuer to exercise its discretion to cancel interest scheduled to be paid on any Interest Payment Date. Interest which has been cancelled in accordance with the Conditions will not accumulate, and holders of the Notes ("**Holders**") will not at any time be entitled to any such cancelled interest.

If at any time the CET1 Ratio of the Issuer and/or the Group falls below 5.125%, the Outstanding Principal Amount of the Notes will be Written Down by the Write Down Amount, as further provided in Condition 7 (*Loss Absorption Following a Trigger Event*). The Outstanding Principal Amount may, in the sole and absolute discretion of the Issuer and subject to certain conditions, be subsequently reinstated (in whole or in part) if each of the Issuer and the Group records a positive Net Profit, as further described in Condition 8 (*Discretionary Reinstatement of the Notes*).

The Notes will be perpetual with no fixed maturity date. The Issuer may, in its sole discretion but subject to the approval of the Competent Authority, if applicable, and to compliance with the Conditions and with the Capital Regulations, elect to redeem the Notes (in whole but not in part) (i) on the First Call Date or any Interest Payment Date thereafter or (ii) at any time following the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions); provided that, in the case of (i) only, any principal amount by which the Notes have been Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) has first been reinstated in full pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*). In any such case, the Notes will be redeemed at their relevant Redemption Amount.

If at any time a Tax Event or a Capital Event occurs and is continuing, the Issuer may, instead of redeeming the Notes as aforesaid, subject to the approval of the Competent Authority, if applicable, and to compliance with the Conditions and the Capital Regulations, elect in its sole discretion either to substitute all (but not some only) of the Notes for, or to vary the terms of the Notes provided that they remain or become, Qualifying Additional Tier 1 Notes.

The Notes are expected on issue to be rated Caa1 by Moody's Investors Service España, S.A. ("**Moody's**"), CCC+ by S&P Global Ratings Europe Limited ("**S&P**"), B- by Fitch France – Société par Actions Simplifiée ("Fitch") and B (low) by DBRS Ratings GmbH ("**DBRS**"). Each of Moody's, S&P, Fitch and DBRS is established in the European Union (the "**EU**") and registered under Regulation (EC) No 1060/2009, as amended or superseded. **A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

Investing in the Notes involves significant risks. Please review carefully the section entitled "*Risk Factors*" in this Offering Circular.

This Offering Circular has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended or superseded, and any relevant implementing measure (for the purpose of this Offering Circular) in a relevant Member State of the European Economic Area (the "**Prospectus Directive**"). The Central Bank only approves this Offering Circular as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to the Official List and trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of Directive 2014/65/EC, as amended or superseded ("**MiFID II**").

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). For a description of these and certain further restrictions on offers, sales and deliveries of the Notes and on distribution of this Offering Circular and other offering materials relating to the Notes, see "*Subscription and Sale*".

The Notes are not intended to be sold and should not be sold to retail clients in the EEA, as defined in MiFID II. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" hereunder for further information.

The Notes will be represented in book entry (*forma escritural*) form, in denominations of €200,000, and will be integrated in and held through Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**"), as the entity responsible for the management and operation of the Central de Valores Mobiliários, a Portuguese Securities Centralised System (the "**CVM**"). At the Issuer's request, Interbolsa can ask the relevant Affiliate Member of Interbolsa information regarding the identity of the Holders ("*valores mobiliários nominativos*"). The CVM currently has links in place with Euroclear Bank, S.A./N.V. ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") through securities accounts held by Euroclear and Clearstream, Luxembourg with Affiliate Members of Interbolsa (as described herein).

In respect of any interest period after the First Call Date, interest payable under the Notes shall be calculated by reference to the mid-swap rate for euro swaps with a term of five years which appears at the relevant time on the Reuters screen "ICESWAP2", which is provided by ICE Benchmark Administration Limited or by reference to EURIBOR, which is provided by the European Money Markets Institute. As at the date of this Offering Circular, ICE Benchmark Administration Limited appears, and the European Money Markets Institute does not appear, on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) 2016/1011 (the "**Benchmark Regulation**"). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that the European Money Markets Institute is not currently required to obtain authorisation or registration.

Joint Lead Managers

Credit Suisse	**J.P. Morgan**
Millennium bcp	**UBS Investment Bank**

IMPORTANT INFORMATION

The Issuer accepts responsibility for the information contained in this Offering Circular. 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 Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

No Joint Lead Manager has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by any Joint Lead Manager as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Notes. No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Notes.

No person has been authorised by the Issuer or the Joint Lead Managers to give any information or to make any representations other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Lead Managers.

Neither this Offering Circular nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or as constituting an invitation or offer by the Issuer or the Joint Lead Managers that any recipient of this Offering Circular or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Notes constitutes an offer by or on behalf of the Issuer or any Joint Lead Manager to any person to subscribe for or to purchase any Notes.

The delivery of this Offering Circular does not at any time imply that the information contained herein concerning the Issuer or the Group is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. Neither the Issuer nor any Joint Lead Manager undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the Notes for the benefit of any investor in the Notes. Prospective investors should review, *inter alia*, the documents deemed to be incorporated herein by reference when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Offering Circular may be lawfully distributed, or that any Notes 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 or the Joint Lead Managers which is intended to permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this

Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States (Regulation S), the European Economic Area (the "**EEA**"), the United Kingdom, Portugal, Italy, France, Hong Kong and Singapore. For a further description of certain restrictions on offers and sales of the Notes and on the distribution of this Offering Circular, see "*Subscription and Sale*".

RESTRICTIONS ON MARKETING AND SALES TO RETAIL INVESTORS

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions (including the UK), regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors (as defined below).

In particular, in June 2015, the United Kingdom Financial Conduct Authority published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**").

In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products (as amended or superseded, the "**PRIIPs Regulation**") became directly applicable in all EEA member states and (ii) MiFID II was generally required to be implemented in EEA member states by 3 January 2018. Together, the PI Instrument, the PRIIPs Regulation and MiFID II are referred to as the "Regulations".

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Each of the Issuer and the Joint Lead Managers is required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or any of the Joint Lead Managers, you will thereby represent, warrant, agree with and undertake to the Issuer and each of the Joint Lead Managers that:

(a) you are not a retail client as defined in point (11) of Article 4(1) of MiFID II (a "**retail client**");

(b) whether or not you are subject to the Regulations, you will not:

(i) sell or offer the Notes (or any beneficial interest therein) to retail clients; or

(ii) communicate (including by the distribution of the Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (as defined in MiFID II). In selling or offering the Notes or making or approving communications relating to the Notes you may not rely on the limited exemptions set out in the PI Instrument; and

(c) you will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

You further acknowledge that:

(a) the identified target market for the Notes (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and

(b) no key information document (KID) under the PRIIPs Regulation has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client; or (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.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein), including the Regulations.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding on both the agent and its underlying client(s).

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA") - In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products) and hereby notifies all relevant persons (as defined in Section 309A of the SFA) of the same.

SUITABILITY OF INVESTMENT

The Notes are complex financial instruments that involve a high degree of risk. The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular and/or any applicable supplement;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) understands thoroughly the terms of the Notes, such as the provisions governing Write Downs and situations in which interest payments may be cancelled or deemed cancelled, and is familiar with the behaviour of financial markets;

(iv) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the euro is not the potential investor's currency and the possibility that substantially the entire principal amount of the Notes could be lost in the event of a Write Down or other write down of the Notes; and

(v) 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 legal 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: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes may be considered by eligible investors who are in a position to give the representations, warranties, agreements and undertakings outlined in "*Restrictions on Marketing and Sales to Retail Investors*" above, and to be able to satisfy themselves that the Notes would constitute an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Websites

In this Offering Circular, references to websites or uniform resource locators ("**URLs**") are inactive textual references and are included for information purposes only. The contents of any such website or URL shall not form part of, or be deemed to be incorporated into, this Offering Circular.

Definitions, interpretation and rounding

In this Offering Circular, references to:

- "**€**", "**euro**" and "**EUR**" are to the lawful currency of the member states of the EU that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended;

- the "**Conditions**" are to the Terms and Conditions of the Notes (and reference to a numbered Condition shall be construed accordingly).

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

STABILISATION

In connection with the issue of the Notes, UBS Limited acting as the Stabilisation Manager (the "Stabilisation Manager") or any person acting on its behalf may over-allot Notes or effect transactions with a view to supporting the market price of the Notes 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 Notes 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 Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on its behalf) in accordance with all applicable laws and rules.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Offering Circular and certain documents incorporated by reference herein may be deemed to be forward looking statements. Forward looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Offering Circular, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "Risk Factors" and "Description of the Issuer" and other sections of this Offering Circular. By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances. The Issuer has based these forward looking statements on the current view of its management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Offering Circular, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer has otherwise identified in this Offering Circular, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted.

The risks and uncertainties referred to above include:

– the Issuer's ability to achieve and manage the growth of its business;

– the performance of the markets in Portugal and the wider region in which the Issuer operates;

– the Issuer's ability to realise the benefits it expects from existing and future projects and investments it is undertaking or plans to or may undertake;

– the Issuer's ability to obtain external financing or maintain sufficient capital to fund its existing and future investments and projects;

– changes in political, social, legal or economic conditions in the markets in which the Issuer and its customers operate; and

– actions taken by the Issuer's joint venture partners that may not be in accordance with its policies and objectives.

Any forward looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Without prejudice to the Issuer's obligations under applicable laws and regulations in relation to disclosure and ongoing information, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward looking statements contained in it to reflect any change in expectations or any change in events, conditions or circumstances on which any such forward looking statement is based.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular or incorporated by reference herein and reach their own views prior to making any investment decision. Capitalised terms used but not otherwise defined in this risk factor section shall have the meanings given to them under "Terms and Conditions of the Notes".

Risks Related to the Issuer and the Group

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 74% of total gross loans to customers in the end of the first nine months of 2018, compared to 61% and 75%, respectively, as at 30 September 2017. In addition, as at 30 September 2018, the Bank's holdings of EUR 6.3 billion (EUR 4.5 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 other comprehensive income"; EUR 6,251 million recorded in "Financial assets at fair value through other comprehensive income" and EUR 50 million recorded in “Financial assets at amortised cost – Debt securities”) (EUR 4.9 billion as at 30 September 2017), of which EUR 15 million recorded in "Financial assets held for trading"; EUR 142 million recorded in "Others financial assets at fair value through profit or loss"; EUR 4,787 million recorded in "Financial assets available for sale") in Portuguese government bonds represented 8.6% (6.8% as at 30 September 2017) 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 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 of 2.2%, 2.4% and 2.1%, in the first, the second and the third quarters of 2018, respectively (source: Portugal's National Statistics Institute, November 2018). In line with the economy's recovery, the unemployment rate declined to 6.7% in the third quarter of 2018 (source: Portugal's National Statistics Institute, November 2018). The consolidated value of the gross debt of the public administration reached a peak in 2016 at 129.2% of GDP but has declined in 2017 to 124.8% of GDP (source: Portugal's National Statistics Institute, September 2018) and the public deficit, which was 11.2% of GDP in 2010, decreased to 3.0% in 2017 and to 1.9% in the first half of 2018 (source: Portugal's National Statistics Institute, September 2018). This sustained improvement was largely due to an increase in revenues, amid the growth in economic activity, efforts to reduce tax evasion, cuts in capital expenditure and *ad hoc* measures to control current expenditure. 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 May 2018 and according to Portugal's National Statistics Institute, in decreasing order: Spain, France, Germany, United Kingdom, United States, Netherlands, Italy, Angola, Belgium and China) 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 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 30 September 2018, the Bank had EUR 3.1 billion net of borrowings with the ECB (EUR 3.4 billion as at 30 September 2017), EUR 4 billion of which related to the last series of targeted longer-term refinancing operations ("**TLTRO II**"), corresponding to 4.6% of the Bank's liabilities (5.2% as at 30 September 2017) and 16.4% of the total usage of the Portuguese banking system as at 30 September 2018 (15.2% as at 30 September 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 30 September 2018, customer deposits accounted for 87% 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 Portuguese Law No. 37/2013, of 14 June 2013) 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 (124.8% of GDP in 2017, according to Portugal's National Statistics Institute), 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 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 Offering Circular were as follows: Moody's (Baa3/Stable), Standard & Poor's (BBB-/Positive), Fitch (BBB/Stable) and DBRS (BBB/Stable).

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, as the withdrawal date (March 2019) approaches, 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 6.8% average share in 2017 (source: Portugal's National Statistics Institute, July 2018) and as a source of tourism, with 22.3% of tourists arriving in Portugal from the United Kingdom in January – December 2017 (source: Portugal's National Statistics Institute, July 2018).

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 6.3 billion as at 30 September 2018, of which EUR 4.5 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 other comprehensive income"; EUR 6,251 million recorded in "Financial assets at fair value through other comprehensive income" and EUR 50 million recorded in “Financial assets at amortised cost – Debt securities”), creating a risk of substantial losses. Potential losses in the Portuguese public debt in September 2018 stand at around EUR 72.5 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 ("**CRD IV**") and Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 ("**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**"), inclusive of Pillar 2 requirements and guidance), 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.

The conclusions of the SREP are adopted under the form of prudential requirements (Pillar 2 capital requirements ("**P2R**")) and recommendations (Pillar 2 capital guidance ("**P2G**")), both to be made up entirely of Common Equity Tier 1 ("**CET1**"). 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.

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.

The EU definition of leverage ratio has not yet become an EU binding requirement. 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 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.

Single Supervisory Mechanism

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 are adequate, these requirements may change in the future which could have an impact on the Bank's capital 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.

Single Resolution Mechanism, the Resolution Fund and the sale of Novo Banco

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 2015, 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).

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 Notes) 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 Issuer – 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 2010, 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, 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, of 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 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], 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

[1] Exact value not disclosed by the EC for confidentiality reasons.
[2] As referred to in the relevant EC’s decision.

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 or EUR 3.89 billion[1] [2].

(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.

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 contingent mechanism 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. The loan from the Portuguese State follows from a general framework agreement of October 2017 establishing a credit line of up to EUR 1000 million by the Portuguese State to the Resolution Fund and subject to an annual limit of EUR 850 million. The loans mature in 31 December 2046.

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 compromise the Bank's liquidity or its solvency, Banco de Portugal can suspend them. 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 2012, which amended the Banking Law, also introduced, on terms subsequently amended by Law no. 23-A/2015, of 26 March 2015 (as further amended by Law No. 66/2015, of 6 July 2015), 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 0.0459% for the periodical contribution of 2018).

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*".

European Deposit Insurance Scheme

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 2015, 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 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 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 is to be implemented by Member States by 29 December 2018 and has not yet been implemented in Portugal. The Council of Ministers has disclosed a notice indicating that they have approved a legislative proposal to transpose Directive (EU) 2017/2399. The legislative text has not yet been published in the official gazette. Until this publication, the Bank may not be able to, or may be limited in its ability to, issue senior non-preferred debt instruments.

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 phase, 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 /Markets in Financial Instruments Regulation, 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 ("**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[3] 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 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. Also on 31 October 2018, the EU Council approved the position on capital requirements for banks' NPLs. Negotiations with the European Parliament can proceed as soon as the Parliament has agreed its stance. A proposal for a directive on credit servicers, credit purchasers and the recovery of collateral was also included in the comprehensive package of measures to tackle NPL by the Commission on 14 March 2018. The proposal strengthens the ability of secured creditors to recover value from secured loans to corporates and entrepreneurs. The review in the Council Working Party is ongoing.

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

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 60% from 2017 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, as negotiated in the PAEF, will lead 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 at a national and European level.

For example, under Law No. 55-A/2010 of 31 December 2010 and Ministerial Order (*Portaria*) No. 121/2011 of 30 March 2011, 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 commissions income, or indirectly, through the change of valuation of the equity stake.

The Directive (EU) 2016/97 (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 is being transposed into national law and is expected to enter into force in October

2018. Similar in nature provisions are also embedded in the Packaged Retail Investment and Insurance Products Regulation ("**PRIIPs**") that 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, 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 in 1 January 2018. IFRS 9 replaced IAS[4] 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

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

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 will have to recognise 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 will most probably lead 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 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.

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 Euro Bank, 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, with Earnings Per Share being expected to be 26% higher from 2021 onwards as a result of this acquisition. Bank Millennium’s CET1 ratio is expected to stand at 15.9% after completion (17.2% including Bank Millennium’s net earnings for the first nine months of 2018), comfortably above regulatory requirements.

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 30 September 2018 was EUR 87.7 billion (EUR 87.1 billion on 31 December 2017).

As at 30 September 2018, the breakdown of this exposure was the following: EUR 13.2 billion for central governments or central banks, EUR 0.8 billion for regional administrations or local authorities, EUR 0.2 billion for administrative entities and non-profit organisations, EUR 0.02 billion for multilateral development banks, EUR 2.6 billion for other credit institutions, EUR 60.3 billion for retail and companies customers and EUR 10.5 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, Portugal's NPE coverage by loan loss reserves ("**LLR**") was 52.9% in the first half of 2018 and the NPE ratio stood at 11.7%. The Bank NPEs as at 30 September 2018 were EUR 6.3 billion (12.3%) with a coverage by impairments of 51% and a coverage by impairments, collaterals and Expected Loss Gap of 107%.

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 30 September 2018 represented 9.9% 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 30 September 2018 represented 0.50% 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 30 September 2018, the Bank's credit exposure to the real estate and civil construction sectors was 3.1% (real estate activities) and 4.3% (construction companies) of the total loan portfolio (gross). On that date, 46.2% of the loan portfolio consisted of mortgage loans, the exposure to retail and wholesale 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 30 September 2018 totalled EUR 17.9 billion, consisting of assets under management (EUR 5.3 billion), assets placed with customers (EUR 4.2 billion) and insurance products (EUR 8.4 billion), including unit linked products (EUR 3.0 billion) and capitalisation insurance (EUR 5.1 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 4.3%, 3.1% and 46.2% of the consolidated loan portfolio, respectively, as at 30 September 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 2% of total assets of the Bank as at 30 September 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 1,510 million as at 30 September 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 30 September 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 13.6% as at 30 September 2018. In the nine-months ended 30 September 2018, the Bank and sold 3,542 properties, from its stock of properties, for EUR 473 million, above its book value of EUR 411 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 575.4 million as at 30 September 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 12.4 million as at 31 December 2017 and EUR 8.2 million as at 31 December 2016, 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 245.4 million recorded as at 30

September 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 46.2% of the total loan portfolio as at 30 September 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 46.2% of BCP's total loan portfolio (consolidated) as at 30 September 2018. The average spread of the mortgage loans portfolio in Portugal stood at 1.28%; 36% of the contracts and 38% of the balance of mortgage loans had spreads under 1%. As at 30 September 2018, 70% of the contracts and 61% 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 the nine months ended 30 September 2018, 13,887 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 1,023 million as at 30 September 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 51.2 billion as at 30 September 2018 (of which EUR 48.5 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers", EUR 2.4 billion were recorded in the caption "Debt securities held associated with credit operations" and EUR 0.278 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 the nine months ended 30 September 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 30 September 2018, was EUR 51.2 billion (of which EUR 48.5 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers", EUR 2.4 billion were recorded in the caption "Debt securities held associated with credit operations" and EUR 0.278 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 12.3% as at 30 September 2018, compared to 15.0% as at 31 December 2017. As at 30 September 2018, the loan portfolio in Portugal amounted to EUR 37.6 billion. In Portugal, the ratio of NPEs stood at 14.7% as at September 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 5.5 billion as at 30 September 2018, with 25% of NPEs relating to individuals and 75% to companies. 60% of NPEs are NPLs more than 90 days. NPE coverage as at 30 September 2018 was 109% for Companies (48% by LLRs, 35% by real estate collateral and 19% by other collateral and EL gap) and 100% for Individuals (27% by LLRs, 71% by real estate collateral and 2% by other collateral and EL gap). NPLs more than 90 days' coverage as at 30 September 2018 was 111% for Companies (63% by LLRs, 26% by real estate collateral and 22% by other collateral and EL gap) and 101% for Individuals (34% by LLRs, 65% by real estate collateral and 2% by other collateral and EL gap). Other NPE coverage as at September 2018 was 107% for Companies (47% by LLRs, 47% by real estate collateral and 14% by other collateral and EL gap) and 100% for Individuals (16% by LLRs, 80% by real estate collateral and 2% by other collateral and EL gap).

The persistence of volatility and adverse economic and financial circumstances at worldwide, European and national levels increases 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 337.1 million as at the nine-month period ended on 30 September 2018, EUR 623.7 million as at 31 December 2017 and EUR 1,116.9 million as at 31 December 2016. From 2011 to 31 December 2017, the Bank made impairment provisions amounting to EUR 6987.4 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[5], measured by the proportion of loan impairment annualised charges (net of recoveries) compared to loans to customers (gross), stood at 88 basis points as at 30 September 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

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

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 30 September 2018 was 2.7%, compared to 2.8% as at 30 September 2017. As at 31 December 2017, the NPL ratio was 2.8%, compared to 2.6% as 31 December 2016.

In Mozambique, the NPL ratio as at 30 September 2018 was 15.9%, compared to 14.0% as at 30 September 2017. As at 31 December 2017, the NPL ratio was 14.3%, compared to 6.0% as at 31 December 2016.

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 has 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 the nine months ended 30 September 2018, the Bank had 2.2 million active customers in Portugal and, in June 2018, 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: 17.2% in loans to customers, 17.4% in loans to companies, 16.1% in loans to individuals, 17.1% in mortgage loans, 10.1% in consumer credit, 18.9% in customer funds, 17.8% in on-balance sheet customer funds, 17.5% in deposits and 22.6% 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 30 September 2018 the Bank operated 568 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 30 September 2018, around 5.4% 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 the nine months ended 30 September 2018, more than 82% of the fees and commissions related to banking (24% to cards and transfers, 24% to loans and guarantees, 14% to bancassurance, 16% to customer account related fees and 16% to other fees and commissions), with market related fees and commissions accounting for the remaining 18%. 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, Standard & Poor's, Fitch and DBRS. The ratings as of the date of this Offering Circular are the following: (a) Moody's: "Ba3/NP" (re-presented as at 16 October 2018), (b) Standard & Poor's: "BB/B" (re-presented as at 9 October 2018), (c) Fitch: "BB/B" (re-presented as at 6 December 2018) and (d) DBRS: "BB (high)/R-3" (re-presented as at 11 June 2018). The risk ratings for the Bank's AT1 are: "B-" by Fitch, "Caa1" by Moody's, "B (low)" by DBRS and "CCC+" by Standard & Poor's.

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 ratings assigned by the British branch of DBRS, 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 (5.4% of BCP's shareholders were also clients of BCP as at 30 September 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 macroeconomic risks in its operations in Poland and Mozambique, as well as a result of its participation in Angolan 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 the first nine months of 2018, the Bank's net profit (after income taxes and non-controlling interests) attributable to international operations was EUR 140.8 million, compared to net profits (after income taxes and non-controlling interests) of EUR 257.5 million for the Bank as a whole. For the same period, net income in Poland was EUR 129.0 million, (EUR 64.6 million of which was attributable to the Bank), net contribution in Angola was EUR 17.1 million and net income in Mozambique was EUR 72.3 million (of which EUR 48.2 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).

Poland

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 SA ("**Bank Millennium**") granted mortgage loans in Swiss Francs until December 2008 and its Swiss francs mortgage loans portfolio on 30 September 2018 stood at approximately EUR 3.4 billion (approximately 27.5% of the total loan portfolio). The mortgage loans impaired ratio stood at 4.2% in September 2018 which compares to 2.6% in September 2017.

Bank Millennium stopped granting mortgage loans in foreign currencies in 2009. Consequently the Polish foreign exchange mortgage loans is a mature portfolio, constantly decreasing according to the repayment rate and with a low impairment ration and high coverage by provisions. As at 30 September 2018, Bank Millennium's foreign exchange mortgages amount to 25.7% of the Polish bank's loan book (EUR 3.4 billion), which represents 6.6% 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 2.8 billion (EUR 671 million) in the first year of the term of office of the restruring 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 53% of the total mortgage loans portfolio and 28% 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 30 September 2018 it represented only 53% of the total mortgage loans portfolio and 28% of the total loans portfolio.

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, with Earnings Per Share are expected to be 26% from 2021 onwards as a result of the acquisition. Bank Millennium's CET1 ratio is expected to stand at 15.9% after completion (17.2% including Bank Millennium's net earnings for the first nine months of 2018), comfortably above regulatory requirements.

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, 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 2016 to 3.8% and to 3.8% in 2017 (source: Mozambique National Institute of Statistics, October 2018). 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 the foregoing may negatively affect the Bank's business, financial condition, results of operations and prospects.

As at 30 September 2018, Millennium bim's ("**BIM**") exposure to the State of Mozambique included public debt securities denominated in MZN classified as financial assets at amortised cost in the amount of EUR 656 million. These public debt securities mostly have a maturity of less than one year. As at 30 September 2018, the Group also has a direct exposure to the State of Mozambique in the amount of EUR 425 million (of which EUR 343 million is denominated in MZN, EUR 4.8 million is denominated in USD and EUR 77 million denominated in Rands) and an indirect exposure resulting from sovereign guarantees received in the amount of EUR 152 million is denominated in USD. The amount of guarantees and irrevocable commitments granted was EUR 79 million (of which EUR 664,000 is denominated in MZN, EUR 78 million is denominated in USD and EUR 2,000 is denominated in EUR).

As at 30 September 2018, considering the 66.7% indirect investment in BIM, the Group's interest in BIM's equity amounted to EUR 300 million, with the exchange translation reserve associated with this participation, accounted in Group's consolidated equity, a negative amount of EUR 154 million. BIM's contribution to consolidated net income for the first nine months of 2018, attributable to the shareholders of the Bank, amounts to EUR 48.2 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 (87% of the Bank's funding as at 30 September 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 LCR and the NSFR recorded as at 30 September 2018 were 182% and 128%, respectively, compared to a regulatory requirement of 100% (fully implemented) for both ratios. The leverage ratio stood at 7.3% (fully implemented) as at 30 September 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 8.8125%, the Group Tier 1 ratio is 10.3125% and the Group total capital ratio is 12.3125% from 1 January 2018. The Group's CET1 ratio as at 30 September 2018 was 11.8% (phased-in and fully implemented).

SREP may increase and an additional cushion may be requested. In addition, Polish SREP requirements for 2018, are as follows: CET1 phased-in ratio required is 12.965%, the Tier 1 is 15.685% and the total capital ratio is 19.285% from 1 January 2018. Bank Millennium's CET1 and Tier 1 ratios as at 30 September 2018 were 20.9% and would be 15.9% if the eurobank acquisition was considered (17.2% including Bank Millennium's net earnings for the first nine months of 2018) and total capital ratio as at 30 September 2018 was 22.9%.

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 Offering Circular. 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 September 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 2018, amending Decree-Law no. 74-A/2017, of 23 June 2017, on credit agreements for consumers relating to residential immovable 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).

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, as applicable of Banco de Portugal, 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, 1,042 employees left the Bank and 1,025 employees were hired in 2016, with the total number of employees by the end of 2016 being 5,844 (5,964 headcount). In

Mozambique, the bank maintained its trend of growth in the number of employees with the recruitment of 224 employees. 178 employees left the Bank, thus, the Bank had 2,551 employees by the end of 2016.

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 27,379 as at 30 September 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 104% at the end of September 2018 (104% as at 31 December 2017). As at 30 September 2018, the liabilities related to the pension fund and other employee benefits reached EUR 3,051 million, compared with EUR 3,050 million recorded as at 31 December 2017. In the first nine months of 2018, the pension fund recorded a positive 2.75% rate of return, whereas in 2017 it stood at positive 4.2%.

Regulation (EU) No. 475/2012, of 5 June 2012, 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 30 September 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 30 September 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 until the end of the year. 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 the nine months ended 30 September 2018, actuarial differences were recorded representing positive EUR 10 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. 84.1% of the Bank's employees in Portugal and 78.5% 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 30 September 2018 was EUR 3.1 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 118 million, as at 30 September 2018 and the value of the same mismatch discounted at rates with -100 basis points, worth positive EUR 33 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 75.8 million as at 30 September 2018 (EUR 2.1 million in the caption "Financial assets at Fair value through profit or loss – Held for trading", EUR 20.6 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 53.1 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 1,022.9 million (EUR 1,022.1 million as at 31 December 2017) as at 30 September 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.

On 28 July 2017, BCP was notified by Banco de Portugal of an accusation under an administrative proceeding related to alleged violations of certain anti-money laundering procedures (administrative proceeding No. 24/16/CO), concerning certain additional customer due diligence measures and assessment and examination of operations. This relates to events that occurred mainly in 2012 and concerns two clients which were already subject to notification to the judicial authorities by BCP itself and to another client associated with them. On 4 September 2017, the Bank presented its defence. The production of evidence following BCP's defense has started in October 2017 and is ongoing.

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 27.1 million in the nine months ended 30 September 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 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 30 September 2018, the loans-to-deposits ration in Poland and Mozambique was 85% and 53%, 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 30 September 2018, 27.5% of the total loan portfolio and 52% 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 30 September 2018 corresponded to EUR 2,945 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.

Supported by the projection of taxable income for the years 2018 to 2028, the recoverability of DTAs related to the individual activity of the Bank was revalued as at 30 June 2018. The Issuer considers that the analysis of deferred tax assets recoverability prepared with reference to 30 June 2018 continues to reflect adequately its best estimate as of 30 September 2018 in what regards to future taxable income.

The expected generation of future taxable income in the individual activity of the Bank is mainly supported by the projection of the Bank's medium-term business in Portugal in terms of results generation, and are broadly consistent with the Reduction Plan of Non-Performing Assets 2018-2020 sent to the supervisory entity in March 2018, revised after the beginning of the term of office of the Board of Directors elected on the Annual General Meeting of Shareholders held on May 30, underlining:

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

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

(iii) Decrease in the cost of risk, supported by the expectation of a gradual recovery in economic activity, consubstantiating a stabilisation 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;

(iv) Control of the operating expenses, notwithstanding the investments planned by the Bank in the context of the expected deepening of the digitisation and expansion of its commercial activities;

(v) Positive net income, projecting the favourable evolution of the Return on Equity ("**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 stabilised term.

In addition to the above-mentioned macroeconomic assumptions and the Bank's strategic priorities, a set of assumptions regarding the applicable tax regime for credit impairment and guarantees was considered in order to estimate the future taxable income and the recoverability of DTAs:

- Considering that the specific rules regarding the tax regime for credit impairment and guarantees for the tax periods beginning on or after 1 January 2018 have not been established, the Bank considered the future maintenance of the tax regime applicable to impairment of loans and guarantees, based on the minimum limits applicable under Banco de Portugal Notice 3/95, which was in force in 2015 (pursuant to Regulatory Decree no. 19/2015, of 30 December), 2016 (pursuant to Regulatory Decree no. 5/2016, of 18 November) and 2017 (pursuant to Regulatory Decree no. 11/2017, of 28 December).

- 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.

- Considering that; the Bank applied IFRS 9 in the period beginning on 1 January 2018 and that no specific tax treatment was established regarding the corresponding transition adjustment, the Bank considered the application of the Corporate Income Tax general rules.

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

Additionally, as part of the analysis of the recoverability of deferred tax assets, the Issuer prepared a sensitivity analysis that considered the possibility of an approximation between the tax rules and accounting rules regarding impairment losses for credit and guarantees, as provided for in a proposal for amendment to the State Budget Law Proposal for 2018. This proposal provided for modifications to Articles 28-A, 28-C and 39 of the IRC Code, in order to approximate fiscal rules and accounting rules and introduced a transition period of 19 years with increasing percentages for the tax deductibility of losses due to credit impairment and guarantees not accepted for taxation purposes until 31 December 2017. The result of this analysis was also consistent with the full recovery of the DTAs recorded as at 30 September 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 annual net losses on the separate financial statements, as well as liquidation as a result of voluntary dissolution, insolvency decided by the court or withdrawal of the respective licence), the DTAs that have resulted from the non-deduction of expenses and of reductions in asset values resulting from impairment losses in credits and from post-employment benefits or long-term employments, will be converted into tax credits. In this case, a special reserve corresponding to 110% of their amount must be created, which is intended to be incorporated into the share capital and a right to demand the issue of shares by the Bank in an amount equivalent to such special reserve is granted to the Portuguese Republic ("**State Rights**"), such right 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 an entity with head office in Portugal within the same prudential consolidation perimeter) 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 all the rights issued, 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.

On 18 November 2016, the governmental decree ("*Decreto Regulamentar*") 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 governmental 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 governmental decree in 2016.

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 CET1 ratio, fully implemented as at 31 December 2017, corresponds to 11.9% 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 30 September 2018 was EUR 87.47 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 and 2017. 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 and 2017, 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. Governmental decree ("*Decreto Regulamentar*") no. 5/2016, of 18 November 2016, which came into force the following day, and Governmental decree ("*Decreto Regulamentar*") no. 11/2017, of 28 December 2017, 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 2018, the maintenance of the tax rules in force in 2017 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.

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

The preamble of governmental decree ("*Decreto Regulamentar*") no.13/2018, of 28 December 2018 states that a final tax regime applicable to impairment losses is to be put in place in 2019. Considering that such regime is not yet established there is currently uncertainty regarding the tax treatment for 2019 onwards. According to the press release published by the Portuguese Government on 17 January 2019, on such date, the Government approved a new regime aiming at overcoming the divergence between the accounting and taxation systems in what concerns the treatment of impairment losses, together with a regime for certain impairment losses for periods before 1 January 2019. Such new regime 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 Related to the Notes

Risks Related to the Structure of the Notes

The obligations of the Issuer in respect of the Notes are undated, direct, unsecured and subordinated and investors assume an enhanced risk of loss in the event of the Issuer's Winding-Up.

The Notes constitute undated, direct, unsecured and subordinated obligations of the Issuer.

On a Winding-Up of the Issuer, all claims in respect of the Notes (including claims for damages in respect of any breach of the Issuer's obligations thereunder, if applicable) will rank junior to all present and future claims in respect of Senior Obligations of the Issuer and *pari passu* with claims in respect of any Parity Securities. If, on a Winding-Up, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Holders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes, Holders will lose some (which may be substantially all save for the one cent floor) of their investment in the Notes.

There is no restriction on the amount of securities or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Notes. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders during a Winding-Up of the Issuer and may limit the Issuer's ability to meet its obligations under the Notes. See further "*The Issuer is not prohibited from issuing additional debt, which may rank pari passu with or senior to the Notes*" below.

In addition, as further described below under "*Upon the occurrence of a Trigger Event, the principal amount of the Notes will be Written Down*", the principal amount of the Notes may, in certain circumstances, other than in the context of a Winding-Up, be Written Down, which may be in part or (save for the one cent floor) in whole and may occur on one or more occasions. In a Winding-Up of the Issuer, the claims of Holders in respect of their Notes will be for the Outstanding Principal Amount at the time of the Winding-Up of the Issuer, which may be less than the Original Principal Amount of the Notes. The Notes do not contain any restriction on the Issuer's ability to issue securities that may have rights similar but preferential to those of the Notes including securities having more favourable, or no, provisions similar to the Trigger Event applicable to the Notes.

Although the Notes may (subject always to the Issuer's right to cancel interest payments and to circumstances where the cancelation of interest payment is mandatory in accordance with the Conditions) pay a higher rate of interest than securities which are not, or not as deeply, subordinated, there is a substantial risk that investors in the Notes will lose all or some of the value of their investment should a Winding-Up of the Issuer occur.

Before the occurrence of any event referred to above, holders of the Notes may already have lost the whole or part of their investment in the Notes as a result of a write-down or conversion into equity of the principal amount of the Notes following the exercise of any Statutory Loss Absorption Power (see the risk factor "*Notes may be subject to loss absorption on any application of the general bail-in tool or be subject to other resolution tools and may be subject to loss absorption at the point of non-viability of the Issuer or the Group*".

The Issuer is not prohibited from issuing additional debt, which may rank pari passu with or senior to the Notes.

The Conditions do not limit the amount of liabilities ranking senior or *pari passu* in priority of payment to the Notes which may be incurred or assumed by the Issuer from time to time, whether before or after the issue date of the Notes nor do they restrict the Issuer in issuing Additional Tier 1 Capital instruments with other write-down mechanisms or trigger levels or that convert into shares of the Issuer upon a trigger event. The Issuer may be able to incur significant additional secured or unsecured unsubordinated indebtedness and/or prior-ranking subordinated indebtedness. In the case of a Winding-Up of the Issuer, or if payment under any secured or unsecured unsubordinated and/or prior-ranking subordinated debt obligations is accelerated, the Issuer's secured or unsecured unsubordinated or, as the case may be, prior-ranking subordinated lenders would be entitled to exercise the remedies available to a secured or unsecured unsubordinated and/or prior-ranking subordinated lender before the Holders.

Unsubordinated liabilities of the Issuer may also arise from events that are not reflected on the balance sheet of the Issuer, including, without limitation, insurance or reinsurance contracts, derivative contracts, the issuance of guarantees or the incurrence of other contingent liabilities on an unsubordinated basis. Claims made under such guarantees or such other contingent liabilities will become unsubordinated liabilities of the Issuer that in a Winding-Up of the Issuer will need to be paid in full before the obligations under the Notes may be satisfied.

As a result, the Notes are subordinated to any secured or unsecured unsubordinated indebtedness and/or prior-ranking subordinated indebtedness that the Issuer may incur in the future. If a Winding-Up of the Issuer were to occur, the Issuer may not have enough assets remaining after these payments to pay amounts due and payable under the Notes and the Holders may therefore recover rateably less (if anything) than the lenders of the Issuer's secured or unsecured unsubordinated debt and/or prior-ranking subordinated debt. Even if the claims of senior ranking creditors would be satisfied in full, holders may still not be able to recover the full amount due because the proceeds of the remaining assets must be shared *pro rata* among all other creditors holding claims ranking *pari passu* with the claims of the Holders in respect of the Notes.

Also, the issue of additional capital instruments with interest cancellation provisions similar to the Notes may increase the likelihood of (full or partial) interest payment cancellations under the Notes if the Issuer is not able to generate sufficient Distributable Items or to maintain adequate capital buffers to make interest payments falling due on all outstanding capital instruments of the Issuer in full. See the risk factor "*The Issuer may at any time elect, and in certain circumstances shall be required, not to make interest payments on the Notes*" below.

If the Issuer's financial condition were to deteriorate, investors could suffer direct and materially adverse consequences, including suspension of interest and reduction of interest and principal and even loss of their entire investment.

The Issuer, in its full discretion, may at any time elect, and in certain circumstances shall be required, not to make interest payments on the Notes.

The Issuer may at any time elect, in its full and sole discretion, to cancel any interest payment (in whole or in part) on the Notes which would otherwise be due on any Interest Payment Date. Additionally, the Competent Authority may have the power to direct the Issuer to exercise its discretion to cancel any interest payment (in whole or in part) on the Notes.

Furthermore, the Issuer will cancel any interest payment (in whole or in part) which would otherwise fall due on an Interest Payment Date if and to the extent that payment of such interest would: (i) when aggregated with other Relevant Distributions and the amount of any Discretionary Reinstatement, where applicable, exceed the Distributable Items of the Issuer; or (ii) when aggregated with other Relevant Distributions, other relevant distributions referred to in Article 141 of the CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD and the amount of any Discretionary Reinstatement, cause the Maximum Distributable Amount then applicable to the Issuer and/or the Group to be exceeded.

In addition, if a Trigger Event occurs, the Issuer will cancel all interest accrued up to (and including) the relevant Write Down Date.

Any interest which is cancelled as a result of optional or mandatory cancellation as described above shall not accumulate and shall no longer be due and payable by the Issuer. A cancellation of interest in accordance with the Conditions will not constitute a default of the Issuer under the Notes for any purpose and shall not entitle Holders to petition for the Winding-Up of the Issuer, and Holders will have no right to such cancelled interest, or any amount in respect thereof, at any time (including in a Winding-Up of the Issuer).

If the Issuer elects to cancel, or is prohibited from paying, interest on the Notes at any time, there is no restriction under the terms of the Notes on the Issuer from otherwise paying dividends, interest or other distributions on, or redeeming or repurchasing, any of its other liabilities (including liabilities which rank *pari passu* with, or junior to, the Notes) or any of its share capital. The obligations of the Issuer under the Notes are senior in ranking to the ordinary shares of the Issuer. It is the Issuer's current intention that, whenever exercising its discretion to propose any dividend or distributions in respect of its ordinary shares, or its discretion to cancel any payment of interest, it will take into account the relative ranking of these instruments in its capital structure. However, the Issuer may at any time decide otherwise at its sole discretion and without notice to any person (including the Holders), and as further set out in this risk factor, in accordance with the Capital Regulations and the Conditions, it may in its discretion elect to cancel any payment of interest in respect of the Notes at any time and for any reason.

Any actual or anticipated cancellation of interest on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest cancellation provisions of the Notes, in particular Condition 6 (*Interest Cancellation*), the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Any indication or perceived indication that the Distributable Items or the Maximum Distributable Amount are close to being exceeded, whether as a consequence of a forthcoming interest payment or otherwise, and/or that the CET1 Ratio of the Issuer or the Group is trending towards a failure to meet fully legal and regulatory requirements, may have an adverse effect on the market price of the Notes.

With respect to cancellation of interest due to insufficient Distributable Items, see also "*The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Notes*" below. With respect to cancellation of interest due to the application of a Maximum Distributable Amount, see also "*Payments on the Notes cannot exceed the Maximum Distributable Amount*" below.

The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Notes.

The Issuer will cancel any payment of interest (in whole or in part) which could otherwise be paid on an Interest Payment Date if and to the extent that payment of such interest would, when aggregated with other relevant stipulated payments or distributions, exceed the Distributable Items of the Issuer. See "*Capital Adequacy and Solvency Ratios*" for information on the current amount of the Distributable Items of the Issuer and information on how this amount is currently calculated.

Distributable Items relate to the Issuer's profits and distributable reserves determined on the basis of the Issuer's non-consolidated accounts as further described in the Conditions. The level of the Issuer's Distributable Items is affected by a number of factors. The Issuer's future Distributable Items, and therefore the ability of the Issuer to make interest payments under the Notes, are a function of the Issuer's existing Distributable Items and its future profitability. The Issuer's Distributable Items may be adversely affected, *inter alia*, by the servicing of more senior instruments or parity ranking instruments, including by other discretionary interest payments on other (existing or future) capital instruments, including CET1 Capital distributions and any write-ups of principal amounts of other Loss Absorbing Written Down Instrument (if any).

The level of the Issuer's Distributable Items may also be affected by changes to the law, accounting rules, regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Issuer's Distributable Items in the future.

The Issuer's Distributable Items, and therefore the Issuer's ability to make interest payments under the Notes, may be adversely affected by the performance of the business of the Group in general, factors affecting its financial position (including capital and leverage), the economic environment in which the Group operates and other factors outside of the Issuer's control. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

Any actual or anticipated cancellation of interest on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest cancellation provisions of the Notes in Condition 6 (*Interest Cancellation*), the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Any indication or perceived indication that the Distributable Items or the Maximum Distributable Amount are close to being exceeded may have an adverse effect on the market price of the Notes.

With respect to cancellation of interest due to the application of a Maximum Distributable Amount, see also "*Payments on the Notes cannot exceed the Maximum Distributable Amount*" below.

Payments on the Notes cannot exceed the Maximum Distributable Amount.

No payments will be made on the Notes (whether by way of interest, Discretionary Reinstatement or otherwise) if and to the extent that such payment would, when aggregated together with other Relevant Distributions, any obligation referred to in Article 141 of the CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD and the amount of any Discretionary Reinstatement, where applicable, cause the Maximum Distributable Amount (if any) then applicable to the Issuer and/or the Group to be exceeded.

Under Articles 138 AA and 138 AB of the Institutions Act, institutions which fail to fully meet their combined buffer requirement will be subject to restricted "discretionary payments", including payments relating to common equity and additional tier 1 capital instruments (such as the Notes) and variable remuneration to staff. The restrictions will be scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the profits of the relevant institution since the last distribution of profits or other relevant "discretionary payment". Such calculation will result in a "maximum distributable amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary payments" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement by the Issuer and/or the Group, it may be necessary to reduce discretionary payments, including potentially cancelling (in whole or in part) interest payments in respect of the Notes.

Pursuant to Article 23(5) of Decree-Law no. 157/2014, of 24 October, which has implemented the CRD IV in Portugal and amended the Institutions Act, restrictions on "discretionary payments" will also apply during the phase-in period to institutions which fail to fully meet their phased-in combined buffer requirements.

Moreover, institutions which fail to fully meet their combined buffer requirements (including those applicable during the phase-in period) will be required to prepare and submit to the competent supervisory authorities a capital conservation plan as provided in Article 138-AD of the Institutions Act. If the competent supervisory authorities consider that the implementation of the plan would not be reasonably likely to conserve or raise sufficient capital to enable the institution to meet its combined buffer requirements within a period deemed appropriate, the plan will not be approved and the competent supervisory authorities shall require the institution to increase own funds to specified levels within specified periods and/or impose more stringent restrictions on "discretionary payments".

A minimum combined buffer requirement is imposed on top of the minimum regulatory Pillar 1 capital requirement of 8% of the Issuer’s RWA as calculated in accordance with Article 92 of CRR and any P2R applicable to the Issuer. See "*Capital Adequacy and Solvency Ratios*" for further information regarding the combined buffer requirements for the Issuer.

In the future the Issuer and/or Group may need to comply with a higher combined buffer requirement.

In addition to the Pillar 1 capital requirements, CRD IV contemplates that the Competent Authority may require additional Pillar 2 capital to be maintained by an institution relating to elements of risks which are not fully covered by the minimum own funds requirements ("additional own funds requirements") or to address macro-prudential requirements.

The EBA published guidelines on 19 December 2014 addressed to national supervisors on common procedures and methodologies for the SREP which contained guidelines proposing a common approach to determining the amount and composition of additional own funds requirements and which was implemented from 1 January 2016. The guidelines contemplate that national supervisors should not set additional own funds requirements in respect of risks which are already covered by capital buffer requirements and/or additional macro-prudential requirements. Accordingly, the combined buffer requirement (as referred to above) applies in addition to the minimum own funds requirement and to the additional own funds requirement.

The SREP is carried out continuously by the relevant Joint Supervisory Team who prepares an individual SREP decision once a year. In December 2017, the ECB published an SSM SREP methodology booklet which sets out the common methodology it intends to apply in 2018. Every bank receives a letter setting out the specific measures it needs to implement in the following year. In July 2016, the ECB confirmed that the SREP will for the first time comprise two elements: P2R (which are binding and breach of which can have direct legal consequences for banks, including the triggering of the capital conservation measures of Article 141 of CRD IV) and P2G (with which banks are expected to comply but breach of which does not automatically trigger the capital conservation measures of Article 141 of CRD IV). Accordingly, in the capital stack of a bank, the P2G is in addition to (and "sits above") that bank’s Pillar 1 capital requirements, its P2R and its combined buffer requirement. If a bank does not meet its P2G, the mandatory restrictions on discretionary payments referred to above (including payments on the Notes) based on its Maximum Distributable Amount may not automatically apply. Instead, the Competent Authority will carefully consider the reasons and circumstances and may impose individually tailored supervisory measures. However, the mandatory restrictions on such discretionary payments (including payments on the Notes) based on its Maximum Distributable Amount should apply if a bank fails to maintain its combined buffer requirement, such as because of a breach of P2R. These changes are also reflected in the Proposals. However, there can be no assurance as to how and when effect will be given to the EBA’s guidelines and/or the Proposals in Portugal, including as to the consequences for a bank of its capital levels falling below the minimum own funds requirements, additional own funds requirements and/or combined buffer requirement referred to above.

Please refer to "*Capital Adequacy and Solvency Ratios*" for further information in respect of the Issuer’s SREP requirements and MDA thresholds.

The amount of CET1 Capital required to meet the combined buffer requirements will also be relevant to assess the risk of interest payments being cancelled. The market price of the Notes is likely to be affected by any fluctuations in the CET1 Ratio of the Issuer or the Group. Any indication or perceived indication that the CET1 Ratio of the Issuer or the Group is trending towards a failure to meet fully the combined capital buffer requirement referred to above or that the Maximum Distributable Amount trigger level may be exceeded may have an adverse impact on the market price of the Notes.

The Issuer’s capital requirements are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable, foreseeable or capable of calculation by investors and some of which may also be outside the control of the Group or the Issuer.

Holders of the Notes may not be able to predict accurately the proximity of the risk of discretionary payments (of interest and/or principal) on the Notes being restricted from time to time as a result of the operation of Articles 138-AA and 138-AB of the Institutions Act implementing Article 141 of CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD. In any event, the Issuer will have discretion as to how the Maximum Distributable Amount will be applied if insufficient to meet all expected distributions and is not obliged to take the interest of investors in the Notes into account.

Payment of interest may also be affected by any application of the BRRD in Portugal. See also below in the risk factor "*Notes may be subject to loss absorption on any application of the general bail-in tool or be subject to other resolution tools and may be subject to loss absorption at the point of non-viability of the Issuer or the Group*".

In addition, CRD IV includes a requirement for credit institutions to calculate, report, monitor and publish their leverage ratios, defined as their Tier 1 capital as a percentage of their total exposure measure. As part of the Proposals, a binding leverage ratio of 3% is being introduced at the beginning of 2021 (as currently envisaged and assuming the CRR is amended in line with such proposals).

There can be no assurance, however, that the leverage ratio specified above, or any of the minimum own funds requirements, additional own funds requirements or combined buffer capital requirements applicable to the Issuer will not be amended in the future to include new and more onerous capital requirements (including a leverage ratio buffer), which in turn may affect the Issuer's capacity to make payments of interest on the Notes. In particular, the Proposals require the EC to investigate whether a leverage ratio buffer is also appropriate for an O-SII. In this context, a binding leverage ratio of more than 3% may be required in the future. The Issuer's fully loaded leverage ratio as at 30 September 2018 was 11.8%.

Any failure by the Issuer and/or the Group to comply with its MREL requirement could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Issuer, including interest payments on the Notes.

The developing TLAC/MREL framework, if adopted and once implemented, may impose further restrictions on the Issuer's ability to pay interest on the Notes. Among other things, the EU's banking reform proposals published in November 2016 (the "**Proposals**") aim to implement Total Loss-Absorbing Capacity ("**TLAC**") standards for G-SIIs in the EU. In November 2017 the Council of the EU published a compromise text with respect to, and in June 2018 the European Parliament published a report on, the Proposals. However, the Proposals are still being discussed at trilogue meetings between the European Parliament, the Council of the EU and the EC and therefore remain subject to change. As a result, it is not possible to give any assurances as to the ultimate scope, nature, timing and of any resulting obligations, or the impact that they will have on the Issuer once implemented.

The proposals apply a harmonised minimum TLAC level to EU G-SIIs while introducing a firm-specific MREL for G-SIIs, O-SIIs (including the Issuer) and smaller institutions and facilitate the issuance of a new liability class of "non-preferred senior" by requiring member states to introduce such layer in their local legislation, which has not yet been implemented in Portugal.

Further amendments include changes to the calculation of MREL – which should be expressed as a percentage of the total risk exposure amount and of the leverage ratio exposure measure of the relevant institution – and MREL eligibility criteria, which could affect the level of future MREL as well as the level of reported MREL capacity. It is proposed that the 'MREL requirements' should be determined by the resolution authorities at an amount to allow banks to absorb losses expected in resolution and recapitalise the bank post-resolution. In addition, the Proposals introduce consequences of breaching MREL requirements. A failure by the Issuer to comply with MREL requirements means the Issuer could become subject to the Maximum Distributable Amount restrictions on certain discretionary payments, including payments on Additional Tier 1 Capital instruments such as the Notes, as the required amount of MREL 'sits below' the combined buffer requirements. Furthermore, it is proposed that resolution authorities may require institutions to meet higher levels of MREL in order to cover losses in resolution above the level of the existing own funds requirements and to ensure a sufficient market confidence in the entity post-resolution (i.e. on top of the required recapitalisation amount). These higher levels will take the form of "MREL guidance", and it is currently envisaged that institutions that fail to meet the MREL guidance shall not be subject to Maximum Distributable Amount restrictions. However, there is uncertainty about the future application of the "MREL guidance" in light of the text of the Council of the EU and the report of the European Parliament referred to above.

A new Article 141a is proposed to be included in CRD IV to better clarify, for the purposes of restrictions on distributions, the relationship between the additional own funds requirements, the minimum own funds requirements and the combined buffer requirement (the so called “stacking order”), with Article 141 of CRD IV to be amended to reflect the stacking order in the calculation of the Maximum Distributable Amount. Under this new provision, an institution such as the Issuer may be considered as failing to meet the combined buffer requirement for the purposes of Article 141 of CRD IV where it does not have own funds and eligible liabilities in an amount and of the quality needed to meet at the same time the requirement defined in Article 128(6) of CRD IV (i.e. the combined buffer requirement) as well as each of the minimum own funds requirements and the additional own funds requirements. In addition a new Article 16a is proposed to be included in the BRRD to better clarify the stacking order between the combined buffer and the MREL requirement. Pursuant to this new provision a resolution authority shall have the power to prohibit an entity from distributing more than the maximum distributable amount for own funds and eligible liabilities (calculated in accordance with the proposed Article 16a(4) of the BRRD, the "**M-MDA**") where the combined buffer requirement and the MREL requirement are not met. The proposed Article 16(a) in its current form envisages a potential six month grace period whereby the resolution authority assesses on a monthly basis whether to exercise its powers under the provision, before such resolution authority is compelled to exercise its power under the provisions (subject to certain limited exceptions). Furthermore, a new Article 141b is proposed to be included in CRD IV which introduces a restriction on distributions in the case of a failure to meet the leverage ratio buffer, with provision for a new leverage ratio maximum distributable amount (the "**L-MDA**") to be calculated. The M-MDA and the L-MDA are both proposed to limit the same distributions as the Maximum Distributable Amount and so may limit the aggregate amount of interest payments, write-up amounts and redemption amounts on the Notes. It is not yet clear how and to which extent the aforementioned proposals will be implemented in Portugal.

The Notes may be traded with accrued interest, but (i) under certain circumstances described above, such interest will be cancelled and not paid on the relevant Interest Payment Date and (ii) the Issuer retains full discretion to cancel interest otherwise scheduled to be paid on the relevant Interest Payment Date.

The Notes may trade, and/or the prices for the Notes may appear, in any trading systems and/or on any stock exchange on which the Notes are for the time being quoted, with accrued interest. If this occurs, purchasers of Notes in the secondary market will pay a price that reflects such accrued interest upon purchase of the Notes. However, if a payment of interest on any Interest Payment Date is cancelled (in whole or in part) as described herein and thus is not due and payable, purchasers of such Notes will not be entitled to that interest payment (or, if the Issuer elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date.

Upon the occurrence of a Trigger Event, the principal amount of the Notes will be Written Down.

The Notes are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Additional Tier 1 Capital of the Issuer and the Group. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions of the Notes. One of these relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of any of the Issuer and the Group.

Accordingly, if at any time the CET1 Ratio (calculated and determined as provided in the Conditions) of the Issuer and/or the Group falls below 5.125% (a "**Trigger Event**"), the Issuer shall immediately notify the Competent Authority and, without delay and by no later than one month (or such shorter period as the Competent Authority may then require) from the occurrence of the relevant Trigger Event, shall (without the need for the consent of the Holders):

(a) cancel all interest accrued to (but excluding) the relevant Write Down Date (whether or not such interest has become due for payment and including any interest scheduled for payment on such Write Down Date); and

(b) reduce the then Outstanding Principal Amount of each Note by the relevant Write Down Amount (such reduction, a "**Write Down**" and "**Written Down**" being construed accordingly).

Any such decision shall be binding on the Holders as described in the Conditions.

The relevant Write Down Amount of each Note will be (save as may otherwise be required by the Capital Regulations) the lower of (i) and (ii) below:

(i) the amount per Note which is determined by the Issuer to be necessary (in conjunction with (a) the concurrent Write Down of the other Notes and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments) to restore each of the Issuer's and the Group's (as applicable) CET1 Ratio to at least 5.125%; and

(ii) the amount necessary to reduce the Outstanding Principal Amount of each Note to one cent.

A Write Down of the Notes will be effected, save as may otherwise be required by the Capital Regulations or the Competent Authority, *pro rata* with (a) the concurrent Write Down of the other Notes and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), provided, however, that:

(1) with respect to each Loss Absorbing Instrument (if any), such *pro rata* write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 Ratio(s) to the lower of (i) such Loss Absorbing Instrument's trigger level and (ii) 5.125% (being the level at which a Trigger Event occurs in respect of the Notes), in either case in accordance with the terms of such Loss Absorbing Instruments and the Capital Regulations; and

(2) if for any reason the Issuer is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Notes will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted (and, in such circumstances, the Write Down Amount may be higher than would otherwise have been the case).

Holders may lose all or some of their investment as a result of such a Write Down. In particular, if so required by the Capital Regulations, the Issuer may be required to write down the Outstanding Principal Amount of the Notes following the occurrence of a Trigger Event such that each of the CET1 Ratios of the Issuer and the Group is restored to a level higher than 5.125%. No assurance can be given that a Write Down will be applied towards not only curing the Trigger Event but also towards restoring the relevant CET1 Ratios of the Issuer and/or the Group to a level which is higher than 5.125%. In such an event, the Write Down Amount will be greater than the amount by which the then Outstanding Principal Amount would have been written down if the Issuer had been required to write down the Outstanding Principal Amount of the Notes to the extent necessary thereby to restore each of the CET1 Ratios of the Issuer and the Group to 5.125%.

For the avoidance of doubt, where the CET1 Ratio of the Issuer or the Group falls below 5.125%, any Loss Absorbing Instruments with a trigger level expressed by reference to a relevant CET1 Ratio falling below a level which is equal to or higher than 5.125% may be expected to share losses *pro rata* with the Notes until the relevant CET1 Ratio(s) have been restored to 5.125%. Any *pro rata* reduction of the Prevailing Principal Amount of the Securities may potentially be higher than that applied to other Additional Tier 1 Capital instruments if the write-down or conversion of such other securities is ineffective for any reason.

The Issuer's future outstanding junior and *pari passu* ranking securities might not include write-down or similar features with triggers comparable to those of the Notes. As a result, it is possible that the Notes will be subject to a Write Down, while junior and *pari passu* ranking securities remain outstanding and continue to receive payments. Also, the Conditions do not in any way impose restrictions on the Issuer following a Write Down, including restrictions on making any distribution or equivalent payment in connection with junior (including ordinary shares) or *pari passu* ranking securities.

Any Write Down of the Notes will affect the claims of the Holders in various respects. Firstly, in the event of a Winding-Up of the Issuer, the claims of the Holders will be in respect of the Outstanding Principal Amount of the Notes at the time of the Winding-Up of the Issuer, and not for the Original Principal Amount. Similarly, upon a redemption of the Notes by the Issuer following the occurrence of a Capital Event or a Tax Event, the redemption amount of each Note will be its Outstanding Principal Amount (together with accrued and unpaid interest) and not its Original Principal Amount. The Issuer is not permitted to redeem the Notes pursuant to Condition 9.2 (*Redemption at the option of the Issuer*), until any principal amount by which the Notes have been Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) have first been reinstated in full pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*); however, that restriction does not apply to a redemption following the occurrence of a Capital Event or a Tax Event.

Secondly, interest will accrue only on the Outstanding Principal Amount of the Notes from time to time, and accordingly for so long as the Outstanding Principal Amount of the Notes is less than their Original Principal Amount, the maximum amount of interest which may be paid by the Issuer (subject always to applicable payment restrictions and interest cancellation as provided above) on any Interest Payment Date shall be less than if no Write Down had occurred.

In addition, as the occurrence of a Trigger Event is linked to the CET1 Ratios of the Issuer and the Group, any actual or perceived reduction in any such CET1 Ratio may have an adverse effect on the market price of the Notes, and such adverse effect may be particularly significant if there is any indication or expectation that any such CET1 Ratio is or may be trending towards 5.125%.

A Write Down may occur on any one or more occasions, and the Outstanding Principal Amount of the Notes may be reduced in part or in whole (save that no Note shall be Written Down below one cent). Holders will not be entitled to any compensation or other payment as a result of any Write Down of the Notes. Accordingly, if a Trigger Event occurs, Holders could lose all or part of the value of their investment in the Notes if the Issuer subsequently redeems the Notes following the occurrence of a Tax Event or a Capital Event or a Winding-Up of the Issuer occurs.

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. The determination by the Issuer or the Competent Authority, as applicable, that a Trigger Event has occurred shall be based on information (whether or not published) available to the management of the Issuer, including information internally reported within the Issuer, and/or the Group and/or shared with the Competent Authority (as applicable) pursuant to procedures for ensuring the effective on-going monitoring of the capital ratios of the Issuer and the Group. Accordingly, whether or not any the CET1 Ratio of the Issuer or the Group is trending towards 5.125% may not be easily visible to Holders or other prospective investors. Accordingly, investors may be unable to predict accurately if and when a Trigger Event may occur. See "*The circumstances surrounding or triggering a Write Down or a breach of the Maximum Distributable Amount are unpredictable, and there are a number* *of factors, any of which may be outside the Issuer's control, that could affect the CET1 Ratio of the Issuer and/or the Group*" below.

See "*Capital Adequacy and Solvency Ratios*" for information regarding the current regulatory capital ratios of the Issuer and the Group. The Issuer and the Group currently intend to publish information regarding the regulatory capital ratios of the Issuer and the Group as part of their financial statements each quarter. However, there can be no assurance that the Issuer and the Group will publicly report such information at such intervals or at any other time.

Whilst the Conditions provide for Discretionary Reinstatement of the principal amount of the Notes in certain circumstances, any such Discretionary Reinstatement will be in the sole and full discretion of the Issuer, there is no provision for the automatic Discretionary Reinstatement of the Notes in any circumstances and any Discretionary Reinstatement will be subject to certain restrictions. Discretionary Reinstatement may only occur if each of the Issuer and the Group generates a net profit in any given financial year, and only a specified percentage of the lowest of any such profits will be available for the Issuer to apply (in its sole discretion) to a Discretionary Reinstatement of the Notes. See Condition 8 (*Discretionary Reinstatement of the Notes*) for further details on the calculation of such amount. Further, a Discretionary Reinstatement will not be effected in circumstances where it would cause a Trigger Event, or would result in any Maximum Distributable Amount then applicable to the Issuer and/or the Group to be exceeded. Even if, following a Trigger Event, the Issuer and the Group each record net profits, there can be no assurance that any Discretionary Reinstatement of any part of the principal amount of the Notes will be effected.

The market price of the Notes is expected to be affected by any actual or anticipated write-down of the principal amount of the Notes as well as by the Issuer’s actual or anticipated ability to write-up the reduced principal amount to its original principal amount.

The circumstances surrounding or triggering a Write Down or a breach of the Maximum Distributable Amount are unpredictable, and there are a number of factors, any of which may be outside the Issuer's control, that could affect the CET1 Ratio of the Issuer and/or the Group.

The occurrence of a Trigger Event is inherently unpredictable and depends on a number of factors, which may be outside the control of the Issuer. The CET1 Ratio of the Issuer and the Group can be expected to fluctuate on an on-going basis and could be affected by one or more factors, including, among other things, changes in the mix of the business of the Issuer and/or the Group, major events affecting their respective earnings, distributions payments, regulatory changes (including changes to definitions and calculations of the CET1 Ratio and its components, including CET1 Capital and Risk Weighted Assets) and their ability to manage Risk Weighted Assets. The CET1 Ratio of the Issuer and/or the Group may be calculated at any time in accordance with the Conditions. See further *"Terms and Conditions of the Notes"*.

In making strategic decisions, including in respect of capital management, the Issuer is required to have regard to the interests of all stakeholders in the Issuer as a whole and not to prioritise the particular interests of any group of stakeholders (such as investors in the Notes, other capital providers or its creditors generally). Holders will not have any claim against the Issuer or any other member of the Group in relation to strategic decisions that affect the business and operations of the Issuer or the Group, including if such decisions result in a deterioration in their capital position and an increased risk of the occurrence of a Trigger Event.

Further, the calculation of the CET1 Ratio of the Issuer and/or the Group may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules (including, but not limited to, the introduction of IFRS 9), whether or not the fundamental data of the Issuer and/or the Group which feeds into such accounting or regulatory framework changes. In addition, the CET1 Ratio of the Group may differ from the CET1 Ratio of the Issuer; the main differences between the individual and the consolidated perimeters are the contributions of other entities of the Group to the consolidated position, in respect of both own funds components (such as retained earnings, reserves and minority interests) and Risk Weighed Assets' components (credit risk, market risk and operational risk). This could mean that the publication of the CET1 Ratio of the Issuer will not be indicative of the CET1 Ratio of the Group, and *vice versa*. The Issuer currently publishes the CET1 Ratios of the Issuer and the Group on a quarterly basis. This may mean investors are given limited warning of any deterioration in the CET1 Ratios. Investors should also be aware that the CET1 Ratios of the Issuer and the Group may be calculated as at any date and, as a result thereof, a Trigger Event may occur as at any date. For further details on the calculation of the CET1 Ratio of the Issuer and the Group, see "*Capital Adequacy and Solvency Ratios* ".

It will be difficult to predict when, if at all, a Trigger Event may occur. Accordingly, the trading behaviour of the Notes is not necessarily expected to follow the trading behaviour of other types of securities without this feature. Any actual or perceived indication that a Trigger Event or the minimum MDA trigger level may occur can be expected to have a material adverse effect on the market price of the Notes.

The Maximum Distributable Amount, Trigger Event and Discretionary Reinstatement are linked to the CET1 Ratio and Net Profits of the Group (as well as those of the Issuer) and accordingly will be affected by the performance of the Group's non-banking businesses as well as the performance of the Group.

In particular, the calculation of the Group's CET1 Ratio, which is directly linked to a Trigger Event under the Notes and relevant to whether or not the Group is meeting its combined buffer requirement, may be affected by the performance of the insurance business. The investments in the insurance businesses in accordance with the current European regulation are reflected in the capital adequacy of the Group by way of a deduction and risk weighting approach under Article 48 of CRR. Investments in insurance businesses are risk weighted at 250% within an individual limit of 10% and an aggregated limit (including DTAs) of 15% of the Group's CET1 Capital and will be deducted from the CET1 Capital for the part of the investment superseding those limits. Negative performance and increased capital needs in the insurance business will have a negative impact on the Group's CET1 Ratio

Notes may be subject to loss absorption on any application of the general bail-in tool or be subject to other resolution tools and may be subject to loss absorption at the point of non-viability of the Issuer or the Group.

In the event of resolution, the BRRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) a relevant entity is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such relevant entity within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business – which enables resolution authorities to direct the sale of the relevant entity or the whole or part of its business on commercial terms; (ii) bridge institution – which enables resolution authorities to transfer all or part of the business of the relevant entity to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control), which may limit the capacity of the relevant entity to meet its repayment obligations; (iii) asset separation – which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in – which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing relevant entity (which write-down may result in the reduction of such claims to zero) and to convert certain unsecured debt claims (including the Notes) to equity or other instruments of ownership (the "**general bail-in tool**"), which equity or other instruments could also be subject to any future cancellation, transfer or dilution.

The Notes are unsecured and therefore subject to the resolution regime, including the general bail-in tool (see "*Risk Factors – The Banking Union may impose additional regulatory requirements that may condition the Bank's results*" and "*Description of the Issuer – Recent developments on the banking* *regulation*"). The impact on investors, in a resolution scenario, depends crucially on the rank of the liability in the resolution creditor hierarchy.

Once it is determined that the Issuer meets the conditions for resolution, the Relevant Resolution Authorities may apply the general bail-in tool. When applying the general bail-in tool, the Relevant Resolution Authorities must apply the following order of priority as set out in Article 48 of the BRRD:

(i) CET1 Capital instruments;

(ii) Additional Tier 1 Capital instruments (such as the Notes);

(iii) Tier 2 Capital instruments;

(iv) eligible liabilities in the form of subordinated debt that is not Additional Tier 1 Capital or Tier 2 Capital in accordance with the hierarchy of claims in normal insolvency proceedings; and

(v) the rest of eligible liabilities (such as senior debt instruments) in accordance with the hierarchy of claims in normal insolvency proceedings.

When a resolution measure is applied no shareholder or creditor of the institution (including the Holders) subject to resolution may have losses greater than it would have if the institution had entered into liquidation ("no creditor worse off"). Holders may have a right to compensation if the treatment they receive in resolution is less favourable than the treatment they would have received under normal liquidation proceedings. This assessment must be based on an independent valuation of the firm. Completion of this assessment, as well as payment of any potential consideration, may occur considerably later than contractual payment dates.

The BRRD as implemented in Portugal by the Institutions Act contemplates that the Notes may also be subject to non-viability loss absorption in addition to the application of the general bail-in tool (together referred to as "**Statutory Loss Absorption**").

The Statutory Loss Absorption Powers provided to the Relevant Resolution Authorities include write down/conversion powers to ensure that capital instruments (including the Notes) absorb losses at the point of non-viability of the Issuer or the Group. Accordingly, the BRRD contemplates that the Relevant Resolution Authorities may require the write down of such capital instruments (including the Notes) in full or on a permanent basis, or their conversion in full into shares or other instruments of ownership, 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 the Relevant Resolution Authorities shall exercise the write down power of reducing or converting at the point of non-viability, according to an order of priority of credits in normal insolvency procedures, in a way that results in:

(i) CET1 instruments being written down or converted in proportion to the relevant losses; and then

(ii) the principal amount of other capital instruments (including the Notes) being written down and/or converted into CET1 in accordance with their relative ranking.

The Conditions acknowledge that the Notes may become subject to the determination by the Relevant Resolution Authority that all or part of the principal amount of the Notes, including accrued but unpaid interest in respect thereof, must be written off or converted into shares or other instruments of ownership or otherwise be applied to absorb losses, all as prescribed by the Statutory Loss Absorption Powers. See Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*).

Upon any such determination, (i) the relevant proportion of the outstanding nominal amount of the Notes subject to the Statutory Loss Absorption Powers shall be written off or converted into shares or other instruments of ownership or otherwise be applied to absorb losses, as prescribed by the applicable framework, (ii) investors will have no further rights or claims in respect of the amount so written off or subject to conversion or otherwise as a result of such Statutory Loss Absorption and (iii) such Statutory Loss Absorption shall not constitute a default nor entitle investors to take any action to cause the dissolution or liquidation of the Issuer.

Any written off amount as a result of Statutory Loss Absorption shall be irrevocably lost and investors will cease to have any claims for any principal amount and accrued but unpaid interest which has been subject to Statutory Loss Absorption.

In addition, the Conditions acknowledge that, subject to the determination by the Relevant Resolution Authority and without the consent of the investors, the Notes may be subject to other resolution measures as envisaged by the Statutory Loss Absorption Powers; that such determination, the implementation thereof and the rights of investors shall be as prescribed by the Statutory Loss Absorption Powers, which may, *inter alia*, include the concept that, upon such determination no investor shall be entitled to claim any indemnification arising from any such event and that any such event shall not constitute an event of default or entitle the Holders to take any action to cause the dissolution or liquidation of the Issuer. The Issuer may substitute the Notes or vary the terms in order to ensure the effectiveness and enforceability of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) as further described under "*The Notes are subject to modification, substitution and variation*" below.

The determination that all or part of the nominal amount of the Notes will be subject to Statutory Loss Absorption is inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. Accordingly, trading behaviour in respect of Notes which are subject to Statutory Loss Absorption is not necessarily expected to follow trading behaviour associated with other types of securities.

The taking of any such actions or the use of any other resolution tool could adversely affect the rights of Holders, including the write-down or conversion (in whole or in part) of the Notes. Any such actions or the perceived likelihood of any such actions being taken may adversely impact the price or value of their investment in the Notes.

The interest rate on the Notes will be reset on each Reset Date, which may affect the market value of the Notes.

The Notes will bear interest at an initial fixed rate of interest to, but excluding, the First Call Date. From, and including, the First Call Date, and on every Reset Date thereafter, the interest rate will be reset to the Reset Interest Rate (as described in Condition 5 (*Interest*)). This reset rate could be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could affect the amount of any interest payments under the Notes and so the market value of an investment in the Notes.

The Notes do not contain events of default and the enforcement rights available to Holders under the Notes are limited.

The terms of the Notes do not provide for any events of default or any other provisions allowing Holders to accelerate the Notes. Holders may not at any time demand repayment or redemption of their Notes, and enforcement rights for any payment are limited to the claim of Holders in a Winding-Up of the Issuer. In a Winding-Up of the Issuer, the Holder of any Note may prove or claim in such proceedings in respect of such Note, such claim being for payment of the Outstanding Principal Amount of such Note at the time of commencement of such Winding-Up together with any interest accrued and unpaid on such Note (to the extent that the same is not cancelled in accordance with the terms of the Notes) from (and including) the

Interest Payment Date immediately preceding commencement of such Winding-Up and any other amounts payable on such Note under the Conditions. In accordance with the Conditions, a Holder may not itself file for the Winding-Up or bankruptcy of the Issuer.

There is no scheduled redemption date for the Notes and Holders have no right to require redemption. The Issuer may redeem the Notes in certain circumstances.

The Notes have no fixed maturity. The Issuer has no obligation at any time to redeem the Notes, and the Holders have no rights to require redemption or purchase of the Notes by the Issuer at any time.

Provided that any amount of principal Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) has first been reinstated pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*), the Issuer may redeem the Notes (in whole but not in part) in its sole discretion, subject to the approval of the Competent Authority, if applicable, and to compliance with the Capital Regulations, on the First Call Date or any Interest Payment Date thereafter at their Redemption Amount.

Further, following the occurrence of a Capital Event or a Tax Event, the Issuer may redeem the Notes (in whole but not in part) in its sole discretion, subject to the approval of the Competent Authority, if applicable, and to compliance with the Capital Regulations, at any time at their Redemption Amount, which may be lower than the Original Principal Amount if the Notes have previously been the subject of a Write Down.

A Capital Event will occur if there is a change in the regulatory classification of the Notes under the Capital Regulations that has resulted, or would be likely to result, in their exclusion in full or in part from the Issuer's and/or the Group’s Tier 1 Capital (other than as a consequence of write down or conversion, where applicable and other than as a result of any applicable limitation on the amount of such capital).

A Tax Event will occur if there is a Law Change whereby the Issuer determines that it: (i) would not be entitled to claim a deduction in computing taxation liabilities in a Tax Jurisdiction in respect of any interest payment to be made on the next Interest Payment Date or the value of such deduction to the Issuer would be reduced, (ii) would be required to pay additional amounts on the next Interest Payment Date pursuant to Condition 11 (Taxation), (iii) would be required to bring into account a taxable income if the principal amount of the Notes was written down, where the Issuer was not so required prior to the relevant Law Change, or (iv) would be adversely affected by a material change in the applicable tax treatment of the Notes.

At any time when the Notes may be redeemed by the Issuer or the market anticipates that the redemption right will become available, the market price of the Notes is unlikely to substantially exceed the price at which the Issuer may elect to redeem the Notes. If the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Holders may only be able to reinvest the redemption proceeds in Notes with a lower yield. Potential investors should consider reinvestment risk in light of other investments available at that time.

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which the Issuer may elect to redeem the Notes, and if so whether or not the Issuer will satisfy the conditions, or elect, to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes at a time when its funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed, there can be no assurance that Holders will be able to reinvest the amounts received upon any redemption at a rate that will provide as favourable a rate of return as their investment in the Notes.

Limitation on gross-up obligations under the Notes.

The Issuer's obligation under Condition 11 (*Taxation*) to pay additional amounts in the event of any withholding or deduction in respect of taxes on any payments under the terms of the Notes applies only to payments of interest and not to payments of principal. As such, the Issuer would not be required to pay any additional amounts under the terms of the Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, Holders may receive less than the full amount of principal due under the Notes upon redemption, and the market value of the Notes may be adversely affected.

The Notes are complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors.

The Notes are complex financial instruments that involve a high degree of risk. As a result, an investment in the Notes will involve certain increased risks. Each potential investor of the Notes must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where such potential investor's financial activities are principally denominated in a currency other than euro, and the possibility that substantially the entire principal amount of the Notes could be lost in the event of a Write Down or other write down of the Notes;

(iv) understand thoroughly the terms of the Notes (including, in particular, calculation of the CET1 Ratio of the Issuer and the Group, as well as under what circumstances a Trigger Event will occur and the provisions relating to the payment and cancellation of interest); and

(v) be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless they have the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the likelihood of cancellation of interest and/or Write Down and the value of the Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular.

The Notes are subject to modification, substitution and variation.

The Instrument and the Conditions of the Notes contain provisions for calling meetings of Holders to consider matters affecting their interests generally, or otherwise to pass resolutions. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting, including Holders who voted in a manner contrary to the majority.

In addition, the Agent and the Issuer may agree, without the consent of the Holders, but in either case subject to Condition 9.7 (*Conditions to redemption etc.*), to any modification to the Notes and/or the Conditions which is:

(i) not prejudicial to the interests of the Holders; or

(ii) of a formal, minor or technical nature or is made to correct a manifest or proven error; or

(iii) to comply with mandatory provisions of any applicable law or regulation.

Any such modification shall be binding on the Holders.

If a Capital Event or a Tax Event has occurred and is continuing as at the date of the relevant substitution or (as the case may be) variation notice to Holders, or in order to ensure the effectiveness and enforceability of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*), then the Issuer may, subject as provided in Condition 9.6 (*Substitution and variation*) of the Notes and without the need for any consent of the Holders, substitute all (but not some only) of the Notes for, or vary the terms of the Notes (including changing the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) from English law to Portuguese law or any other European law that, after consultation with the Competent Authority, the Issuer considers allows the Notes to remain or become Additional Tier 1 Capital) so that the Notes remain or, as appropriate, become, Qualifying Additional Tier 1 Notes.

While Qualifying Additional Tier 1 Notes must otherwise contain terms that are not materially less favourable to Holders than the original terms of the Notes and have an equal or higher rating as that which applied to the Notes prior to any substitution or variation (if any), the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) may be changed from English law to Portuguese law or any other European law in order to ensure the effectiveness and enforceability of such Condition despite the new governing law of such Condition being materially less favourable to Holders and a lower rating being assigned to the Qualifying Additional Tier 1 Notes which is solely attributable to such change in governing law.

In addition, pursuant to Condition 5.8 (*Benchmark replacement*), if a Benchmark Event occurs certain changes may be made to the interest calculation and related provisions of the Notes for any Interest Period commencing on or after the First Call Date, as well as the Agency Terms and the Instrument in the circumstances and as otherwise set out in such Condition, without the consent or approval of the Holders.

No assurance can be given as to whether any of these changes will negatively affect any particular Holder and it is possible that any substituted or varied Notes will contain conditions that are contrary to the investment criteria of certain investors. In addition, the tax and stamp duty consequences of holding such substituted or varied Notes could be different for some categories of Holders from the tax and stamp duty consequences for them of holding the Notes prior to such substitution or variation. There can also be no assurance that the terms of any substituted or varied Notes will be viewed by the market as equally favourable to Holders, or that such Notes will trade at prices that are equal to the prices at which the Notes would have traded on the basis of their original terms.

Future discontinuance of EURIBOR or the occurrence of a Benchmark Event may adversely affect the value of the Notes.

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority (the "**FCA**"), which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. On 12 July 2018, the FCA further announced that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmark Regulation. Whilst the announcements related to LIBOR, similar concerns may be applicable to EURIBOR. The Financial Stability Board also made certain recommendations to reform major interest rate benchmarks, such as key interbank offered rates. It is not possible to predict whether, and to what extent, banks will continue to provide EURIBOR submissions to the administrator of EURIBOR going forwards.

The ECB and other European authorities have discussed proposals for alternative benchmarks. For example, the ECB announced plans for a new overnight rate for interbank unsecured lending among Euro-area banks in September 2017. The impact of such an overnight rate on six-month EURIBOR is currently unclear.

Investors should be aware that, if EURIBOR were discontinued or otherwise unavailable, the rate of interest on the Notes for periods from (and including) the First Call Date may be determined by the fall-back provisions applicable to the Notes. This may in certain circumstances result in the effective application of a fixed rate based on the rate which was last observed on the relevant Screen Page.

In addition, any changes to the administration of the 5-Year Mid-Swap Rate (or changes to its component parts, including to EURIBOR or the manner in which it is calculated) or the emergence of alternatives to the 5-Year Mid-Swap Rate as a result of these potential reforms, may cause the 5-Year Mid-Swap Rate to perform differently from in the past or to be discontinued, or there could be other consequences which cannot be predicted. The potential discontinuation of the 5-Year Mid-Swap Rate or changes to its administration could require changes to the way in which the Rate of Interest is calculated on the Notes from (and including) the First Call Date. Uncertainty as to the nature of alternative reference rates and as to potential changes to the 5-Year Mid-Swap Rate may adversely affect the 5-Year Mid-Swap Rate, the return on the Notes and the trading market for securities based on the 5-Year Mid-Swap Rate. The development of alternatives to the 5-Year Mid-Swap Rate may result in the Notes performing differently than would otherwise have been the case if such alternatives to the 5-Year Mid-Swap Rate had not developed. Any such consequence could have a material adverse effect on the value of, and return on, the Notes.

The Conditions also provide for certain fall-back arrangements in the event that a Benchmark Event occurs. 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 5-Year Mid-Swap 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 5-Year Mid-Swap Rate. The use of any such Successor Rate or Alternative Reference Rate to determine the Rate of Interest may result in the Notes performing differently (including paying a lower Rate of Interest for any Interest Period after the First Call Date) than they would do if the 5-Year Mid-Swap Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Reference Rate is determined by the Issuer, the Conditions provide that the Issuer may vary the Conditions, Instrument and Agency Terms 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.

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 as a result of the replacement of the 5-Year Mid-Swap 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. If no Adjustment Spread is determined, a Successor Rate or Alternative

Reference Rate may nonetheless be used to determine the Rate of Interest. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on the Notes.

However, no Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) will be adopted, and no other amendments to the Conditions will be made pursuant to the Conditions, if, and to the extent that, in the determination of the Issuer, the same could reasonably be expected to give rise to a Capital Event. Such a determination may result in the Notes performing differently than would otherwise have been the case prior to the Benchmark Event.

Moreover, any of the above matters or any other significant change to the setting or existence of the 5-Year Mid-Swap Rate could adversely affect the ability of the Issuer to meet its obligations under the Notes and could have a material adverse effect on the value or liquidity of, and the amount payable under, the Notes.

Because the Notes are held in Interbolsa, investors will have to rely on Interbolsa procedures.

The Notes will be issued in uncertificated, dematerialised book-entry (*forma escritural*) form and registered in the CVM. Legal title to the Notes will be evidenced by book entries in individual securities accounts established by Affiliate Members of Interbolsa. Transfers of title to the Notes will take place in accordance with Portuguese law and the rules and procedures for the time being of Interbolsa. Notes shall not be issued in physical form.

Each person who is for the time being shown in individual securities accounts established by an Affiliate Member of Interbolsa as the Holder of a particular principal amount of the Notes shall be treated by the Issuer and the Agent as the Holder of such principal amount of such Notes for all purposes.

Risks related to tax and legal regimes

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 in Portugal 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 (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, as amended.

Risks related to withholding tax on Notes

Under Portuguese law, income derived from the Notes integrated in and held through a centralised system managed by Portuguese resident entities (such as the Central de Valores Mobiliários, managed by Interbolsa), by other European Union or EEA 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 Notes 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 the Conditions.

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 the Conditions.

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

Holders may be subject to withholding tax under FATCA

Under sections 1471-1474 of the United States Internal Revenue Code of 1986 enacted by the United States as part of the HIRE Act in March 2010 (commonly referred to as Foreign Account Tax Compliance

Act, (FATCA), payments may be subject to withholding if the payment is either US source, or a foreign pass thru payment.

If an amount in respect of FATCA withholding tax were to be deducted or withheld from any payments on the Notes, neither the Issuer nor any paying agent would be required to pay any additional amounts as a result of the deduction or withholding of such tax. As a result, investors who are non-US financial institutions (FFI) that have not entered into an FFI agreement (or otherwise established an exemption from withholding under FATCA), investors that hold Notes through such FFIs or investors that are not FFIs but have failed to provide required information or waivers to an FFI may be subject to withholding tax for which no additional amount will be paid by the Issuer. Holders should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

Many aspects of the manner in which CRD IV will be interpreted remain uncertain and may be subject to change

Many of the defined terms in the Conditions depend on the final interpretation and implementation of CRD IV. Although CRD IV has been implemented into Portuguese law and CRR is directly applicable in each Member State, a number of important interpretational issues remain to be resolved through binding technical and implementing standards and guidelines and recommendations by the EBA that will be adopted in the future and leave certain other matters to the discretion of the Competent Authorities.

The value of the Notes could be adversely affected by a change in law or administrative practice.

Changes in law after the date hereof may affect the rights of Holders as well as the market value of the Notes. The Conditions of the Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law except that the provisions relating to the status of the Notes in Condition 4 (*Status of the Notes*), the form (*forma de representação*) and transfer of the Notes, the creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes, are in each case governed by, and shall be construed in accordance with, Portuguese law. No assurance can be given as to the impact of any possible judicial decision or change to English or Portuguese law or administrative practice after the date of issue of the Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on an investment in the Notes. Such legislative and regulatory uncertainty could also affect an investor's ability to accurately value the Notes and, therefore, affect the trading price of the Notes given the extent and impact on the Notes that one or more regulatory or legislative changes, including those described above, could have on the Notes.

The acquisition of the Notes by certain prospective investors may not be legal.

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it. Prospective investors will be required to give the representations, warranties, agreements and undertakings as set out on the front pages of this Offering Circular.*Risks Related to the Market Generally*

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.

The Notes represent a new instrument for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market for the Notes does develop, it may not be very liquid and such liquidity may be sensitive to changes in financial markets. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and existing liquidity arrangements (if any) might not protect Holders from having to sell the Notes at substantial discount to their principal amount in case of financial distress of the Issuer. Therefore, investors may not be able to sell their Notes 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 Notes.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Notes. Publicly traded Notes from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition and/or the CET1 Ratio of the Issuer and/or the Group deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable or unwilling to pay interest on the Notes in full, or of the Notes being Written Down or otherwise subject to loss absorption or an applicable statutory loss absorption regime. In addition, the market price of the Notes may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control, including:

- variations in operating results of the Issuer and/or the Group;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Issuer's and/or the Group's strategy is or may be less effective than previously assumed or that the Issuer and/or the Group is not effectively implementing any significant projects;
- changes in financial estimates by market analysts;
- changes in market valuations of similar entities;
- announcements by the Issuer and/or the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, including changes in regulatory regulations or Competent Authority requirements;
- additions or departures of key personnel; and
- future issues or sales of notes or other securities.

Any or all of these events could result in material fluctuations in the price of Notes which could lead to investors losing some or all of their investment.

The issue price of the Notes might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Notes at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Moreover, although the Issuer or any member of the Group may (subject to the approval of the Competent Authority if applicable and compliance with the Capital Regulations) purchase Notes at any time permitted by applicable law and regulation, they have no obligation to do so. Purchases made by the Issuer or any member of the Group could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

In addition, prospective investors should be aware that any deterioration of global credit market conditions such that there is a general lack of liquidity in the secondary market may result in investors suffering losses on the Notes in secondary re-sales even if there is no decline in the performance of the Notes or the financial condition of the Issuer or the Group.

Although application has been made for the Notes to be admitted to trading on the regulated market of Euronext Dublin, there is no assurance that such application will be accepted or that an active trading market will develop.

If the investor's home currency is not the euro, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to the Notes could result in an investor not receiving payments on the Notes.

The Issuer will pay principal and interest (if any) on the Notes in euro. 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 euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency or euro may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal as measured in the Investor's Currency.

The value of the Notes may be adversely affected by movements in market interest rates.

Investment in the Notes, which bear a fixed rate of interest (which will be reset on each Reset Date), involves the risk that if market interest rates subsequently increase above the relevant rate paid on the Notes, this will adversely affect the value of the Notes.

In addition, a Holder of the Notes is exposed to the risk of fluctuating interest rate levels and uncertain interest income.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal 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: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit Ratings of the Notes may not reflect all risk.

The Notes are expected to be assigned a credit rating of Caa1 by Moody's, CCC+ by S&P, B- by Fitch and B (low) by DBRS and may in the future be rated by additional independent credit rating agencies (including on an unsolicited basis), although the Issuer is under no obligation to ensure that the Notes are rated by any credit rating agency. Prospective investors in the Notes should verify at all times the credit ratings of the Issuer and the Notes. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in these Risk Factors and other factors that may affect the liquidity or market value of the Notes. In addition, rating agency methodologies, and therefore ratings themselves, may change without warning at any time. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the credit rating agency at any time.

If one or more credit ratings are not assigned to the Notes, if the Issuer determines to no longer maintain one or more credit ratings, if any other independent credit rating agency decides to assign a rating to the Notes, or if any credit rating agency withdraws, suspends or downgrades any credit ratings of the Issuer or the Notes, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), such event could adversely affect the liquidity or market value of the Notes.

DOCUMENTS INCORPORATED BY REFERENCE

The following information, which is contained in the documents referred to below that have previously been published and have been filed with the Central Bank, shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the 2016 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 139
Income Statement	Page 136
Cash Flows Statement	Pages 140 to 141
Statement of Changes in Equity	Page 142
Statement of Comprehensive Income	Pages 137 to 138
Notes to the Consolidated Financial Statements	Pages 143 to 306
Audit Report	Pages 467 to 477

(b) 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

(c) the unaudited earnings press release and earnings presentation of the Group, in each case as at, and for the nine month period ended 30 September 2018, including, without limitation, the following unaudited consolidated balance sheet and consolidated income statement set out at the following pages of the earnings press release:

Balance Sheet	Page 17
Income Statement	Page 16

(d) the unaudited report and accounts of the Group as at, and for the nine month period ended 30 September 2018, including the following unaudited consolidated financial statements:

Balance Sheet	Page 64
Income Statement	Page 58
Cash Flows Statement	Page 65
Statement of Changes in Equity	Page 66
Statement of Comprehensive Income	Pages 60 and 61
Notes to the Consolidated Financial Statements	Pages 67 to 241

Any other information incorporated by reference that is not included in the cross-reference lists above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of Commission Regulation (EC) No. 809/2004 (as amended or superseded) implementing the Prospectus Directive.

All financial information in this Offering Circular relating to the Issuer for the years ended on 31 December 2016 and 31 December 2017 has been extracted without material adjustment from the audited financial statements of the Group for the financial years then ended.

The documents incorporated by reference are direct and accurate translations from their original Portuguese versions. In the event of a discrepancy, the original Portuguese version will prevail.

Copies of documents containing the information incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and from the specified office of the Agent. The documents referred to in (a) and (b) above can be viewed electronically and free of charge at the Issuer's website (https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/RelatorioContas/2016/RCBCP2016EN.pdf and https://ind.millenniumbcp.pt/relcontas/2017/files/RCBCP2017.en.pdf, respectively). The documents referred to in (c) above can be viewed electronically and free of charge at the Issuer's website (https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/Apresentacao_de_Resultados/2018/Earnings_Millennium_bcp_3T18_08112018.pdf and https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/Apresentacao_de_Resultados/2018/EarningsPres_3Q18_08112018.pdf, respectively). The document referred to in (d) above can be viewed electronically and free of charge at the Issuer's website (https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/RelatorioContas/2018/RCBCP9M2018GB.pdf).

Following the publication of this Offering Circular, a supplement may be prepared by the Issuer and approved by the Central Bank in accordance with Article 16 of the Prospectus Directive. 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) modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Any documents themselves incorporated by reference in the documents incorporated by reference herein shall not form part of this Offering Circular.

OVERVIEW OF THE NOTES

This Overview of the Notes contains a brief description of certain features of the Notes, and is subject to and qualified in its entirety by the information contained in "Terms and Conditions of the Notes" and the Instrument. Capitalised terms used but not otherwise defined in this Overview of the Notes shall have the meanings given to them under "Terms and Conditions of the Notes".

The Issuer:	Banco Comercial Português, S.A. (the "**Issuer**" and together with its consolidated subsidiaries, the "**Group**")
Joint Lead Managers:	Banco Comercial Português, S.A., Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc and UBS Limited
Agent:	Banco Comercial Português, S.A.
The Notes:	€400,000,000 Fixed Rate Reset Perpetual Temporary Write Down Additional Tier 1 Capital Notes
Issue Price:	100% of the principal amount of the Notes
Issue Date:	31 January 2019
Status and Subordination:	***Status*** The Notes will constitute undated, direct, unsecured and subordinated obligations of the Issuer, and will at all times rank *pari passu* without any preference among themselves and will be subordinated as provided below. ***Subordination*** Claims in respect of the Notes (including claims for damages in respect of any breach of the Issuer's obligations thereunder, if applicable) shall at all times, including in the event of a Winding-Up of the Issuer, rank (a) *pari passu* without any preference among themselves and with claims in respect of Parity Securities; (b) in priority to claims in respect of Junior Securities; and (c) junior to any present or future claims in respect of Senior Obligations.
Loss Absorption:	***Trigger Event and Write Down*** If at any time the CET1 Ratio of any of the Issuer and/or the Group has fallen below 5.125%, calculated and determined as provided in the Conditions, (such calculation being binding on the Holders) (a "**Trigger Event**"), then the Issuer shall immediately notify the Competent Authority and, without delay and by no later than one month (or such shorter period as the Competent Authority may then require) from the occurrence of the relevant Trigger Event, shall (without the need for the consent of the Holders): (i) cancel all interest accrued to (but excluding) the relevant Write Down Date (whether or not such interest has become

due for payment and including any interest scheduled for payment on such Write Down Date); and

(ii) irrevocably and mandatorily reduce the then Outstanding Principal Amount of each Note by the relevant Write Down Amount (such reduction, a "**Write Down**" and "**Written Down**" being construed accordingly).

For the avoidance of doubt, if the cancellation of interest pursuant to (i) above would result in an increase in the CET1 Ratio of the Issuer and/or the Group (as applicable), any such increase shall be disregarded for the purposes of calculating such Write Down Amount in respect of such Trigger Event.

Loss Absorbing Instruments

A Write Down of each Note will be effected, save as may otherwise be required by the Capital Regulations or the Competent Authority, *pro rata* with (a) the concurrent Write Down of the other Notes and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), provided that:

(1) with respect to each Loss Absorbing Instrument (if any), such *pro rata* write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 Ratio(s) to the lower of (i) such Loss Absorbing Instrument's trigger level and (ii) 5.125% (being the level at which a Trigger Event occurs in respect of the Notes) in either case in accordance with the terms of such Loss Absorbing Instruments and the Capital Regulations; and

(2) if for any reason the Issuer is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Notes will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted.

For the avoidance of doubt, to the extent that the Issuer is unable to write down or convert any Loss Absorbing Instruments as aforesaid, any Write Down Amount determined in accordance with part (i) of the definition of Write Down Amount will be calculated on the basis that such Loss Absorbing Instruments are not available to be written down or converted, and accordingly the relevant Write Down Amount determined in accordance with that part (i) will be higher than it would otherwise have been if such Loss Absorbing Instruments had been available to be written down or converted.

Write Down Amount

"**Write Down Amount**" means, on any Write Down Date, the amount by which the then Outstanding Principal Amount of each Note is to be Written Down on such date, being (save as may otherwise be required by the Capital Regulations) the lower of (i) and (ii) below:

(i) the amount per Note which is determined by the Issuer to be necessary (in conjunction with (a) the concurrent Write Down of the other Notes and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments, in each case in the manner and to the extent provided above under *"Loss Absorbing Instruments"* to restore each of the Issuer's and the Group's (as applicable) CET1 Ratio to at least 5.125%; and

(ii) the amount necessary to reduce the Outstanding Principal Amount of each Note to one cent.

The Outstanding Principal Amount of a Note shall not at any time be reduced to below one cent as a result of a Write Down.

Cancellation not automatic

If the Outstanding Principal Amount of the Notes is Written Down to one cent, the Notes will not be cancelled as a result thereof.

Write Down may occur on more than one occasion; No default

A Trigger Event may occur on one or more occasions and accordingly the Notes may be Written Down on one or more occasions. Any such Write Down shall not constitute a default under the terms of the Notes for any purpose and shall not entitle Holders to petition for the Winding-Up of the Issuer.

Discretionary Reinstatement: ***Discretionary Reinstatement***

Subject to compliance with the prevailing Capital Regulations, if, at any time while any Note remains Written Down, each Relevant Entity records a positive Net Profit, the Issuer may, in its sole and absolute discretion, increase the Outstanding Principal Amount of the Notes (a "**Discretionary Reinstatement**") by such amount (calculated per Calculation Amount) as the Issuer may elect, provided that such Discretionary Reinstatement shall not:

(i) result in the Outstanding Principal Amount of each Note being greater than its Original Principal Amount;

(ii) be operated whilst the Trigger Event has occurred and is continuing;

(iii) result in the occurrence of a Trigger Event; or

(iv) (unless otherwise permitted or required by the Capital

Regulations) result in the Maximum Write-up Amount to be exceeded when taken together with the aggregate of:

(a) any previous Discretionary Reinstatement of the Notes out of the same Relevant Profits since the Reference Date (if any);

(b) the aggregate amount of any interest on the Notes that has been paid or calculated (but disregarding any such calculated interest which has been cancelled) since the Reference Date on the basis of an Outstanding Principal Amount that is lower than the Original Principal Amount;

(c) the aggregate amount of the increase in principal amount of the Loss Absorbing Written Down Instruments to be written-up out of the same Relevant Profits concurrently (or substantially concurrently) with such Discretionary Reinstatement and (if applicable) any previous increase in principal amount out of the same Relevant Profits of such Loss Absorbing Written Down Instruments since the Reference Date; and

(d) the aggregate amount of any interest on each Loss Absorbing Instruments that have been paid or calculated (but disregarding any such calculated interest which has been cancelled) since the Reference Date on the basis of a prevailing principal amount that is lower than the original principal amount at which such Loss Absorbing Instruments were issued.

A Discretionary Reinstatement will also not be effected in circumstances in which it would cause any Maximum Distributable Amount then applicable to the Issuer and/or the Group (as further described below) to be exceeded.

The "**Maximum Write-up Amount**" means the lower of:

(i) (a) the Issuer's Net Profit, multiplied by (b) the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial original principal amount of all Loss Absorbing Written Down Instruments issued directly or indirectly by the Issuer, divided by (c) the total Tier 1 Capital of the Issuer as at the date of the relevant Discretionary Reinstatement; and

(ii) (b) the Group's Net Profit, multiplied by (b) the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial original principal amount of all Loss Absorbing Written Down Instruments issued directly or indirectly by any member of the Group, divided by (c) the total Tier 1 Capital of the Group as at the date of the relevant Discretionary Reinstatement;

or any higher or lower amount as may be permissible pursuant to the Capital Regulations then in force.

Write-up of Loss Absorbing Written Down Instruments

Any Discretionary Reinstatement shall be applied concurrently (or substantially concurrently) and *pro rata* with other write-ups to be effected out of the Relevant Profits in respect of any Loss Absorbing Written Down Instruments.

The Issuer will not reinstate the principal amount of any Loss Absorbing Written Down Instrument that have terms permitting a write-up of such principal amount to occur out of the Relevant Profits on a similar basis to that set out in respect of the Notes unless it does do on a *pro rata* basis with a Discretionary Reinstatement of the Notes.

Discretionary Reinstatement may occur on more than one occasion

A Discretionary Reinstatement may occur on one or more occasions until the Outstanding Principal Amount of each Note has been reinstated to the Original Principal Amount. Any decision by the Issuer to effect or not to effect any Discretionary Reinstatement on any occasion shall not preclude it from effecting or not effecting any Discretionary Reinstatement on any other occasion.

Maximum Distributable Amount:

In circumstances where the provisions of Portuguese law implementing Article 141 of the CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD apply, no payments, or the relevant part thereof, will be made on the Notes (whether by way of principal, interest, Discretionary Reinstatement or otherwise) if and to the extent that such payment would, when aggregated together with other Relevant Distributions, any obligation referred to in Article 141 of CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD and the amount of any Discretionary Reinstatement, where applicable, exceed the Maximum Distributable Amount (if any) of the Issuer and/or the Group. See "*Risk Factors – The Issuer may at any time elect, and in certain circumstances shall be required, not to make interest payments on the Notes*" and "*Risk Factors – Payments on the Notes cannot exceed the Maximum Distributable Amount*".

Interest:

Subject as described below under "*Cancellation of Interest Payments*", the Notes will bear interest on their Outstanding Principal Amount from time to time at the relevant rate of interest, payable quarterly in arrear on 31 January, 30 April, 31 July and 31 October in each year from (and including) 30 April 2019 (each such date for the payment of interest being an "**Interest Payment Date**").

The initial rate of interest shall be 9.25% per annum, which shall apply from (and including) the Issue Date to (but excluding) the First Call Date.

Such rate will be reset on the First Call Date and on each fifth anniversary of the First Call Date (together with the First Call Date, each a "**Reset Date**") as the sum of the applicable 5-Year Mid-Swap Rate (calculated as set out in the Conditions) plus a margin of 9.414% (the "**Margin**").

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.

Cancellation of Interest Payments:

Optional cancellation of interest

The Issuer may elect at any time, in its sole and full discretion, to cancel (in whole or in part) any payment of interest otherwise scheduled to be paid on an Interest Payment Date for an unlimited period of time and on a non-cumulative basis.

Mandatory cancellation of Interest Payments

(i) Payments of interest in respect of the Notes in any financial year (and, if applicable, any additional amounts payable in respect thereof pursuant to Condition 11 (*Taxation*)) shall only be made out of Distributable Items of the Issuer. The Issuer will cancel any interest, or the relevant part thereof, otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the amount of such interest (together with any additional amounts payable in respect thereof pursuant to Condition 11 (*Taxation*)), when aggregated together with any other Relevant Distributions and the amount of any Discretionary Reinstatement, where applicable, exceeds the amount of Distributable Items of the Issuer as at such Interest Payment Date.

(ii) In addition, in circumstances where the provisions of Portuguese law implementing Article 141 of CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD apply, no payments, or the relevant part thereof, will be made on the Notes (whether by way of principal, interest, Discretionary Reinstatement or otherwise) if and to the extent that such payment would, when aggregated together with other Relevant Distributions, any obligation referred to in Article 141 of CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD and the amount of any Discretionary Reinstatement, where applicable, exceed the Maximum Distributable Amount (if any) of the Issuer and/or the Group.

(iii) The Competent Authority may also direct the Issuer to exercise its discretion to cancel interest (in whole or in part) scheduled to be paid on an Interest Payment Date.

Non-payment of any amount of interest (in whole or in part) scheduled to be paid on an Interest Payment Date will constitute evidence of cancellation of the relevant payment, whether or not notice of cancellation has been given by the Issuer.

Interest non-cumulative; no default:

If the payment of interest scheduled on an Interest Payment Date is cancelled, in whole or in part, in accordance with the provisions of "*Cancellation of Interest Payments*", the Issuer shall not have any obligation to make such interest payment (or the cancelled part thereof) on such Interest Payment Date or any time thereafter and the failure to pay such interest (or the cancelled part thereof) shall not constitute a default of the Issuer for any purpose and shall not entitle Holders to petition for the Winding-Up of the Issuer.

Any such interest will not accumulate or be payable at any time thereafter, the Issuer will not be obliged to (and will not) make any other payment or settlement in any form in lieu thereof, and Holders of the Notes shall have no right thereto whether in a Winding-Up of the Issuer or otherwise. Any such cancellation of interest shall impose no restrictions on the Issuer.

No such cancellation of interest shall prevent the Issuer from making payments of interest, dividends or other distributions on, or from redeeming or purchasing, any obligations, including any Junior Securities or Parity Securities.

Redemption:

The Notes are perpetual securities and have no fixed date for redemption. The Issuer may only redeem the Notes at its discretion in the circumstances described herein. The Notes are not redeemable at the option of the Holders at any time.

Subject to the Conditions set out herein, the Issuer may, upon giving not less than 30 nor more than 60 days' notice to Holders, in its sole discretion (and without the requirement for the consent or approval of the Holders) elect to redeem the Notes in whole (but not in part):

(i) on 31 January 2024 (the "**First Call Date**") or any Interest Payment Date thereafter, subject to the proviso below; or

(ii) at any time upon the occurrence and continuation of a Tax Event or a Capital Event,

in each case at their Redemption Amount; provided, however, that if at any time the Notes have been Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*), the Issuer shall not be entitled to exercise its option under (i) above until the principal amount of the Notes so Written Down has been fully reinstated pursuant to Condition 8 (*Discretionary*

Reinstatement of the Notes).

"**Tax Event**" means any Law Change whereby the Issuer determines that it:

(iii) would not be entitled to claim a deduction in computing taxation liabilities in a Tax Jurisdiction in respect of any interest payment to be made on the next Interest Payment Date or the value of such deduction to the Issuer would be reduced,

(iv) would be required to pay additional amounts on the next Interest Payment Date pursuant to Condition 11 (Taxation),

(v) would be required to bring into account a taxable income if the principal amount of the Notes was written down, where the Issuer was not so required prior to the relevant Law Change, or

(vi) would be adversely affected by a material change in the applicable tax treatment of the Notes,

and, in each case, this cannot be avoided by the Issuer taking reasonable measures available to it.

A "**Capital Event**" is deemed to have occurred if there is a change in the regulatory classification of the Notes under the Capital Regulations that has resulted, or would be likely to result, in their exclusion in full or in part from the Issuer's and/or the Group's Tier 1 Capital (other than as a consequence of write down or conversion, where applicable and other than as a result of any applicable limitation on the amount of such capital).

Substitution and variation:

Subject to Condition 9.7 (*Conditions to redemption etc.*), if a Tax Event or a Capital Event has occurred and is continuing as at the date of the relevant notice to Holders, or in order to ensure the effectiveness and enforceability of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*), the Issuer (in its sole discretion but subject as set out below), may, without any requirement for the consent or approval of the Holders, either substitute all (but not some only) of the Notes for, or vary the terms of the Notes (including changing the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) from English law to Portuguese law or any other European law that, after consultation with the Competent Authority, the Issuer considers allows the Notes to remain or become Additional Tier 1 Capital) so that the Notes remain or, as appropriate, become, Qualifying Additional Tier 1 Notes.

While Qualifying Additional Tier 1 Notes must otherwise contain terms that are not materially less favourable to Holders than the original terms of the Notes and have an equal or higher rating as that which applied to the Notes prior to any substitution or variation (if any), the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) may be changed from English law to Portuguese law or any other European law in order to ensure the effectiveness and enforceability of such Condition despite the new governing law of such Condition being materially less favourable to Holders and a lower rating being assigned to the Qualifying Additional Tier 1 Notes which is solely attributable to such change in governing law.

Purchase:	Subject to the conditions set out herein, the Issuer or any other member of the Group may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise in accordance with the Capital Regulations applicable to the Group in force at the relevant time, and subject to applicable law and regulation.
Conditions to redemption and purchase:	Any redemption, cancellation, substitution, variation or modification of the Notes by the Issuer, and any purchase of the Notes by the Issuer or any other member of the Group, will be subject to the prior consent of the Competent Authority as further set out in Condition 9.7 (*Conditions to redemption etc.*). In the case of a redemption of the Notes prior to the fifth anniversary of the Issue Date (A) in the case of a redemption of the Notes as a result of a Tax Event, the Issuer need to demonstrate to the satisfaction of the Competent Authority that the change in the applicable tax treatment of the Notes is material and was not reasonably foreseeable as at the Issue Date; or (B) in the case of redemption upon the occurrence of a Capital Event, the Issuer needs to demonstrate to the satisfaction of the Competent Authority that the change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date and the Competent Authority considers such a change to be sufficiently certain.
Trigger Event following notice of redemption, substitution or variation:	If at any time the Issuer has given notice that it intends to redeem the Notes and, prior to the time of such redemption, a Trigger Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect. Accordingly, the Notes will not be redeemed on the proposed date therefor, and instead a Write Down of the Notes will occur. For the avoidance of doubt, if at any time the Issuer has given notice that it intends to substitute or vary the terms of the Notes and, prior to the time of such substitution or variation, a Trigger Event occurs, the relevant substitution or variation notice shall not be automatically rescinded, notwithstanding that a Write Down of the Notes will occur.
Enforcement on a Winding-Up:	There are no events of default under the terms of the Notes. In the case of a Winding-Up of the Issuer, the Holder may prove or claim in such proceedings in respect of such Note, such claim being for payment of the Outstanding Principal Amount of such Note at the time of commencement of such Winding-Up together with any

interest accrued and unpaid on such Note (to the extent that the same is not cancelled in accordance with the terms of the Notes) from (and including) the Interest Payment Date immediately preceding commencement of such Winding-Up and any other amounts payable on such Note under the Conditions (including any damages payable in respect thereof, if applicable). Such claim shall rank as provided in Condition 4.2 (*Subordination*).

A Holder shall not be entitled to file for the Winding-Up of the Issuer.

For the avoidance of doubt, in a Winding-Up of the Issuer the Holders will have a claim for the Outstanding Principal Amount and not for the Original Principal Amount.

Form and Denomination: The Notes will be issued in denominations of €200,000 and will be issued in dematerialised book-entry (*forma escritural*) form. The Notes will be registered with the CVM managed and operated by Interbolsa.

The Notes will only be issued in dematerialised form. The terms and conditions of the Notes shall be the terms and conditions scheduled to a deed poll given by the Issuer in favour of the Holders dated 31 January 2019 (the "**Instrument**").

Clearing: The Notes will be cleared and settled through Interbolsa (and indirectly through Euroclear/Clearstream, Luxembourg). For a summary description of rules applicable to Notes see section "*Notes Held Through Interbolsa*".

Taxation: All payments of principal and interest in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of a Tax Jurisdiction unless such withholding or deduction is required by law. In the event of any such withholding or deduction in respect of payments of interest (but not principal), subject to the exceptions set out in the Conditions, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts of interest received by the Holders after such withholding or deduction shall equal the respective amounts of interest which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction.

Governing Law: The Notes (except Condition 4 (*Status of the Notes*)) and any non-contractual obligations arising out of or in connection with the Notes are governed by and shall be construed in accordance with, English law save that the form (*forma de representação*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes are governed by, and shall be construed in accordance with, Portuguese law. Condition 4 (*Status of the Notes*) is governed by, and shall be construed in accordance with, Portuguese law. In each case, the application of such governing law shall be without prejudice to the applicability, under the conflicts rules applicable in the relevant forum, in the light of such submission, of Portuguese law. The foregoing is subject to the right of the Issuer pursuant to Condition 9.6 (*Substitution and variation*) to change the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*).

Portuguese Statutory Loss Absorption Powers:

Notwithstanding any other term of the Notes or any other agreement, arrangement or understanding between the Issuer and the Holders, by its subscription and/or purchase and holding of the Notes, each Holder (which, for the purposes of this clause, includes each holder of a beneficial interest in the Notes) acknowledges, accepts, consents to and agrees: (i) to be bound by the effect of the exercise of the Statutory Loss Absorption Power by the Relevant Resolution Authority, which may include and result in any of the following, or some combination thereof: (a) the reduction of all, or a portion, of the Amounts Due on a permanent basis; (b) the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer or another person (and the issue to the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes, in which case each Holder agrees to accept in lieu of its rights under the Notes any such shares, other securities or other obligations of the Issuer or another person; (c) the cancellation of the Notes or Amounts Due; or (d) the amendment or alteration of any date set for redemption of the Notes or amendment of the interest amount payable on the Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and (ii) that the terms of the Notes are subject to, and may be varied, if necessary, to give effect to, the exercise of the Statutory Loss Absorption Power by the Relevant Resolution Authority.

For the avoidance of doubt, any potential write down or cancellation of all, or a portion, of the Amounts Due on the Notes or the conversion of the Notes into shares, other securities or other obligations in connection with the exercise of any Statutory Loss Absorption Power by the Relevant Resolution Authority is separate and distinct from a Write Down following a Trigger Event although these events may occur consecutively.

Listing and trading:

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID II.

Selling Restrictions:

United States (Regulation S), EEA, the United Kingdom, Portugal, Italy, France, Hong Kong and Singapore.

The Notes are not intended to be sold and should not be sold to retail investors in the EEA. See the section headed "*Restrictions on marketing and sales to retail investors*" herein for further information.

Ratings:

The Notes are expected on issue to be rated Caa1 by Moody's,

	CCC+ by S&P, B- by Fitch and B (low) by DBRS.
ISIN:	PTBCPFOM0043
Common Code:	194596120
CFI:	DBVUQR
FISN:	BCP SA/VAR OB PERP CALL
Legal Entity Identifier	JU1U6S0DG9YLT7N8ZV32

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes.

1. **Introduction**

1.1 *Notes*: The €400,000,000 Fixed Rate Reset Perpetual Temporary Write Down Additional Tier 1 Capital Notes (the "**Notes**") are issued by Banco Comercial Português, S.A. (the "**Issuer**").

1.2 *Procedures*: The Notes are in book entry form and are constituted by registration in individual securities accounts ("**Securities Accounts**") held by the Holders in Affiliate Members of Interbolsa, and governed by these Conditions and a deed poll given by the Issuer in favour of the Holders dated 31 January 2019 (the "**Instrument**"). The Conditions are an integral part of the Notes. The Notes also have the benefit of the agency terms dated 31 January 2019 (the "**Agency Terms**") and made by Banco Comercial Português, S.A. as Issuer and as agent (the "**Agent**" which expression shall include any successor agent).

1.3 *Inspection*: The Holders are bound by, and are deemed to have notice of, all the provisions of the Instrument applicable to them. Copies of the Instrument and the Conditions are available for inspection by Holders during normal business hours at the offices of the Issuer.

2. **Definitions and Interpretation**

2.1 *Definitions*: In these Conditions the following expressions have the following meanings:

"**5-Year Mid-Swap Rate**" means, with respect to a Reset Date and the relative Reset Interest Determination Date:

(A) the mid-swap rate for euro swap transactions with a maturity of five years, expressed as a percentage, which appears on the Screen Page at the Relevant Time; or

(B) if such rate does not appear on the Screen Page at the Relevant Time, the Reset Reference Bank Rate on such Reset Interest Determination Date;

"**5-year Mid-Swap Rate Quotations**" means the arithmetic mean of the bid and offered rates quoted by the Reference Banks at the Relevant Time (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap transaction which: (A) has a term of five years commencing on the relevant Reset Date; (B) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and (C) has a floating leg (calculated on an Actual/360 day count basis) which is equivalent to six-month EURIBOR;

"**30/360**" means, with respect to any period, the number of days in such period to (but excluding) the relevant payment date, divided by 360, calculated on the basis of a year of 360 days with twelve 30-day months;

"**Accounting Currency**" means Euro or such other primary currency used in the presentation of the Issuer's and/or the Group's accounts (as the context requires) from time to time;

"**Actual/360**" means, with respect to any period, the actual number of days in such period to (but excluding) the relevant payment date, divided by 360;

"**Additional Tier 1 Capital**" means Additional Tier 1 capital within the meaning of the Capital Regulations;

"**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 as a result of the replacement of the 5-year Mid-Swap Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the 5-year Mid-Swap Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) 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 5-year Mid-Swap Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(iii) 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;

"**Affiliate Member**" means any authorised financial intermediary entitled to hold control accounts with the CVM and includes any banks or financial intermediaries appointed by Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") for the purpose of holding Securities Accounts on behalf of Euroclear and Clearstream, Luxembourg;

"**Alternative Reference Rate**" means the rate that the Independent Adviser or, as the case may be, the Issuer determines has replaced the 5-year Mid-Swap 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) in respect of bonds denominated in euro and of a five year duration, 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 5-year Mid-Swap Rate;

"**Amounts Due**" means the Outstanding Principal Amount of the Notes, together with any accrued but unpaid interest (to the extent that the same has not been cancelled) and additional amounts payable pursuant to Condition 11 (*Taxation*), if any, due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of the Statutory Loss Absorption Power by the Relevant Resolution Authority;

"**Benchmark Event**" means:

(i) the 5-year Mid-Swap Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of the 5-year Mid-Swap Rate stating that it will, by a specified date on or prior to the next Reset Interest Determination Date, cease to publish the 5-year Mid-Swap Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the 5-year Mid-Swap Rate); or

(iii) a public statement by the supervisor of the administrator of the 5-year Mid-Swap Rate stating that the 5-year Mid-Swap Rate has been or will be, by a specified date on or prior to the next Reset Interest Determination Date, permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor or the administrator of the 5-year Mid-Swap Rate stating that the 5-year Mid-Swap 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 on or prior to the next Reset Interest Determination Date; or

(v) it has, or will on or prior to the next Reset Interest Determination Date, become unlawful for the Issuer or the Agent, as the case may be, to calculate any payments due to be made to the Holders using the 5-year Mid-Swap Rate;

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms or such other Directive as may come into effect in place thereof, as implemented in Portugal, as amended or replaced from time to time and including any other relevant implementing regulatory provisions;

"**Business Day**" means a day on which (i) commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Lisbon and (ii) the TARGET2 System is operating;

"**Calculation Amount"** means €200,000 per Note;

A "**Capital Event**" is deemed to have occurred if there is a change in the regulatory classification of the Notes under the Capital Regulations that has resulted, or would be likely to result, in their exclusion in full or in part from the Issuer's and/or the Group's Tier 1 Capital (other than as a consequence of write down or conversion, where applicable and other than as a result of any applicable limitation on the amount of such capital);

"**Capital Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy applicable to the Issuer or the Group, as the case may be, including, without limitation to the generality of the foregoing, the Institutions Act, the CRR, any CRD IV Implementation Measures and any other laws, regulations, requirements, guidelines and policies relating to capital adequacy as then applied and interpreted by the Competent Authority (whether or not such requirements, guidelines or policies have the force of law and whether they are applied generally or specifically to the Issuer and/or the Group, as applicable);

"**Certificate**" has the meaning given to such term in Condition 3 (*Form, Denomination, Title and Transfer*);

"**CET1 Capital**" means, at any date, with respect to a Relevant Entity, the sum, expressed in the Accounting Currency, of all amounts that constitute common equity tier 1 capital of such

Relevant Entity (on a consolidated basis with respect to the Group and on a non-consolidated basis with respect to the Issuer) as at such date, less any deductions from common equity tier 1 capital required to be made as at such date, in each case as calculated by the Issuer or by the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such calculation) in accordance with the Capital Regulations and on the basis that all measures used in such calculation shall (for so long as the same apply to the Relevant Entity) be calculated by applying any applicable transitional provisions provided for in the Capital Regulations;

"**CET1 Ratio**" means, at any date, with respect to a Relevant Entity, the ratio of CET1 Capital of such Relevant Entity as at such date to the Risk Weighted Assets of such Relevant Entity as at such date, expressed as a percentage and calculated by the Issuer or by the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such calculation) in accordance with the Capital Regulations and on the basis that all measures used in such calculation shall (for so long as the same apply to the Relevant Entity) be calculated by applying any applicable transitional provisions provided for in the Capital Regulations;

"**Code**" means the U.S. Internal Revenue Code of 1986;

"**Competent Authority**" means Banco de Portugal, the European Central Bank, any successor or replacement thereto or such other authority (whether in Portugal or elsewhere) having primary responsibility for prudential supervision of the Issuer and/or the Group;

"**CRD IV**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as the same may be amended or replaced from time to time;

"**CRD IV Implementation Measures**" means any regulatory capital rules implementing (or promulgated in the context of) the CRD IV or the CRR which may from time to time be introduced, including, but not limited to, delegated or implementing acts or regulations (including technical standards) adopted by the European Commission, national laws and regulations adopted by the Competent Authority and guidelines issued by the Competent Authority, the European Banking Authority or any other relevant authority, which are applicable to the Issuer or the Group, as applicable;

"**CRR**" means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, as the same may be amended or replaced from time to time;

"**CVM**" has the meaning given to such term in Condition 3 (*Form, Denomination, Title and Transfer*);

"**Day Count Fraction**" means a fraction the numerator of which is the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due and the denominator of which is the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date multiplied by four;

"**Discretionary Reinstatement**" has the meaning given to such term in Condition 8.1 (*Discretionary Reinstatement of the Notes*);

"**Distributable Items**" means, in relation to interest otherwise scheduled to be paid on an Interest Payment Date, the amount of the profits at the end of the latest financial year immediately preceding such Interest Payment Date plus any profits brought forward and reserves (including those created under Portuguese law or the Issuer's by-laws) available for that purpose before distributions to holders of Own Funds instruments (excluding, for the avoidance of doubt, any Tier 2 Capital instruments) less any losses brought forward, profits which are non-distributable pursuant to provisions in Portuguese legislation or the Issuer's by-laws, as applicable, and sums placed to non-distributable reserves in accordance with applicable Portuguese law or the Issuer's by-laws, as applicable, those losses and reserves being determined on the basis of the individual accounts of the Issuer and not on the basis of its consolidated accounts;

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Money Markets Institute (or any other person which takes over the administration that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

"**Euro**" or "**€**" means the lawful currency of the member states of the European Union that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended;

"**First Call Date**" means 31 January 2024;

"**Full Loss Absorbing Instruments**" has the meaning given to such term in Condition 7.5 (*Full Loss Absorbing Instruments*);

"**Group**" means the Issuer together with its consolidated subsidiaries;

"**Holders**" has the meaning given to such term in Condition 3 (*Form, Denomination, Title and Transfer*);

"**IA Determination Cut-Off Date**" means no later than five Business Days prior to the relevant Reset Interest Determination Date relating to the next succeeding Reset Date;

"**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;

"**Initial Interest Rate**" has the meaning given to it in Condition 5.1 (*Interest Rate*);

"**Institutions Act**" means the "*Regime Geral das Instituições de Crédito e Sociedades Financeiras*" approved by Decree-Law no. 298/92, of 31 December, as amended and restated from time to time, laying down the Portuguese legal regime governing certain aspects of incorporation, organisation and operation of credit institutions, financial companies and investment firms;

"**Interbolsa**" has the meaning given to such term in Condition 3 (*Form, Denomination, Title and Transfer);*

"**Interest Payment Date**" has the meaning given to such term in Condition 5.2 (*Interest Payment Dates and Interest Periods*);

"**Interest Period**" has the meaning given to such term in Condition 5.2 (*Interest Payment Dates and Interest Periods*);

"**Issue Date**" means 31 January 2019;

"**Junior Securities**" means, at any time, the CET1 Capital of the Issuer and any other obligations or capital instruments of the Issuer ranking or expressed to rank junior to the Notes;

"**Loss Absorbing Instrument**" means, at any time, any instrument (other than the Notes) issued directly or indirectly by the Issuer or, as applicable, any other member of the Group, which qualifies as Additional Tier 1 Capital of the Issuer or the Group, as applicable, and which has terms pursuant to which all or some of its principal amount may be written down (whether on a permanent or temporary basis) or converted into equity (in each case in accordance with its conditions) on the occurrence, or as a result, of a trigger set by reference to the CET1 Ratio of the Issuer and/or the Group (as the case may be) falling below a specific threshold;

"**Loss Absorbing Written Down Instrument**" means, at any time, any instrument (other than the Notes) issued directly or indirectly by the Issuer or, as applicable, any other member of the Group, which qualifies, or would qualify after any write-up pursuant to its terms (as the case may be), as Additional Tier 1 Capital of the Issuer or the Group, as applicable, and which, immediately prior to the relevant Discretionary Reinstatement, has a prevailing principal amount lower than the principal amount that it was originally issued with due to all or some of such principal amount having been written down on a temporary basis pursuant to its terms;

"**Margin**" means 9.414%;

"**Maximum Distributable Amount**" (*montante máximo distribuível*) means any maximum distributable amount relating to the Issuer or the Group required to be calculated in accordance with Articles 138-AA and 138-AB of the Institutions Act, which implement Article 141 of CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD;

"**Maximum Write-up Amount**" means the lower of:

(i) (a) the Issuer's Net Profit, multiplied by (b) the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial original principal amount of all Loss Absorbing Written Down Instruments issued directly or indirectly by the Issuer, divided by (c) the total Tier 1 Capital of the Issuer as at the date of the relevant Discretionary Reinstatement; and

(ii) (a) the Group's Net Profit, multiplied by (b) the sum of the aggregate Original Principal Amount of the Notes and the aggregate initial original principal amount of all Loss Absorbing Written Down Instruments issued directly or indirectly by any member of the Group, divided by (c) the total Tier 1 Capital of the Group as at the date of the relevant Discretionary Reinstatement;

or any higher or lower amount as may be permissible pursuant to the Capital Regulations then in force;

"**Net Profit**" means, at any time: (i) with respect to the Issuer, the non-consolidated net profit (excluding minority interests) of the Issuer; and (ii) with respect to the Group, the consolidated net profit (excluding minority interests) of the Group, in each case determined on the basis of the audited annual accounts for the then most recent financial year of the Relevant Entity;

"**Original Principal Amount**" means, in relation to each Note, €200,000 (for the avoidance of doubt not taking into account any Write Down or any other write down or cancellation or any subsequent Discretionary Reinstatement);

"**Outstanding Principal Amount**" means, in relation to each Note, the Original Principal Amount of such Note, as reduced from time to time by any Write Downs or any other write down or cancellation, as the case may be, and, if applicable, as subsequently increased from time to time by any Discretionary Reinstatement;

"**Own Funds**" shall have the meaning assigned to such term in the CRR as interpreted and applied in accordance with the Capital Regulations;

"**Parity Securities**" means any present or future instruments issued by the Issuer which are eligible to be recognised as Additional Tier 1 Capital from time to time by the Competent Authority, and any instruments issued, or other obligations entered into, by the Issuer which rank, or are expressed to rank, *pari passu* with the Notes;

"**Payment Business Day**" means any day on which the TARGET2 System is operating;

"**Portugal**" means the Portuguese Republic;

"**Portuguese Securities Code**" means the Portuguese Securities Code (*Código dos Valores Mobiliários*) enacted by Decree-Law no. 486/99, of 13 November, as amended and restated from time to time;

"**Proceedings**" has the meaning given to such term in Condition 19 (*Governing Law, Submission to Jurisdiction and Acknowledgement of Portuguese Statutory Loss Absorption Powers*);

"**Qualifying Additional Tier 1 Notes**" means securities that comply with the following:

(i) are issued by the Issuer or any wholly-owned direct or indirect subsidiary of the Issuer with a subordinated guarantee of such obligations by the Issuer;

(ii) rank equally with the ranking of the Notes;

(iii) other than in the case of a change to the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) to Portuguese law (or other such law as set in Condition 9.6 (*Substitution and variation*)) in order to ensure the effectiveness and enforceability of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*), have terms not materially less favourable to Holders than the terms of the Notes (as reasonably determined by the Issuer in consultation with an independent adviser of recognised standing);

(iv) (without prejudice to (iii) above) (A) contain terms such that they comply with the applicable regulatory capital requirements in relation to Additional Tier 1 Capital pursuant to the Capital Regulations; (B) bear the same rate of interest from time to time applying to the Notes and preserve the same Interest Payment Dates; (C) have the same redemption rights as the Notes; (D) have the same Original Principal Amount and Outstanding Principal Amount as the Notes; and (E) preserve any existing rights to any accrued and unpaid interest and any other amounts payable under the Notes which has accrued to Holders and has not been paid;

(v) are listed on the same stock exchange or market (if any) as the Notes; and

(vi) where the Notes which have been substituted or varied had a published rating solicited by the Issuer from one or more Rating Agencies immediately prior to their substitution or variation, benefit from (or will, as announced by each such Rating Agency, benefit from) an equal or higher published rating from each such Rating Agency as that which applied to the Notes, unless any lower rating is solely attributable to a change to the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) in order to ensure the effectiveness and enforceability of such Condition;

"**Rate of Interest**" has the meaning given to such term in Condition 5.3 (*Reset Interest Rate*);

"**Rating Agency**" means each of Moody's Investors Service España, S.A., S&P Global Ratings Europe Limited, Fitch France – Société par Actions Simplifiée and DBRS Ratings GmbH and each of their respective affiliates or successors;

"**Redemption Amount**" means, in the case of any redemption of the Notes on any redemption date, the Outstanding Principal Amount of the Notes on such redemption date together with interest accrued (if any) from (and including) the Interest Payment Date immediately preceding such redemption date (or, if none, the Issue Date) to (but excluding) such redemption date (to the extent not cancelled);

"**Reference Banks**" means five leading swap dealers, as selected by the Issuer on the advice of an Independent Adviser;

"**Reference Date**" means the accounting date as at which the applicable Relevant Profits were determined;

"**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 in accordance with Condition 16 (*Notices*);

"**Relevant Distributions**" means, on any Interest Payment Date, the sum of:

(i) any interest payments on the Notes made or scheduled to be made by the Issuer in the then current financial year of the Issuer; and

(ii) any interest payments or distributions made or scheduled to be made by the Issuer on other instruments qualifying as Additional Tier 1 Capital and (to the extent permitted by prevailing Capital Regulations) CET1 Capital, in the then current financial year of the Issuer;

"**Relevant Entity**" means the Issuer or the Group, as the case may be;

"**Relevant Nominating Body**" means, in respect of the 5-year Mid-Swap Rate:

(i) the central bank for euro, or any central bank or other supervisory authority which is responsible for supervising the administrator of the 5-year Mid-Swap Rate; or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for euro, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the 5-year Mid-Swap Rate, (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof;

"**Relevant Profits**" means the Net Profit of the Issuer or the Group, as the case may be;

"**Relevant Resolution Authority**" means Banco de Portugal and the Single Resolution Board or such other authority (whether in Portugal or elsewhere) lawfully entitled to exercise or participate in the exercise of any Statutory Loss Absorption Power from time to time;

"**Relevant Time**" means, with respect to a Reset Interest Determination Date, at or around 11:00 a.m. (Central European Time) on such Reset Interest Determination Date;

"**Reset Date**" has the meaning given to such term in Condition 5.3 (*Reset Interest Rate*);

"**Reset Interest Determination Date**" means, with respect to a Reset Date, the day falling two Business Days prior to such Reset Date;

"**Reset Interest Rate**" has the meaning given to such term in Condition 5.3 (*Reset Interest Rate*);

"**Reset Reference Bank Rate**" means, in relation to a Reset Date and the relevant Reset Interest Determination Date, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks to the Agent at or around the Relevant Time. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate in respect of the relevant Reset Date will be the last observable mid-swap rate for euro swaps with a maturity of five years which appears on the Screen Page, as determined by the Agent;

"**Risk Weighted Assets**" means, at any date, with respect to a Relevant Entity, the aggregate amount, expressed in the Accounting Currency, of the risk weighted assets of such Relevant Entity (on a consolidated basis with respect to the Group and on a non-consolidated basis with respect to the Issuer) as at such date, as calculated by the Issuer or by the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such calculation), in accordance with the Capital Regulations and on the basis that all measures used in such calculation shall (for so long as the same apply to the Relevant Entity) be calculated by applying any applicable transitional provisions provided for in the Capital Regulations. For the purposes of this definition, the term "risk weighted assets" means the risk weighted assets or total risk exposure amount, as calculated by the Issuer or the Competent Authority (or its appointed agent as aforesaid), as applicable, in accordance with the Capital Regulations and on the basis that all measures used in such calculation shall (for so long as the same apply to the Relevant Entity) be calculated by applying any applicable transitional provisions provided for in the Capital Regulations;

"**Screen Page**" means the display page on the relevant Reuters information service designated "ICESWAP2" page or such other page as may replace it on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, in each case for the purpose of displaying equivalent or comparable rates to the 5-Year Mid-Swap Rate;

"**Senior Obligations**" means (a) deposits and other unsubordinated obligations of the Issuer and (b) subordinated obligations of the Issuer (including, without limitation, obligations which are eligible to be recognised as Tier 2 Capital, but excluding Parity Securities and Junior Securities);

"**Statutory Loss Absorption Power**" means any power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Portugal, relating to (i) the implementation of the BRRD, (ii) Regulation (EU) No. 806/2014 of the

European Parliament and of the Council of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of the Single Resolution Mechanism and the Single Resolution Fund and amending Regulation (EU) No. 1093/2010 (as amended or replaced from time to time) and (iii) the instruments, rules and standards created thereunder, pursuant to which any obligation of certain entities as set out in such law, regulation, rules or requirements can be reduced, cancelled, suspended, modified, or converted into shares, other securities, or other obligations;

"**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 5-year Mid-Swap Rate which is formally recommended by any Relevant Nominating Body;

"**TARGET2 System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto;

"**Tax Event**" means any amendment to, or clarification of, or change in, the laws or treaties (or any regulations promulgated thereunder) of a Tax Jurisdiction or any change in the application or official interpretation of such laws or treaties, in either case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which application or interpretation is announced, on or after the Issue Date (each a "**Law Change**"), and in any such case, whereby the Issuer determines that it:

(i) would not be entitled to claim a deduction in computing taxation liabilities in a Tax Jurisdiction in respect of any interest payment to be made on the next Interest Payment Date or the value of such deduction to the Issuer would be reduced,

(ii) would be required to pay additional amounts on the next Interest Payment Date pursuant to Condition 11 (*Taxation*),

(iii) would be required to bring into account a taxable income if the principal amount of the Notes was written down, where the Issuer was not so required prior to the relevant Law Change, or

(iv) would be adversely affected by a material change in the applicable tax treatment of the Notes,

and, in each case, this cannot be avoided by the Issuer taking reasonable measures available to it;

"**Tax Jurisdiction**" means Portugal or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes;

"**Tier 1 Capital**" means, at any time, with respect to a Relevant Entity, the tier 1 capital of such Relevant Entity as calculated by the Issuer or by the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such calculation) in accordance with the Capital Regulations, subject always to applicable transitional and grandfathering arrangements as interpreted by the Competent Authority;

"**Tier 2 Capital**" means the Tier 2 capital of the Issuer within the meaning of the Capital Regulations;

"**Trigger Event**" has the meaning given to such term in Condition 7.1 (*Loss Absorption Following a Trigger Event*);

"**Winding-Up**" means the winding-up and liquidation of credit institutions, financial companies and investment firms carried out in accordance with the provisions of Decree-Law no. 199/2006, of 25 October, as amended and restated from time to time, and/or any other legislation or regulations that may in the future govern the winding up and liquidation of credit institutions, financial companies and investment firms;

"**Write Down**" and "**Written Down**" have the meanings given to such terms in Condition 7.1 (*Loss Absorption Following a Trigger Event*);

"**Write Down Amount**" has the meaning given to such term in Condition 7.4 (*Write Down Amount*);

"**Write Down Date**" has the meaning given to such term in Condition 7.2 (*Write Down Notice*); and

"**Write Down Notice**" has the meaning given to such term in Condition 7.2 (*Write Down Notice*).

2.2 *Interpretation*: In these Conditions:

(i) any reference to principal shall be deemed to include the Outstanding Principal Amount and any other amount in the nature of principal payable pursuant to these Conditions;

(ii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 11 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(iii) references to Notes being "outstanding" shall be construed in accordance with the Instrument; and

(iv) any reference to a numbered "**Condition**" shall be to the relevant Condition in these Conditions.

3. Form, Denomination, Title and Transfer

The Notes are issued in denominations of €200,000. The Notes are issued in dematerialised book-entry (*forma escritural*) form and, at the Issuer's request, Interbolsa can ask the relevant Affiliate Member information regarding the identity of the Holder and communicate such information to the Issuer (*valores mobiliários nominativos*). The Notes are registered with the Central de Valores Mobiliários ("**CVM**"), a Portuguese Securities Centralised System managed and operated by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. ("**Interbolsa**"). Each person shown in the Securities Accounts held with an Affiliate Member of Interbolsa as having an interest in the Notes shall be considered the Holder of the principal amount of Notes recorded therein. Notes shall not be issued in physical form. Title and other rights to or in respect of the Notes registered in a Securities Account maintained by a Holder in an Affiliate Member of Interbolsa can be evidenced by one or more certificates of title (each a "**Certificate**"), which will be issued and delivered to the relevant Holder by such Affiliate Member of Interbolsa upon the request by the relevant Holder, in accordance with that Affiliate Member of Interbolsa's procedures and pursuant to Article 78 of the Portuguese Securities Code. Title to the Notes passes upon registration in the relevant Securities Accounts held with an Affiliate Member of Interbolsa. Any Holder will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder.

The Outstanding Principal Amount of the Notes may be adjusted as provided in Condition 7 (*Loss Absorption Following a Trigger Event*) and Condition 8 (*Discretionary Reinstatement of the Notes*) or as otherwise required by then current legislation and/or regulations applicable to the Issuer.

In these Conditions, "**Holder**" means the person in whose name a Note is registered in the relevant Securities Accounts held with an Affiliate Member of Interbolsa.

4. **Status of the Notes**

4.1 *Status:* The Notes constitute undated, direct, unsecured and subordinated obligations of the Issuer, and will at all times rank *pari passu* without any preference among themselves. The Notes are subordinated as described in Condition 4.2 (*Subordination*).

4.2 *Subordination*: Claims in respect of the Notes (including claims for damages in respect of any breach of the Issuer's obligations thereunder, if applicable) shall at all times, including in the event of a Winding-Up of the Issuer, rank:

(i) *pari passu* without any preference among themselves and with claims in respect of Parity Securities;

(ii) in priority to claims in respect of Junior Securities; and

(iii) junior to any present or future claims in respect of Senior Obligations.

4.3 *No Set-Off*: Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Notes, and each Holder shall, by virtue of its subscription, purchase or holding of any Notes, be deemed to have waived all such rights of set-off.

5. Interest

5.1 *Interest Rate*: The Notes bear interest on their Outstanding Principal Amount from time to time from (and including) the Issue Date to (but excluding) the First Call Date at a fixed rate of 9.25% per annum (the "**Initial Interest Rate**") and thereafter at the applicable Reset Interest Rate (as defined below).

5.2 *Interest Payment Dates and Interest Periods:* Subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption Following a Trigger Event*), interest will be payable quarterly in arrear on 31 January, 30 April, 31 July and 31 October in each year from (and including) 30 April 2019 (each an "**Interest Payment Date**").

The period from (and including) the Issue Date to (but excluding) the first Interest Payment Date, and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date, is called an "**Interest Period**". The interest payable (subject as aforesaid) on any Interest Payment Date will be the interest accrued in respect of the Interest Period ending immediately prior to such Interest Payment Date.

5.3 *Reset Interest Rate*:: On the First Call Date and each fifth anniversary of such date (together with the First Call Date, each a "**Reset Date**"), the rate of interest will be reset to a rate of interest (each a "**Reset Interest Rate**" and, together with the Initial Interest Rate, each a "**Rate of**

Interest") determined in accordance with the following provisions of this Condition 5.3. The Reset Interest Rate determined with respect to a Reset Date shall apply to the Notes from (and including) such Reset Date to (but excluding) the next succeeding Reset Date.

The Reset Interest Rate with respect to any Reset Date shall be the rate of interest determined by the Agent at or around the Relevant Time on the relevant Reset Interest Determination Date as the sum, converted to a quarterly rate in accordance with market convention (rounded to four decimal places with 0.00005 being rounded down) (such conversion to be determined by the Issuer in conjunction with an Independent Adviser), of the relevant 5-Year Mid-Swap Rate and the Margin, (*provided that* if the Reset Interest Rate so determined would be less than nil, the Reset Interest Rate in respect of such Reset Date shall be nil).

5.4 *Calculation of amount of interest*: The amount of interest payable (subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption Following a Trigger Event*)) in respect of a Note shall be calculated per Calculation Amount. The amount of interest per Calculation Amount for any period shall be calculated by the Agent by (a) applying the prevailing Rate of Interest to the Calculation Amount, (b) multiplying such sum by the Day Count Fraction and (c) rounding the resultant figure to the nearest cent (half a cent being rounded upwards or otherwise in accordance with applicable market convention at the relevant date). The amount of interest payable (subject as aforesaid) in respect of such Note shall be the amount determined per Calculation Amount multiplied by a fraction, the numerator of which is the Outstanding Principal Amount of such Note and the denominator is the Calculation Amount, without any further rounding.

If, pursuant to Condition 7.1 (*Loss Absorption Following a Trigger Event*) or Condition 8 (*Discretionary Reinstatement of the Notes*) or as otherwise required by then current legislation and/or regulations applicable to the Issuer, the Outstanding Principal Amount of the Notes is reduced and/or reinstated during an Interest Period, the amount of interest will be adjusted by the Agent to reflect interest having accrued on the relevant Outstanding Principal Amount during each part of such Interest Period or, in the case of a Write Down, from (and including) the Write Down Date only in accordance with Condition 7.6 (*Interest accrual*)).

The interest amount which (subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption Following a Trigger Event*) shall be payable on each Interest Payment Date up to (and including) the First Call Date will (if paid in full, and assuming no Write Down or other write down of the Notes has occurred) in respect of each Interest Payment Date from (and including) 30 April 2019 to (and including) the First Call Date, amount to €4,625 per Calculation Amount.

5.5 *Determination and notification of Reset Interest Rate*: Subject as provided herein, the Agent will, on each Reset Interest Determination Date, determine the Reset Interest Rate applicable to the corresponding Reset Date. The Agent shall, promptly following determination thereof, cause such Reset Interest Rate to be notified to the Issuer, to the Holders in accordance with Condition 16 (*Notices*) and, if the Notes are listed on a stock exchange and the rules of such exchange so require, to such exchange.

5.6 *Accrual of interest*: Each Note will cease to bear interest from the due date for redemption unless payment of the Outstanding Principal Amount in respect thereof is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 until whichever is the earlier of:

(i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder; and

(ii) the day which is seven days after the Agent has notified the Holders in accordance with Condition 16 (*Notices*) that it has received all sums due in respect of the Notes up to such seventh day.

5.7 *Notifications etc.*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 by the Agent or the Reference Banks (or any of them) will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer and the Holders and (subject as aforesaid) no liability to any such person will attach to the Agent or the Reference Banks (or any of them) in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

5.8 *Benchmark replacement*: References in this Condition 5.8 (and in the definitions of Adjustment Spread, Alternative Reference Rate, Benchmark Event, Relevant Nominating Body and Successor Rate) to the 5-year Mid-Swap Rate shall be to the rate described in paragraph (A) of such definition.

If the Issuer determines that a Benchmark Event occurs in relation to the 5-year Mid-Swap Rate, then the following provisions shall apply to the Notes:

(i) 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) (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 Notes 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;

(ii) 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 5.8 prior to the IA Determination Cut-Off Date, the Issuer (acting in good faith and in a commercially reasonable manner and following consultation with the Independent Financial 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 5.8. 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;

(iii) 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 5-year Mid-Swap Rate with respect to each of the future Reset Dates (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5.8);

(iv) 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;

(v) 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) also specify changes to these Conditions, the Instrument and/or the Agency Terms 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, Reset Interest Determination Date, Relevant Time and/or the definition of 5-year Mid-Swap Rate and (B) the method for determining the fall-back rate in relation to the Notes. For the avoidance of doubt, the Issuer and the Agent shall effect such consequential amendments to the Agency Terms, the Instrument and/or these Conditions as may be required in order to give effect to the application of this Condition 5.8. No consent shall be required from the Holders 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

(vi) 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 in accordance with Condition 16 (*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 Agency Terms, the Instrument and/or these Conditions (if any),

provided that the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) and any other related changes to the Notes, shall only be made to the extent that it can be done in compliance with the relevant Capital Regulations (if applicable).

An Independent Adviser appointed pursuant to this Condition 5.8 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 for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 5.8.

Notwithstanding any other provision in this Condition 5.8, no Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) will be adopted, and no other amendments to the Conditions will be made pursuant to this Condition 5.8, if, and to the extent that, in the determination of the Issuer, the same could reasonably be expected to give rise to a Capital Event.

Without prejudice to the obligations of the Issuer under this Condition 5.8, the 5-year Mid-Swap Rate and the other provisions in this Condition 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 5.8, 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 16 (*Notices*)) the Holders 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 Agency Terms, the Instrument and the Conditions (if any).

6. **Interest Cancellation**

6.1 *Optional Interest Cancellation*: The Issuer may elect at any time, in its sole and full discretion, to cancel (in whole or in part, as applicable) any payment of interest otherwise scheduled to be paid on an Interest Payment Date for an unlimited period of time and on a non-cumulative basis.

6.2 *Mandatory Cancellation of Interest Payments:*

(i) Payments of interest in respect of the Notes in any financial year (and, if applicable, any additional amounts payable in respect thereof pursuant to Condition 11 (*Taxation*)) shall only be made out of Distributable Items of the Issuer. The Issuer will cancel any interest, or the relevant part thereof, otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the amount of such interest (together with any additional amounts payable in respect thereof pursuant to Condition 11 (*Taxation*)), when aggregated together with any other Relevant Distributions and the amount of any Discretionary Reinstatement, where applicable, exceeds the amount of Distributable Items of the Issuer as at such Interest Payment Date.

(ii) In addition, in circumstances where the provisions of Portuguese law implementing Article 141 of CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD apply, no payments, or any relevant part thereof, will be made on the Notes (whether by way of interest, Discretionary Reinstatement or otherwise) if and to the extent that such payment, when aggregated together with other Relevant Distributions, any obligation referred to in Article 141 of CRD IV or any analogous payment restrictions arising in respect of capital buffers under the Capital Regulations or the BRRD and the amount of any Discretionary Reinstatement, where applicable, would exceed the Maximum Distributable Amount (if any) of the Issuer and/or the Group.

(iii) The Competent Authority may also direct the Issuer to exercise its discretion to cancel interest (in whole or in part) scheduled to be paid on an Interest Payment Date.

6.3 *Notice of Interest Cancellation*: The Issuer shall give notice to the Holders in accordance with Condition 16 (*Notices*) and to the Agent (if different from the Issuer) of any such cancellation of a payment of interest, without undue delay and in any event no later than on the relevant Interest Payment Date, *provided that* any failure to give any such notice(s) shall not affect the cancellation of the relevant interest payment and shall not constitute a default of the Issuer for any purpose. Non-payment of any amount of interest (in whole or in part) scheduled to be paid on an Interest Payment Date will constitute evidence of cancellation of the relevant payment (or the relevant part thereof), whether or not notice of cancellation has been given by the Issuer.

6.4 *Interest non-cumulative; no default*: If the payment of interest scheduled on an Interest Payment Date is cancelled, in whole or in part, in accordance with the provisions of this Condition 6, the Issuer shall not have any obligation to make such interest payment (or the cancelled part thereof) on such Interest Payment Date or any time thereafter and the failure to pay such interest (or the cancelled part thereof) shall not constitute a default of the Issuer under the Notes or for any purpose and shall not entitle Holders to petition for the Winding-Up of the Issuer.

Any such interest will not accumulate or be payable at any time thereafter, the Issuer will not be obliged to (and will not) make any other payment or settlement in any form in lieu thereof, and Holders shall have no right thereto whether in a Winding-Up of the Issuer or otherwise. Any such cancellation of interest shall impose no restrictions on the Issuer.

7. Loss Absorption Following a Trigger Event

7.1 *Loss Absorption Following a Trigger Event*: If at any time the CET1 Ratio of any of the Issuer and/or the Group falls below 5.125% as determined by the Issuer or the Competent Authority (or any agent appointed by the Competent Authority for the purpose of making such determination) (such calculation being binding on the Holders) (a "**Trigger Event**"), then the Issuer shall immediately notify the Competent Authority and, without delay and by no later than one month (or such shorter period as the Competent Authority may then require) from the occurrence of the relevant Trigger Event, shall (without the need for the consent of the Holders):

(i) cancel all interest accrued to (but excluding) the relevant Write Down Date (whether or not such interest has become due for payment and including any interest scheduled for payment on such Write Down Date); and

(ii) irrevocably and mandatorily reduce the then Outstanding Principal Amount of each Note by the relevant Write Down Amount (such reduction, a "**Write Down**" and "**Written Down**" being construed accordingly).

For the avoidance of doubt, if the cancellation of interest pursuant to Condition 7.1(i) would result in an increase in the CET1 Ratio of the Issuer and/or the Group (as applicable), any such increase shall be disregarded for the purposes of calculating such Write Down Amount in respect of such Trigger Event.

7.2 *Write Down Notice*: The Issuer shall, as soon as reasonably practicable following the determination that a Trigger Event has occurred, and in any event not more than five days following such determination, give notice (which notice shall be irrevocable) to the Holders (the "**Write Down Notice**") in accordance with Condition 16 (*Notices*) and to the Agent stating:

(i) that a Trigger Event has occurred;

(ii) the date on which the relevant Write Down will take effect (the "**Write Down Date**"); and

(iii) if then determined, the relevant Write Down Amount.

If the relevant Write Down Amount has not been determined when the Write Down Notice is given, the Issuer shall, as soon as reasonably practicable following such determination, notify Holders of the Write Down Amount in accordance with Condition 16 (*Notices*).

Any failure or delay by the Issuer in giving any such notice to the Holders referred to under this Condition 7.2 or the notification to the Competent Authority under Condition 7.1 (*Loss Absorption Following a Trigger Event*) will not in any way impact on the effectiveness of, or otherwise invalidate, any Write Down, or give Holders any rights as a result of such failure or delay, and shall not constitute a default by the Issuer under the Notes or for any purpose.

7.3 *Loss Absorbing Instruments*: A Write Down of each Note will be effected, save as may otherwise be required by the Capital Regulations or the Competent Authority, *pro rata* with (a) the concurrent Write Down of the other Notes; and (b) the concurrent (or substantially concurrent) write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments (based on the prevailing principal amount of the relevant Loss Absorbing Instrument), *provided that*:

(i) with respect to each Loss Absorbing Instrument (if any), such *pro rata* write down or conversion shall only be taken into account to the extent required to restore the relevant CET1 Ratio(s) to the lower of (i) such Loss Absorbing Instrument's trigger level and (ii) 5.125% (being the level at which a Trigger Event occurs in respect of the Notes), in either case in accordance with the terms of such Loss Absorbing Instruments and the Capital Regulations; and

(ii) if for any reason the Issuer is unable to effect the concurrent (or substantially concurrent) write down or conversion of any given Loss Absorbing Instruments within the period required by the Competent Authority, the Notes will be Written Down notwithstanding that the relevant Loss Absorbing Instruments are not also written down or converted.

For the avoidance of doubt, to the extent that the Issuer is unable to write down or convert any Loss Absorbing Instruments as aforesaid, any Write Down Amount determined in accordance with part (i) of the definition of Write Down Amount will be calculated on the basis that such Loss Absorbing Instruments are not available to be written down or converted, and accordingly the relevant Write Down Amount determined in accordance with that part (i) will be higher than it would otherwise have been if such Loss Absorbing Instruments had been available to be written down or converted.

7.4 *Write Down Amount*: "**Write Down Amount**" means, on any Write Down Date, the amount by which the then Outstanding Principal Amount of each Note is to be Written Down on such date, being (save as may otherwise be required by the Capital Regulations) the lower of (i) and (ii) below:

(i) the amount per Note which is determined by the Issuer to be necessary (in conjunction with (a) the concurrent Write Down of the other Notes; and (b) the concurrent (or substantially concurrent) write down or conversion into equity of, or other loss absorption measures taken in respect of, any other Loss Absorbing Instruments, in each case in the manner and to the extent provided in Condition 7.3 (*Loss Absorbing Instruments*) to restore each of the Issuer's and the Group's (as applicable) CET1 Ratio to at least 5.125%; and

(ii) the amount necessary to reduce the Outstanding Principal Amount of each Note to one cent (and references herein to the "**one cent floor**" in respect of the Notes shall be construed accordingly).

The Outstanding Principal Amount of a Note shall not at any time be reduced below one cent as a result of a Write Down.

7.5 *Full Loss Absorbing Instruments*: If, in connection with any Write Down or the calculation of any Write Down Amount, there are outstanding any Loss Absorbing Instruments the terms of which provide that they shall be written down or converted into equity in full and not in part only ("**Full Loss Absorbing Instruments**") then:

(i) the requirement that a Write Down of the Notes shall be effected *pro rata* with the write down or conversion into equity, as the case may be, of any Loss Absorbing Instruments shall not be construed as requiring the Notes to be Written Down in full (or in full save for the one cent floor) simply by virtue of the fact that any Full Loss Absorbing Instruments will be written down or converted in full; and

(ii) for the purposes of calculating the relevant Write Down Amount, the Full Loss Absorbing Instruments will be treated (for the purposes only of determining the write down of principal or conversion into equity, as the case may be, among the Notes and any other Loss Absorbing Instruments on a *pro rata* basis) as if their terms permitted partial write down or conversion into equity, such that the write down or conversion into equity of such Full Loss Absorbing Instruments shall be deemed to occur in two concurrent stages: (a) first, the principal amount of such Full Loss Absorbing Instruments shall be written down or converted into equity pro rata with the Notes and all other Loss Absorbing Instruments (in each case subject to and as provided in Condition 7.3 (*Loss Absorbing Instruments*)) to the extent necessary to restore each of the Issuer's and the Group's (as the case may be) CET1 Ratio to 5.125% or more; and (b) secondly, the balance (if any) of the principal amount of such Full Loss Absorbing Instruments remaining following (a) shall be written-off or converted into equity, as the case may be, with the effect of increasing the Issuer's and the Group's, as the case may be, CET1 Ratio above the minimum required level under (a) above.

7.6 *Interest accrual*: Following a reduction of the Outstanding Principal Amount of the Notes as described above, interest will accrue on the reduced Outstanding Principal Amount of each Note from (and including) the relevant Write Down Date, and (for the avoidance of doubt) such interest will be subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption Following a Trigger Event*).

7.7 *Write Down may occur on one or more occasion; No default*: A Write Down may occur on one or more occasions and accordingly the Notes may be Written Down on one or more occasions (provided however, for the avoidance of doubt, that the principal amount of a Note shall not at any time be reduced to below one cent). Any reduction of the Outstanding Principal Amount pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*) shall not constitute a default by the Issuer under the Notes or for any purpose and shall not entitle Holders to petition for the Winding-Up of the Issuer.

7.8 *Cancellation not automatic*: If the Outstanding Principal Amount of the Notes is Written Down to one cent, the Notes will not be cancelled as a result thereof.

7.9 *Currency*: For the purposes of any calculation in connection with a Write Down or a Discretionary Reinstatement of the Notes which necessarily requires the determination of a figure in the Accounting Currency (or in an otherwise consistent manner across obligations denominated in different currencies), including (without limitation) any determination of a Write Down Amount and/or a Maximum Write-up Amount, any relevant obligations (including the Notes) which are not denominated in the Accounting Currency shall, (for the purposes of such calculation only) be deemed notionally to be converted into the Accounting Currency at the foreign exchange rates determined, in the sole discretion of the Issuer, to be applicable based on its regulatory reporting requirements under the Capital Regulations.

8. **Discretionary Reinstatement of the Notes**

8.1 *Discretionary Reinstatement of the Notes*: Subject to compliance with the prevailing Capital Regulations, if, at any time while any Note remains Written Down, each Relevant Entity records a positive Net Profit, the Issuer may, in its sole and absolute discretion, increase the Outstanding Principal Amount of the Notes (a "**Discretionary Reinstatement**") by such amount (calculated per Calculation Amount) as the Issuer may elect, *provided that* such Discretionary Reinstatement shall not:

(i) result in the Outstanding Principal Amount of each Note being greater than its Original Principal Amount;

(ii) be operated whilst a Trigger Event has occurred and is continuing;

(iii) result in the occurrence of a Trigger Event; or

(iv) (unless otherwise permitted or required by the Capital Regulations) result in the Maximum Write-up Amount to be exceeded when taken together with the aggregate of:

(a) any previous Discretionary Reinstatement of the Notes out of the same Relevant Profits since the Reference Date (if any);

(b) the aggregate amount of any interest on the Notes that has been paid or calculated (but disregarding any such calculated interest which has been cancelled) since the Reference Date on the basis of an Outstanding Principal Amount that is lower than the Original Principal Amount;

(c) the aggregate amount of the increase in principal amount of the Loss Absorbing Written Down Instruments to be written-up out of the same Relevant Profits concurrently (or substantially concurrently) with such Discretionary Reinstatement and (if applicable) any previous increase in principal amount out of the same Relevant Profits of such Loss Absorbing Written Down Instruments since the Reference Date; and

(d) the aggregate amount of any interest on each Loss Absorbing Instruments that have been paid or calculated (but disregarding any such calculated interest which has been cancelled) since the Reference Date on the basis of a prevailing principal amount that is lower than the original principal amount at which such Loss Absorbing Instruments were issued.

A Discretionary Reinstatement will also not be effected in circumstances in which it would cause any Maximum Distributable Amount then applicable to the Issuer and/or the Group to be exceeded.

8.2 *Notice of Discretionary Reinstatement*: In the event of a Discretionary Reinstatement in accordance with Condition 8.1 (*Discretionary Reinstatement of the Notes*), the Issuer will give notice to Holders in accordance with Condition 16 (*Notices*) and to the Agent (if different from the Issuer) not more than ten Business Days following the day on which it resolves to effect such Discretionary Reinstatement and in any event not later than five Business Days prior to the date on which the Discretionary Reinstatement shall take effect, which notice shall specify the amount of such Discretionary Reinstatement (expressed per Calculation Amount or as a percentage) and the date on which such Discretionary Reinstatement will be effected.

8.3 *Write-up of Loss Absorbing Written Down Instruments*: Any Discretionary Reinstatement shall be applied concurrently (or substantially concurrently) and *pro rata* with other write-ups to be effected out of the Relevant Profits in respect of any Loss Absorbing Written Down Instruments.

The Issuer will not reinstate the principal amount of any Loss Absorbing Written Down Instrument that has terms permitting a write-up of such principal amount to occur out of the Relevant Profits on a similar basis to that set out in respect of the Notes unless it does so on a pro rata basis with a Discretionary Reinstatement of the Notes.

8.4 *Interest Accrual*: Following a Discretionary Reinstatement in respect of the Notes, interest will accrue on the increased Outstanding Principal Amount of each Note from (and including) the date on which the relevant Discretionary Reinstatement takes effect, and (for the avoidance of doubt) such interest will be subject to Condition 6 (*Interest Cancellation*) and Condition 7.1 (*Loss Absorption Following a Trigger Event*).

8.5 *Discretionary Reinstatement may occur on one or more occasions*: A Discretionary Reinstatement may occur on one or more occasions until the Outstanding Principal Amount of each Note has been reinstated to the Original Principal Amount. Any decision by the Issuer to effect or not to effect any Discretionary Reinstatement on any occasion shall not preclude it from effecting or not effecting any Discretionary Reinstatement on any other occasion.

8.6 *Discretionary Reinstatement at sole and absolute discretion of the Issuer*:; A Discretionary Reinstatement shall be operated at the sole and absolute discretion of the Issuer and there shall be no obligation for the Issuer to operate or accelerate a Discretionary Reinstatement in any circumstance.

9. Redemption and Purchase

9.1 *No maturity*: The Notes are perpetual securities and have no fixed date for redemption. The Issuer may only redeem the Notes at its discretion in the circumstances described herein. The Notes are not redeemable at the option of the Holders at any time. The Notes shall become immediately due and payable only in the event of the Winding-Up of the Issuer, subject to Condition 4.2 (*Subordination*) above.

9.2 *Redemption at the option of the Issuer*: The Issuer may, at its option (but subject to Condition 9.7 (*Conditions to redemption etc*.)) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16 (*Notices*) (which notice shall, subject as provided in Condition 9.8 (*Trigger Event following notice of redemption, substitution or variation*) below, be irrevocable), redeem all (but not some only) of the Notes on the First Call Date or any Interest Payment Date thereafter, at their Redemption Amount; *provided, however, that* if at any time the Notes have been Written Down pursuant to Condition 7 (*Loss Absorption Following a Trigger Event*), the Issuer shall not be entitled to exercise its option under this Condition 9.2 until the principal amount of the Notes so Written Down has been fully reinstated pursuant to Condition 8 (*Discretionary Reinstatement of the Notes*).

9.3 *Redemption upon the occurrence of a Capital Event or a Tax Event*: Subject to Condition 9.7 (*Conditions to redemption etc*.), upon the occurrence, and continuation as at the date of the relevant redemption notice to Holders, of a Capital Event or a Tax Event, the Issuer may, at its option, having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16 (*Notices*) (which notice shall, subject as provided in Condition 9.8 (*Trigger Event following notice of redemption, substitution or variation*) below, be irrevocable), redeem all (but not some only) of the Notes at any time, at their Redemption Amount.

The Issuer, having satisfied itself that a Capital Event or a Tax Event has occurred, shall notify the Holders in accordance with Condition 16 (*Notices*) of the occurrence of such Capital Event or Tax Event.

9.4 *Purchase*: Subject to Condition 9.7 (*Conditions to redemption etc*.), the Issuer or any other member of the Group may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise in accordance with the Capital Regulations applicable to the Group in force at the relevant time, and subject to applicable law and regulation.

9.5 *Cancellation*: All Notes which are redeemed, all Notes which are purchased and surrendered for cancellation in accordance with Interbolsa regulations and all Notes which are substituted pursuant to Condition 9.6 (*Substitution and variation*), will forthwith be cancelled and cannot be reissued or resold.

9.6 *Substitution and variation*: Subject to Condition 9.7 (*Conditions to redemption etc*.), if a Capital Event or a Tax Event has occurred and is continuing as at the date of the relevant notice to Holders, or in order to ensure the effectiveness and enforceability of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*), the Issuer (in its sole discretion but subject as set out below), having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 16 (*Notices*) (which notice shall, subject as provided in Condition 9.8 (*Trigger Event following notice of redemption, substitution or variation*) below, be irrevocable), may, without any requirement for the consent or approval of the Holders, either substitute all (but not some only) of the Notes for, or vary the terms of the Notes (including changing the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) from English law to Portuguese law or any other European law that, after consultation with the Competent Authority, the Issuer considers allows the Notes to remain or become Additional Tier 1 Capital) so that the Notes remain or, as appropriate, become, Qualifying Additional Tier 1 Notes. Upon the expiry of such notice, the Issuer shall either vary the terms of the Notes or, as the case may be, substitute the Notes in accordance with this Condition 9.6.

In connection with any substitution or variation in accordance with this Condition 9.6, the Issuer shall comply with the rules of any stock exchange on which such Notes are for the time being listed or admitted to trading.

Any substitution or variation in accordance with this Condition 9.6 shall not result in any event or circumstance which at or around that time gives the Issuer a redemption right in respect of the Notes.

9.7 *Conditions to redemption etc*.: The Notes may only be redeemed, purchased, cancelled, substituted, varied or modified (as applicable) pursuant to Condition 9.2 (*Redemption at the option of the Issuer*), Condition 9.3 (*Redemption upon the occurrence of a Capital Event or a Tax Event*), Condition 9.4 (*Purchase*), Condition 9.5 (*Cancellation*), Condition 9.6 (*Substitution and variation*) or Condition 15 (*Meetings of Holders; Modification*), as the case may be, if:

(i) the Issuer has notified the Competent Authority of, and the Competent Authority has consented to, such redemption, purchase, cancellation, substitution, variation or modification (as applicable) to the extent required by the Capital Regulations; and

(ii) in respect of a redemption prior to the fifth anniversary of the Issue Date (A) in the case of a redemption of the Notes as a result of a Tax Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the change in the applicable tax treatment of the Notes is material and was not reasonably foreseeable as at the Issue Date; or (B) in the case of redemption upon the occurrence of a Capital Event, the Issuer has demonstrated to the satisfaction of the Competent Authority that the change in the regulatory classification of the Notes was not reasonably foreseeable as at the Issue Date and the Competent Authority considers such a change to be sufficiently certain; and

(iii) in the case of a redemption of the Notes as a result of a Tax Event or a Capital Event, prior to the publication of the relevant notice of redemption, the Issuer has available for inspection by any Holder during business hours (and upon reasonable notice by the Holders) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred (and such certificate shall be sufficient for the Agent and conclusive and binding on the Holders); *provided that*, if the Issuer is not acting as the Agent, such certificate is to be delivered to the Agent (to hold for inspection by any Holder during business hours and upon reasonable notice by the Holders); and

(iv) in the case of a redemption of the Notes as a result of a Tax Event whereby the Issuer would be required to pay additional amounts or bring into account a taxable income only, prior to the publication of the relevant notice of redemption, the Issuer shall have sought and received (at its own expense) and shall have available for inspection by any Holder during business hours and upon reasonable notice by the Holders an opinion of independent legal advisers of recognised standing to the effect that (A) the Issuer has or will become obliged to (I) pay such additional amounts or (II) bring into account a taxable income, in either case as a result of the relevant Law Change and (B) in the case of (II), the Issuer was not so required prior to the relevant Law Change (and such opinion shall be sufficient for the Agent and conclusive and binding on the Holders); *provided that*, if the Issuer is not acting as the Agent, such opinion is to be delivered to the Agent (to hold for inspection by any Holder during business hours and upon reasonable notice by the Holders),

provided that, as regards Conditions (i) and (ii) above, if, at the time of any redemption, purchase, cancellation, substitution, variation or modification of the Notes, the prevailing Capital Regulations permit such redemption, purchase, cancellation, substitution, variation or modification only after compliance with one or more additional or alternative preconditions to those set out in Conditions (i) and (ii) above, the Issuer shall comply (in addition or, as the case may be, in the alternative) with such additional and/or alternative precondition(s).

9.8 *Trigger Event following notice of redemption, substitution or variation*: If at any time the Issuer has given notice that it intends to redeem the Notes and, prior to the time of such redemption, a Trigger Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect. Accordingly, the Notes will not be redeemed on the proposed date therefor, and instead a Write Down of the Notes will occur in accordance with Condition 7 (*Loss Absorption Following a Trigger Event*). The Issuer will notify the Holders of such occurrence in accordance with Condition 16 (*Notices*) as soon as reasonably practicable. For the avoidance of doubt, if at any time the Issuer has given notice that it intends to substitute or vary the terms of the Notes and, prior to the time of such substitution or variation, a Trigger Event occurs, the relevant substitution or variation notice shall not be automatically rescinded, notwithstanding that a Write Down of the Notes will occur in accordance with Condition 7 (*Loss Absorption Following a Trigger Event*).

9.9 *Notice of redemption following a Trigger Event*: If at any time the Issuer has given a Write Down Notice, the Issuer shall not subsequently give notice that it intends to redeem, substitute or vary the Notes until after the Write Down Date specified in such Write Down Notice shall have passed.

10. **Payments**

10.1 Payments in respect of the Notes will be made by transfer to the Securities Account of the Holder maintained by it in the relevant Affiliate Member of Interbolsa. If the due date for payment of any amount in respect of any Note is not a Payment Business Day, the Holder shall not be entitled to payment of the amount due until the next succeeding Payment Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

10.2 Payments will be subject in all cases, but without prejudice to the provisions of Condition 11 (*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 Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 11 (*Taxation*)) any law implementing an intergovernmental approach thereto. Any such amounts withheld or deducted will be treated as paid for all purposes under the Notes, and no additional amounts will be paid on the Notes with respect to any such withholding or deduction.

11. **Taxation**

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In the event of any such withholding or deduction in respect of payments of interest (but not principal) (and subject to Condition 6 (*Interest Cancellation*)), the Issuer will pay such additional amounts as shall be necessary in order that the net amounts of interest received by the Holders after such withholding or deduction shall equal the respective amounts of interest which would otherwise have been receivable in respect of the Notes in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note:

(i) *Other connection*: to, or to a third party on behalf of, a Holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note; and/or

(ii) *Lawful avoidance of withholding*:

(a) to, or to a third party on behalf of, a Holder who is able to avoid such withholding or deduction by making a declaration of non-residence or other claim for exemption to the relevant tax authority; and/or

(b) to, or to a third party on behalf of, a Holder in respect of whom the information and documentation (which may include certificates) required in order to comply with the special regime approved by Decree-Law no. 193/2005, of 7 November, as amended and restated from time to time, and any implementing legislation, is not received before the Relevant Date; and/or

(c) to, or to a third party on behalf of, a Holder (i) in respect of whom the information and documentation required by Portuguese law in order comply with any applicable tax treaty is not received by the Issuer directly from the relevant Holder before the date by which such information and/or documentation is to be provided to the Issuer under Portuguese law, and (ii) who is resident in one of the contracting states; and/or

(d) to, or to a third party on behalf of (I) an effective beneficiary of the Notes who is a Portuguese resident legal entity subject to Portuguese corporation tax with the exception of entities that benefit from a Portuguese withholding tax waiver or from Portuguese income tax exemptions, or (II) a legal entity not resident in Portugal acting with respect to the holding of the Notes through a permanent establishment in Portugal except whenever benefits from a Portuguese withholding tax waiver; and/or

(iii) *Favourable tax regime*:

(a) to, or to a third party on behalf of, a Holder resident in a tax haven jurisdiction (except for jurisdictions with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force) as defined in Ministerial Order no. 150/2004, of 13 February 2004 issued by the Portuguese Minister of Finance and Public Administration (*Portaria do Ministro das Finanças e da Administração Pública n. 150/2004*) as amended and restated from time to time, with the exception of central banks and governmental agencies of those tax haven jurisdictions; and/or

(b) into an account held on behalf of undisclosed beneficial owners where such beneficial owners are not disclosed for purposes of payment and such disclosure is required by law; and/or

(iv) *Presentation more than 30 days after the Relevant Date*: in respect of which the Certificate evidencing the title to the Note(s) is presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting it for payment on the thirtieth day assuming that day to have been a Payment Business Day; and/or

(v) *Withholding required under FATCA*: where such withholding or deduction is required to be made pursuant to Sections 1471 through 1474 of the Code or any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto.

12. **Enforcement**

12.1 There are no events of default in respect of the Notes. Holders shall not be entitled at any time to file for Winding-Up of the Issuer.

12.2 In the case of the Winding-Up of the Issuer, the Holder of any Note may prove or claim in such proceedings in respect of such Note, such claim being for payment of the Outstanding Principal Amount of such Note at the time of commencement of such Winding-Up together with any interest accrued and unpaid on such Note (to the extent that the same has not been cancelled in accordance with these Conditions) from (and including) the Interest Payment Date immediately preceding commencement of such Winding-Up and any other amounts payable on such Note (including any damages payable in respect thereof, if applicable). Such claim shall rank as provided in Condition 4.2 (*Subordination*).

12.3 Subject to Condition 12.1 above and without prejudice to Condition 12.2 above, any Holder may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Notes, *provided that* the Issuer shall not by virtue of the institution of any proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

13. **Prescription**

The Notes will become void unless claims in respect of principal and/or interest are made within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

14. **Agent**

The Issuer is entitled to vary or terminate the appointment of any agent and/or appoint additional or other agents to perform some or all of the roles of the Agent and/or approve any change in the specified office through which any agent acts, *provided that* there will at all times be an Agent.

Banco Comercial Português, S.A. will be the Agent.

In acting under the Agency Terms, the Agent acts solely as agent of the Issuer, and does not assume any obligation or relationship of agency or trust to or with the Holders, except that (without affecting the obligations of the Issuer to the Holders to pay principal and interest thereon) any funds received by the Agent for the payment of the principal of or interest on the Notes shall be held by it on trust for the Holders until the expiry of the period of prescription specified in Condition 13 (*Prescription*). The Agency Terms contains provisions for the indemnification of the Agent and for its relief from responsibility in certain circumstances and entitles it to enter into business transactions with the Issuer and any of its subsidiaries without being liable to account to the Holders for any resulting profit.

15. **Meetings of Holders; Modification**

15.1 *Meetings of Holders*: The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of any of the provisions of the Notes. A meeting convened pursuant to the provisions of the Instrument, may be convened by the Issuer and should be convened by the Issuer upon a request by Holders holding not less than one-tenth in Outstanding Principal Amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing more than 50% in Outstanding Principal Amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the Outstanding Principal Amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes (including, amongst other things, modifying any date for payment of interest or redemption thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes, a variation of Condition 6 (*Interest Cancellation*) to extend the circumstances where mandatory cancellation occurs or modifying the provisions concerning the Write Down and/or Discretionary Reinstatement of the Notes) or certain provisions of the Instrument, as the case may be, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one third, in Outstanding Principal Amount of the Notes for the time being outstanding. An Extraordinary Resolution passed by the Holders will (subject to Condition 9.7 (*Conditions to redemption etc*.)) be binding on all Holders, whether or not they are present at any meeting and whether or not voting in favour.

15.2 *Modification of Notes*: Subject to Condition 9.7 (*Conditions to redemption etc*.), the Agent and the Issuer may, without the consent of the Holders (and by acquiring the Notes, the Holders agree that the Agent and the Issuer may, without the consent of the Holders) make any modification to the provisions of these Conditions or the Instrument which: (i) is not prejudicial to the interests of the Holders; (ii) is of a formal, minor or technical nature; (iii) is made to correct a manifest or proven error; or (iv) is to comply with mandatory provisions of any applicable law or regulation. Any such modification so made shall be binding on all Holders and shall be notified to the Holders in accordance with Condition 16 (*Notices*) as soon as practicable after it has been agreed.**Notices**

All notices regarding the Notes shall be valid if published on the website of the Issuer (being, as at the date hereof, *www.millenniumbcp.pt*) and (so long as the Notes are admitted to trading on, and listed on the official list of, the Irish Stock Exchange plc, trading as 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 Notes are for the time being listed, including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of publication or, if published more than once or on different dates, on the date of the first publication.

The Issuer shall also comply with the requirements of Interbolsa and of Portuguese law generally in respect of notices relating to the Notes.

17. Waiver and Remedies

No failure to exercise, and no delay in exercising, on the part of the Holder, any right in these Conditions shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

18. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Holders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding Notes.

19. **Governing Law, Submission to Jurisdiction and Acknowledgement of Portuguese Statutory Loss Absorption Powers**

19.1 *Governing law*: The Notes (except Condition 4 (*Status of the Notes*)) and any non-contractual obligations arising out of or in connection with the Notes are governed by and shall be construed in accordance with, English law save that the form (*forma de representação*) and transfer of the Notes, creation of security over the Notes and the Interbolsa procedures for the exercise of rights under the Notes are governed by, and shall be construed in accordance with, Portuguese law. Condition 4 (*Status of the Notes*) is governed by, and shall be construed in accordance with, Portuguese law. In each case, the application of such governing law shall be without prejudice to the applicability, under the conflicts rules applicable in the relevant forum, in the light of such submission, of Portuguese law. The foregoing is subject to the right of the Issuer pursuant to Condition 9.6 (*Substitution and variation*) to change the governing law of Condition 19.3 (*Acknowledgement of Portuguese Statutory Loss Absorption Powers*) in accordance with the terms of Condition 9.6 (*Substitution and variation*).

19.2 *Submission to Jurisdiction*: The Issuer has in the Instrument irrevocably agreed, for the exclusive benefit of the Holders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Instrument and/or the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the Instrument and/or the Notes) and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Instrument and/or the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the Instrument and/or the Notes) may be brought in such courts.

The Issuer has in the Instrument irrevocably waived any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and has further irrevocably agreed that a judgement in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other competent jurisdiction. Nothing in this Condition 19.2 shall limit any right to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

19.3 *Acknowledgement of Portuguese Statutory Loss Absorption Powers*: Notwithstanding any other term of the Notes or any other agreement, arrangement or understanding between the Issuer and the Holders, by its subscription and/or purchase and holding of the Notes, each Holder (which for the purposes of this Condition 19.3 includes each holder of a beneficial interest in the Notes) acknowledges, accepts, consents and agrees:

(i) to be bound by the effect of the exercise of the Statutory Loss Absorption Power by the Relevant Resolution Authority, which may include and result in any of the following, or some combination thereof:

(a) the reduction of all, or a portion, of the Amounts Due on a permanent basis;

(b) the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer or another person (and the issue to the holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes, in which case each Holder agrees to accept in lieu of its rights under the Notes any such shares, other securities or other obligations of the Issuer or another person;

(c) the cancellation of the Notes or Amounts Due; or

(d) the amendment or alteration of any date set for redemption of the Notes or amendment of the interest amount payable on the Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and

(ii) that the terms of the Notes are subject to, and may be varied, if necessary, to give effect to, the exercise of the Statutory Loss Absorption Power by the Relevant Resolution Authority.

For the avoidance of doubt, the potential write down or cancellation of all, or a portion, of the Amounts Due on the Notes or the conversion of the Notes into shares, other securities or other obligations in connection with the exercise of any Statutory Loss Absorption Power by the Relevant Resolution Authority is separate and distinct from a Write Down following a Trigger Event although these events may occur consecutively.

19.4 *Process Agent*: The Issuer has in the Instrument appointed the London Representative Office of Banco Comercial Português, S.A. at 3rd Floor, 63 Queen Victoria Street, London EC4V 4UA for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of it ceasing so to act it will appoint another person for that purpose.

20. Rights of Third Parties

No person shall have any right to enforce any term or Condition in respect of a Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

NOTES HELD THROUGH INTERBOLSA

General

Notes registered in the CVM are held through a centralised system ('*sistema centralizado*') composed by interconnected securities accounts, through which such securities (and inherent rights) are created, held and transferred, and which allows Interbolsa to control at all times the amount of securities so created, held and transferred.

The CVM, managed and operated by Interbolsa, provides for all procedures required for the exercise of all ownership rights inherent to the Notes.

In relation to each issue of notes, the CVM comprises, *inter alia*, (i) the issue account, opened by the issuer in the CVM and which reflects the full amount of the notes outstanding from time to time; and (ii) the control accounts opened by each of the Affiliate Members (as defined below) of Interbolsa, and which reflect the notes held by such Affiliate Member by or on behalf of the holders of such notes, being the persons shown in the individual securities accounts held with such Affiliate Member.

Notes held through Interbolsa will be attributed an International Securities Identification Number ("**ISIN**" code), a Common Code, a Classification of Financial Instruments code ("**CFI**") and a Financial Instrument Short Name ("**FISN**"). The Notes will be accepted and registered with the CVM and settled by Interbolsa's settlement system.

Form of the Notes

The Notes will be in book entry form and title thereto will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable Comissão do Mercado de Valores Mobiliários ("**CMVM**") and Interbolsa regulations. No physical document of title will be issued in respect of the Notes.

The Notes will be registered in the relevant issue account opened by the Issuer with the CVM and will be also recorded in control accounts by each Affiliate Member of Interbolsa. Such control accounts reflect at all times the outstanding amount of the Notes held in the individual securities accounts opened with each of the Affiliate Members of Interbolsa. Where used in this Offering Circular, the expression "**Affiliate Member**" means any authorised financial intermediary entitled to hold control accounts with the CVM and includes any banks or financial intermediaries appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding individual securities accounts on behalf of Euroclear and Clearstream, Luxembourg.

Each person shown in the individual securities accounts established in an Affiliate Member of Interbolsa as having title to the Notes shall be treated as the holder of the principal amount of the Notes recorded therein (each, a "**Holder**").

Payment of principal and interest in respect of the Notes

Whilst the Notes are registered at the CVM, payment of principal and interest in respect of the Notes will be (a) credited, according to the procedures and regulations of Interbolsa, by the Agent (acting on behalf of the Issuer) from the payment current account which the Agent has indicated to, and has been accepted by, Interbolsa to be used on the Agent's behalf for payments in respect of the Notes to the payment current accounts held by the Affiliate Members of Interbolsa whose control accounts with the CVM are credited with the Notes and thereafter (b) credited by such Affiliate Members of Interbolsa from the aforementioned payment current accounts to the accounts of the Holders or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of the Notes, in accordance with the rules and procedures of Interbolsa, Euroclear and/or Clearstream, Luxembourg, as the case may be.

Transfer of the Notes

The Notes 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 Notes. No Holder will be able to transfer the Notes, except in accordance with Portuguese Law and the applicable procedures of Interbolsa.

Write Down and Discretionary Reinstatement of the Notes held through Interbolsa

A Write Down or a Discretionary Reinstatement (each term as defined in the Conditions) of the Notes held through Interbolsa will be processed through Interbolsa. The Issuer must give Interbolsa advance notice that a Write Down or a Discretionary Reinstatement of the Notes will occur and provide it with all the necessary information for that purpose. Interbolsa, on the Write Down Date or on the date on which such Discretionary Reinstatement is to occur, will, in accordance with the rules and procedures of Interbolsa record the Write Down or Discretionary Reinstatement in: (i) the issue account, opened by the Issuer in the CVM and (ii) in the accounts of each Affiliate Member of Interbolsa, whose control accounts with Interbolsa are credited with the Notes. .

Each Affiliate Member shall record in the individual securities accounts of the Holders of the Notes the Outstanding Principal Amount of the Notes held by them.

DESCRIPTION OF THE ISSUER

A. Description of the Business of the Group

Overview

Millennium bcp Group (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, BMA merged with BPA and has 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 EU, the Group had, at 30 September 2018, total assets in the amount of EUR 73,745 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 72,786 million. Loans to customers (gross) amounted to EUR 51,150 million (of which EUR 48.5 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers", EUR 2.4 billion were recorded in the caption "Debt securities held associated with credit operations" and EUR 0.278 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, CET1 fully-implemented ratio pro forma reached 11.8%, as at 30 September 2018. Based on the latest available data from Banco de Portugal, the Group accounted for 17.2% of loans to customers (gross) and 17.5% of deposits in the Portuguese banking sector on 31 August 2018.

In addition, on 30 October 2018, the Bank was the fifth largest company listed on Euronext Lisbon in terms of market capitalisation (EUR 3,600 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 EU'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 Banco Millennium Angola, S.A. with Banco Privado Atlântico, S.A., 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.

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 more than 40% cost reduction in Portugal since 2011, and a 44% reduction in Group NPE since 2013 (from EUR 13.7 billion to EUR 7.7 billion in 2017). Three distinctive competences were at the core of this turnaround: a customer-oriented relationship model, market-leading efficiency, and a competitive international portfolio. The Bank currently holds a profitable commercial banking business model with highly recurring operating results.

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 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 44% cost reduction in Portugal since 2011, and a 44% reduction in Group NPE since 2013 (from EUR 13.7 billion to EUR 7.7 billion in 2017). Three distinctive competences were at the core of this turnaround: a customer-oriented relationship model, market-leading efficiency, and a competitive international portfolio.

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 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 intrinsic 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 (60% reduction 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[6]), readiness for the future (from 45% to over 60% digital customers by 2021), a sustainable business model (60% 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).

[6] Customers with a debit or credit card movement in the past three months, or who have assets greater than or equal to €100

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 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 24 July 2018, 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 Peformance 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 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) **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;

(g) **Credit Commission**: This Commission decides on proposals for credit to be granted by BCP and issues an advisory opinion on the credit proposals made by entities operating abroad and part of the Group;

(h) **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;

(i) **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 **Validation and Monitoring 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;

(j) **Monitoring NPA (*non-performing assets*) Commission**: This Commission is entrusted with monitoring 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;

(k) **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;

(l) **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;

(m) **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; and

(n) **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.

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 30 September 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[7], core income up by 30% from 2017 and a 40% cost to income, keeping cost of risk in line with the historical average.

In the first nine months of 2018, Bank Millennium recorded net income totalling EUR 129.0 million, an increase of 9.3%, including foreign exchange effect, when compared to EUR 117.8 million in the same period of the previous year.

The banking income was up 5.2% in the first nine months of 2018, positively influenced by the performance of the net interest income and commissions, which increased 6.7% and 2.1%, respectively, versus the first nine months of 2017. Operating costs recorded an increase of 5.6%, due to the rise in staff costs (+7.5%) and in other costs (+3.7%). The cost-to-income ratio[8] stood at 46.6% and ROE was 9.5%, translating an improvement in profitability and in operational efficiency. The cost of risk stood at 47 basis points accrued since the beginning of the year and the loans to deposits ratio at 84.5%. Bank Millennium keeps comfortable levels in terms of capital, liquidity and quality of assets. The Total Consolidated Capital Ratio of Bank Millennium stood at 22.9% and Common Equity Tier 1 at 20.9%, comfortably above of the minimum capital regulatory thresholds.

As at 30 September 2018, customer funds stood at to EUR 16,193 million, which represents an increase of 5.6%, compared to 30 September 2017, excluding foreign exchange effect, and loans to customers

[7] Excluding extraordinary legal, regulatory and tax events

[8] As used in this Offering Circular, "**cost to income ratio**" means operating costs divided by net operating revenues

increased 7.5% to EUR 12,310 million (EUR 12,032 million recorded in "Financial assets at amortised cost – Loans and advances to customers"; EUR 278 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 5,950 by the end of September 2018. On that date, the Issuer had 356 branches, less three than in September 2017.

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 the first nine months of 2018, Millennium bim recorded a net income of EUR 72.3 million, an increase of 20.0%, excluding foreign exchange effect, when compared to the same period of the previous year. In this period, banking income[9] grew 8.4% amounting to EUR 177.4 million, excluding foreign exchange effect, driven by the increase of 6.1% in net interest income and other income (+51.6%), despite the reduction of the commissions (-3.9%). Operating costs increased 4.4% to EUR 66.1 million, excluding foreign exchange effect, and cost-to-income stood at 37.3%. ROE stood at 23.5%. Loan impairment amounted to EUR 21.7 million (EUR 22.9 million recorded in September 2017, excluding foreign exchange effect) and the cost of risk increased from 283 basis points to 338 basis points. As at 30 September 2018, Millennium bim had a capital ratio of 25.6%.

Total customer funds in the first nine months of 2018 stood at EUR 1,494 million, up from the EUR 1,476 million, excluding foreign exchange effect, recorded in September 2017, showing a slight increase of 1.2%. Loans to customers (gross) amounted to EUR 868 million in the first nine months of 2018, compared to EUR 1,097 million in September 2017, a decrease of 20.9%, excluding foreign exchange effect.

As at 30 September 2018, Millennium bim had 191 branches, more nine than the same period of 2017. At that date, the bank had 2,467 employees (excluding employees from SIM, the insurance company), more 16 when compared to 30 September 2017 (2,451 employees).

Angola

Banco Millennium Angola, SA ("**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.

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[9] Banking income = net operating revenues = net interest income, dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings

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.

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 30 September 2018, customer funds stood at EUR 619 million and gross loans reached EUR 414 million. In the first nine months of 2018, net income amounted to EUR 8.4 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 30 September 2018, total customer funds amounted to EUR 2,965 million and loans to customers (gross) amounted to EUR 310 million. In the first nine months of 2018, net income stood at EUR 5.2 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 30 September 2018, Bank & Trust's customer funds stood at EUR 105 million and Bank & Trust's gross loans reached EUR 17 million. In the first nine months of 2018, Bank & Trust's net income amounted to EUR 3.6 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

Since 1991, the Group has also developed an internationalisation strategy based on establishing co-operation agreements with foreign partners. The Group's current foreign partners are Banco Sabadell, Achmea B.V. (formerly Eureko B.V.), Ageas, Sonangol and BPA. Some of these partnerships involve, among other things, joint ventures, cross-shareholdings and reciprocal board representation.

Banco Sabadell

In March 2000, the Group announced the terms of a strategic partnership agreement with Banco Sabadell of Spain, seeking the development of joint initiatives in finance-related fields of mutual interest. In the first half of 2005, an agreement was reached to reinforce the offer of products and services common to the Bank and Banco Sabadell, notably in corporate loans and in innovating services for individuals. As a result of the agreement, the Bank's clients can use the retail and corporate networks of Banco Sabadell in Spain and vice versa for Banco Sabadell's clients in Portugal. The Bank sold its 2.75% shareholding in Banco Sabadell to the Pension Fund.

On 25 November 2016, the Bank announced that, following the share capital increase of BCP, from €4,094,235,361.88 to €4,268,817,689.20 through the private placement of 157,437,395 new shares, all subscribed by Chiado (Fosun Group), Banco Sabadell informed the Bank that on 18 November 2016 it held 39,931,512 shares, which represented a qualifying holding of 4.23% in BCP's share capital.

On 12 December 2016, the Bank received the communication from Banco de Sabadell, S.A. regarding the decision to sell a block of 38,577,892 ordinary, nominative and book-entry shares, without par value, representing 4.08% of the total share capital and voting rights of the Bank directly or indirectly held by it. This operation should be materialised through the launch of a private placement by means of an accelerated bookbuilding process addressed exclusively to qualified and institutional investors. Citigroup Global Markets Limited ("**Citigroup**") was appointed as the Sole Bookrunner of the offering.

After the conclusion of this transaction, Banco Sabadell should remain the holder of 1,353,619 shares, representing 0.14% of the share capital of the Bank. According to the terms of the offer, Sabadell agreed with Citigroup a 90 days lock-up period, in which assumed the commitment not to sell these shares without the previous written agreement of Citigroup.

On 13 December 2016, following the communication released on 12 December 2016, the Bank informed having received a communication from Sabadell Group with the information of the successful conclusion of the private placement by means of an accelerated bookbuilding process addressed exclusively to qualified and institutional investors of 38,577,892 ordinary, nominative and book-entry shares, without par value, representing 4.08% of the total share capital and voting rights of the Bank directly or indirectly held by it. The price per share sold in the offering was EUR 1.15, amounting to EUR 44,364,575.80 for the aggregate number of shares sold.

Achmea B.V. (formerly Eureko B.V.)

In 1991, the Group established strategic partnerships with two significant European insurance groups, Friends Provident and AVCB Avero Centraal Beheer. In 1992, Eureko Group was established as a pan-European insurance group, as a result of the association between the insurance groups Friends Provident, from the United Kingdom; AVCB Avero Centraal Beheer, from the Netherlands; Wasa, from Sweden; and the Danish financial group Topdanmark. In 1993, the Group, through its insurance holding Seguros e PensõesGere, SGPS, S.A. became the fifth partner in this pan-European strategic insurance alliance. Eureko Group's holding in the Bank is currently 2.52% of the share capital and inherent voting rights, held by Eureko B.V., following the sale during 2009 of a 4.55% holding in the Bank's share capital. Also, the total return swap entered into by Eureko B.V. with JPMorgan Chase Bank NA on 5 September 2007 was fully unwound and therefore the voting rights attached to the previous additional 2.88% stake in the Bank should no longer be attributed to Eureko B.V. Through its asset management subsidiary F&C, Eureko B.V. has established an exclusive distribution agreement affecting its asset management products through the Bank’s banking network in Portugal.

On 31 December 2010, the Bank announced that Bitalpart BV, a wholly-owned subsidiary of the Bank, had agreed on that date to sell a minority shareholding corresponding to 2.7% of the share capital of Eureko B.V. to the pension fund of the BCP Group.

Ageas

In 2005, the Group and Fortis (currently, Ageas) established a joint venture for bancassurance business, through the insurance company Millennium bcp Fortis (currently, Milleniumbcp 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

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 upgraded 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 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 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 Banks 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 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 , implying 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, with Equity Per Share expected to be 26% from 2021 onwards as a result of this acquisition. Bank Millennium's CET1 ratio is expected to stand at 15.9% after completion (17.2% including Bank Millennium's net earnings for the first nine months of 2018), comfortably above regulatory requirements.

The transaction is expected to close in 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 concluded with 62.1% of the share capital represented, the 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 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 Ratings 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.

B. 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) and is the most efficient bank in Portugal with only 13% of the system branch network generating 29% of the system core net income.

Ranking	Market Share		
	Gross loans + Customer funds	*Core net income*	*Branches*
Bank 1	24%*	Millennium BCP (29%)	15%
Bank 2	Millennium BCP (18%)	18%	15%
Bank 3	16%	18%	15%
Bank 4	11%	7%	Millennium BCP (13%)
Bank 5	11%	6%	11%

Sources: BCP’s estimate based on published data of competitor banks, available to view at www.cmvm.pt.
*This figure pertains to a state owned bank.

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 31 August 2018, BCP had a market share of 17.2% of loans to customers (gross) and 17.5% of deposits in its domestic market.

As at the end of October 2018, 338 credit institutions, financial companies and payment institutions were registered in Portugal, of which 141 were banks (Source: 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: ECB).

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 31 August 2018 (last available data) and as at 31 December 2017 and 2016:

	As at 31 August 2018	*As at 31 December*	
		2017	*2016*
Loans to customers............................	17.2%	17.4%	17.8%

Sources: BCP, Banco de Portugal.

The Bank is focused on its international operations, delivering resilient contribution to results and providing diversification (from EUR 159 million in 2013 to EUR 175 million in 2017, excluding IAS 29 impact for the Angola operation in the amount of EUR 28.4 million and EUR 141 million in the first 9 months of 2018). Bank Millennium, held 50.1% by BCP, has market shares of 4.5% on loans (gross loans to customers stood at EUR 12,326 million) and 5.1% on deposits (customers funds stood at EUR 16,193 million), 5,950 employees and 356 branches. Millennium bim, held 66.7% by BCP, has market shares of 24.9% on loans (gross loans to customers stood at EUR 868 million) and 26.7% on deposits (customers funds stood at EUR 1,494 million), 2,467 employees and 191 branches. The Angolan operation was de-consolidated from June 2016 onwards. BCP has a shareholding of 22.5% on Banco Millennium Atlântico, the bank that resulted from the merger between BMA and BPA. Following the merger, Banco Millennium Atlântico aimed to have loans market share above 11%, deposits market share above 12%, employees above 1,800 and 140 branches.

The following table shows the number and geographic location of the Bank's branches as at 30 September 2018 and as at 31 December 2017 and 2016:

	As at 30 September	*As at 31 December*	
	2018	*2017*	*2016*
Portugal	568	578	618
Bank Millennium in Poland	356	355	368
Millennium bim in Mozambique...............................	191	186	176

	As at 30 September	As at 31 December	
	2018	2017	2016
Banco Millennium Angola	0	0	0
Millennium Banque Privée in Switzerland	1	1	1
Total in the International activity	548	542	545
	1116	1120	1,163

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 August 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 4.5% of loans to customers (gross) and 5.1% of deposits.

In Mozambique, Millennium bim is the market leader with a market share of 24.9% of loans to customers and 26.7% of deposits in August 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 Offering Circular 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.

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C. 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 the first nine months of 2018. Banks are operating within a context of very low interest rates, thus 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 IFRS9 as of January 2018.

Banco de Portugal's forecasts for the Portuguese economy in the 2017-2020 time frame point towards the recovery of economic activity at a quicker pace than in the last few years and close to the expected GDP growth for the Euro Area. GDP is expected to have grown, on average, 2.3% in 2018, 1.9% in 2019 and 1.7% in 2020, after having grown 2.8% in 2017. It is expected that the contribution provided by investment and net exports will increase its importance in GDP's growth between 2017 and 2020. According the data disclosed by INE (Portuguese Statistics Institute), the public deficit stood at 0.9% of the GDP in 2017 (excluding the effect of the recapitalisation of Caixa Geral de Depósitos), the lowest ever since Portugal joined the Euro Area.

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 assign an investment grade rating to the Portuguese Republic, which translated, together with the improvement of the market's perception of the Portuguese Republic, into the sharp decrease in sovereign risk premiums and bank premiums.

In accordance with Banco de Portugal, Portuguese banks resort to the ECB in the amount of EUR 19.0 billion at the end of September 2018. There 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 (+2.8% year-on-year at August 2018, with demand deposits up 13.5% and term deposits down 2.7%, also year-on-year).

Moreover, the deleveraging of the Portuguese financial sector continues and the total loans to individuals increased 0.4% and loans to companies decreased 0.6%, year-on-year, respectively, in August 2018. The loans-to-deposits ratio of the banking sector in Portugal stood at 92.5% at the end of March 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: NPE portfolio decreased by EUR 1.8 billion in September 2018, year-on-year, and the performing portfolio increased by EUR 2.2 billion. (in Portugal: NPE portfolio decreased by EUR 1.6 billion and performing portfolio increased by EUR 1.3 billion). At the same time, deposits also continued to grow: +6.1% year-on-year, in Portugal, in September 2018. As BCP has excess liquidity (loans-to- deposits ratio stood at 89% in September 2018), it decided to reduce its use of funding from the ECB to EUR 3.1 billion in September 2018. In the next quarters, 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 September 2018, BCP was the largest Portuguese privately-owned bank, with a robust asset structure, a phased-in CET1 ratio of 11.8%, above regulatory requirements (SREP) and a loans-to-deposits ratio of 89%.

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 the first nine months of 2018, more than offsetting the lower spreads in credit. The rates of the term deposits reached, by the end of September 2018, values under 20 basis points, and the portfolio's average rate should converge to these levels over the course of next year.

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). Notwithstanding, the continued reduction in the loans granted (volume effect) will probably continue to drag net interest income. The profitability of the Portuguese banks is expected to continue to be conditioned 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. 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. 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 currently it represents only 53% of the total mortgage loans portfolio and 28% of the total loans portfolio.

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 LLRs. BCP has recently presented a new Strategic Plan (Mobilizing Millennium: 2021 Ambitions and Strategic Plan) which comprehends a new target of NPEs reduction: 60% reduction of NPE stock, reaching approximately EUR 3 billion.

It is not yet possible to determine what will be the final impact of the resolution of 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, Novo Banco announced the results for the year 2017, which resulted in the activation of the contingent capitalisation mechanism established in the agreements entered into in connection with the sale of Novo Banco. According to the calculation made on the referred date, the amount paid to Novo Banco in 2018 by the Resolution Fund amounts to EUR 792 million. This payment results from the agreements concluded in March 2017. The payments to be made by the Resolution Fund, if the conditions set out in the contingent capitalisation mechanism provided for in the Novo Banco's sale agreement are met, are subject to a maximum limit of EUR 3,890 million.

The BRRD foresees a joint resolution regime in the EU enabling the authorities to cope with the insolvency of bank institutions. The shareholders and creditors will have to internalise an important part of the costs associated with the insolvency of a bank, minimising taxpayers' costs.

To prevent bank institutions from structuring their liabilities in a way which may compromise the efficiency of the bail-in or of other resolution tools and to avoid the contagion risk or a bank run, the BRRD establishes that the institutions must comply with MREL.

The Bank has been notified by the Banco de Portugal on the Single Resolution Board's decision regarding the minimum requirement for 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 14.46% of the total liabilities and own funds of the Resolution Group, based on the data of 30 June 2017 (with the prudential requirements as of 1 January 2017), which is equivalent to 26.61% of its RWA. 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 the first nine months of 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.

IFRS 9's impacts on BCP are estimated to be on the fully loaded CET1 ratio of 34 basis points and on the phased-in ratio of 36 basis points (25 basis points if considered the transitory period) and a 3 percentage points rise in NPE impairment coverage from IFRS 9 on a fully implemented base.

This assessment is the best expectation of the impact of adopting the standard on this date. The current impact of the adoption of IFRS 9 through 1 January 2018 may change as:

- The regulators' interpretation, or market practice in respect of concepts and methods and their application in the context of this recently adopted standard, may evolve;
- Additionally, the Group's implementation of the processes and procedures required by IFRS 9 is still in early stages and may therefore also evolve to reflect insights acquired from experience.

D. Summary of the development between 2011 and 2018 of some relevant indicators of the Bank

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 -6.0 billion at 30 September 2018, following a significant deleveraging (net loans decreased by 30% and deposits increased by 13%), a recovery of net interest income in Portugal from EUR 343 million to EUR 808 million in 2017 (EUR 596 million in the first nine months of 2018), a reduction of operating costs from EUR 853 million in 2013 to EUR 588 million in 2017 (EUR 469 million in the first nine months of 2018) and a reduction of cost of risk from 157 bp in 2013 to 102 in the first nine months of 2018. Pre-provision profit[10] increased from EUR 474 million in 2013 (EUR 369 million for the first nine months of 2013) to EUR 1,243 million in 2017 (EUR 900 million in the first nine months of 2017) and

[10] "**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.

EUR 880 in the first nine months of 2018. As a percentage of assets pre-provision profit increased from 0.6% in 2013 to 1.7% in 2017 and 1.6% in the first nine months of 2018 (annualised based on nine monthly 2018 results). As a result of the significant deleveraging, reliance on ECB funding as decreased from EUR 10 billion in 2013 to EUR 3.1 billion as at 30 September 2018.

The Balance sheet breakdown as at 30 September 2018 is, on the assets side: loans and advances to customers (including debt securities and commercial paper) in the amount of EUR 47.9 billion (EUR 45.4 billion recorded in "Loans and advances to customers"; EUR 2.3 billion recorded in "Debt securities held associated with credit operations" and EUR 0.278 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 and 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 14.6 billion and other assets net in the amount of EUR 5.9 billion; and on the liabilities side: deposits in the amount of EUR 53.6 billion (this includes deposits from customers included in the financial liabilities designated at fair value though profit and 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 2.4 billion, debt issued by the Bank in the amount of EUR 5.6 billion and shareholders' equity in the amount of EUR 6.9 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 30 September 2018 (EUR 5.6 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"): MTN (EUR 0.3 billion), Bonds and Certificates (EUR 1.1 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 the first nine months 2018 the amount of debt repayments totalled EUR 0.6 billion. The amounts of debt to be repaid are EUR 0.1 billion in the last quarter of 2018, EUR 0.4 billion in 2019 and EUR 5.1 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 14.6 billion as at September 2018 of which EUR 11.6 billion is sovereign debt (Portuguese Government Bonds totalled EUR 6.3 billion of which EUR 5.4 billion are Bonds and EUR 1.0 billion are T-Bills, Polish Government Bonds totalled EUR 4.0 billion; Mozambican Government Bonds totalled EUR 0.7 billion and other totalled EUR 0.5 billion) and EUR 3.1 billion other instruments.

Consolidated		2011	2012	2013	2014	2015	2016	2017	9M18
Contribution to consolidated results of international operations *(€ mn)*	FY			159	178	170	173	175	-
	9M			117	134	143	135	131	141
Net loans *(€ bn)*		68.0	62.6	56.8	53.7	52	48	47.6	47.9
Deposits *(€ bn)*		47.5	49.4	49.0	49.8	51.5	48.8	51.2	53.6
Commercial gap *(€ bn)*		20.5	13.2	7.8	3.9	0.4	-0.8	-3.6	-5.7
ECB funding *(total collateral)* *(€ bn)*		15.7	22.3	19.9	14.2	13.9	12.1	12.8	15.6
ECB funding *(€ bn)*		12.4	10.5	10.0	6.6	5.3	4.4	3.0	3.1

Individual (Portugal)		2013	2014	2015	2016	2017	9M18
Net Interest Income *(€ mn)*	FY	343	527	711	736	808	
	9M	247	351	514	543	592	596
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	-57
Total funding costs *(%)*		2.41%	1.92%	1.21%	0.78%	0.44%	0.34%
Operating costs *(€ mn)*(*)	FY	853	690	644	624	588	-
	9M	623	517	477	465	424	469
Number of branches(**)		774	695	671	618	578	568
Number of employees(***)		8,584	7,795	7,459	7,333	7,189	7,130
Impairment charges *(€ mn)*		743	1,021	730	1,045	533	289
Cost of risk *(bps)*		157	233	175	266	140	102
Performing loans *(€ bn)*		34.5	32.9	31.8	30.8	31.2	32.1
Customer deposits *(Term deposits)* *(€ bn)*		24.9	24.3	21.9	19.9	18.9	18.7
Customer deposits *(On-demand deposits)* *(€ bn)*		9.0	10.1	12.9	14.1	16.4	18.8

(*) FY 2011: 1,039; 9M 2011: 628

(**) 885 in 2011

(***) 9,959 in 2011

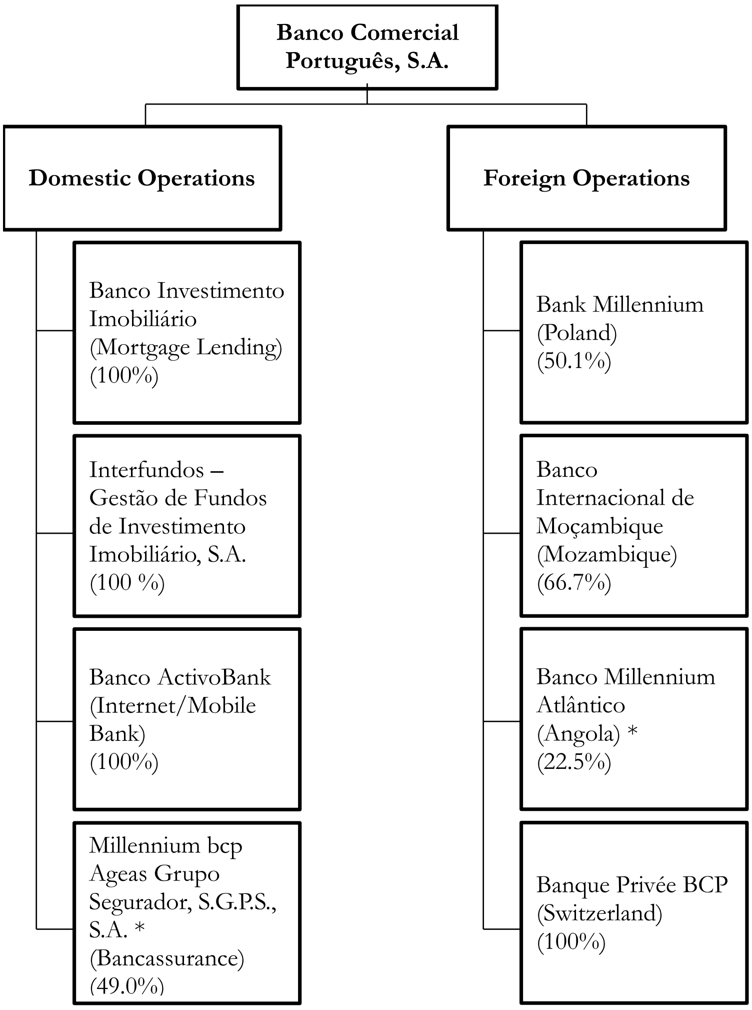
[11]

E. Organisational Structure

The Bank and the Group

The following diagram summarises the organisational structure of the principal subsidiaries of the Group as at 30 September 2018:

[11] "**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.



* 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 30 September 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	–

Subsidiary companies	*Head Office*	*Activity*	*% held by the Group*	*% held by the Bank*
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.

F. 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.

G. Legislation regulating the activity of the Bank

The Bank is governed by EU rules, 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.

H. 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, the 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
	XiaoXu 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

	Member of the Scientific Board	Portuguese Fiscal Association (AFP)
	Member of the Ethical Committee	Instituto Politécnico de Coimbra
Jorge Manuel Baptista Magalhães Correia	Chairman of the Board of Directors and 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 and member of the Corporate Governance Committee	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	Manager	Fosun Management (Portugal), Lda.
	Member of the Board of Directors	Fidelidade – Companhia de Seguros, S.A.
Miguel de Campos Pereira de Bragança	Manager	Quinta das Almoinhas Velhas-Imobiliária Lda.
	Member of the Board	Fundação da Casa de Bragança
	Member	SIBS, SGPS, S.A. and SIBS Forward Payment Solutions, S.A. (in representation of BCP)
	Member of the Board Non-executive	Unicre, S.A. (in representation of BCP) (pending authorization)
	Member of the Remunerations Committee	Unicre, S.A
Rui Manuel da Silva Teixeira	Member of the Remunerations Committee	Unicre, S.A.
	Member of the Remunerations Committee	SIBS, SGPS, S.A. and SIBS Forward Payment Solutions, S.A.
	Chairman of the Board of the General Meeting	Porto Business School
	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	Advisor of the Minister of Finance	Ministry of Finance, Luanda, Angola)
Wan Sin Long	Chairman & CEO	Great Win Consultancy Limited; G & W One Person Limited
	Vice-Chairman of the Company	Ultra Resource Technology
Xiao Xu Gu	Vice-Chairwoman	Fosun High Technology (Group) Co., Ltd.)
	Member of the Board of Directors	MYBank
	Chairwoman of the Board of Directors	Zhangxingbao (Shanghai) Network Technology Co., Ltd.

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, n.º 32, Piso 2, 2744-256 Porto Salvo.

Executive Committee

Under the terms of the law and 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 has been established in accordance with the provisions of Article 278(1) of the Portuguese Companies Code and Article 39 of the articles of association of the Bank and is responsible for, among other statutory powers:

(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) Supervising the preparation and disclosure of financial information processes;

(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) Supervising the independence of the Chartered Accountant and of the External Auditor, notably in what regards the provision of additional 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.

Currently, the following persons exercise functions as members of the Audit Committee:

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 of the abovementioned members 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. To address this, the General Meeting of Shareholders held on 30 May 2018 authorised the presence of those members in the Board of Directors on the basis of the adoption of a restrictive regime of access to sensitive information.

Independent 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.

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 Nn. 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 EC presented its review of prudential requirements the ("**CRD-V package**"). 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: 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 30 September 2018, the Bank's fully implemented CET1 ratio was 11.8%. According to the Bank's interpretation of CRD IV/CRR to date, CET1 phased-in reached 11.8% as at 30 September 2018. Starting from the "Total Equity attributable to the Banks shareholders" (EUR 5,809 million) and deducting EUR 708 million of DTAs, EUR 117 million of EL gap and EUR 108 of other deductions one reaches to the CET1 which as at 30 September 2018 stood at EUR 4,954 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 11.8% at the end of September 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 private non-financial sector 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.

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. Interinstitutional discussions (trilogues) on the proposals amending CRR and CRD IV are still ongoing, therefore the EU definition of leverage ratio has not yet become an EU binding requirement.

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 7.3% fully implemented, as at 30 September 2018, calculated according to the current non–binding definitions.

Liquidity requirements

Basel III recommendations also provide for the setting of short and long term liquidity ratios and funding ratios, namely the LCR and the NSFR.

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 182% and 128%, respectively, as at 30 September 2018, higher than the reference value of 100% (fully implemented).

The LCR—unencumbered high quality assets against net cash outflows over a 30-day stress period—will be progressively implemented, with a progressive (10 percentage points per year) rate of application rising from 60% of the ratio in 2015 to reach 100% in 2019. 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 European Parliament and 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) The conclusions of the supervisory review can take the form of prudential requirements, which may also include qualitative measures (P2R) and recommendations through the establishment of a (P2G) – which the banks should comply with;

(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.

(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 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, 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 with regard to 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 (the "**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 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 but has not yet been implemented in Portugal.

The SRM and SRF are regulated by Regulation (EU) No. 806/2014 of the European Parliament and of the Council, of 15 July 2014 (the "**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 (the "**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 2012, 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. 20/2017, of 19 December 2017, in 2018 Portuguese banks will pay contributions to the Resolution Fund at a 0.0459% base rate, which represents an increase from the 0.0291% rate applied in 2017.

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.

On Novo Banco's 1st half 2018 report the amount of 726 million is recorded as a receivable in 2019 under the Contingent Capital Mechanism, where it is stated that "This amount depends, at each balance sheet date, on the losses incurred and on the regulatory ratios in force at the time of their determination, and may change throughout the year according to these factors".

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 (the "**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.

BANCO COMERCIAL PORTUGUÊS

The financial information set out below has been derived from the audited consolidated financial statements of the Bank as at, and for the years ended on, 31 December 2016 and 31 December 2017 and the unaudited and un-reviewed consolidated balance sheet and income statement for the nine months period ended 30 September 2017 and 30 September 2018 of the Bank. The consolidated financial statements of the Bank were prepared in accordance with IFRS, as endorsed by the European Union. Such financial information should be read together with, and is qualified in its entirety by reference to, the Bank's annual reports and audited financial statements as at, and for the years ended on, 31 December 2016 and 31 December 2017 and the unaudited and un-reviewed consolidated balance sheet and income statement of the Bank for the nine month period ended on, 30 September 2018 has been extracted from the unaudited report and accounts of the BCP Group for the nine month period ended on 30 September 2018. The financial statements for the years ended on 31 December 2016 and 31 December 2017 have been approved by the Board of Directors of the Bank and by the General Meeting of Shareholders on 10 May 2017 and 30 May 2018, respectively.

BANCO COMERCIAL PORTUGUÊS

Consolidated Income Statements for the years ended 31 December, 2017 and 2016
(Audited)
(Amounts expressed in thousands of EUR)

	2017	2016
Interest and similar income	1,914,210	1,909,997
Interest expense and similar charges	(522,935)	(679,871)
Net interest income	1,391,275	1,230,126
Dividends from equity instruments	1,754	7,714
Net fees and commissions income	666,697	643,834
Net gains / (losses) arising from trading and hedging activities	45,346	101,827
Net gains / (losses) arising from financial assets available for sale	103,030	138,540
Net gains from insurance activity	4,212	4,966
Other operating income/(loss)	(110,606)	(104,547)
Total operating income	2,101,708	2,022,460
Staff costs	526,577	356,602
Other administrative costs	374,022	373,570
Amortizations and depreciations	53,582	49,824
Total operating expenses	954,181	779,996
Operating net income before provisions and impairments	1,147,527	1,242,464
Loans impairment	(623,708)	(1,116,916)
Other financial assets impairment	(63,421)	(274,741)
Other assets impairment	(163,205)	(66,926)
Goodwill impairment of subsidiaries	(4)	(51,022)
Impairment for investments in associated companies	(57,764)	-
Other provisions	(16,710)	(88,387)
Net operating income / (loss)	222,715	(355,528)
Share of profit of associates under the equity method	91,637	80,525
Gains / (losses) arising from sales of subsidiaries and other assets	4,139	(6,277)
Net income / (loss) before income taxes	318,491	(281,280)
Income taxes		
Current	(102,113)	(113,425)
Deferred	71,954	495,292
Income after income taxes from continuing operations	288,332	100,587
Income arising from discontinued or discontinuing operations	1,225	45,228
Net income after income taxes	289,557	145,815
Net income for the year attributable to:		
Bank's Shareholders	186,391	23,938
Non-controlling interests	103,166	121,877
Net income for the year	289,557	145,815
Earnings per share (in Euros)		
Basic	0.014	0.019
Diluted	0.014	0.019

BANCO COMERCIAL PORTUGUÊS

Interim Condensed Consolidated Income Statements
for the nine months period ended 30 September 2018 and 2017
(Unaudited)
(Amounts expressed in thousands of EUR)

	30 September 2018	30 September 2017[12]
Interest and similar income	1,407,861	1,431,812
Interest expense and similar charges	(355,056)	(408,610)
Net interest income	1,052,805	1,023,202
Dividends from equity instruments	592	1,686
Net fees and commissions income	510,068	494,640
Net gains / (losses) from financial operations at fair value through profit or loss	12,315	17,848
Net gains / (losses) from foreign exchange	53,846	63,402
Net gains / (losses) from hedge accounting operations	(1,547)	(6,672)
Net gains / (losses) from derecognition of assets and financial liabilities at amortised cost	(21,598)	(3,927)
Net gains / (losses) from derecognition of financial assets at fair value through other comprehensive income	46,560	n.a.
Net gains / (losses) from financial assets available for sale	n.a.	44,348
Net gains from insurance activity	4,001	3,668
Other operating income/(loss)	(121,592)	(102,147)
Total operating income	1,535,450	1,536,048
Staff costs	435,551	380,118
Other administrative costs	275,778	274,764
Amortizations and depreciations	42,896	39,715
Total operating expenses	754,225	694,597
Operating net income before provisions and impairments	781,225	841,451
Impairment of financial assets at amortized cost	(335,668)	(458,594)
Impairment of financial assets at fair value through other comprehensive income	3,643	n.a.
Impairment of financial assets available for sale	n.a.	(48,485)
Impairment of other assets	(68,398)	(103,046)
Other provisions	(30,928)	(18,378)
Net operating income / (loss)	349,874	212,948
Share of profit of associates under the equity method	71,868	56,791
Gains / (losses) arising from sales of subsidiaries and other assets	27,255	1,459
Net income / (loss) before income taxes	448,997	271,198
Income taxes		
Current	(77,550)	(82,831)
Deferred	(31,955)	19,720
Income after income taxes from continuing operations	339,492	208,087
Income arising from discontinued or discontinuing operations	1,750	1,250
Net income after income taxes	341,242	209,337
Net income for the period attributable to:		
Bank's Shareholders	257,469	133,309

[12] The balances for the nine months period ended 30 September 2017 considers the alignment with the new presentation requirements established by IFRS 9. These balances are presented exclusively for comparative purposes and have not been restated following the adoption of IFRS 9, with reference to 1 January 2018, as allowed by IFRS 9.

Non-controlling interests	83,773	76,028
Net income for the period	341,242	209,337
Earnings per share (in Euros)		
Basic	0.023	0.014
Diluted	0.023	0.014

BANCO COMERCIAL PORTUGUÊS

Consolidated Balance Sheet as at 31 December 2017 and 2016
(Audited)
(Amounts expressed in thousands of EUR)

	2017	2016
Assets		
Cash and deposits at Central Banks	2,167,934	1,573,912
Loans and advances to credit institutions		
Repayable on demand	295,532	448,225
Other loans and advances	1,065,568	1,056,701
Loans and advances to customers	47,633,492	48,017,602
Financial assets held for trading	897,734	1,048,797
Other financial assets held for trading at fair value through profit or loss	142,336	146,664
Financial assets available for sale	11,471,847	10,596,273
Assets with repurchase agreement	-	20,525
Hedging derivatives	234,345	57,038
Financial assets held to maturity	411,799	511,181
Investments in associated companies	571,362	598,866
Non-current assets held for sale	2,164,567	2,250,159
Investment property	12,400	12,692
Other tangible assets	490,423	473,866
Goodwill and intangible assets	164,406	162,106
Current tax assets	25,914	17,465
Deferred tax assets	3,137,767	3,184,925
Other assets	1,052,024	1,087,814
Total assets	71,939,450	71,264,811
Liabilities		
Resources from credit institutions	7,487,357	9,938,395
Resources from customers	51,187,817	48,797,647
Debt securities issued	3,007,791	3,512,820
Financial liabilities held for trading	399,101	547,587
Hedging derivatives	177,337	383,992
Provisions	324,158	321,050
Subordinated debt	1,169,062	1,544,555
Current tax liabilities	12,568	35,367
Deferred tax liabilities	6,030	2,689
Other liabilities	988,493	915,528
Total liabilities	64,759,714	65,999,630
Equity		
Share capital	5,600,738	4,268,818
Share premium	16,471	16,471
Preference shares	59,910	59,910
Other equity instruments	2,922	2,922
Legal and statutory reserves	252,806	245,875
Treasury shares	(293)	(2,880)
Fair value reserves	82,090	(130,632)
Reserves and retained earnings	(120,220)	(102,306)
Net income for the year attributable to Bank's Shareholders	186,391	23,938
Total equity attributable to Bank's Shareholders	6,080,815	4,382,116
Non-controlling interests	1,098,921	883,065
Total equity	7,179,736	5,265,181
	71,939,450	71,264,811

BANCO COMERCIAL PORTUGUÊS
Consolidated Balance Sheet as at 30 September 2018 and 2017
(Unaudited)
(Amounts expressed in thousands of EUR)

	30 September 2018	30 September 2017[13]
Assets		
Cash and deposits at Central Banks	2,192,517	2,144,795
Loans and advances to credit institutions repayable on demand	330,321	1,113,371
Financial assets at amortised cost		
Loans and advances to credit institutions	868,186	805,331
Loans and advances to customers	45,355,357	45,199,645
Debt instruments	3,347,745	2,167,534
Financial assets at fair value through profit or loss		
Financial assets held for trading	1,024,778	922,677
Financial assets not held for trading mandatorily at fair value through profit or loss	1,405,460	n.a.
Financial assets designated at fair value through profit or loss	32,921	142,253
Financial assets at fair value through other comprehensive income	12,063,815	n.a.
Financial assets available for sale	n.a.	11,914,693
Financial assets held to maturity	n.a.	436,278
Assets with repurchase agreement	15,531	70,959
Hedging derivatives	76,598	165,322
Investments in associated companies	488,175	612,807
Non-current assets held for sale	1,940,000	2,286,122
Investment property	12,020	14,234
Other tangible assets	484,236	478,975
Goodwill and intangible assets	168,745	164,560
Current tax assets	12,892	7,583
Deferred tax assets	2,945,304	3,135,169
Other assets	980,005	1,207,424
Total assets	73,744,606	72,989,732
Liabilities		
Financial liabilities at amortised cost		
Resources from credit institutions	7,563,524	9,185,514
Resources from customers	50,760,519	47,825,589
Non subordinated debt securities issued	1,707,696	2,187,133
Subordinated debt	1,097,692	858,167
Financial liabilities at fair value through profit or loss		
Financial liabilities held for trading	310,597	461,807
Financial liabilities measured at fair value through profit or loss	3,831,932	3,773,817
Hedging derivatives	170,474	216,295
Provisions	331,896	340,989
Current tax liabilities	4,742	8,835
Deferred tax liabilities	4,993	2,235
Other liabilities	1,015,889	1,071,303
Total liabilities	66,799,954	65,931,684
Equity		
Share capital	5,600,738	5,600,738
Share premium	16,471	16,471
Preference shares	59,910	59,910

[13] The balances regarding 30 September 2017 considers the alignment with the new presentation requirements of IFRS 9. These balances are presented exclusively for comparative purposes and have not been restated following the adoption of IFRS 9, with reference to 1 January 2018, as allowed by IFRS 9.

Other equity instruments	2,922	2,922
Legal and statutory reserves	264,608	252,806
Treasury shares	(291)	(282)
Reserves and retained earnings	(393,211)	(13,995)
Net income for the period attributable to Bank's Shareholders	257,469	133,309
Total equity attributable to Bank's Shareholders	5,808,616	6,051,879
Non-controlling interests	1,136,036	1,006,169
Total equity	6,944,652	7,058,048
	73,744,606	72,989,732

BANCO COMERCIAL PORTUGUÊS

Consolidated Statements of Cash Flows
for the years ended 31 December 2017 and 2016
(Audited)
(Amounts expressed in thousands of EUR)

	2017	2016
Cash flows arising from operating activities		
Interest received	1,699,189	1,770,704
Commissions received	836,581	787,068
Fees received from services rendered	60,514	63,003
Interests paid	(522,214)	(667,682)
Commissions paid	(128,186)	(89,798)
Recoveries on loans previously written off	16,966	33,867
Net earned insurance premiums	19,847	13,744
Claims incurred of insurance activity	(10,891)	(9,214)
Payments to suppliers and employees	(1,086,602)	(929,400)
Income taxes (paid) / received	(118,676)	(57,941)
	766,528	914,351
Decrease / (increase) in operating assets:		
Receivables from / (Loans and advances to) credit institutions	28,747	(106,683)
Deposits held with purpose of monetary control	(37,653)	59,473
Loans and advances to customers receivable	(244,376)	1,788,925
Short-term trading account securities	36,195	52,033
Increase / (decrease) in operating liabilities:		
Deposits from credit institutions repayable on demand	(51,702)	(28,040)
Deposits from credit institutions with agreed maturity date	(2,380,305)	1,423,509
Deposits from clients repayable on demand	3,430,158	2,357,657
Deposits from clients with agreed maturity date	(970,378)	(3,369,608)
	577,214	3,091,617
Cash flows arising from investing activities		
Sale of shares in subsidiaries and associated companies which results loss control (*)	-	(496,194)
Acquisition of shares in subsidiaries and associated companies	(787)	-
Dividends received	102,759	47,085
Interest income from available for sale financial assets and held to maturity financial assets	253,783	212,042
Sale of available for sale financial assets and held to maturity financial assets	8,046,852	5,617,817
Acquisition of available for sale financial assets and held to maturity financial assets	(42,160,122)	(29,050,145)
Maturity of available for sale financial assets and held to maturity financial assets	33,937,652	22,239,293
Acquisition of tangible and intangible assets	(88,393)	(69,281)
Sale of tangible and intangible assets	8,014	15,581
Decrease / (increase) in other sundry assets	(304,789)	(518,526)
	(205,031)	(2,002,328)
Cash flows arising from financing activities		
Issuance of subordinated debt	472,742	6,705
Reimbursement of subordinated debt	(852,386)	(121,210)
Issuance of debt securities	1,312,759	188,936
Reimbursement of debt securities	(1,994,444)	(1,513,220)
Issuance of commercial paper and other securities	188,076	57,588
Reimbursement of commercial paper and other securities	(9,674)	(19,202)
Share capital increase	1,295,148	174,582
Dividends paid to non-controlling interests	(7,787)	(20,907)
Increase / (decrease) in other sundry liabilities and non-controlling	(384,203)	(365,046)

	2017	2016
interests	20,231	(1,611,774)
Exchange differences effect on cash and equivalents	48,915	(72,108)
Net changes in cash and equivalents	441,329	(594,593)
Cash	540,290	625,311
Deposits at Central Banks	1,033,622	1,215,006
Loans and advances to credit institutions repayable on demand	448,225	776,413
Cash and Equivalents at the beginning of the year	2,022,137	2,616,730
Cash	540,608	540,290
Deposits at Central Banks	1,627,326	1,033,622
Loans and advances to credit institutions repayable on demand	295,532	448,225
Cash and equivalents at the end of the year	2,463,466	2,022,137

(*) As in 2016 the Banco Millennium Angola, S.A. started to be considered as discontinuing operation, the related values net of intercompany operations, were incorporated in cash flows arising from investing activities.

CAPITAL ADEQUACY AND SOLVENCY RATIOS

Evolution of the Solvency position of the Group as at 30 September 2018

The estimated CET1 ratio of the Group as at 30 September 2018 on a phased-in and on a fully implemented basis stood at 11.8%, -140 basis points and +10 basis points, respectively, comparing to the 13.2% and 11.7% ratios recorded in the same period of 2017 and above the minimum ratios defined in the SREP[14] for 2018 (CET1 8.81%, Tier 1 10.31% and Total 12.31%).

The favourable evolution of CET1 on a fully implemented basis 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.

Euro million

	PHASED-IN		***FULLY IMPLEMENTED***	
	30 Sep. 18	*30 Sep. 17*	*30 Sep. 18*	*30 Sep. 17*
Own funds				
CET1	4,981	5,062	4,954	4,423
Tier 1	5,056	5,062	5,034	4,491
Total Capital	5,651	5,448	5,622	4,813
RWA	42,173	38,306	42,108	37,910
Solvency ratios				
CET1	11.8%	13.2%	11.8%	11.7%
Tier 1	12.0%	13.2%	12.0%	11.8%
Total	13.4%	14.2%	13.4%	12.7%

Note: The capital ratios of September 2018 include the positive accumulated net income. The capital ratios of September 2017 include the positive accumulated net income.

Group Maximum Distributable Amount (Phased-In)

The distance to the Group's applicable MDA level reflects the amount by which CET1 or total capital exceeds the MDA level, defined as sum of the Pillar 1 requirement, P2R and combined capital buffers ("**CBR**") as at 30 September 2018.

The table below sets forth the distance to the MDA level of the Group:

	CET1	Total Capital
Capital Ratio	11.8%	13.4%
MDA level	8.81%	12.31%
Distance to the MDA level	2.99%	1.09%

14 Supervisory Review and Evaluation Process

Distance to the MDA level (Euro million)	1,260	459

Evolution of the Solvency position of the Issuer as at 30 September 2018

The estimated CET1 ratio of the Issuer as at 30 September 2018 on a phased-in and on a fully implemented basis stood at 13.7% and 13.6% respectively, -200 basis points and -110 basis points, comparing to the 15.7% and 14.7% ratios recorded in the same period of 2017.

Euro million

	PHASED-IN		***FULLY IMPLEMENTED***	
	30 Sep. 18	*30 Sep. 17*	*30 Sep. 18*	*30 Sep. 17*
Own funds				
CET1	4,584	4,922	4,525	4,601
Tier 1	4,585	4,922	4,525	4,601
Total Capital	5,049	5,183	4,978	4,872
RWA	33,385	31,364	33,348	31,329
Solvency ratios				
CET1	13.7%	15.7%	13.6%	14.7%
Tier 1	13.7%	15.7%	13.6%	14.7%
Total	15.1%	16.5%	14.9%	15.5%

Note: The capital ratios of September 2018 include the positive accumulated net income.

Issuer Maximum Distributable Amount (Phased-In)

The distance to the Issuer's applicable MDA level reflects the amount by which CET1 or total capital exceeds the MDA level, defined as sum of the Pillar 1 requirement and capital buffers as at 30 September 2018. As at the date of issue, the Issuer is not subject, on an individual basis, to Pillar 2 requirements. Further, as at the date of issue, the O-SII Buffer is not applicable to the Bank in individual level.

Distance to Trigger Event (Phased-In)

The distance to Trigger Event of the Group is EUR 2,815 million as at 30 September 2018, which corresponds to the level by which the Group CET1 (11.8%) exceeds the Trigger Event applicable to the Notes (i.e. a CET1 ratio lower than 5.125%).

The distance to Trigger Event of the Bank is EUR 2,863 million as at 30 September 2018, which corresponds to the level by which the Bank CET1 (13.7%) exceeds the Trigger Event applicable to the Notes (i.e. a CET1 ratio lower than 5.125%).

Distributable Items

The following table summarises the Distributable Items of the Bank (as defined in the Conditions) as at 30 September 2018 and 31 December 2017:

Euro million

	30 Sep. 18	*31 Dec. 17*
Distributable Items of the Bank	-225	30

On 5 November 2018, the Bank concluded with 62.1% of the share capital represented, the General Meeting of Shareholders, with the resolution to approve the 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 27 November 2018, the Bank confirmed, pursuant to the resolution adopted at the General Meeting of the Bank held on 5 November 2018, the registration of its new share capital of EUR 4,725,000,000 at the Commercial Registry Office.

Taking in consideration the share capital reduction and the corresponding reformulation of Bank's own capital items mentioned in the paragraphs above, the Distributable Items of the Bank (as defined in the Conditions) would be EUR 651 million as at 30 September 2018.

USE OF PROCEEDS

The issue of the Notes will form part of the Issuer's capital base and the net proceeds of the issue of the Notes will be applied by the Issuer for its general corporate purposes and to strengthen the capital position of the Issuer.

TAXATION

Prospective purchasers of Notes are advised to consult their tax advisers as to the tax consequences under the tax laws of the country of which they are resident of a purchase of Notes, including, but not limited to, the consequences of receipts of interest and sale or redemption of Notes.

The following descriptions are general summaries of certain taxation matters based on applicable law and practice currently in effect in the relevant jurisdictions. Nothing in this section constitutes tax, legal or financial advice, and the summaries contained herein are of a general nature and do not cover all aspects of taxation in the relevant jurisdictions that may be relevant to any particular Holder. Prospective investors in the Notes should consult their professional advisers on the tax implications for them of an investment in the Notes.

1. Portuguese Taxation

The following is a general summary of the Bank's understanding of current law and practice in Portugal as in effect on the date of this Offering Circular in relation to certain current relevant aspects to Portuguese taxation of the Notes and is subject to changes in such laws, including changes that could have a retroactive effect. 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. It does not take into account or discuss the tax laws of any country other than Portugal and relates only to the position of persons who are absolute beneficial owners of the Notes. 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 Notes.

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 created by the "*Terms and Conditions of the Notes*" or any related documentation.

Portuguese resident Holders and non-resident Holders with a Portuguese permanent establishment

Interest and other types of investment income obtained on Notes 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%. In this case, the tax withheld is deemed a payment on account of the final tax due.

Gains obtained on the disposal or the refund of the Notes 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 Notes 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 Notes and capital gains realised with the transfer of the Notes 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 Portuguese 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 and up to EUR 7,500,000, and 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 under Articles 9 and 10 of the corporate tax code, or under a regime set forth in the tax benefits code, benefiting from a tax exemption that does not apply to investment income. The corporate tax rate is 21% in the case of entities not carrying on an activity of a commercial, industrial or agricultural nature.

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, may not be subject to withholding tax.

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.

The acquisition of Notes through gift or inheritance by a Portuguese resident legal person or a non-resident acting through a Portuguese permanent establishment is subject to Portuguese corporate tax at 21%, or 17% on the first EUR 15,000 in the case of small and medium-sized enterprises. A municipal surcharge ("*derrama municipal*") of up to 1.5% may also be due. A state surcharge ("*derrama estadual*") also applies at 3% on taxable profits in excess of EUR 1,500,000 and up to EUR 7,500,000, and at 5% on taxable profits in excess of EUR 7,500,000 up to EUR 35,000,000, and at 9% state on taxable profits in excess of EUR 35,000,000.

There is no wealth nor estate tax in Portugal.

Non-resident Holders without a Portuguese permanent establishment – General rules

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, second series, No. 43, of 29 February 2008, of the Portuguese Minister of Finance and may be available for viewing and downloading at www.portaldasfinancas.gov.pt.

Interest paid to an associated company of the Bank which is resident in the EU may benefit from an exemption from withholding tax.

For these purposes, an "**associated company of the Bank**" is:

(a) 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 a Member State of the EU 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

(b) 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 also holds at least 25% of the capital of the Bank; and

(c) 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, by the filling of a specific form, named "Mod. 02-DJR" (available at www.portaldasfinancas.gov.pt), aimed to provide evidence of the fulfillment of the tax exemption requirements and which should be lodged within the two years from the date of completion of the exemption requirements.

The associated company of the Bank to which payments are made must be the beneficial owner of the interest, which should be the case if it receives the interest for its own benefit and not as an intermediary, either as a representative, a trustee or authorised signatory, for some other person.

Interest paid to an associated company of the Bank which is resident in Switzerland is also exempt from withholding tax under the conditions described above for associated companies resident in the EU.

In order to benefit from this exemption, the Holder must obtain a proof that all the relevant requirements are met and deliver it to the entity responsible for the withholding tax until the moment in which the tax is due. This proof is made by means of a specific form named "Mod. 01-DJR" (available at www.portaldasfinancas.gov.pt).

Capital gains obtained on the disposal or the refund of the Notes 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 may apply to non-resident individuals, unless they are resident in a country, territory or region included in Ministerial Order No. 150/2004. If the exemption does not apply, the gains will be subject to tax at 28%. Under the tax treaties entered into by Portugal, such gains may not be subject to Portuguese tax, but the applicable rules must 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 Notes by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable may be 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. If the exemption does not apply, the gains will be subject to tax at 25%. Under the tax treaties entered into by Portugal, such gains are may not be subject to Portuguese tax, but the applicable rules must be confirmed on a case by case basis.

No stamp tax applies to the acquisition through gift and inheritance of Notes by an individual who is not domiciled in Portugal.

The acquisition of Notes 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.

Non-resident Holders without a Portuguese permanent establishment – Notes held through a centralised control system

The regime described above corresponds to the general tax treatment of investment income and capital gains on the Notes and to the acquisition through gift or inheritance of such Notes.

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 of debt securities issued by Portuguese resident entities, such as the Notes, 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 CVM, managed by Interbolsa), by other EU or EEA 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 EU), 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 the Notes to which it applies.

Under these rules, the direct register entity is bound 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 general rule, the proof of non-residence should be provided to, and received by, the direct register entities prior to the relevant date for payment of any interest, and, in the case of domestically cleared Notes, prior to the transfer of Notes, 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 Offering Circular.

The beneficial owner of Notes must provide proof of non-residence in Portuguese territory substantially in the terms set forth below.

(i) If a Holder 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, duly signed and authenticated or proof pursuant to sub-paragraph (iv) below;

(ii) If the beneficial owner of Notes is a credit institution, a financial company, pension fund or an insurance company domiciled in any OECD country or in a country or jurisdiction 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 and its domicile; or (C) proof of non-residence, pursuant to the terms of sub-paragraph (iv) below;

(iii) If the beneficial owner of Notes is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country 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 sub-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 sub-paragraph (iv) above, in particular that the Holder must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until three 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 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.

2. Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, withholding may be required on, among other things, (i) certain payments made by "**foreign financial institutions**" ("**foreign passthru payments**"), (ii) dividend equivalent payments and (iii) payments of gross proceeds from the disposition of securities that generate dividend equivalent payments, in each case, to persons that fail to meet certain certification, reporting or related requirements. The Issuer is 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. 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 from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to foreign passthru payments or payments of gross proceeds from the disposition of Notes that generate dividend equivalent payments, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or before the relevant grandfathering date would be "grandfathered" for the purposes of FATCA withholding unless materially modified after such date. The grandfathering date for (A) Notes that give rise solely to foreign passthru payments, is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the U.S. Federal Register, and (B) Notes that give rise to a dividend equivalent pursuant to Section 871(m) of the U.S. Internal Revenue Code of 1986 and the U.S. Treasury regulations promulgated thereunder, is six months after the date on which obligations of its type are first treated as giving rise to dividend equivalents. If additional notes (as described under Condition 18 (*Further Issues*) that are not distinguishable from such previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

3. The proposed financial transactions tax ("FTT")

On 14 February 2013, the EC published a proposal (the "**Commission's Proposal**") for a Directive for an FTT in Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia, Slovakia (the "**participating Member States**") and Estonia. However, Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

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 Notes 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 are advised to seek their own professional advice in relation to the FTT.

4. 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 were 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 EU 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 in Portugal 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 (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 regarding the mandatory automatic exchange of information in the field of taxation was implemented through Decree-Law no. 64/2016, of 11 October 2016, as amended from time to time.

SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in a Subscription Agreement dated 29 January 2019 (the "**Subscription Agreement**") between the Issuer and Banco Comercial Português, S.A., Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc and UBS Limited as joint lead managers (together, the "**Joint Lead Managers**"), the Issuer has agreed to issue to the Joint Lead Managers and the Joint Lead Managers have jointly and severally agreed to purchase or find purchasers for the Notes. The Issuer has, pursuant to the terms of the Subscription Agreement, agreed to pay the Joint Lead Managers certain commissions and to reimburse certain of their expenses in connection with their appointment as Joint Lead Managers, and has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, 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 any Notes in, from or otherwise involving the United Kingdom.

United States

The Notes have not been and will not be registered under the Securities Act, 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 the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each of the Joint Lead Managers has represented and agreed that it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**"), within the United States or to, or for the account or benefit of, U.S. persons, and it will send to each Joint Lead Manager to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any Joint Lead Manager (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Prohibition of sales to EEA Retail Investors

Each of the Joint Lead Managers has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, 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 or superseded, "**MiFID II**"); or (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.

Portugal

Each of the Joint Lead Managers has represented, warranted and agreed with the Issuer that it will comply with all applicable laws and regulations in force in Portugal, including (without limitation) the Portuguese Securities Code (*Código dos Valores Mobiliários*), any regulations issued by the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) ("**CMVM**") and Commission Regulation (EC) No. 809/2004 (as amended or replaced from time to time) and 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, market, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Notes in circumstances which could qualify as a public offer (*oferta pública*) of securities pursuant to the Portuguese Securities Code and other applicable securities legislation and regulations, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portugal, as the case may be; (ii) all offers, sales and distributions by it of the Notes have been and will only be made in Portugal in circumstances that, pursuant to the Portuguese Securities Code, qualify as a private placement of Notes only (*oferta particular*); (iii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Offering Circular or any other offering material relating to the Notes to the public or in circumstances that could qualify as a public offer (*oferta pública*) (or to persons or entities to whom Portuguese laws and regulations on the placement of complex financial products otherwise applies) in Portugal.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, the Notes may not be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree 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 Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (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. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree 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.

France

Each of the Joint Lead Managers has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, the Notes to the public in France, and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Offering Circular or any other offering material relating to the Notes and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties and/or (b) qualified investors (investisseurs qualifiés) all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 and D.411-4 of the French Code monétaire et financier.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Notification under Section 309B(1)(c) of the SFA - In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products) and hereby notifies all relevant persons (as defined in Section 309A of the SFA) of the same.

General

No action has been or will be taken in any jurisdiction by any Joint Lead Manager or the Issuer that would or is intended to permit a public offering of the Notes, or possession or distribution of any offering documents or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Joint Lead Manager shall have any responsibility therefor.

GENERAL INFORMATION

1. Approval, listing and admission to trading

The Central Bank has approved this document as a prospectus for the purposes of Article 5.3 of the Prospectus Directive. Application has also been made to Euronext Dublin for the Notes to be admitted to trading on the Main Securities Market and to be listed on the Official List. The Main Securities Market is a regulated market for the purposes of MiFID II. The total fees and expenses in connection with the admission of the Notes to trading on the Main Securities Market are expected to be approximately €7,790.

2. Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the Executive Committee of the Issuer passed on 22 January 2019.

3. Documents available

For so long as Notes are outstanding, physical copies of the following documents will be available from the registered office of the Issuer and from the specified office of the Agent:

(i) the constitutional documents of the Issuer (in English);

(ii) the published audited consolidated financial statements of the Issuer in English and auditors' report for the two financial years ended on 31 December 2016 and 31 December 2017;

(iii) the published unaudited earnings press release and earnings presentation of the Issuer for the nine month period ended 30 September 2018;

(iv) the published unaudited report and consolidated financial statements of the Issuer in English for the nine month period ended 30 September 2018;

(v) the Agency Terms and the Instrument;

(vi) a copy of this Offering Circular; and

(vii) any supplements to this Offering Circular and any other documents incorporated herein or therein by reference.

The information mentioned in paragraphs (i) to (iii) above represent an accurate translation from its original Portuguese form. In the event of a discrepancy, the original Portuguese version will prevail.

4. Clearing systems

The Notes are expected to be settled and registered through the CVM, managed and operated by Interbolsa through direct or indirect accounts with Euroclear and Clearstream, Luxembourg. The address of Interbolsa is Avenida da Boavista, 3433 4100-138 Porto, Portugal.

5. Material change

There has been no significant change in the financial or trading position of the Group since 30 September 2018. There has been no material adverse change in the prospects of the Group since the date of the last audited financial statements, 31 December 2017.

6. Litigation

(i) 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 the administrative offence no. 2012/9, 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 will file 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. If the Portuguese Competition Authority issues a conviction decision, the Bank may be convicted according to the terms foreseen in the law to pay a fine with a maximum limit of 10% of its 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.

(ii) 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 (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. 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 Poland 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 (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 decision is final. On 28 December 2017, pursuant to the decision of 10 October 2017, 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.

(iii) 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 (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 (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 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.

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 both proceedings.

(iv) On 19 January 2018 the Bank has received the lawsuit petition of First Data Polska SA requesting the payment of 186.8 mln PLN. 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.

(v) 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; 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.

(vi) 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.

(vii) 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 Tribunal da Relação de Lisboa (Appellate Court).

Save as disclosed in this section, neither the Issuer nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Offering Circular which may have, or have in such period had, a significant effect on the financial position or profitability of the Issuer or the Group.

7. Independent auditors

The current independent 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), with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisboa.

The financial statements of the Group for each of the financial years ended 31 December 2016 and 31 December 2017 were prepared in accordance with International Financial Reporting Standards as adopted by the EU and audited by Deloitte.

All financial information in this Offering Circular relating to the Issuer for the years ended 31 December 2016 and 31 December 2017 has been extracted without material adjustment from the audited consolidated financial statements of the Issuer for the financial years then ended and all financial information in this Offering Circular relating to the Issuer for the nine month period ended 30 September 2018 has been extracted from the unaudited consolidated financial statements, earnings press release and earnings presentation of the Issuer for the nine month period then ended.

8. Joint Lead Managers transacting with the Group

In the ordinary course of their business activities, the Joint Lead Managers 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 Joint Lead Managers 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 Joint Lead Managers 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 Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers 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.

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