



# BANCO COMERCIAL PORTUGUÊS, S.A.

(incorporated with limited liability in Portugal)

Euro 12,500,000,000

## COVERED BONDS PROGRAMME

Banco Comercial Português, S.A. (the "**Issuer**" or the "**Bank**") is an authorised credit institution for the purposes of Decree-Law No. 59/2006, of 20 March 2006 (as amended, the "**Covered Bonds Law**"). The Covered Bonds (as defined below) will constitute mortgage covered bonds for the purposes, and with the benefit, of the Covered Bonds Law. The Issuer's legal name is Banco Comercial Português, S.A. and it uses "Millennium bcp" as a brand name. The Issuer and its subsidiaries are together referred to in this Base Prospectus as the "**Group**".

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

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

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

This base prospectus (the "**Base Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under the Prospectus Regulation. "**Prospectus Regulation**" means Regulation (EU) 2017/1129, as amended from time to time. The Central Bank only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the Central Bank should not be considered as an endorsement of the Issuer or of the quality of the Covered Bonds. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

Such approval relates only to the Covered Bonds which are to be admitted to trading on the regulated market (the "**Euronext Dublin Regulated Market**") of the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**"), or on another regulated market for the purposes of Directive 2014/65/EU and/or that are to be offered to the public in any member state of the European Economic Area ("**EEA**") (which, until the end of the transition period under the UK-EU Withdrawal Agreement (as defined below), for these purposes, shall include the United Kingdom) in circumstances that require the publication of a prospectus.

The requirement to publish a prospectus under the Prospectus Regulation only applies to Covered Bonds which are to be admitted to trading on a regulated market in the EEA and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 1(4) and/or 3(2) of the Prospectus Regulation (and, until the end of the transition period under the UK-EU Withdrawal Agreement, for these purposes, references to the EEA shall include the United Kingdom). References in this Base Prospectus to "**Exempt Covered Bonds**" are to Covered Bonds for which no prospectus is required to be published under the Prospectus Regulation. Information contained in this Base Prospectus regarding Exempt Covered Bonds shall not be deemed to form part of this Base Prospectus and the Central Bank has neither approved nor reviewed such information.

Application has been made to Euronext Dublin for Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus (other than Exempt Covered Bonds) to be admitted to its Official List (the "**Official List**") and trading on the Euronext Dublin Regulated Market.

The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market or admitted to trading on any other market which is not a regulated market as described in the next paragraph.

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

This Base Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from the date of this Base Prospectus. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy will not apply when this Base Prospectus is no longer valid.

Arranger  
Barclays

Co-Arranger  
Millennium Investment Banking

Dealers

Banco Santander Totta, S.A.  
BofA Securities  
Crédit Agricole CIB  
DZ BANK AG  
Millennium Investment Banking  
NatWest Markets

Barclays  
Citigroup  
Credit Suisse  
HSBC  
Morgan Stanley  
Nomura

BNP PARIBAS  
Commerzbank  
Deutsche Bank  
J.P. Morgan  
Natixis  
Société Générale Corporate &  
Investment Banking

UBS Investment Bank

UniCredit Bank

The date of this Base Prospectus is 26 May 2020.

## IMPORTANT INFORMATION AND RESPONSIBILITY STATEMENTS

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

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

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

The only persons authorised to use this Base Prospectus in connection with an offer of Covered Bonds or Exempt Covered Bonds (as the case may be) are the persons named in the applicable Final Terms or applicable Pricing Supplement (as the case may be) as the relevant Dealer or the Managers.

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

Other than in relation to the documents which are deemed to be incorporated by reference (see *Documents Incorporated by Reference*), the information on the websites to which this Base Prospectus refers does not form part of this Base Prospectus.

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

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

As at the date of this Base Prospectus short-term and long-term senior obligations of the Issuer are rated, respectively, "NP" and "Ba1" by Moody's Investors Service España, S.A., "B" and "BB" by S&P Global Ratings Europe Limited, "B" and "BB" by Fitch Ratings Limited and "R-2 (middle)" and "BBB (low)" by any entity that is part of DBRS Group and any successor to the relevant rating agency.

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

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

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

**BENCHMARKS REGULATION** - Amounts payable on Floating Rate Covered Bonds (as described under "*Terms and Conditions of the Covered Bonds*") will be calculated by reference to the London Interbank Offered Rate ("**LIBOR**") or the Euro Interbank Offered Rate ("**EURIBOR**") as specified in the relevant Final Terms (or relevant Pricing Supplement, in the case of Exempt Covered Bonds). As at the date of this Base Prospectus, each of the administrator of LIBOR (ICE Benchmark Administration Limited) and the administrator of EURIBOR (the European Money Markets Institute) is included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (as amended from time to time, the "**Benchmarks Regulation**").

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

*Under the terms of the ratified EU-UK article 50 withdrawal agreement (the "**UK-EU Withdrawal Agreement**"), a transition period has now commenced which will last until 31 December 2020. During this period, most EU rules and regulations will continue to apply to and in the UK and negotiations in relation to a free trade agreement will be ongoing. Under the UK-EU Withdrawal Agreement, the transition period may, before 1 July 2020, be extended once by up to two years.*

**MiFID II product governance / target market** – The Final Terms in respect of any Covered Bonds (or Pricing Supplement in respect of any Exempt Covered Bonds) will include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently

offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

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

The Arrangers, the Common Representative and the Dealers have not separately verified (i) the information contained or incorporated in this Base Prospectus or (ii) any statement, representation, or warranty, or compliance with any covenant, of the Issuer contained in any Covered Bond or any other agreement or document relating to any Covered Bonds or made in connection with the Programme, as may be prepared, or approved in writing, by the Issuer for use in connection with the Programme. Accordingly, none of the Arrangers, the Common Representative or the Dealers makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to (a) the accuracy or completeness of any of the information contained or incorporated by reference in this Base Prospectus or (b) the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of any Covered Bonds or any other agreement or document relating to any Covered Bonds or the Programme. The Arranger and the Dealers are acting solely pursuant to a contractual relationship with the Issuer on an arm's length basis with respect to the issue, offer and sale of the Covered Bonds (including in connection with determining the terms of the issue, offer and sale of the Covered Bonds) and not as a financial adviser or a fiduciary to the Issuer or any other person. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the Covered Bonds is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arrangers, the Common

Representative or the Dealers that any recipient of this Base Prospectus or any other financial information supplied in connection with the Programme should purchase the Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer, the Arrangers, the Common Representative or any of the Dealers to subscribe for or to purchase any Covered Bonds.

Any offer of Covered Bonds in any Member State of the European Economic Area and (until the end of the transition period under the UK-EU Withdrawal Agreement) the United Kingdom (each, a "**Relevant State**") will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant State of Covered Bonds which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

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

### **SUITABILITY OF INVESTMENT**

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

- has sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;
- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- understands thoroughly the terms of the relevant Covered Bonds and is familiar with the behaviour of any relevant indices and financial markets; and

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

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

## LEGAL CONSIDERATIONS IN RESPECT OF INVESTING IN COVERED BONDS

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

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

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

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

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

## CERTAIN DEFINED TERMS AND OTHER INFORMATION

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

This Base Prospectus is drawn up in the English language. In case there is any discrepancy between the English text and the Portuguese text, the English text stands approved for the purposes of approval under the Prospectus Regulation.

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

## **RISK FACTORS**

*An investment in the Covered Bonds involves a degree of risk. Prospective investors should carefully consider the risks set forth below and the other information contained in this Base Prospectus prior to making any investment decision with respect to the Covered Bonds. The risks described below could have a material adverse effect on BCP's business, financial condition and results of operations or the value of the Covered Bonds. Additional risks and uncertainties, including those of which the BCP Group's management is not currently aware or deems immaterial, may also potentially have an adverse effect on the BCP Group's business, results of operations, financial condition or future prospects or may result in other events that could cause investors to lose all or part of their investment.*

### **INTRODUCTION**

The risk factors described below are those that the Issuer believes are material and specific to the Issuer and that may affect the Issuer's ability to fulfil each of its obligations under the Covered Bonds. The risk factors have been organised into the following categories:

1. Risks relating to the Issuer
  - 1.1. Risks relating to the Economic and Financial Environment
  - 1.2. Legal and Regulatory Risks
  - 1.3. Risks relating to Acquisitions
  - 1.4. Risks relating to the Bank's Business
2. Risks relating to the Covered Bonds issued under the Programme
  - 2.1 Risks relating to the Nature of the Covered Bonds
  - 2.2 Risks relating to Tax and other Relevant Laws
  - 2.3 Risks relating to the Market generally
  - 2.4 Risks related to the Structure of a particular issue of Covered Bonds

Within each category, the most material risks, in the assessment of the Issuer, are set out first. The Issuer has assessed the relative materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact. The order of the categories does not imply that any category of risk is more material than any other category.

### **1. RISKS RELATING TO THE ISSUER**

#### **1.1. Risks relating to the Economic and Financial Environment**

##### ***Portuguese economy***

The COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity, as protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. As a result, the global economy is projected to contract sharply by -3% in 2020 according to the International Monetary Fund ("**IMF**").

Against this background the outlook for the Portuguese economy has undergone a sudden and marked deterioration. In 2020, the IMF foresees that the Portuguese economy will drop by 8% as a result of the economic impact of the pandemic. In 2021, the Portuguese economy should return to growth rates around 5%, assuming that economic policies work out as planned at the global level, meaning that the world economy starts recovering once the acute phase of the pandemic is passed, which will favour the recovery of the Portuguese economy.

On the financial front, the forceful intervention of the European Central Bank (the "ECB") has been so far crucial to preclude any meaningful deterioration in risk-aversion thereby contributing to keep financial costs and yields at relatively low levels. When the economy returns to normality, the risk premia in the long-term debt securities of domestic issuers is likely to start to narrow gradually.

#### *Global health crisis*

The uncertainty around the pandemic itself is considered to remain elevated until a vaccine and/or therapies to counter the disease are in place. In this context, despite the Portuguese authorities' success in bringing down the spread of the disease in the domestic community, Portugal remains vulnerable to renewed infection outbreaks. If the pandemic proves more persistent, the effects on the economic activity and financial markets could turn out to be stronger and longer lasting, testing the limits of central banks to backstop the financial system and further raising the fiscal burden of the shock.

The uncertainty about the duration and intensity of the pandemic crisis 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 and its cost of risk.

#### *Dramatic tightening in global financial market conditions*

Despite the broad-based monetary stimulus and the available liquidity facilities there are risks of significant additional tightening of financial conditions, which could further dampen economic activity in the near term, adding to the direct macroeconomic fallout of the health crisis. The possibility of aggravation or persistence of adverse financing conditions could further weigh on economic conditions, hindering the evolution of banking business and, consequently, its profitability.

#### *Risks of a protracted recession of the Portuguese economy and/or a slow recovery*

The IMF projects a partial recovery of Portuguese economy in 2021, with the level of GDP remaining below the pre-virus trend. However, if the pandemic and containment measures last longer, the economy could remain in recession in 2021 and/or recover at a slower pace.

Any limitation to the growth of the Portuguese economy would predictably imply a fall of demand for credit, 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 Portuguese economy presents specific vulnerabilities to the economic shock associated to the pandemic crisis*

Despite the significant structural changes implemented since 2011, the budget surplus recorded in 2019, the reduction of public and private debt and a growth trend above the potential GDP in the last years, the Portuguese economy presents specific vulnerabilities to the current shock:

- i) The importance of the tourism sector for economic activity entails a high exposure to the expected reduction in global demand for this type of service, which will be very substantial.
- ii) The Portuguese corporate sector presents currently a still relatively fragile financial situation.

- iii) The high percentage of households close to or below the poverty line in Portugal means that there is only a small margin to absorb the expected shock to income. In a context of a still elevated private debt, any deterioration in households' and companies' financial condition could lead to a fall in the demand for credit, and to a deterioration of the credit quality of the loans' portfolio and other segments of the asset side of the Bank's balance sheet.
- iv) The high level of Portuguese government debt could lead to relevant limitations on the ability of the Portuguese government to stimulate growth in response to a downturn as severe as the one likely to follow the current economic shock. The high public-sector indebtedness is therefore an important factor of vulnerability, as any change in investors' perception of Portuguese debt sustainability may contribute to raise the Bank's cost of funding and to weaken the performance of the financial assets seating on the Bank's portfolio – in particular, the Portuguese public debt securities.

#### *Domestic political risks*

The 2019 parliamentary elections in Portugal have not conferred an absolute majority to the party that formed the government. Against the backdrop of the current health and economic crisis any risks of political instability could undermine confidence and hamper the political actions needed to tackle both crises, and thereby impact adversely on economic activity and the Portuguese Republic's credit profile. Any of these could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

#### *Risks related to European Union*

The pandemic crisis underlines the need to strengthen coordination and cooperation at the European level, notably in economic terms. In this context, relevant divergences between the European Union (EU) Member States in adopting solidarity measures and shared economic policy actions to stimulate the economic recovery could rise fears regarding the integrity of the EU.

Any change in EU or in European Monetary Union may affect the Portuguese sovereign credit profile, which 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. Any permanent reduction of the value of public debt would be reflected in the Bank's equity position.

#### *Monetary policy risks*

The Bank is exposed to risks associated with any disruption to the ECB's monetary and liquidity facilities introduced to avoid systemic stress in the financial system and to lift confidence and to prevent an even deeper contraction of economic activity. Any sudden change in monetary policy 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 the Bank directly through the investment book and indirectly by affecting the price and availability of the Bank's funding in the market and also by potentially lowering the demand for loans from households and corporations. In addition, any further substantial decline of ECB's reference interest rates and/or the maintenance of negative interest rates for a protracted period would affect negatively the Bank's ability to generate net interest margin.

#### *Risks to the real estate market*

The current economic shock increases the risk of a significant devaluation of Portuguese real estate prices, including, without limitation, through a fall of demand by non-residents and the drop of tourism demand, which may lead to an increase in impairment losses in the assets held directly by the Bank as well as in the participating units of the restructuring funds held by the Bank, and to increased exposure

in counterparty risk for loans guaranteed by real estate collateral and in pension fund assets retained by the Bank.

#### *External-trade channel risk*

The expected deterioration of economic activity in the main trading partners of Portugal (as at December 2019 and according to Portugal's National Statistics Institute, in decreasing order: Spain, France, Germany, the United Kingdom, the United States, Italy, the Netherlands, Belgium, Angola and Norway), along with global supply disruptions, the risk of protectionist policies and the possible behavioural changes in Portuguese trading partners could impact negatively the performance of the Portuguese economy and lead to economic and financial difficulties, which could have a material adverse effect on the Bank's business, financial condition, results of operations or its prospects.

#### *Geopolitical risks*

The pandemic and the economic crisis could intensify geopolitical risks worldwide. The risks may be derived, among other adverse factors, from the escalation of protectionism and trade wars among the major world economic blocs and/or the intensification of actual or potential military conflicts. Any of these could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

#### *Risks related to Brexit*

The United Kingdom formally left the EU on 31 January 2020, but the terms of the new relationship are still undefined and are expected to be negotiated until the end of December 2020. The turmoil caused by the pandemic could lead to protracted negotiations therefore contributing to an increased uncertainty around the new relationship of the United Kingdom with the EU countries, notably regarding a new free trade agreement. As the United Kingdom is one of the main Portuguese trading partners (both in terms of goods and services), any uncertainty relating to such future trade conditions could impact negatively the performance of the Portuguese exports, which could have an adverse effect on the Bank's business.

#### ***Other economies where the Bank operates***

##### *Poland*

- Risks related to the economic conditions

The government measures at limiting the spread of epidemic are likely to lead to a significant drop of economic activity in Poland. Consequently, a deterioration of the labour market and a fall of disposable income for households can be expected. Along with the drop of domestic demand the external demand should also plummet, negatively impacting exports and manufacturing activities.

The deterioration of economic conditions in Poland and the instability in financial markets 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.

- Domestic political risks

Political and legal tensions with the European Union, particularly considering that the European Commission decided on 10 October 2019 to refer Poland to the Court of Justice of the EU regarding the new disciplinary regime for Polish judges, could adversely affect political and social stability in

Poland and consequently its economic and financial situation, which would negatively impact Bank's activity and results.

- Risks related to banking system policy

Risks related to the implementation of 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.

#### *Mozambique*

- Commodity prices risks

Mozambique is an important exporter of aluminium and coal and has also important projects in progress related to natural gas. As weaker global demand drives down commodity prices, the Mozambican economy could face significant pressure on its public finances, on real economic activity and on its exchange rate, which could negatively impact the reform efforts that Mozambican authorities have been implementing in the last years in order to address the sovereign debt crisis. Any deterioration of economic and financial conditions could result in additional negotiations with the IMF and international creditors. In such circumstances, the Bank's business, financial condition, results of operations and prospects could be negatively affected.

- Domestic political risks
  - i) Any deterioration of the economic and financial situation may contribute to the rise of political tensions (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), which could negatively affect the Bank's business, financial condition, results of operations and prospects.
  - ii) The natural gas industry in Mozambique has been crucial to both the expansion of economic growth and social change. In this context, if the scale and frequency of attacks in gas-rich Cabo Delgado Province intensifies it could hinder the natural gas industry activity and thereby the expansion of economic activity and social progress. Any of these factors could negatively affect the Bank's business, financial condition, results of operations and prospects.

#### *Angola*

- Commodity prices risks

Given the reliance of Angolan economy on oil exports, the recent implosion of crude prices, if sustained, could create significant pressure on Angola's public finances, on the real economic activity and on its exchange rate, which could negatively impact the reform efforts that Angolan authorities have been implementing in the last years in order to address economic and structural imbalances. In such circumstances, the Bank's business, financial condition, results of operations and prospects could be negatively affected.

## **1.2 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. Portuguese and international regulatory entities, including the European Central Bank ("**ECB**"), Banco de Portugal and the European Banking Authority ("**EBA**"), have implemented significant changes to the Bank's regulatory framework, particularly in relation to capital and liquidity 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.

Most recently, in May 2019, the Council adopted a comprehensive legislative package (the "**banking package**") implementing material elements of the Basel III framework ("**Basel III**") at the European level by way of amendments to Regulation No. 575/2013/EU of the European Parliament and of the Council, of 26 June 2013, as amended (the "**Capital Requirements Regulation**" or "**CRR**") and Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, as amended (the "**Capital Requirements Directive**" or "**CRD IV**"), and on the framework for the recovery and resolution of banks in difficulty, notably Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, as amended (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") and Regulation No. 806/2014/EU of the European Parliament and of the Council, of 15 July 2014 (the "**SRM Regulation**"). Some of these changes have already been enacted while others will enter into force in the coming years together with changes stemming from the adoption of the Basel III reforms, some of which are still being assessed by the European Commission.

Changes to risk weighted assets ("**RWA**") could also come from adjustments to internal models, such as those associated with better calibration or further to supervisory requirements.

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. For further details on banking regulation please see "*Description of the Business of the Group – Recent developments on the banking regulation*".

Furthermore, 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.***

The European Commission established a new common regulation (the 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**"). 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 and may potentially restrict the Bank's ability to comply with its financial undertakings regarding debt and equity instruments. See further "*Description of the Business of the Group – Recent developments on the banking regulation*".

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

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

A change in the prudential supervision framework may:

- 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;
- given the classification of the Bank as an O-SII, lead to higher combined capital buffer requirements;
- lead to a higher countercyclical capital buffer and capital conservation buffer.

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.

The Bank is also currently compliant with the CRD IV required liquidity related ratios, i.e., the liquidity coverage ratio ("**LCR**") which requires banks to hold sufficient unencumbered high quality liquid assets to withstand a 30-day stressed funding scenario, and the net stable funding ratio ("**NSFR**") reflecting the amount available of stable funding to its amount of required stable funding.

These requirements may change in the future which could have an impact on the Bank's capital and liquidity needs and adversely affect the Bank's business, financial condition, results of operations and prospects. For more information on the topics above 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*" and "*Description of the Business of the Group – Recent developments on the banking regulation*".

### *Single Resolution Mechanism*

The BRRD (which implementation into Portuguese law was completed by Law No. 23-A/2015, of 26 March, as amended, encompassing several changes to Decree-Law No. 298/92, of 31 December (as amended from time to time, the "**Banking Law**")) establishes a framework for the recovery and resolution of credit institutions and investment companies which contemplates that capital instruments 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. For further details please see "*Description of the Business of the Group – Recent developments on the banking regulation*".

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 minimum requirement for own funds and eligible liabilities ("**MREL**") at all times. In order to meet MREL requirements, the Bank may need to issue MREL-eligible instruments, impacting its funding structure and financing costs. 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 and 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 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 maximum distributable amount 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 Common Equity Tier 1 ("**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. See "*Description of the Business of the Group – Trends Information*" for more information on MREL requirements applicable to the Issuer.

Decree-Law No. 31-A/2012, of 10 February, which amended the Banking Law, also introduced 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) or the Portuguese Resolution Fund (*Fundo de Resolução*) (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.

The financial resources of the Resolution Fund result essentially from the initial and periodical contributions paid by member institutions, the proceeds from the bank levy, created by Law no. 55-A/2010, of 31 December, and the returns on the investment of its financial means.

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, S.A. ("**Novo Banco**") (including, without limitation, the contingent capitalisation mechanism), (ii) the litigation relating to the Banco Espírito Santo, S.A. ("**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 Banco Internacional do Funchal, S.A. ("**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. For further details on the Resolution Fund and related contributions of the Bank see "*Description of the Business of the Group – Recent developments on the banking regulation*".

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. See "*Description of the Business of the Group – Recent developments on the banking regulation*".

The amount of the periodical contribution for the Resolution Fund is calculated every year pursuant to Regulation 1/2013 of Banco de Portugal, as amended by Regulations 8/2014 and 14/2014, using a base rate which is published by Banco de Portugal. There can be no assurance that in the future Banco de Portugal will maintain the current base rate. 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.

The impact of the above is uncertain and the Bank can give no assurance that the current understanding/framework/accounting treatment and related contributions will not be changed in the future (including 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.

#### *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, as amended, including, without limitation, the amendments of Law No.23-A/2015, of 26 March, banks must ensure that by 3 July 2024, the financial resources available to a deposit guarantee scheme ("**DGS**") amount to a target-level of 0.8% of the amount of DGF-covered deposits.

If, after this target level is reached for the first time, the available financial resources come to be less than two thirds of the target level, Banco de Portugal will set the periodic contributions at a level that allows the target level to be reached within six years. If the available financial resources are not sufficient to reimburse the depositors, in the event of unavailability of deposits, DGS members must

pay ex-post contributions not exceeding 0.5% of the DGF-covered deposits for the exercise period of the DGF. In exceptional circumstances, the DGS can request a higher amount of contribution with the approval of Banco de Portugal.

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

The additional indirect costs of the deposit guarantee systems may be significant and can consist of costs associated with the provision of detailed information to clients about products, costs of compliance with specific regulations on advertising for deposits or other products similar to deposits. They can therefore affect the activity of the relevant banks and consequently their business activities, financial condition, results of operations and prospects. As a result of these developments, the Bank may incur additional costs and liabilities which may adversely affect the Bank's business, operating results, financial condition and prospects.

***The resolutions adopted by the European Commission regarding financial services and products in the context of disclosure compliance and investor protection, changes in consumer protection laws and the legal changes regarding the temporary framework relating to COVID-19 may limit the business approach and fees that the Bank can charge in certain banking transactions.***

Several European Commission regulatory initiatives regarding financial services and products have been transposed/implemented in the past few years, including:

1. The Markets in Financial Instruments Directive II, Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, as amended ("**MiFID II**"), which has been transposed into the national legal framework by Law No. 35/2018, of 20 July 2018, and is already in force with some additional related regulations pending, and the Markets in Financial Instruments Regulation, Regulation (EU) No. 600/2014 of the European Parliament and of the Council, of 15 May 2014, as amended ("**MiFIR**");
2. Regulation (EU) No. 1286/2014 of the European Parliament and of the Council, of 26 November 2014, as amended, relating to packaged retail and insurance-based investment products ("**PRIIPs**"), complemented by Delegated Regulation (EU) No. 653/2017 of the Commission, of 8 March 2017, as amended, 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
3. The European Market Infrastructure Regulation, Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July 2012, as amended ("**EMIR**"), which sets out procedures regarding over-the-counter ("**OTC**") markets and derivatives, namely on clearing.

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

Furthermore, Decree-Law No. 107/2017, of 30 August 2017, lays down the rules on switching of payment accounts, the comparability of commissions, as well as the access to payment accounts with

basic features, transposing Directive 2014/92/EU. 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. See "*Description of the Business of the Group - Recent developments on the banking regulation*".

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. Furthermore, some of them are being revised or their full implementation is only foreseen in the coming years.

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.

### ***Temporary framework relating to COVID-19***

#### *Changes in Portuguese legislation regarding banking commissions*

Decree-law No. 10-H/2020, of 26 March 2020, establishes exceptional and temporary measures to promote the acceptance of card-based payments in the context of the COVID-19 pandemic. It establishes the suspension of commissions on payment operations: (i) the collection of the fixed component of any commission, for card payment transactions at automatic payment terminals; (ii) payment service providers are prohibited from making increases in the variable components of fees per transaction, as well as other fixed fees which are due for the use of automatic payment terminals in card payment transactions and (iii) payment service providers cannot include in their pricing the possibility to charge for new fixed or variable fees relating to the acceptance of card payment transactions made at automatic payment terminals.

Law no. 7/2020 of 10 April 2020, establishes exceptional and temporary measures in the context of the COVID-19 pandemic including the suspension, under certain circumstances, of the commission charged in payments made through digital platforms.

Apart the temporary framework relating to COVID-19 pandemics, other laws may be implemented in order to limit or suspend other type of commissions.

Further limitations or reductions of commissions charged by banks in Portugal may adversely affect the business and performance of the Issuer.

#### *Moratoria on loan repayments*

Decree-Law No. 10-J/2020, of 26 March 2020, as amended, establishes extraordinary measures for debt protection in the context of the COVID-19 pandemic, to which a range of borrowers may adhere. Moratoria measures include: (i) prohibition of revocation of contracted credit lines and granted loans; (ii) extension of contracts with capital payment at the end of the contract; (iii) suspension of payments in respect of claims which are to be repaid in instalments or in respect of other instalments (and adjustment of the instalments calendar accordingly) and (iv) suspension of interest due during the extension period which will be capitalised into the value of the loan. The moratoria will be in force until 30 September. See also below "*The Bank is exposed to the consequences of the COVID-19 pandemic*".

The implementation of these legal initiatives or other similar/broader initiatives that may arise in the future, and which content is unknown, could impact the Bank's business, financial condition, net income, capital, RWA and prospects namely after the end of moratoria when firms need to revert to usual payment of instalments and the prudential temporary framework will likely not apply. Some of

the supervisory measures applied by the ECB to banks are temporary in nature, i.e., until further notice, creating further uncertainty. The ECB has acknowledged that it will monitor the situation and review this stance when the economic and financial distress related to COVID-19 fades. Similarly, Banco de Portugal has highlighted the heightened uncertainty about the magnitude and duration of the outbreak.

***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.***

Furthermore, as the Bank operates in a highly regulated industry, it may be 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.

Among other's 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;
- 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-terrorist 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; and
- 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 European Union 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 European Commission 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 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 compliance with the ECB's banking supervision, the Bank has been implementing a NPE reduction plan which is closely monitored by the ECB, and is globally aligned with the ECB's Guidance on NPL and subsequent Addendum, 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.

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.

Following the measures announced by the national Governments to mitigate the negative impacts of COVID-19 outbreak, the ECB announced a flexible application of the unlikely-to-pay classification for governmental guarantees and moratoria. It has also announced that guarantees that turn non-performing will receive favourable treatment in terms of coverage requirements for a period of seven years following their deterioration. The ECB has asked banks to smooth the procyclicality of IFRS 9 provisioning models as much as possible. It has also recommended all institutions that have not done so to start applying IFRS 9 on transitional rules. This measure is not applicable to BCP, which has already implemented IFRS 9 in full.

The implementation of the legal and regulatory framework currently envisaged, 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. See "*Description of the Business of the Group – Trends Information and Recent developments on the banking regulation*" for further details on the implementation of the Bank's NPL strategy and on regulatory developments regarding NPLs and NPEs.

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

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

For example, despite the *ex-ante* Contribution to the Single Resolution Fund to support the application of resolution measures at EU level, the Bank is still liable to the following bank levy and contributions:

- Under Law No. 55-A/2010, of 31 December, and Ministerial Order ("*Portaria*") No. 121/2011, of 30 March, as amended, a bank levy is applicable to the Bank (EUR 30.4 million in 2018 and EUR 31,7 million in 2019) 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.
- The Bank is also liable to periodic special and additional contributions that must be paid to the Portuguese Resolution Fund, as stipulated in Decree-Law No. 24/2013 and Law No. 23-A/2015, of 26 March (EUR 11.2 million in 2018 and 15.9 million in 2019). The periodic contributions are determined by a base rate, established by the Bank of Portugal through regulatory instruments, to be applied in each year and which may be adjusted to the credit institution's risk profile based on the objective incidence of those contributions, deducted from the liability elements that are part of the core capital and supplementary and from the deposits covered by the Deposit Guarantee Fund.

Additionally, on 14 February 2013 the European Commission 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. Currently, after the withdrawal of the Republic of Estonia as a Member State wishing to participate in the establishment of the enhanced cooperation, 10 countries are participating in the negotiations on the proposed directive: Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia. At the working party meeting of 7 May 2019, participating Member States indicated that they were discussing the option of an FTT based on the French model of the tax, and the possible mutualisation of the revenues among the participating member states as a contribution to the EU budget.

At this stage, 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 Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A. ("**Millennium bcp Ageas**"). Measures, regulations and laws, such, but not limited to, additional requirements in terms of minimum capital requirements, supervisory review of firms' assessment of risk and enhanced disclosure requirements, affecting the insurance business may impact on the Bank's business, financial condition, net income and prospects, directly, through commission's income, or indirectly, through the change of valuation of the equity stake. See "*Description of the Business of the Group – Trends Information and Recent developments on the banking regulation*".

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

The Bank's financial statements are prepared in accordance with European Union 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.

On 1 January 2018, the Group adopted the IFRS 9 – Financial Instruments, replacing the IAS 39 – Financial Instruments: Recognition and measurement which were in force until 31 December 2017. IFRS 9 establishes new rules for the recognition of financial instruments and introduces relevant changes, namely in terms of their rating and measurement and also the methodology for calculating the impairment of financial assets. 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.

The Group determines the expected credit losses of each operation as a result of the deterioration of credit risk since its initial recognition. For this purpose, operations are classified into one of the following three stages:

- (a) Stage 1: operations with no significant increase in credit risk since its initial recognition are classified in this stage. Impairment losses associated with operations classified in this stage correspond to expected credit losses resulting from a default event that may occur within 12 months after the reporting date (12-month expected credit losses);
- (b) Stage 2: operations with a significant increase in credit risk since its initial recognition but not impaired are classified in this stage. Impairment losses associated with operations classified in this stage correspond to the expected credit losses resulting from default events that may occur over the expected residual life of the operations (lifetime expected credit losses); or
- (c) Stage 3: impaired operations are classified in this stage. Impairment losses associated with operations classified at this stage correspond to lifetime expected credit losses.

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

financial instrument, discounted at the original interest rate. Following this definition, expected credit losses correspond to credit losses determined by considering future economic conditions.

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

The Group adopted IFRS 16 – Lease transactions on 1 January 2019, replacing IAS 17 – Lease transactions, which was in force until 31 December 2018. The Group did not adopt any of the requirements of IFRS 16 in prior periods. This standard establishes the new requirements regarding the scope, classification/recognition and measurement of leases:

- from the lessor's perspective, leases will continue to be classified as finance leases or operating leases;
- from the lessee's perspective, the standard defines a single model of accounting for lease contracts, which results in the recognition of a right-of-use asset and a lease liability for all leases, except for those which the lease term ends within 12 months or for those which the underlying asset is of low-value and, in these cases, the lessee may opt for the exemption from recognition under IFRS 16, and shall recognise the lease payments associated with these leases as an expense. The Group chose not to apply this standard to short-term lease contracts, i.e. contracts with a term shorter than or equal to one year, and to lease contracts in which the underlying asset's value is below EUR 5,000. Additionally, this standard is not applied to leases of intangible assets.

Regarding income statement, the adoption of IFRS 16 led to changes in the items regarding depreciation, other administrative costs and net interest income, with the net impacts being recognised as immaterial.

Following the measures announced by the national governments to mitigate the negative impacts of the COVID-19 outbreak, the ECB announced a flexible application of the unlikely-to-pay classification for governmental guarantees and moratoria. It has also announced that guarantees that turn non-performing will receive favourable treatment in terms of coverage requirements for a period of seven years following their deterioration. The ECB has asked banks to smooth the procyclicality of IFRS 9 provisioning models as much as possible.

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 European Union 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 European Union 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.

### **1.3 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.

#### **1.4 Risks relating to the Bank's Business**

***The Bank is exposed to the consequences of the COVID-19 pandemic.***

A widespread global pandemic of the severe respiratory syndrome coronavirus 2 (commonly known as SARS-CoV-2) and of the infectious disease COVID-19, caused by the virus, is currently taking place worldwide, affecting the lives of a large portion of the global population.

The range of implications of this pandemic is not yet fully determined but it is already foreseeable that it will have a material adverse impact on the Portuguese economy, as well as on the economies of all other jurisdictions in which the BCP Group operates.

The COVID-19 pandemic is leading to an adverse economic shock, with very substantial effects on business activities. Therefore, the Portuguese economy is forecasted to undergo a significant deterioration as a result of the pandemic. On 26 March 2020, the Bank of Portugal announced that the recession of the Portuguese economy in 2020 could be between -3.7% in a baseline scenario and -5.7% in an adverse scenario (Source: Bank of Portugal, Economic Bulletin, 26 March 2020). On 14 April 2020, the IMF announced that it expected a more severe recession, with a contraction of -8% of the Portuguese GDP in 2020 (Source: IMF, WEO, April 2020), as the pandemic and the necessary lockdown measures had aggravated. In 2021, both institutions foresee a gradual recovery of the Portuguese economy. However, there is heightened uncertainty underlying this scenario and the possibility of the impact of the pandemic crisis may assume a more persistent nature as a result of the destruction of installed productive capacity.

The pandemic has led to the declaration of state of emergency in various countries, including Portugal, as well as the imposition of travel restrictions, the establishment of quarantines and the temporary shutdown of various institutions and businesses and several institutions have taken unprecedented measures, such as having the vast majority of its employees now working remotely.

The BCP Group is following a contingency plan (the "**Contingency Plan**") adapted to the pandemic scenario, which has been updated specifically for the current crisis, and has created a specific Crisis Management Office for this effect. In this context, in line with the guidelines issued by the authorities and supervisory entities, the Bank has defined an action plan aimed at protecting customers and employees, mitigating the probability of contagion and ensuring the operational continuity of the business. Guidance was also issued to service providers. See "*Description of the Business of the Group – Trends Information*" for further details on the implementation of the Bank's Contingency Plan.

Notwithstanding the existence of the Contingency Plan, the spread of the virus amongst the Bank's employees, or any quarantines affecting the Bank's employees or facilities, may reduce the Bank personnel's ability to carry out their work as usual.

Furthermore, the current COVID-19 pandemic and any potential future outbreaks may also have a material adverse effect on the Bank's counterparties and/or clients, resulting in additional default risk for the Bank by exposing the Bank to a potential increase in the number of defaults and insolvencies among its counterparties and/or clients.

Measures were already implemented by the Portuguese Government and the Bank has also announced voluntary measures to address the impact of the pandemic which have an impact on the Bank. Further potential measures may be implemented by the Portuguese Government and the Bank which can also have an impact on the Bank.

The Portuguese Government announced a 6-month moratorium (for the avoidance of doubt it does not imply a cancellation or pardon of any amount) on loan payments (capital and/or interest) until 30 September 2020 (Decree-Law No. 10-J/2020, of 26 March 2020, as amended (the "**Decree-Law No. 10-J/2020**")). The moratorium is available for individuals (in particular, borrowers under mortgage loans to finance their own permanent residence and entrepreneurs (*empresários em nome individual*)) and companies that are not in the financial sector (as well as certain third sector entities who can also apply to the moratorium), depending on the fulfilment of certain conditions, and may also be requested by borrowers whose loans are included in the Cover Pool. Decree-Law No. 10-J/2020 also foresees the granting of guarantees by the Portuguese State, including to non-financial corporate entities, subject to certain conditions.

To help families and businesses overcome the economic challenges caused by the COVID-19 pandemic, BCP has launched a set of measures worth a total of EUR 4.7 billion, addressed to both individuals and companies. See "*Description of the Business of the Group – Trends Information*" for further details on the set of measures launched by BCP.

Following the issue by the EBA, on 2 April 2020, of guidelines on public and private moratoria on loan operations in the light of the COVID-19 pandemic (EBA/GL/2020/02), on 16 April 2020, the members of the Portuguese Banking Association (including BCP) signed a protocol setting the basis for two types of private moratoria, both of which are for individuals who may be residents or non-residents in Portugal. One covers non-mortgage loans (i.e. personal or car loans) and the other mortgage loans.

It is not possible at this stage to assess all the specific measures that may be implemented to curb the effects of the COVID-19 pandemic.

Another possible consequence of the ongoing pandemic, and any potential future outbreaks, could be an adverse impact on the real estate market, including a decrease in the value of real estate assets, which could negatively affect the Bank's pool of real estate assets, as well as the Cover Pool. Temporary measures in Portugal to tackle the epidemic caused by COVID-19 have already established the temporary suspension of foreclosures of mortgages over real estate property used for permanent residence.

Finally, cost-of-risk could increase as a result of the COVID-19 outbreak, in particular if the Bank follows the same approach as banks in other geographies, such as Spain, where banks are frontloading provisions to address the negative impacts of the COVID-19 pandemic. In fact, the Bank booked total COVID-19 related provisions amounting to EUR 78.8 million in the first quarter of 2020, of which EUR 60.0 million in Portugal and EUR 18.8 million in the international operations (EUR 10.2 million, net of non-controlling interests).

Also, the pace of reduction of NPEs going forward is not expected to be maintained. Until the end of 2019, the Bank was reducing NPEs at a pace of 25% to 30% per year. NPE sales should decline as a result of the COVID-19.

Any of these factors may have a material adverse effect on the Bank's business, financial condition results of operations and prospects, therefore affecting the Bank's ability to make the payments under the Covered Bonds.

***The Bank is exposed to risks related to FX-indexed mortgage loans.***

Regarding mortgage loans granted by Bank Millennium S.A. ("**Bank Millennium**") in Poland in CHF until 2008, there are risks related to verdicts issued by Polish courts in individual lawsuits against banks (including Bank Millennium) raised by borrowers of foreign exchange indexed ("**FX-indexed**") mortgage loans.

The vast majority of verdicts in lawsuits concerning Bank Millennium have been favourable to the Bank so far. However, it should be noted that there is a significant risk that such favourable verdicts may not continue to be verified, as a result of which pending lawsuits' verdicts may not be taken in accordance with the Bank's expectations. If such risk materializes, it may have a significant negative impact on Bank Millennium.

On 3 October 2019, the Court of Justice of the European Union ("**CJEU**") issued a judgment on Case C-260/18, in connection with the preliminary questions formulated by the District Court of Warsaw in the lawsuit against Raiffeisen Bank International AG. The judgment of CJEU, combined with the interpretation of European Union Law, is binding on domestic courts.

CJEU's judgment concerns only the situations where the national court has previously found the contract terms to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be identified as abusive in the circumstances of the lawsuit. It can be reasonably assumed that the legal issues relating to FX-indexed mortgage loans will be further examined by the national courts within the framework of the disputes considered, which could possibly result in the emergence of further interpretations relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further requests for clarification and ruling addressed to the CJEU and the Supreme Court of Poland with potential impact on the outcome of the court cases may also be filed.

As at 2019, the Bank had 2,010 FX-indexed mortgage loans under individual litigations, submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 203 million (EUR 47.74 million). Until 31 December 2019, only 19 of these cases had obtained a final verdict, being the vast majority in accordance with the Bank's interest. For further details, please see "*General Information – Litigation*".

According to the Polish Bank Association (ZBP), during 2019, over 70% of the lawsuits regarding FX-indexed mortgage loans obtained a final verdict favourable to the banks involved. However, after the CJEU judgment regarding Case C-260/18 issued on 3 October 2019, there is a risk that this so far positive scenario for the banks may change.

Considering the increased legal risk related to FX-indexed mortgages, Bank Millennium created a provision in the amount of PLN 223 million (EUR 52.45 million) for legal risk. The methodology developed by Bank Millennium is based on the following main parameters: (i) the number of current (including class actions) and potential future court cases that will appear within a specified (three-year) time horizon; (ii) the amount of Bank Millennium's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account); and, (iii) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector

in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes several actions at different levels towards different stakeholders in order to mitigate legal and litigation risk regarding the FX-indexed mortgage loans portfolio. Bank Millennium is open to negotiate case-by-case favourable conditions for early repayment (partial or total) or the conversion of loans to PLN. On the other hand, Bank Millennium will continue to take all possible actions to protect its interests in courts while, at the same time, being open to find settlement with customers in the court under reasonable conditions.

An increase of unfavourable verdicts related to cases in Courts related to FX-indexed mortgages loans may require additional provisions by Bank Millennium, thus affecting the results of the Bank and the consolidated results do BCP Group.

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

The Bank is exposed to its customers' credit risk. Gross exposure to risk of credit (position in original risk) on 31 December 2019 was EUR 96.2 billion.

As at 31 December 2019, the breakdown of this exposure was the following: EUR 15.7 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 0.04 billion for multilateral development banks, EUR 3.2 billion for other credit institutions, EUR 66.3 billion for retail and companies customers and EUR 9.9 billion for other elements.

According to Banco de Portugal latest available data, Portugal's NPE coverage by loan loss reserves ("LLR") was 53.5% in the first nine months of 2019 and the NPE ratio (loans only) stood at 7.7%. The Bank NPEs (loans only) as at 31 December 2019 were EUR 4.2 billion (7.7%) with a coverage by impairments of 58% and a coverage by impairments, collaterals and Expected Loss Gap of 116%.

The materialisation of the recession scenario forecasted by several entities, notably the Bank of Portugal and the IMF as a result of the COVID-19 outbreak, could increase the Bank's cost-of-risk.

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 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 2019, the Bank continued to increase the level of coverage through impairments and collateral.

The SSM publicly released, on 22 August 2019, clarifications on topics related to the NPE coverage rules. As a result banks will have 7 years to provision collateralized NPEs and 9 years for collateralized NPEs with real estate collateral and 3 years for other non-collateralized NPEs.

For new NPEs generated from 26 April 2019, the provision coverage requirement becomes less stringent (it takes longer before 100% coverage is expected).

For new NPEs generated between 1 April 2018 and 25 April 2019 the previous coverage requirement is maintained, as well as for the stock of NPEs (all those generated before that date).

The Bank's consolidated gross loan portfolio, as at 31 December 2019, was EUR 54.7 billion (of which EUR 52.3 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers", EUR 2.1 billion were recorded in the caption "Debt securities held associated with credit operations" and EUR 0.4 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"). The ratio of NPEs (loans only) stood at 7.7% as at 31 December 2019, compared to 10.9% as at 31 December 2018. As at 31 December 2019, the loan portfolio in Portugal amounted to EUR 36.7 billion. In Portugal, the ratio of NPEs stood at 8.8% as at 31 December 2019, compared to 12.9% as at 31 December 2018.

NPEs in Portugal amounted to EUR 3.2 billion as at 31 December 2019, with EUR 0.7 billion of NPEs relating to individuals and EUR 2.5 billion to companies. 52% of NPEs are NPLs more than 90 days. NPE coverage as at 31 December 2019 was 118% for Companies (67% by LLRs, 29% by real estate collateral and 22% by other collateral and EL gap) and 102% for Individuals (26% by LLRs, 72% by real estate collateral and 3% by other collateral and EL gap). NPLs more than 90 days' coverage as at 31 December 2019 was 124% for Companies (77% by LLRs, 13% by real estate collateral and 34% by other collateral and EL gap) and 102% for Individuals (32% by LLRs, 66% by real estate collateral and 4% by other collateral and EL gap). Other NPE coverage as at 31 December 2019 was 112% for Companies (56% by LLRs, 45% by real estate collateral and 11% by other collateral and EL gap) and 101% for Individuals (19% 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 increase the risk of deterioration of the quality of the consolidated loan portfolio and may also lead to increased impairment losses and deterioration of the regulatory capital ratios. Loan impairment (net of recoveries) amounted to EUR 390.2 million in 2019, recorded in the caption "Impairment for financial assets at amortised cost – Loans and advances to customers", EUR 464.6 million as at 31 December 2018, recorded in the caption "Loans impairment", and EUR 623.7 million as at 31 December 2017, recorded in the caption "Loans impairment". From 2011 to 31 December 2019, the Bank made impairment provisions amounting to EUR 8,141 million. Cost of risk<sup>1</sup>, measured by the proportion of loan impairment annualised charges (net of recoveries) compared to loans to customers (gross), stood at 72 basis points in 2019, compared to 92 basis points in 2018, 122 basis points in 2017 and 216 basis points in 2016. The persistence, or deepening, of the crisis, general market volatility, sluggish economic growth and increased unemployment, coupled with either decreased consumer spending or a sharp increase in risk premiums required would lead to increased loan impairment costs and, consequently, to the reduction of the Bank's net income. In addition, the level of impairment and other reserves may not be sufficient to cover possible future impairment losses, and it may be necessary to create additional provisions of significant amounts. Any failure in risk management or control policies relating to credit risk could adversely affect the Bank's business, financial condition, results of operations and prospects.

In Poland, the NPL ratio as at 31 December 2019 was 2.7%, compared to 2.5% as at 31 December 2018.

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<sup>1</sup> As used in this Base Prospectus, "Cost of risk" means the ratio of impairment charges (net of recoveries) accounted to customer loans (gross).

In Mozambique, the NPL ratio as at 31 December 2019 was 16.7%, compared to 16.4% as at 31 December 2018.

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

As from the end of December 2019, the interest applied by the ECB to the main refinancing operations is 0%, while the one that applies to permanent deposit facilities is -0.5%. These two interest rates, which serve as determinant references for the level at which market interest rates are established (in particular, EURIBOR), were consecutively reduced in the past 5 years.

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

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

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

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

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

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

Law No. 32/2018, of 18 July, amending Decree-Law No. 74-A/2017, of 23 June 2017, on credit agreements for consumers relating to residential real estate property, entered into force on 19 July 2018 and, in the context of residential loan agreements, imposes on banking institutions the obligation to reflect the existence of negative rates in the calculation of interest rates applicable to the loans. According to this law, when the sum of the relevant index rate (such as EURIBOR) and the relevant margin is negative, this negative interest rate amount will have to either (i) be discounted from the principal amounts outstanding of the relevant loans or (ii) be converted into a credit which may in the future set off against positive interest rates (and ultimately be paid to the borrowers if it has not fully been set off at maturity). This could result in material adverse effects on the Bank's business, financial condition, results of operations and prospects.

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

The Bank is exposed to the credit risk of its customers, including risks arising from the high concentration of individual or economic group exposures in its loan portfolio. The 20 largest loan exposures of the Bank as at 31 December 2019 represented 7.84% of the total loan portfolio (gross) (9.3% as at 31 December 2018). The qualified shareholders' loan exposures as at 31 December 2019 represented 0.44% of the total loan portfolio (gross) (0.49% as at 31 December 2018).

The Bank also has high sectoral concentration in its loan book. As at 31 December 2019, the Bank's credit exposure to the real estate and civil construction sectors was 3.1% (real estate activities) and 3.1% (construction companies) of the total loan portfolio at the amortized cost (gross). On that date, 47.6% of the loan portfolio consisted of mortgage loans, the exposure to retail and wholesale commerce was 6.4% and the exposure to service sector companies was 15.8%.

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

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 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 3.1%, 3.1% and 47.6% of the consolidated loan portfolio at the amortized cost, respectively, as at 31 December 2019 in assets related to its operations or obtained in lieu of payment, and indirectly through properties securing loans or through funding of real estate development projects (assets received in lieu of payment in Portugal represented 1.2% of total assets of the Bank as at 31 December 2019), 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 1,474 million as at 31 December 2018 to EUR 1,020 million as at 31 December 2019 (impairments of EUR 205 million as at 31 December 2018 and 184 million as at 31 December 2019). The coverage of assets received in lieu of payment stood at 13.9% as at 31 December 2018 and 18.0%

as at 31 December 2019. In 31 December 2019, the Bank sold 5,689 properties, from its stock of properties, for EUR 675 million, above its book value of EUR 599 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 371 million as at 31 December 2019 (EUR 371 million as at 31 December 2018). The item Investment Properties includes the amount EUR 13 million as at 31 December 2019 and EUR 11.1 million as at 31 December 2018, 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, 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 million recorded as at 31 December 2019, and EUR 245.3 million as at 31 December 2018.

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 47.6% of the total loan portfolio as at 31 December 2019 (46.2% as at 31 December 2018), with a low delinquency level and an average loan-to-value ratio of 60%. Although Portugal did not face a housing bubble during the recent financial crisis as did other European countries, such as Ireland and Spain, 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 NPEs (loans only) and contributing to the increase in impairment charges.

The materialisation of the recession scenario forecasted by several entities, notably the Bank of Portugal and the IMF, as a result of the COVID-19 outbreak could result in fewer housing transaction in 2020. The fall in housing transactions could result in sellers having to adjust price downwards.

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 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 Bank's total exposure to funds specialised in the recovery of loans was EUR 924 million as at 31 December 2019. 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 Net assets attributable to unit holders ("NAV") of the held participation units that cannot be sold, leading to additional impairments. As a consequence of the negative impacts of COVID-19, there could be a delay in the sale of the units of corporate restructuring funds. This could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

Off-balance sheet customer funds, as at 31 December 2019 totalled EUR 19.1 billion, consisting of assets under management (EUR 5.7 billion), assets placed with customers (EUR 4.3 billion) and insurance products (EUR 9.0 billion), including unit linked products (EUR 2.9 billion) and capitalisation insurance (EUR 5.9 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 the risk of interest rate repricing of credit granted to customers.***

Mortgage loans represented 47.6% of BCP's total loan portfolio at the amortized cost (consolidated) as at 31 December 2019. The average spread of the mortgage loans portfolio in Portugal stood at 1.31%; 46.6% of the balance of mortgage loans had spreads under 1%. As at 31 December 2019, 65% of the contracts and 52% of the balance of the mortgage loans portfolio in Portugal were indexed to EURIBOR 3 months and 9% of the contracts and 9% of the balance of the portfolio were indexed to EURIBOR 6 months.

The Bank, along with other banks in Portugal, limited the granting of new mortgage loans. In 31 December 2019, 18,392 new mortgage credit operations were contracted with an average spread of 1.37%, compared to 18,016 new mortgage credit operations contracted with an average spread of 1.41% in 2018. 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.

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

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

In 2019, the Bank had 2.4 million active customers in Portugal and, the market share in Portugal (estimates based on figures disclosed by Banco de Portugal and other banking industry associations for aggregates of the financial system and with adjustments for statistical standardisation) was the following: 17.1% in loans to customers, 17.7% in loans to companies, 15.8% in loans to individuals, 17.2% in mortgage loans, 9.1% in consumer credit, 18.9% in customer funds, 18.2% in on-balance sheet customer funds, 17.8% in deposits and 21.0% 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. However, high levels of competition in Portugal, as well as in other countries where the Bank operates and an increased emphasis on cost reduction may result in the Bank's inability to maintain these objectives. In addition, on 31 December 2019 the Bank operated 505 branches, working towards its goal of becoming a more digital bank. This resulted in the downsizing of the Bank's branch network and consequently in BCP's branches' market share in Portugal. This may result in a weaker competitive

position in the Portuguese retail market. As a consequence, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Moreover, as at 31 December 2019, around 0.9% of the Bank's total domestic customers also held ordinary shares of the Bank (around 2.6% as at 31 December 2018). 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 2019, more than 85% of the fees and commissions related to banking (24% to cards and transfers, 24% to loans and guarantees, 17% to bancassurance, 17% to customer account related fees and 3% to other fees and commissions), with market related fees and commissions accounting for the remaining 15%. A decrease in the volume of lending transactions that the Bank executes with its customers could result in lower commissions derived from banking operations and guarantees. Moreover, changes to market sentiment could lead to market downturns that are likely to impact transactional volume, therefore leading to declines in the Bank's fees. In addition, as the fees that the Bank charges for managing its' clients' portfolios are, in many cases, based on the value or performance of those portfolios, a market downturn that reduces the value of the Bank's clients' portfolios or increases the amount of withdrawals would reduce the revenue the Bank receives from its asset management, private banking and custody services. Revenue derived from the Bank's asset management business could also be impacted by below market performance by the Bank's securities investment funds, which could lead to increased withdrawals and reduced inflows. An increase in withdrawals and a reduction in inflows could have a significant material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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

The Bank's ratings are assigned by Moody's Investors Service España, S.A., S&P Global Ratings Europe Limited, Fitch Ratings Limited and any entity that is part of DBRS group and any successor to the relevant rating agency. The ratings as of the date of this Base Prospectus are the following: (a) Moody's: "Ba1 (long-term)/NP (short-term)" (re-presented as at 26 July 2019), (b) S&P: "BB (long-term)/B (short-term)" (re-presented as at 9 October 2018), (c) Fitch: "BB (long-term)/B (short-term)" (re-presented as at 6 December 2018) and (d) the relevant DBRS entity: "BBB(low) (long-term)/R-2 (short-term)" (re-presented as at 3 June 2019).

Credit ratings represent an important component of the Bank's liquidity profile and affect the cost and other terms upon which the Bank is able to obtain funding. Changes to the Bank's credit ratings reflect, apart from changes to the rating of the Portuguese Republic, a series of factors intrinsic to the Bank. Currently, the ratings assigned to the Bank, with the exception of the Critical Obligations Ratings ("COR") assigned by the relevant DBRS entity, are non-investment grade. In terms of capital, and despite the fact that the rating agencies recognise that the solvency levels of the Bank are better primarily due to the recapitalisation by the Portuguese State and by shareholders in June and September 2012, respectively, and more recently in July 2014, June 2015, November 2016 and the start of 2017, and the repayment of the GSIs, it remains uncertain whether adverse conditions of the Portuguese

economy could impact the Bank's profitability and ability to generate income, jeopardising the Bank's ability to preserve capital. The rating agencies also consider the following additional risk factors: (i) the declining quality of the loan portfolio and any exposure to small and medium enterprises ("**SME**") in Portugal; (ii) the Bank's exposure to public debt; (iii) the Bank's exposure to its main clients, particularly shareholders (0.9% of BCP's shareholders were also clients of BCP as at 31 December 2019); and (iv) continued resort to funding from the ECB.

Rating agencies have been recently revising the ratings of the European banks in different geographies due to the disruption caused by the COVID-19 outbreak and a reassessment of the Portuguese market by some rating agencies was already done. There is no guarantee that further rating actions or outlook revisions will not be made in the future.

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 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.***

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

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

The Bank faces exposure to risks in its operations in Poland and Mozambique, as well as a result of its equity accounted holding in Angola via Banco Millennium Angola, S.A. ("**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 2019, the Bank's net profit (after income taxes and non-controlling interests) attributable to international operations was EUR 143.8 million, compared to net profits (after income taxes and non-controlling interests) of a total EUR 302.0 million for the Bank as a whole. For the same period, net income in Poland was EUR 130.5 million, (EUR 65.4 million of which was attributable to the Bank), net contribution in Angola was EUR 2.5 million and net income in Mozambique was EUR 99.5 million (of which EUR 66.3 million was attributable to the Bank).

## *Poland*

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

The removal of the peg of the EUR/CHF parity led to a significant appreciation of the Swiss franc ("**CHF**") against the euro and the zloty. The granting of loans in Swiss francs was a common practice of most Polish banks (and in other economies of Central and Eastern Europe) in the past. Bank Millennium granted mortgage loans in Swiss Francs until December 2008 and its Swiss francs mortgage loans portfolio on 31 December 2019 stood at approximately EUR 3.3 billion (approximately 20.1% of the total loan portfolio in Poland). The mortgage loans impaired ratio (stage 3) stood at 4.6% in 2019 which compares to 4.4% in 2018.

According to the Polish Bank Association (ZBP), during 2019, over 70% of the lawsuits regarding FX-indexed mortgage loans obtained a final verdict favourable to the banks involved. However, after the CJEU judgment regarding Case C-260/18 issued on 3 October 2019, there is a risk that this so far positive scenario for the banks may change. See the risk factor "*The Bank is exposed to risks related to FX-indexed mortgage loans*" for further information.

## *Emerging Markets*

Angola and Mozambique present specific political, economic, fiscal, legal, regulatory and social risks that differ from those found 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, which may negatively affect the Bank's business, financial condition, results of operations and prospects.

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.

The Bank's operations in Mozambique and Angola 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 euro 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 BIM – Banco Internacional de Moçambique, S.A. ("**Millennium bim**"), in Mozambique, the dividends paid out to the Group in 2019 totalled EUR 29.8 million, while in Angolan no dividends were paid to the Group in 2019.

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*

According to an IMF statement dated 23 April 2016, existing debt guaranteed by the State of Mozambique in an amount over USD 1 billion that had not been disclosed to the IMF. Following this disclosure, the economic program supported by the IMF was suspended. According to an IMF 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 June 2017, the Attorney General's Office of the Republic of Mozambique published an Executive Summary regarding the abovementioned external audit. On 24 June 2017, the IMF released in a statement that due to the existence of information gaps in this audit, an IMF mission would visit the country to discuss audit results and possible follow-up measures. Following this visit, the IMF requested the Government of Mozambique to obtain additional information on the use of the funds.

On 14 December 2017, in a statement from the IMF staff, after the end of the mission held between 30 November and 13 December 2017, it was reiterated the need for the Mozambican State 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 IMF.

As at 31 December 2019, Millennium bim's exposure to the State of Mozambique classified as Financial assets measured at amortised cost – Debt Instruments amount to EUR 702 million and Financial assets at fair value through other comprehensive income in the gross amount of EUR 80.1. These public debt securities mostly have a maturity of less than one year. As at 31 December 2019, the Group has also registered in the balance Loans and advances to customers, a direct gross exposure to the Mozambican State in the amount of EUR 327.9 million (of which EUR 327.2 million are denominated in metical and EUR 0.7 million denominated in USD) and an indirect exposure resulting from sovereign guarantees received in the amount of EUR 162.6 million denominated in USD and in the balance Guarantees granted and irrevocable commitments, an amount of EUR 62.1 million (of which EUR 1.2 million are denominated in euro, EUR 2.0 million are denominated in metical, EUR 58.7 million denominated in USD and EUR 0.1 million denominated in Rands).

As at 31 December 2019, considering the 66.7% indirect investment in Millennium bim, the Group's interest in Millennium bim's equity amounted to EUR 355 million, with the exchange translation reserve associated with this participation, accounted in Group's consolidated equity, a negative amount of EUR 151 million. Millennium bim's contribution to consolidated net income in 2019, attributable to the shareholders of the Bank, amounts to EUR 66.3 million.

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

## *Angola*

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 oil/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 (93% of the Bank's funding as at 31 December 2019). 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 31 December 2019 were 216% and 135%, respectively, compared to a regulatory requirement of 100% (fully implemented) for both ratios. The leverage ratio stood at 7.0% (fully implemented) as at 31 December 2019, compared to a reference value of 3% (fully implemented).

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

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

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

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

As a consequence of SREP, excluding P2G, the minimum Group CET1 phased-in ratio required is 9.813% (4.5% Pillar 1, 2.25% Pillar 2 requirements, 2.5% CBR and 0.563% O-SIFI), the Group Tier 1 ratio is 11.313% and the Group total capital ratio is 13.313% from 31 December 2019. The Group's CET1 ratio as at 31 December 2019 was 12.2% (fully implemented).

SREP may increase and an additional cushion may be requested. In addition, Polish SREP requirements for 2020 are as follows: CET1 phased-in ratio required is 12.73%, the Tier 1 is 15.15% and the total capital ratio is 18.37% from 1 January 2020. Bank Millennium's CET1, Tier 1 and total capital ratios

as at 31 December 2019 were 16.9%, 16.9% and 20.1%, respectively. See further "*Recent developments on the banking regulation - Response to COVID-19 crisis*" below.

***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 27,557 as at 31 December 2019 and 27,381 as at 31 December 2018.

The liabilities related to retirement pensions and other employee benefits were wholly funded at levels above the minimum limits defined by Banco de Portugal, presenting a coverage level of 100% at the end of December 2019 (100% as at 31 December 2018). As at 31 December 2019, the liabilities related to the pension fund and other employee benefits reached EUR 3,490 million, compared with EUR 3,066 million recorded as at 31 December 2018. In 2019, the pension fund recorded a positive 8.1% rate of return, whereas in 2018 it stood at positive 0.2%.

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

The level of coverage of pension fund liabilities could turn out to be insufficient. If the deterioration of global financial markets leads to lower investment income and, consequently, a lower value of the fund, this would result in actuarial losses for the year, which would be recognised against reserves in the financial year in which they were recorded. As at 31 December 2018, the Bank used a discount rate of 2.1% to measure its liability for the defined benefit pension plans of its employees and managers, equivalent to the rate used in its accounts as at 31 December 2017. In the financial statements with reference to 31 December 2019, the discount rate was at 1.4% and the pension growth rate 0% until 2019 and 0.5% after 2019. The Bank shall re-evaluate the adequacy of its actuarial assumptions for the calculation of its liabilities with pensions on a semi-annual basis. A decrease in level of the interest rates for the liabilities liquidation deadline or an increase in the pensions growth rate would imply a decrease in the Bank's own capital. A decrease of 25 bps in the discount rate results in a decrease of around EUR 146 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 138 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 2019, actuarial differences were recorded representing negative EUR 285 million (negative EUR 98 million as at 31 December 2018). 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, both of which could be affected by the COVID-19 pandemic and heightened uncertainty about the magnitude and duration of the outbreak.

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.

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

The Bank's deferred tax assets ("DTAs") (on a consolidated basis) as at 31 December 2019 corresponded to EUR 2,721 million, compared to EUR 2,917 million as at 31 December 2018, and were generated by tax losses and temporary differences. The most notable sources of the Bank's DTAs non-dependent on future profitability are impairment losses amounting to EUR 983 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 tax losses carry forward and the temporary differences deductible for tax purposes, the deferred taxes may not be recovered.

Additionally, the Bank may be forced to alter its evaluation as a result of corrections to the taxable income or to tax losses that it may be subject to or as a result of reductions of the tax rates.

The recoverability of DTAs depends on the implementation of the strategy of the Bank's Board of Directors, namely the generation of estimated taxable income and its interpretation of tax legislation. Any changes in the assumptions used in estimating future profits or tax legislation may have material impacts on deferred tax assets.

The assessment of the recoverability of DTAs was carried based on the respective financial statements prepared under the budget process for 2020 and adjusted according to the strategic plan approved by the elected governing bodies, which support future taxable income, considering the macroeconomic and competitive environment.

To estimate taxable profits for 2020 and subsequent periods, the following main assumptions were considered:

- The approximation between accounting and tax rules foreseen by Law No. 98/2019, of 4 September 2019, was considered, assuming the Group will not exercise its application earlier than the adaptation period of 5 years that the abovementioned Law foresees. In the application of these rules, the following assumptions were considered, in general terms:
  - a) non-deductible expenses related to increase of credit impairments for the years between 2020 to 2023 were estimated based on the average percentage of non-deducted amounts for tax purposes in the last accounting years between 2016 to 2019, compared to the amounts of net impairment increases recorded in these years;
  - b) the expenses with credit impairment's increases beginning in 2024 were considered deductible for tax purposes according to the new fiscal regime;

- c) impairment reversals not accepted for tax purposes were estimated based on the Reduction Plan of Non-Performing Assets 2019-2021 submitted to the supervisory authority in March 2019, and also on the average reversal percentage observed in the last years of 2016 to 2019;
  - d) the referred average percentages were calculated separately, according to the presence or not of a mortgage security, the eligibility for the special regime applicable to deferred tax assets and according to the clients' rating as Non-Performing Exposures;
- The deductions related to impairment of financial assets were projected based on the destination (sale or settlement) and the estimated date of the respective operations;
  - The deductions related to employee benefits were projected based on their estimated payments or deduction plans, in accordance with information provided by the actuary of the pension fund.

The projections made consider the Group's strategic priorities, essentially reflecting the projection of the Bank's medium-term business in Portugal in terms of results generation, and are globally consistent with the Reduction Plan of Non-Performing Assets 2019-2021, submitted to the supervisory authority in March 2019, emphasising:

- improvement in the net margin, reflecting an effort to increase credit, favouring certain segments, the focus on off-balance sheet resources while interest rates remain negative and the effect of the normalisation of those rates in the last years of the projection horizon, such as results from the market interest rate curve;
- increase in commission income based on efficient and judicious management of commissioning and pricing, and, regarding the Individuals segment, the growth of off-balance sheet products;
- normalisation of the cost of risk to levels aligned with the current activity of the Bank and reduction of negative impacts produced by the devaluation or sale of noncurrent assets, with the progressive reduction of the historical NPE, foreclosed assets and FREs (corporate restructuring funds) portfolios;
- capturing efficiency gains enhanced by digitalisation, reflected in the control of operating costs, but implying in the short term an effort to adapt the Bank's structure.

Following the analysis of the recoverability of deferred tax assets carried out in 2019, the Bank derecognized an amount net of deferred tax assets in the amount of EUR 116,347,000. From the referred net amount, EUR 69,584,000 were recorded against results and EUR 46,763,000 were recorded against reserves. The allocation of deferred taxes to results and reserves was made in accordance with the accounting principle used for the recognition of the deferred tax assets in question, due to the decomposition of the realities that originated the tax losses to which they refer.

The performed analysis allowed the conclusion of total recoverability of the deferred tax assets recognized as at 31 December 2019. The potential effects of COVID-19 were not taken into consideration within the analysis performed.

As mentioned previously, for the estimation of the Bank's taxable income until 2023, it was considered the maintenance of the tax rules in force until 2018, resulting from not exercising earlier the option of applying the new regime. Regardless the previously referred option, the new regime's application will be mandatory in the financial years of 2022 and/or 2023 in the following circumstances:

- In the financial year of 2022, if, since 1 January 2022, the Bank distributes dividends regarding that financial year or acquires own shares, without occurring a decrease of the DTAs covered

by the optional framework foreseen in Law No. 61/2014, of 26 August 2014 (as amended by Law 23/2016, the "**Law 61/2014**") in, at least, 10% comparatively to the amount recorded on 31 December 2018;

- In the financial year of 2023, if, since 1 January 2023, the Bank distributes dividends regarding that financial year or acquires own shares, without occurring a decrease of the DTAs covered by Law 61/2014's optional framework in, at least, 20% comparatively to the amount recorded on 31 December 2018. It was assumed that the Bank will not exercise its early application over the adaptation period of 5 years. Meanwhile, on 4 September 2019, Law 98/2019 was published, enacting the tax regime described above.

Law 61/2014 approved an optional framework, with the possibility of subsequent waiver, according to which, upon certain events (including (a) annual net losses on the separate financial statements, as well as (b) liquidation as a result of voluntary dissolution, insolvency decided by the court or withdrawal of the respective authorisation), the DTAs that have resulted from the non-deduction of expenses and of negative asset variations resulting from impairment losses in credits and from post-employment benefits or long-term employments, will be converted into tax credits. In the case of (a), a special reserve must be created in the amount of the tax credit resulting from the terms of such Law, enhanced with an increase of 10%, which is intended exclusively to be incorporated into the share capital. The creation of such special reserve implies a creation, simultaneously, of conversion rights and of a right to demand the issue of shares by the Bank in an amount equivalent to such special reserve granted to the Portuguese Republic ("**State Rights**"), such rights being acquirable by the shareholders through payment to the Portuguese State of the same amount. The tax credits can be offset against tax debts of the beneficiaries (or of any entity with head office in Portugal within the same group to which the special regime foreseen in the Corporate Tax Code is applicable or within the same prudential consolidation perimeter for the purpose of Regulation (EU) no. 575/2013, of the European Parliament and of the Council, as amended) 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 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*") 60/2020, of 5 March 2020), concerning the conditions and proceedings for the acquisition by shareholders of the referred State Rights. Law 98/2019, of 4 September, established a three year deadline for the acquisition of the referred State rights by the shareholders, after which the Board of Directors of the issuing bank is obliged to promote the record of the share capital increase by the amount resulting from the exercise of the conversion rights. According to this legislation, among other aspects, such rights are subject to an acquisition right by the shareholders on the date of their creation exercisable in periods to be established by the Board of Directors until three years after the date of the confirmation date of the tax credit resulting from the conversion of the deferred tax assets by the Portuguese Tax Authorities. The issuing bank has to deposit in the name of the Portuguese State the amount of the price corresponding to the exercise of the acquisition right of all the conversion rights, within three months beginning from the confirmation date of the deferred tax assets into tax credit, ahead and independently of their acquisition. Such deposit is redeemed when and to the extent that the State Rights are acquired by shareholders or are exercised by the State.

As disclosed in due course, pursuant to the General Meeting held on 15 October 2014, the Bank adopted the optional framework approved by Law 61/2014 described above. The Group's CET1 ratio, fully implemented as at 31 December 2019, corresponds to 12.2% and already incorporates the effects of the application of the new framework which became effective on 1 January 2015.

The Bank's net result (on an individual basis) as at 31 December 2019 was EUR 139 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, the Portuguese Republic will be granted State Rights, exercisable after the mentioned period of up to 3 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 61/2014, the interpretation of the tax law is relevant, as well as the performance of several operations in 2017, 2018 and 2019.

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

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

- the Bank's ability to successfully implement its strategy;
- the Bank's ability to successfully implement its funding and capital plans;
- the successful implementation of economic reforms in Portugal;
- the Bank's ability to access funding in the capital markets;
- the level of the Bank's LLRs against NPEs;
- the Bank's ability to reduce NPEs;
- the quality of the Bank's assets;
- the Bank's ability to reduce costs;
- the financial condition of the Bank's customers;

- reductions to the Bank's ratings;
- growth of the financial markets in the countries in which the Bank operates;
- the Bank's ability to grow internationally;
- future market conditions;
- currency fluctuations;
- the actions of regulators;
- changes to the political, social and regulatory framework in which the Bank operates;
- macroeconomic or technological trends or conditions, including inflation and consumer confidence,

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

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

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

***The Bank is 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 2017, as amended, and regulatory notices ("*Avisos*") No. 5/2013, of 18 December 2013, or No. 2/2018, of 26 September 2018, of Banco de Portugal (as applicable), as amended. Although the Bank exercises increasingly stricter scrutiny of transactions with politically exposed persons in order to ensure compliance with applicable laws, the services provided to these individuals may expose the Bank to reputational risks, notwithstanding the Bank's compliance with applicable laws.

***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. 82.2% of the Bank's employees in Portugal and 76.9% of all its employees were members of labour unions at the end of 2019 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 Bank has significant exposure to participation units in closed-end funds. See further "*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*". 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. See further "*The Bank is subject to changes in financial reporting standards, such as IFRS 9 and IFRS 16, or policies, including as a result of choices made by the Bank, which could materially and adversely affect the Bank's reported results of operations and financial condition and may have a corresponding material adverse impact on capital ratios*".

The Bank 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 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 2019 were caused by frauds and execution failures and a large portion of the operational losses had low material significance, under EUR 100,000 (94% of all operational losses Group wide). In fact about 56.2% of the cases recorded in 2019 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.

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. For further details on the Bank's strategic partnerships, please see "*Description of the Business of the Group*"

***Transactions in the Bank's own portfolio involve risks.***

The Bank carries out various proprietary treasury activities, including the placement of deposits denominated in Euro and other currencies in the interbank market, as well as trading in primary and

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

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

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

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

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

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

As at 31 December 2019, the loans-to-deposits ratio in Poland and Mozambique was 86% and 38%, respectively. The Bank's loan portfolio also includes loans in foreign currency, where the losses are assumed by customers and recorded in the profit and loss account under impairment. The use of funding in foreign currency in some countries of Eastern Europe exposes some of the Bank's customers to exchange rate risk, affecting the financial condition of these entities and, consequently, the net income of the Bank. Although Bank Millennium stopped granting new foreign currency loans in Poland by the end of 2008, it still holds a considerable loan portfolio in foreign currency, mainly in Swiss francs (as at 31 December 2019), 20.6% of the total loan portfolio in Poland and 40% of the total mortgage loan book in Poland), 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.

For details on the Bank's exposure to risks in foreign countries, see risk factor "*The Bank faces exposure to risks in its businesses in Europe (Poland) and Africa (Angola and Mozambique)*".

***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 GDPR. 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.

***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 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 Group and particularly the 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 6.5 billion as at 31 December 2019, of which EUR 3 million recorded in "Financial assets at fair value through profit or loss – Held for trading"; EUR 31 million recorded in "Financial assets at fair value through profit or loss – Designated at fair value through profit or loss"; EUR 6.3 billion recorded in "Financial assets at fair value through other comprehensive income" and EUR 137 million recorded in "Financial assets at amortised cost – Debt securities"), creating a risk of substantial losses. Potential gains in the Portuguese public debt in December 2019 stand at around EUR 39.1 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.

***The Bank's risk management methods may not be able to identify all risks or level of risks to which the Bank is exposed.***

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.

## **2. RISKS RELATING TO THE COVERED BONDS ISSUED UNDER THE PROGRAMME**

### **2.1 Risks relating to the Nature of the Covered Bonds**

#### ***Extended Maturity of the Covered Bonds***

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

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

The holders of Covered Bonds issued by the Issuer under the Programme whether outstanding at the date hereof or in the future benefit from a special creditor privilege ("*privilégio creditório*") over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The Covered Bonds Law establishes that the Common Representative and any Hedge Counterparties at the date hereof and in the future are also preferred

creditors of the Issuer which benefit from the abovementioned special creditor privilege ("*privilégio creditório*"). None of the assets comprised in the Cover Pool are or will be exclusively available to meet the claims of the holders of certain Covered Bonds ahead of other holders of Covered Bonds or of Other Preferred Creditors of the Issuer at the date hereof or in the future.

### ***Dynamic Nature of the Cover Pool***

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

### ***Value of security over residential property***

As described above, the holders of Covered Bonds benefit from a special creditor privilege ("*privilégio creditório*") over all assets comprised in the Cover Pool in relation to the payment of principal and interest on the Covered Bonds (see *Characteristics of the Cover Pool*). The security for a mortgage credit included in the Cover Pool consists of, among other things, a mortgage over a property granted in favour of the Issuer. The value of this property and accordingly the level of recovery on the enforcement of the mortgage, may be affected by, among other things, a decline in the value of the relevant property and no assurance can be given that the values of the relevant properties will not decline in the future. See *The Covered Bonds Law*.

## **2.2 Risks relating to Tax and other Relevant Laws**

### ***Administrative co-operation in the field of taxation***

Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014 (the Common Reporting Standard).

Under Council Directive 2014/107/EU, of 9 December 2014, 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 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 Directive. The information refers to the account balance at the end of the calendar year, income paid or credited in the account and 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, as amended by Decree-Law No. 64/2016, of 11 October 2016, Law No. 98/2017, of 24 August 2017, and Law No. 17/2019, of 14 February. The Council Directive 2014/107/EU, of 9 December 2014, regarding the mandatory automatic exchange of information in the field of taxation was also transposed into the Portuguese law through the Decree-Law No. 64/2016, of 11 October 2016, as amended by Law No. 98/2017, of 24 August 2017, and Law No. 17/2019, of 14 February 2019. Law no. 17/2019, of 14 February 2019 introduced the regime for the automatic exchange of financial information to be carried out by financial institutions to the Portuguese Tax Authority (until July 31, with reference to the previous year) with respect to accounts held by holders or beneficiaries resident in the Portuguese

territory with a balance or value that exceeds € 50,000 (assessed at the end of each civil year). This regime covers information related to years 2018 and following years.

In addition, the information regarding the registration of the financial institutions and the procedures to comply with the reporting obligations arising from Decree-Law No. 64/2016, of 11 October 2016, which has been amended through Law No. 98/2017, of 24 August 2017 and Law No. 17/2019, of 14 February 2019, and the applicable forms were approved by Ministerial Order ("*Portaria*") No. 302-B/2016, of 2 December 2016, as amended by Ministerial Order ("*Portaria*") No. 282/2018, of 19 October 2018, Ministerial Order ("*Portaria*") No. 302-C/2016, of 2 December 2016, Ministerial Order ("*Portaria*") No. 302-D/2016, of 2 December 2016, as amended (including by Ministerial Order ("*Portaria*") No. 255/2017, of 14 August and by Ministerial Order ("*Portaria*") No. 58/2018, of 27 February 2018) and Ministerial Order ("*Portaria*") No. 302-E/2016, of 2 December 2016.

Investors should in any case consult their own tax advisers to obtain a more detailed explanation of this regime and how it may individually affect them.

### ***Harmonisation of the EU Covered Bond Framework***

In November 2019, the European Parliament and the Council adopted the legislative package on covered bond reforms made up of a new covered bond directive (Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019) and a new regulation (Regulation (EU) 2019/2160 of the European Parliament and of the Council of 27 November 2019).

The new covered bond directive replaces current Article 52(4) of Directive 2009/65/EC on undertakings for collective investment in transferable securities (the "**UCITS Directive**"), establishes a revised common base-line for the issue of covered bonds for EU regulatory purposes (subject to various options that members states may choose to exercise when implementing the new directive through national laws). The new regulation, which will be directly applicable in the EU from 8 July 2022, amends Article 129 of the CRR (and certain related provisions) and further strengthens the criteria for covered bonds that benefit from preferential capital treatment under the CRR regime.

The new covered bond directive and the new regulation were published in the Official Journal on 18 December 2019 and came into effect on 7 January 2020. Member States shall adopt and publish, by 8 July 2021, the laws, regulations and administrative provisions necessary to comply with new covered bond directive and shall apply those measures at the latest from 8 July 2022.

Given that the aspects of the new regime will require transposition through national laws, the final position is not yet known. Therefore, there can be no assurances or predictions made as to the precise effect of the new regime on the Covered Bonds.

### ***Change of law***

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

### ***Risks related to withholding tax***

Under Portuguese law, income derived from the Covered Bonds integrated in and held through a centralised system managed by Portuguese resident entities (such as the Portuguese Centralised System of Registration of Securities ("**Central de Valores Mobiliários**"), managed by Interbolsa), by other European Union or European Economic Area entities that manage international clearing systems (in the latter case if there is administrative co-operation for tax purposes with the relevant country which is

equivalent to that in place within the European Union), or, when authorised by the member of the government in charge of finance (currently the Finance Minister), in other centralised systems held by non-resident investors (both individual and corporate) eligible for the debt securities special tax exemption regime which was approved by Decree-Law No. 193/2005, of 7 November 2005, as amended ("**the special regime approved by Decree-Law No. 193/2005**") may benefit from withholding tax exemption, provided that certain procedures and certification requirements are complied with.

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

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

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

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

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

## **2.3 Risks relating to the Market generally**

### ***The secondary market generally***

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

### ***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risks that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Covered Bonds; (ii) the Investor's

Currency-equivalent value of the principal payable on the Covered Bonds; and (iii) the Investor's Currency-equivalent market value of the Covered Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Credit ratings may not reflect all risks***

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

In general, European (including United Kingdom) regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU or the United Kingdom and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU and non-UK credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered or UK-registered credit rating agency or the relevant non-EU and non-UK rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). If the status of a rating agency rating the Covered Bonds changes, European (including United Kingdom) regulated investors may no longer be able to use the rating for regulatory purposes and the Covered Bonds may have a different regulatory treatment. This may result in European (including United Kingdom) regulated investors selling the Covered Bonds which may impact the value of the Covered Bonds and any secondary market. The list of registered and certified rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

**2.4 Risks relating to the Structure of a particular issue of Covered Bonds**

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

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

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

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds

being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

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

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

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

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

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

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

The Benchmarks Regulation applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the European Union (which, for these purposes, includes the United Kingdom). It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-European Union based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by European Union (which, for these purposes, includes the United Kingdom) supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-European Union based, not deemed equivalent or recognised or endorsed).

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

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

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. The FCA has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

Separately, the euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system.

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

The Conditions provide for certain fallback arrangements in the event that an Original Reference Rate and/or any page on which an Original Reference Rate may be published (or any other successor service) becomes unavailable or a Benchmark Event (as defined in the Terms and Conditions) otherwise 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 Original Reference Rate or (ii) if the Issuer is unable to appoint an Independent Adviser or the Independent Adviser appointed is unable to determine the relevant rates, the Issuer may (after consulting with the Independent Adviser (if any)) determine a Successor Rate or, failing which an Alternative Reference Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Reference Rate to determine the Rate of Interest may result in the Covered Bonds performing differently (including paying a lower Rate of Interest for any Interest Period) than they would do if the Original Reference Rate were to continue to apply.

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

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

will either reduce or eliminate economic prejudice to holders of the Covered Bonds. If no Adjustment Spread is determined, a Successor Rate or Alternative Reference Rate may nonetheless be used to determine the Rate of Interest. Furthermore, there is no guarantee that a Successor Rate or an Alternative Reference Rate will be determined or applied.

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

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

***Covered Bonds issued as a "green bond", a "social bond" or a "sustainability bonds" may not be a suitable investment for all investors seeking exposure to green, social and/or sustainable assets.***

The Final Terms (or, in the case of Exempt Covered Bonds, the Pricing Supplement) relating to any specific Tranche of Covered Bonds may provide that it will be the Issuer's intention to apply an amount equivalent to the proceeds from an offer of those Covered Bonds specifically to a "green", "social" or "sustainable" purpose, including, without limitation, for projects and activities that promote climate-friendly and or other environmental or social purposes (the "**Eligible Sustainable Projects**"). There can be no assurance that the use of proceeds of an offer of any such Covered Bonds will be suitable for the investment criteria of an investor.

Prospective investors should have regard to the information set out in the relevant Final Terms or Pricing Supplement (as the case may be) regarding such use of proceeds and must determine for themselves the relevance of such information for the purpose of any investment in such Covered Bonds together with any other investigation such investor deems necessary.

In particular, no assurance is given by the Issuer, the Arranger or any Dealer that the use of such proceeds for any Eligible Sustainable Project will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Sustainable Project. Neither the Arranger nor any Dealer shall be responsible for the ongoing monitoring of the use of proceeds in respect of any such Covered Bonds.

Furthermore, it should be noted that the definition (legal, regulatory or otherwise) of, and market consensus as to what constitutes or may be classified as, a "sustainable", "green", "social" or equivalently-labelled project or loan that may finance such project, is currently under development. On 18 December 2019, the Council and the European Parliament reached a political agreement on a regulation to establish a framework to facilitate sustainable development (the "**Taxonomy Regulation**"). Within the framework of the Taxonomy Regulation, the Technical Expert Group on Sustainable Finance ("**TEG**") has been asked to develop recommendations for technical screening

criteria for economic activities that can make a substantial contribution to climate change mitigation or adaptation. On 9 March 2020, the TEG published its final report on the EU taxonomy. The report contains recommendations relating to the overarching design of the EU Taxonomy, as well as extensive implementation guidance on how companies and financial institutions can use and disclose against the taxonomy. On 15 April 2020, the Council adopted by written procedure its position at first reading with respect to the Taxonomy Regulation. As next steps, the European Parliament will have to vote on the text pursuant to the "early second reading agreement" procedure. On this basis, the European Commission will be tasked to establish the actual classification by defining technical screening criteria, in the form of delegated acts, for each relevant environmental objective and sector respectively. The TEG's recommendations are designed to support the European Commission in the development of the delegated act on climate change mitigation and climate change adaptation under the Taxonomy Regulation. The taxonomy for climate change mitigation and climate change adaptation should be established by the end of 2020 in order to ensure its full application by end of 2021. Further development of the EU Taxonomy will take place via a new Platform on Sustainable Finance, which is expected to be operating by autumn 2020. Accordingly, no assurance is or can be given by the Issuer, the Arranger or any Dealer to investors that any projects or loan that may finance such project will meet any or all investor expectations regarding such "sustainable", "green" or "social" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or loan that may finance such project.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Covered Bonds and in particular with any Eligible Sustainable Project to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Covered Bonds. Any such opinion or certification is only current as at the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Covered Bonds. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. The TEG has recommended that oversight of reviewers be conducted through a centralised system organised by ESMA. However, until the legislative process for a potential ESMA-led supervision can be fully operational, a market-based and voluntary interim registration process for verifiers of "green", "social" or "sustainability" bonds may be set up for a transition period, which would allow for a standardised external verification of "green", "social" or "sustainability" bonds by a registered verifier.

In the event that any such Covered Bonds are listed or admitted to trading on any dedicated "green", "environmental", "social" or "sustainable" or other equivalently-labelled stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Sustainable Project. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer or any other person that any such listing or admission to trading will be obtained in respect of any such Covered Bonds or, if obtained, that any such listing or admission to trading will be maintained during the life of the Covered Bonds.

While it is the intention of the Issuer to apply an amount equivalent to the proceeds of any Covered Bonds so specified to an Eligible Sustainable Project in, or substantially in, the manner described in the relevant Final Terms or Pricing Supplement (as the case may be), there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Sustainable Project will be capable of being implemented in, or substantially in, such manner and/or in accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Sustainable Project. Nor can there be any assurance that such Eligible Sustainable Project will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an event of default under the Covered Bonds.

Any such event or failure to apply an amount equivalent to the proceeds of any issue of Covered Bonds for any Eligible Sustainable Project as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Covered Bonds no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Covered Bonds and also potentially the value of any other Covered Bonds the proceeds of which are intended to be allocated to an Eligible Sustainable Project and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

## OVERVIEW OF THE COVERED BONDS PROGRAMME

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

*This Overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No 2019/980.*

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

<b>Description:</b>	Covered Bonds Programme.
<b>Programme size:</b>	Up to Euro 12,500,000,000 (or its equivalent in other currencies, all calculated as described under General Description of the Programme) aggregate principal amount (or, in the case of Covered Bonds issued at a discount, their aggregate nominal value) of Covered Bonds outstanding at any time.  The Issuer will have the option at any time to increase the amount of the Programme, subject to compliance with the relevant provisions of the Programme Agreement.
<b>Issuer:</b>	Banco Comercial Português, S.A.
<b>Issuer Legal Entity Identifier:</b>	JU1U6S0DG9YLT7N8ZV32
<b>Arranger:</b>	Barclays Bank Ireland PLC.
<b>Co-Arranger:</b>	Banco Comercial Português, S.A.
<b>Dealers:</b>	Banco Comercial Português, S.A., Banco Santander Totta, S.A., Barclays Bank Ireland PLC, BNP Paribas, BofA Securities Europe SA, Citigroup Global Markets Europe AG, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, HSBC France, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, NatWest Markets N.V., NatWest Markets Plc, Nomura International plc, Société Générale, UBS Europe SE and UniCredit Bank AG and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.
<b>Common Representative:</b>	Deutsche Trustee Company Limited in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common

Representative Appointment Agreement, having its registered office at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

**Agent:** Banco Comercial Português, S.A., in its capacity as Agent, with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal.

**Paying Agent:** Banco Comercial Português, S.A., in its capacity as Paying Agent, with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal, and any other Paying Agent appointed from time to time by the Issuer in accordance with the Programme Documents.

**Cover Pool Monitor:** Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the "*Comissão do Mercado de Valores Mobiliários*" (CMVM) with registration number 20161389, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon, Portugal. See *Cover Pool Monitor*.

**Hedge Counterparties:** The parties or party (each, a "**Hedge Counterparty**" and together, the "**Hedge Counterparties**") that, from time to time will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

**Risk Factors:** There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Covered Bonds issued under the Programme, including, *inter alia*, those set out under *Risk Factors* below. In addition, there are risk factors which are material for the purpose of assessing the other risks associated with Covered Bonds issued under the Programme. These are also set out in detail under *Risk Factors* below and include, *inter alia*, the dynamics of the legal and regulatory requirements and the risks related to the structure of a particular issue of Covered Bonds.

**Distribution:** Covered Bonds may be distributed by way of private placement and on a non-syndicated or syndicated basis. The method of distribution of each Tranche of Covered Bonds will be stated in the applicable Final Terms. Covered Bonds will be issued and placed only outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

**Certain Restrictions:** Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*).

**Currencies:** Subject to compliance with relevant laws, Covered Bonds may be issued in any currency agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

**Ratings:** Series of Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Covered Bonds).

The rating of Covered Bonds will not necessarily be the same as the rating applicable to the Issuer. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

**Listing and Admission to Trading:** Application has been made to Euronext Dublin for Covered Bonds issued under the Programme (other than Exempt Covered Bonds) to be admitted to its Official List and trading on the Euronext Dublin Regulated Market. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market or Covered Bonds admitted to trading on other regulated markets for the purposes of Directive 2014/65/EU, as amended, or on any other market which is not a regulated market. The relevant Final Terms will state on which stock exchange(s) and/or market(s) the relevant Covered Bonds are to be listed and/or admitted to trading (if any).

**Selling Restrictions:** There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA (including Italy and Portugal), the United Kingdom and Japan as set out in *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

**United States Selling Restriction:** The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to, or for the benefit of, US persons unless an exemption from the registration requirements of the Securities Act is available or in a transaction not subject to the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. Accordingly, the Covered Bonds are being offered and sold only outside the United States in reliance upon Regulation S under the Securities Act. There may also be restrictions under United States federal tax laws on the offer or sale of Covered Bonds to U.S. persons; Covered Bonds may not be sold to U.S. persons except in accordance with United States Treasury regulations as set forth in the applicable Final Terms. See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

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

Law establishes that Covered Bonds may not be issued with a maturity term shorter than two years or in excess of 50 years. See also *Extended Maturity Date*.

<b>Issue Price:</b>	The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.
<b>Events of Default:</b>	Issuer Insolvency. See <i>Terms and Conditions of the Covered Bonds</i> .
<b>Negative Pledge:</b>	None.
<b>Cross Default:</b>	None.
<b>Guarantor:</b>	None.
<b>Fixed Rate Covered Bonds:</b>	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
<b>Floating Rate Covered Bonds:</b>	<p>Floating Rate Covered Bonds will bear interest determined separately for each Series as follows:</p> <p>on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. ("<b>ISDA</b>") and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or</p> <p>on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service.</p> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms.</p> <p>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.</p>
<b>Zero Coupon Covered Bonds:</b>	Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.
<b>Exempt Covered Bonds:</b>	The Issuer may agree with any Dealer that Exempt Covered Bonds may be issued in a form not contemplated by the <i>Terms and Conditions of the Covered Bonds</i> , in which event the relevant

provisions will be included in the applicable Pricing Supplement, which will replace, modify or supplement those Terms and Conditions.

**Redemption:**

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

**Extended Maturity Date:**

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

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

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

In the case of a Series of Covered Bonds to which an Extended Maturity Date so applies, those Covered Bonds may for the purposes of the Programme be:

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

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

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

**Denomination of Covered Bonds:**

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

**Taxation of the Covered Bonds:**

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

**The Covered Bonds Law:**

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

The Covered Bonds Law also provides for (i) the inclusion of certain hedging contracts in the relevant cover pool and (ii) certain special rules that apply in the event of insolvency of the Issuer. The Covered Bonds Law and the Bank of Portugal Regulations further provide for (i) the supervision and regulation of issuers of covered bonds by the Bank of Portugal, (ii) the role

of a cover pool monitor in respect of each issuer of covered bonds and the relevant cover pool maintained by it, (iii) the role of the common representative of the holders of covered bonds, (iv) restrictions on the types and status of the assets comprised in a cover pool (including loan to value restrictions, weighted average interest receivables and weighted average maturity restrictions), and (v) asset/liability management between the cover pool and the covered bonds. See *Characteristics of the Cover Pool*, *Insolvency of the Issuer*, *Common Representative of the Holders of Covered Bonds* and *The Covered Bonds Law*.

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

**Governing Law:**

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

- (b) the 2019 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 179 of the pdf document
Income Statement	Page 176 of the pdf document
Cash Flows Statement	Page 180 of the pdf document
Statement of Changes in Equity	Page 181 of the pdf document
Statement of Comprehensive Income	Pages 177 to 178 of the pdf document
Notes to the Consolidated Financial Statements	Pages 182 to 398 of the pdf document
Audit Report	Pages 609 to 620 of the pdf document

- (c) the unaudited and un-reviewed earnings press release and earnings presentation of the BCP Group, in each case as at, and for the three month period ended 31 March 2020, including, without limitation, the following unaudited and un-reviewed consolidated balance sheet and consolidated income statement set out at the following pages of the earnings press release:

Balance Sheet	Page 26 of the pdf document
Income Statement	Page 25 of the pdf document

- (d) solely for the purposes of any issues of Covered Bonds which are expressed to be consolidated and form a single Series with a Tranche of Covered Bonds issued under an earlier Base Prospectus published by the Issuer, the terms and conditions of the Covered Bonds, on pages 40 to 63 (inclusive) of the Base Prospectus dated 5 June 2007, on pages 50 to 74 (inclusive) of the Base Prospectus dated 4 August 2008, on pages 55 to 79 (inclusive) of the Base Prospectus

dated 23 July 2009, on page 59 to 84 (inclusive) of the Base Prospectus dated 6 May 2010, on pages 74 to 99 (inclusive) of the Base Prospectus dated 29 June 2012, on pages 81 to 105 (inclusive) of the Base Prospectus dated 10 July 2013, on pages 107 to 139 (inclusive) of the Base Prospectus dated 14 August 2014, on pages 106 to 138 (inclusive) of the Base Prospectus dated 23 October 2015, on pages 119 to 151 (inclusive) of the Base Prospectus dated 20 December 2016 and on pages 108 to 139 of the Base Prospectus dated 15 May 2019, each as prepared by the Issuer in connection with the Programme.

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

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank in accordance with Article 23 of the Prospectus Regulation. The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Covered Bonds.

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

Documents referred to in (a) and (b) above can be viewed electronically and free of charge at the Issuer's website at the following links ([https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/Apresentacao\\_de\\_Resultados/2018/RABCP2018.pdf](https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/Apresentacao_de_Resultados/2018/RABCP2018.pdf) and <https://ind.millenniumbcp.pt/en/Institucional/investidores/Documents/RelatorioContas/2019/ARBCP2019-en-30032020.pdf>, respectively). Documents referred to in (c) above can be viewed electronically and free of charge at the Bank's website ([https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/ApresentacaoResultados/2020/Earnings\\_Millenniumbcp\\_1Q20\\_19052020.pdf](https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/ApresentacaoResultados/2020/Earnings_Millenniumbcp_1Q20_19052020.pdf) and [https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/ApresentacaoResultados/2020/Earnings\\_presentation\\_Q1\\_2020\\_19052020.pdf](https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/ApresentacaoResultados/2020/Earnings_presentation_Q1_2020_19052020.pdf), respectively). Earlier Base Prospectuses published by the Issuer referred to in (d) above can be viewed electronically and free of charge at the following links:

- (a) Base Prospectus dated 5 June 2007:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB05062007.pdf>;
- (b) Base Prospectus dated 4 August 2008:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB04082008.pdf>;
- (c) Base Prospectus dated 23 July 2009:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB23072009.pdf>;
- (d) Base Prospectus dated 6 May 2010:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB06052010.pdf>;

- (e) Base Prospectus dated 29 June 2012:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB29062012.pdf>;
- (f) Base Prospectus dated 10 July 2013:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB10072013.pdf>;
- (g) Base Prospectus dated 14 August 2014:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB14082014.pdf>;
- (h) Base Prospectus dated 23 October 2015:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB23102015.pdf>;
- (i) Base Prospectus dated 20 December 2016:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/Base-Prospectus-28042017.pdf>; and
- (j) Base Prospectus dated 15 May 2019:  
<https://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/EuroCoveredBond-DocAnteriores/PB15052019.PDF>.

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

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

## GENERAL DESCRIPTION OF THE PROGRAMME

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

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

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

## FORM OF THE COVERED BONDS AND CLEARING SYSTEM

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

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

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

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

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

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

### **The Covered Bonds are held through Interbolsa**

#### *General*

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

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

In relation to each issue of securities, Interbolsa's centralised system comprises, inter alia, (i) the issue account, opened by the relevant issuer in the centralised system and which reflects the full amount of issued securities; and (ii) the control accounts opened by each of the financial intermediaries which

participate in Interbolsa's centralised system, and which reflect the securities held by such participant on behalf of its customers in accordance with its individual securities accounts.

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

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

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

#### *Form of the Covered Bonds*

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

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

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

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

#### *Payment of principal and interest in respect of Covered Bonds*

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

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

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

- (a) the identity of the Paying Agent responsible for the relevant payment; and
- (b) a statement of acceptance of such responsibility by the Paying Agent.

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

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

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

#### *Transfer of Covered Bonds*

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

## FINAL TERMS FOR COVERED BONDS

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

**[PROHIBITION OF SALES TO EEA [AND UK] RETAIL INVESTORS** - The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") [or in the United Kingdom (the "**UK**")]. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation (as defined below). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA [or in the UK] has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA [or in the UK] may be unlawful under the PRIIPs Regulation.]

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

Final Terms dated [     ]

**Banco Comercial Português, S.A.**

**Legal Entity Identifier (LEI): JU1U6S0DG9YLT7N8ZV32**

Issue of [     ]

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

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

THE COVERED BONDS (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED BONDS ISSUED IN ACCORDANCE WITH DECREE-LAW NO. 59/2006, OF 20 MARCH 2006 (AS AMENDED, THE "**COVERED BONDS LAW**") AND FURTHER APPLICABLE REGULATIONS. THE ISSUER HAS THE CAPACITY TO ISSUE COVERED BONDS IN ACCORDANCE WITH THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

### **PART A – CONTRACTUAL TERMS**

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the "**Terms and Conditions**") set forth in the Base Prospectus dated 26 May

2020 [and the supplemental Base Prospectus dated [ ]], which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with such Base Prospectus [as so supplemented] in order to obtain all the relevant information. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at, and electronic copies can be obtained from, [BCP's website] and the website of Euronext Dublin (www.ise.ie.)

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the "**Terms and Conditions**") set forth in the Base Prospectus dated [original date] which are incorporated by reference in the Base Prospectus dated 26 May 2020. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**") and must be read in conjunction with the Base Prospectus dated 26 May 2020 [and the supplemental Base Prospectus dated [ ]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation, including the Terms and Conditions incorporated by reference in the Base Prospectus, in order to obtain all the relevant information. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at, and electronic copies can be obtained from, [BCP's website] and the website of Euronext Dublin (www.ise.ie.)

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

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

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

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

- To Maturity Date: [Not Applicable] [30/360] [Actual/Actual (ICMA)]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [30/360] [Actual/Actual (ICMA)]
- (iv) Determination Date(s):
- To Maturity Date: [Not Applicable] [ ] in each year
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [ ] in each year
15. Floating Rate Covered Bonds Provisions: [Applicable/Not Applicable]
- (i) Specified Period(s)/ Specified Interest Payment Dates:
- To Maturity Date: [Not Applicable] [ ]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [ ]
- (ii) Business Day Convention:
- To Maturity Date: [Not Applicable] [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention]
- (iii) Additional Business Centre(s):
- To Maturity Date: [Not Applicable] [ ]
  - From Maturity Date up to Extended Maturity Date: [Not Applicable] [ ]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined:
- To Maturity Date: [Not Applicable] [Screen Rate Determination/ISDA Determination]

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

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

[30E/360 (ISDA)]

16. Zero Coupon Covered Bonds [Applicable/Not Applicable]  
Provisions:

(i) Accrual Yield: [ ]% per annum

(ii) Reference Price: [ ]

**PROVISIONS RELATING TO REDEMPTION**

17. Issuer Call [Applicable/Not Applicable]

(i) Optional Redemption Date(s): [ ]

(ii) Optional Redemption Amount(s) of each Covered Bond: [ ] per Covered Bond of [ ] Specified Denomination

(iii) If redeemable in part:

(a) Minimum Redemption Amount: [Not Applicable] [ ]

(b) Maximum Redemption Amount: [Not Applicable] [ ]

(iv) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days

18. Investor Put [Applicable/Not Applicable]

(i) Optional Redemption Date(s): [ ]

(ii) Optional Redemption Amount(s) of each Covered Bond: [ ] per Covered Bond of [ ] Specified Denomination

(iii) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days

19. Final Redemption Amount of each Covered Bond: [ ] per Covered Bond of [ ] Specified Denomination

20. Early Redemption Amount of each Covered Bond payable on an event of default: [ ] per Covered Bond of [ ] Specified Denomination

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

21. Form of Covered Bonds:

Form: Book Entry Covered Bonds *nominativas*

22. Additional Financial Centre(s): [Not Applicable] [ ]

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

By: \_\_\_\_\_  
Duly authorised

## PART B – OTHER INFORMATION

### 1. Listing and Admission to trading

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

### 2. Ratings

Ratings: The following ratings reflect rating assigned to the Covered Bonds issued under the Programme generally:

- [ ] by Moody's  
[ ] by Fitch  
[ ] by the relevant DBRS entity

[The Covered Bonds to be issued [[have been]/[are expected to be]] rated [ ] by [ ].]

*[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*

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

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

### 4. Reasons for the Offer and Estimated Net Proceeds

- (i) Reasons for the offer: [Give details]<sup>2</sup>
- (See "Use of Proceeds" wording in Base Prospectus – if reasons for offer different from*

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<sup>2</sup> To include reasons for the issuance and, if relevant, its impact on the Issuer.

*what is disclosed in the Base Prospectus, give details.)*

(ii) Estimated net proceeds: [ ]

*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

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

Indication of yield: [Not Applicable] [ ]%

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

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

**7. Operational Information**

(i) ISIN: [ ]

(ii) Common Code: [ ]

(iii) Delivery: Delivery [against/free of] payment

**8. Distribution**

(i) If syndicated, names of [Not Applicable/[ ]]  
Managers:

(ii) Date of [Subscription] [ ]  
Agreement:

(iii) Stabilisation Manager(s) (if [Not Applicable/give name]  
any):

(iv) If non-syndicated, name of [Not Applicable/[ ]]  
relevant Dealer:

(v) U.S. Selling Restrictions: [Reg. S Compliance Category 2] [TEFRA C]  
[TEFRA rules not applicable]

(vi) Prohibition of Sales to EEA [and [Not Applicable][Applicable]  
UK] Retail Investors:

*(If the Covered Bonds clearly do not constitute "packaged products" or the Covered Bonds do constitute a "packaged" products and a key information document will be prepared, "Not*

*Applicable" should be specified. If the Covered Bonds may constitute "packaged products" and no key information document will be prepared, "Applicable" should be specified.)*

9. **Third Party Information**

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

## PRICING SUPPLEMENT FOR EXEMPT COVERED BONDS

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

**[PROHIBITION OF SALES TO EEA [AND UK] RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") [or in the United Kingdom (the "**UK**")]. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA [or in the UK] has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA [or in the UK] may be unlawful under the PRIIPs Regulation.]

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

**NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH THE PROSPECTUS REGULATION FOR THE ISSUE OF THE EXEMPT COVERED BONDS DESCRIBED BELOW.**

Pricing Supplement dated [ ]

**Banco Comercial Português, S.A.**

Issue of *[Aggregate Nominal Amount of Tranche]*

**Legal Entity Identifier (LEI): JU1U6S0DG9YLT7N8ZV32**

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

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

THE COVERED BONDS (AS DESCRIBED HEREIN) ARE MORTGAGE COVERED BONDS ISSUED IN ACCORDANCE WITH DECREE-LAW NO. 59/2006, OF 20 MARCH 2006 (AS AMENDED, THE "**COVERED BONDS LAW**") AND FURTHER APPLICABLE REGULATIONS. THE ISSUER HAS THE CAPACITY TO ISSUE COVERED BONDS IN ACCORDANCE WITH THE COVERED BONDS LAW. THE FINANCIAL OBLIGATIONS OF THE ISSUER UNDER THE COVERED BONDS ARE SECURED ON THE COVER POOL MAINTAINED BY THE ISSUER IN ACCORDANCE WITH THE COVERED BONDS LAW.

### **PART A – CONTRACTUAL TERMS**

This document constitutes the Pricing Supplement of the Exempt Covered Bonds described herein. This document must be read in conjunction with the Base Prospectus dated 26 May 2020 [and the supplemental Base Prospectus dated *[date]*] ([together] the "**Base Prospectus**"). Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. The Base Prospectus is available for viewing at, and electronic copies can be obtained from, *[BCP's website]* and the website of Euronext Dublin ([www.ise.ie](http://www.ise.ie)).

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

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

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

*(Extended Maturity Date must be Applicable to all issues of Covered Bonds, unless, the rating agencies which at the relevant time provide credit ratings for the Programme agree that Extended Maturity Date may be Not Applicable)*

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

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. Fixed Rate Covered Bonds Provisions:
- To Maturity Date: [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
  - From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable] *(If subparagraphs (i) and (ii) not applicable, delete the remaining subparagraphs of this paragraph)*

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

(i) Rate [(s)] of Interest:

- To Maturity Date: [ ]% per annum payable in arrear on each interest payment day
- From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [ ]% per annum. payable in arrear on each interest payment day

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

(ii) Interest Payment Date(s):

- To Maturity Date: [[ ]] in each year up to and including the Maturity Date / [*specify other*]
- From Maturity Date up to Extended Maturity Date: [Not Applicable] [[ ]] in each month up to and including the Extended Maturity Date]/ [*specify other*]

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

(iii) Day Count Fraction:

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

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

(iv) Determination Date(s):

- To Maturity Date: [*Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)*] in each year
- From Maturity Date up to Extended Maturity Date: [Not Applicable] [*Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative)*] in each year

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

16. Floating Rate Covered Bonds Provisions:

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



- Relevant Screen Page: [Reuters Screen Page LIBOR01 (or any successor page)] [Reuters Screen Page EURIBOR01 (or any successor page)] [ ]
  - B. From Maturity Date up to Extended Maturity Date: [Not Applicable]
 

[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]
  - Reference Rate: [LIBOR/EURIBOR/[ ]]
  - Interest Determination Date: [ ] (*Second London business day prior to start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if Euribor or euro LIBOR*)
  - Relevant Screen Page: [Reuters Screen Page LIBOR01 (or any successor page)] [Reuters Screen Page EURIBOR01 (or any successor page)] [ ]
- (vii) ISDA Determination:
- A. To Maturity Date:
    - Floating Rate Option: [ ]
    - Designated Maturity: [ ]
    - Reset Date: [ ]
  - B. From Maturity Date up to Extended Maturity Date: [Not Applicable]
 

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

    - Floating Rate Option: [ ]
    - Designated Maturity: [ ]
    - Reset Date: [ ]
- (viii) Margin(s):

- To Maturity Date: [+/-] [ ]% per annum
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [+/-] [ ]% per annum  
*[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*
- (ix) Minimum Rate of Interest:
- To Maturity Date: [ ]% per annum
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [+/-] [ ]% per annum  
*[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*
- (x) Maximum Rate of Interest:
- To Maturity Date: [ ]% per annum
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [+/-] [ ]% per annum  
*[State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.]*
- (xi) Day Count Fraction:
- To Maturity Date: [Actual/Actual (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
30E/360 (ISDA)  
(see Condition 4 (*Interest*))
  - From Maturity Date up to Extended Maturity Date: [Not Applicable]/  
Actual/Actual (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360 30/360 30E/360 30E/360 (ISDA)  
(see Condition 4 (*Interest*))

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

17. Zero Coupon Covered Bonds Provisions: [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Accrual Yield: [ ]% per annum
  - (ii) Reference Price: [ ]

**PROVISIONS RELATING TO REDEMPTION**

18. Issuer Call [Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): [ ]
  - (ii) Optional Redemption Amount(s) of each Covered Bond: [ ] per Covered Bond of [ ] Specified Denomination
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [ ]
    - (b) Maximum Redemption Amount: [ ]
  - (iv) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days

*(NB - When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

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

(iii) Notice period: Minimum period: [ ] days Maximum period: [ ] days  
(NB - *When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)

20. Final Redemption Amount of each Covered Bond: [ ] per Covered Bond of [ ] Specified Denomination

21. Early Redemption Amount of each Covered Bond payable on an event of default: [ ] per Covered Bond of [ ] Specified Denomination

#### **GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

22. Form of Covered Bonds:

Form: Book Entry Covered Bonds *nominativas*

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

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

By: \_\_\_\_\_

Duly authorised

## PART B – OTHER INFORMATION

### 1. Listing and Admission to trading

- (i) Listing and Admission to trading: [Application [has been made/is expected to be made] by the Issuer (or on its behalf) for the Covered Bonds to be [listed/admitted to trading] on [specify market - note this should not be a regulated market with effect from [ ]].] [Not Applicable]

*(When documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading)*

- (ii) Estimate of total expenses related to admission to trading: [ ]

### 2. Ratings

- Ratings: The following ratings reflect rating assigned to the Covered Bonds issued under the Programme generally:  
[ ] by Moody's  
[ ] by Fitch  
[ ] by the relevant DBRS entity

[The Covered Bonds to be issued [[have been]/[are expected to be]] rated [insert details] by [insert the legal name of the relevant credit rating agency entity(ies)].]

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

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

### 4. Reasons for the Offer

- Reasons for the offer: [Give details]<sup>3</sup>

*(See "Use of Proceeds" wording in Base Prospectus – if reasons for offer different from what is disclosed in the Base Prospectus, give details.)*

### 5. Yield – Fixed Rate Covered Bonds only

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<sup>3</sup> To include reasons for the issuance and, if relevant, its impact on the Issuer.

Indication of yield: [Not Applicable] [ ]

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

## 6. Operational Information

(i) ISIN: [ ]

(ii) Common Code: [ ]

(iii) Delivery: Delivery [against/free of] payment

## 7. Distribution

(i) If syndicated, names of Managers: [Not Applicable/give names]

(ii) Date of [Subscription] Agreement: [ ]

(iii) Stabilisation Manager(s) (if any): [Not Applicable/give name]

(iv) If non-syndicated, name of relevant Dealer: [Not Applicable/give name]

(v) U.S. Selling Restrictions: [Reg. S Compliance Category 2] [TEFRA C] [TEFRA rules not applicable]

(vi) Prohibition of Sales to EEA [and UK] Retail Investors: [Applicable/Not Applicable]

*(If the Covered Bonds clearly do not constitute "packaged" products or the Covered Bonds do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Covered Bonds may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)*

## 8. Third Party Information

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

## TERMS AND CONDITIONS OF THE COVERED BONDS

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

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

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

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

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

The final terms for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to this Covered Bond which complete information regarding these Terms and Conditions (the "**Conditions**") or, if this Covered Bond is a Covered Bond which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation (an "**Exempt Covered Bond**"), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Covered Bond. References to the applicable Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to this Covered Bond. Any reference in the Conditions to "**applicable Final Terms**" or "**relevant Final Terms**" shall be deemed to include a reference to "**applicable Pricing Supplement**" or "**relevant Pricing Supplement**", respectively, where relevant. The expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129, as amended from time to time.

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

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

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

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

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

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

## **1. FORM, DENOMINATION AND TITLE**

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

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

interest in Covered Bonds shall be treated as the holder of the principal amount of the Covered Bonds recorded therein.

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

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

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

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

## **2. TRANSFERS OF COVERED BONDS**

The transferability of the Covered Bonds is not restricted.

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

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

## **3. STATUS OF THE COVERED BONDS**

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

## 4. INTEREST

### 4.1 *Interest on Fixed Rate Covered Bonds*

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

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

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

- (i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:
  - (a) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (b) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - 1. the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - 2. the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

- (i) "**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);
- (ii) "**Principal Amount Outstanding**" means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of the Covered Bond in respect thereof; and
- (iii) "**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

#### 4.2 *Interest on Floating Rate Covered Bonds*

##### (A) *Interest Payment Dates*

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

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

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

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

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

Specified Period after the preceding applicable Interest Payment Date occurred; or

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

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

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

(B) *Rate of Interest*

*Floating Rate Covered Bonds*

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

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

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

2. the Designated Maturity is the period specified in the applicable Final Terms; and
3. the relevant Reset Date is as specified in the applicable Final Terms.

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

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

1. the offered quotation (if there is only one quotation on the Relevant Screen Page); or
2. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

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

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

If on any Interest Determination Date, one only or none of the Reference Banks provides the Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were

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

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

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

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

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

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

The Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, will at or as soon as practicable after each time at which

the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

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

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

- (i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

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

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

(F) *Certificates to be final*

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

4.3 *Accrual of interest*

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

has been received by the Agent and notice to that effect has been given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

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

- (A) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.7, the Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to Condition 4.3. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 4.4(B) on the principal amount outstanding of the Covered Bonds in arrear on the Interest Payment Date in each month after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date.
- (B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.7, the rate of interest payable from time to time in respect of the principal amount outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.
- (C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date and for which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 4.4 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.
- (D) This Condition 4.4 shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds (in full) on the Maturity Date (or within two Business Days thereafter) and the maturity of those Covered Bonds is automatically extended up to the Extended Maturity Date in accordance with Condition 6.7.

#### 4.5 *Benchmark Replacement*

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

- (A) the Issuer shall use reasonable endeavours, as soon as reasonably practicable, to appoint at its own expense an Independent Adviser to determine (without any requirement for the consent or approval of the holders of the Covered Bonds) (A) a Successor Rate or, failing which, an Alternative Reference Rate, for the purposes of determining the Rate

of Interest (or the relevant component part thereof) applicable to the Covered Bonds and (B) in either case, an Adjustment Spread. Without prejudice to the definitions thereof, for the purposes of determining any Successor Rate, Alternative Reference Rate and/or any Adjustment Spread, the Independent Adviser will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets;

- (B) if the Issuer (i) is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Reference Rate in accordance with this Condition 4.5 prior to the relevant Interest Determination Date, the Issuer (acting in good faith and in a commercially reasonable manner and following consultation with the Independent Adviser in the event one has been appointed) may determine (A) a Successor Rate or, failing which, an Alternative Reference Rate and (B) in either case, an Adjustment Spread in accordance with this Condition 4.5. Without prejudice to the definitions thereof, for the purposes of determining any Successor Rate, Alternative Reference Rate and/or any Adjustment Spread, the Issuer will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets;
- (C) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with paragraphs (i) or (ii) above, such Successor Rate or, failing which, Alternative Reference Rate (as applicable) shall be the Original Reference Rate (subject to the subsequent operation of, and to adjustment as provided in, this Condition 4.5);
- (D) if the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or, as the case may be, the Issuer is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread;
- (E) if the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and/or an Adjustment Spread in accordance with the above provisions, the Independent Adviser or, as the case may be, the Issuer may (without any requirement for the consent or approval of the holders of the Covered Bonds) also specify changes to these Conditions and/or the Set of Agency Procedures in order to ensure the proper operation of such Successor Rate or Alternative Reference Rate or any Adjustment Spread (as applicable), including, but not limited to, (A) the Day Count Fraction, Screen Page, Business Day, Interest Determination Date, Relevant Time and/or the definition of Reference Rate and (B) the method for determining the fall-back rate in relation to the Covered Bonds. For the avoidance of doubt, the Issuer and the Agent shall effect such consequential amendments to the Set of Agency Procedures and/or these Conditions as may be required in order to give effect to the

application of this Condition 4.5. No consent shall be required from the holders of the Covered Bonds in connection with determining or giving effect to the Successor Rate, Alternative Reference Rate or any Adjustment Spread (as applicable) or such other changes, including for the execution of any documents or other steps to be taken by the Issuer or the Agent (if required or useful); and

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

An Independent Adviser appointed pursuant to this Condition 4.5 shall act in good faith and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Agent or the holders of the Covered Bonds for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 4.5.

Without prejudice to the obligations of the Issuer under this Condition 4.5, the Original Reference Rate and the other provisions in this Condition 4.5 will continue to apply (i) if the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) is unable to or does not determine a Successor Rate or an Alternative Reference Rate in accordance with this Condition 4.5, and (ii) where the Independent Adviser or, as the case may be, the Issuer does determine a Successor Rate or Alternative Reference Rate, unless and until the Agent (if different from the Issuer) and (in accordance with Condition 11 (*Notices*)) the holders of the Covered Bonds have been notified of the Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread (if any) and any consequential changes made to the Set of Agency Procedures and the Conditions (if any).

## **5. PAYMENTS**

### *5.1 Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively);
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee; and
- (iii) payments in US dollars will be made by a transfer to a US dollar account maintained by the payee with a bank outside the United States (which expression as used in this Condition 5 (*Payments*), means the United States of America including the States, and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction or by cheque drawn on a US bank. In no event will payment be made by a cheque mailed to an address in the United States. All payments of interest will be made to accounts outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to any Interbolsa regulations, fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*).

#### 5.2 *Payments Subject to Fiscal and Other Laws*

Payments will be subject in all cases to the provisions of Condition 7 (*Taxation*), to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or law implementing an intergovernmental approach thereto. Any such amounts withheld or deducted will be treated as paid for all purposes under the Covered Bonds, and no additional amounts will be paid on the Covered Bonds with respect to any such withholding or deduction.

#### 5.3 *Payments in relation to Covered Bonds*

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

#### 5.4 *Payment Day*

If the date for payment of any amount in respect of any Covered Bond is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, Payment Day means any day which (subject to Condition 8 (*Prescription*)) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and

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

#### 5.5 *Interpretation of principal*

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (i) the Final Redemption Amount of the Covered Bonds;
- (ii) the Optional Redemption Amount(s) (if any) of the Covered Bonds; and
- (iii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

### **6. REDEMPTION AND PURCHASE**

#### 6.1 *Final redemption*

Subject to Condition 6.7, unless previously redeemed or purchased and cancelled or extended as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms, in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

#### 6.2 *Redemption at the option of the Issuer (Call Option)*

If Issuer Call option is specified in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms<sup>4</sup> to the Common Representative, the Agent and, in accordance with Condition 11 (*Notices*), the holders of Covered Bonds (which notice shall be irrevocable) redeem all or some only (as specified in the applicable Final Terms) of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice, the Issuer shall be bound to redeem the Covered Bonds accordingly. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. The Optional Redemption Amount will be the specified percentage of the nominal amount of the Covered Bonds stated in the applicable Final Terms. In the case of a partial redemption of Covered Bonds the nominal amount of all outstanding Covered Bonds will be redeemed proportionally.

#### 6.3 *Redemption at the option of the holders of Covered Bonds (Put Option)*

If Investor Put option is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than the minimum

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<sup>4</sup> When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent).

period nor more than the maximum period of notice specified in the applicable Final Terms<sup>5</sup> the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount as specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. To exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a Put Notice) and in which the holder must specify a bank account to which payment is to be made under this Condition. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. The right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent.

#### 6.4 *Purchases*

The Issuer or any of its subsidiaries may at any time purchase or otherwise acquire Covered Bonds at any price in the open market or otherwise. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to the Paying Agent for cancellation.

#### 6.5 *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled. All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.4 shall be cancelled by Interbolsa and cannot be held, reissued or resold.

#### 6.6 *Late payment on Zero Coupon Covered Bonds*

If the amount payable in respect of any Zero Coupon Covered Bond to which Condition 6.7 does not apply, upon redemption of such Zero Coupon Covered Bond pursuant to paragraph 6.1, 6.2 or 6.3 or upon its becoming due and repayable as provided in Condition 9 (*Events of Default – Insolvency Event and Enforcement*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

$$“RP” \times (1 + AY)^y$$

where:

"RP" means the Reference Price; and

"AY" means the Accrual Yield expressed as a decimal; and

"y" is a fraction, the denominator of which is 360 and the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and

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<sup>5</sup> When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent).

- (ii) the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Agent and notice to that effect has been given to the holders of Covered Bonds either in accordance with Condition 11 (*Notices*) or individually.

#### 6.7 *Extension of Maturity up to Extended Maturity Date*

- (A) An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such Extended Maturity Date provisions.
- (B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the Issuer fails to redeem all of those Covered Bonds in full on the Maturity Date or within two Business Days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. The Issuer shall give to the holders of Covered Bonds (in accordance with Condition 11 (*Notices*)), the Agent and the other Paying Agents, notice of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.
- (C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 6.7 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Terms and Conditions.
- (D) Any extension of the maturity of Covered Bonds under this Condition 6.7 shall be irrevocable. Where this Condition 6.7 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 6.7 shall not constitute an event of default for any purpose or give any holder of Covered Bonds any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms and Conditions.
- (E) In the event of the extension of the maturity of Covered Bonds under this Condition 6.7, interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4.4.
- (F) If the Issuer redeems part and not all of the principal amount outstanding of Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds and the

principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.

- (G) If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 6.7, subject to otherwise provided for in the applicable Final Terms, for so long as any of those Covered Bonds remains in issue, the Issuer shall not issue any further mortgage covered bonds, unless the proceeds of issue of such further mortgage covered securities are applied by the Issuer on issue in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.
- (H) This Condition 6.7 shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds in full on the Maturity Date (or within two Business Days thereafter).

## **7. TAXATION**

### *7.1 Payments free of taxes*

All payments of principal and interest in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, any Taxes unless the Issuer or any Paying Agent (as the case may be) is required by law to make any such payment subject to any such withholding or deduction. In that event, the Issuer or any Paying Agent (as the case may be) shall be entitled to withhold or deduct the required amount for or on account of Tax from such payment and shall account to the relevant Tax Authorities for the amount so withheld or deducted.

### *7.2 No payment of additional amounts*

Neither the Issuer nor the Paying Agent will be obliged to pay any additional amounts to the holders of Covered Bonds in respect of any Tax Deduction made in accordance with Condition 7.1.

### *7.3 Taxing Jurisdiction*

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Portuguese Republic, references in these Terms and Conditions to the Portuguese Republic shall be construed as references to the Portuguese Republic and/or such other jurisdiction.

### *7.4 Tax Deduction not event of default*

Notwithstanding that the Issuer or any Paying Agent is required to make a Tax Deduction in accordance with Condition 7.1, this shall not constitute an event of default by the Issuer.

## **8. PRESCRIPTION**

The Covered Bonds will become void unless presented for payment within 20 years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date therefor, subject in each case to the provisions of Condition 5 (*Payments*). As used in these Terms and Conditions, "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

## 9. EVENTS OF DEFAULT – INSOLVENCY EVENT AND ENFORCEMENT

### 9.1 *Insolvency Event*

Pursuant to the Covered Bonds Law, if an Insolvency Event in respect of the Issuer occurs, the holders of Covered Bonds may approve a Resolution, by a majority of 2/3 of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding, to determine the serving of an Acceleration Notice, in which case all outstanding Covered Bonds shall immediately become due and payable each at their Early Redemption Amount together with accrued interest.

For the purposes of these Terms and Conditions: "**Insolvency Event**" means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-Law No. 199/2006, of 25 October 2006, Decree-Law No. 298/92, of 31 December 1992 and/ or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-Law No. 53/2004, of 18 March 2004).

### 9.2 *Enforcement*

- (A) Following the approval of a Resolution as described in Condition 9.1, the holders of the Covered Bonds (or the Common Representative on their behalf, provided it has been indemnified and/or secured to its satisfaction) may at any time after service of an Acceleration Notice, at its discretion and without further notice, take such proceedings against the Issuer, and/or any other person as it may deem fit to enforce the provisions of the Covered Bonds.
- (B) In exercising any of its powers and discretions the Common Representative shall only have regard to the interests of the holders of Covered Bonds of all Series.
- (C) No holder of Covered Bonds shall be entitled to proceed directly against the Issuer or to take any action with respect to the Common Representative Appointment Agreement, the Covered Bonds or any other Programme Document unless the Common Representative, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

## 10. AGENT AND PAYING AGENT

- (A) The names of the Agent and the Paying Agent and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Agents will be specified in the applicable Final Terms. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest, if applicable, or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint such other bank to act as such in its place.
- (B) The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:
  - (i) there will at all times be an Agent;

- (ii) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Agent) in Portugal capable of making payment in respect of the Covered Bonds as contemplated by these Terms and Conditions of the Covered Bonds, the Agency Terms and applicable Portuguese law and regulation; and
- (iii) so long as any of the Covered Bonds are listed on any Stock Exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant Stock Exchange or as the case may be, other relevant authority).

## 11. NOTICES

All notices regarding the Covered Bonds shall be valid if published in the *Financial Times* or another English language daily newspaper of general circulation in Ireland approved by the Trustee and (so long as the relevant Covered Bonds are admitted to trading on, and listed on the official list of, Euronext Dublin), any notice shall also be published in accordance with any relevant listing rules. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange (or any other relevant authority) on which the Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication in all the relevant newspapers.

All notices regarding the Covered Bonds shall comply with the requirements of Interbolsa and of Portuguese law generally.

## 12. MEETINGS OF HOLDERS OF COVERED BONDS

- (A) The Portuguese Companies Code contains provisions for convening meetings of the holders of Covered Bonds to consider any matter attributed to them by law and in their common interest (which provisions are described and supplemented in the Common Representative Appointment Agreement), including the modification by Resolution of these Terms and Conditions or the provisions of the Common Representative Appointment Agreement.
- (B) The quorum at any meeting convened to vote on: (i) a Resolution not regarding a Reserved Matter will be any person or persons holding or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding; or (ii) a Resolution regarding a Reserved Matter of the Covered Bonds, will be any person or persons holding or representing at least 50% of the Principal Amount Outstanding of the Covered Bonds then outstanding so held or represented or, at any adjourned meeting, any person being or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding. Each Covered Bond grants its holder one vote.
- (C) The majorities required to approve a Resolution at any meeting convened in accordance with the applicable rules shall be: (i) if in respect to a Resolution not regarding a Reserved Matter, the majority of the votes cast at the relevant meeting; (ii) if in respect to a Resolution regarding a Reserved Matter except for the one set out in (iii) below, at least 50% of the Principal Amount Outstanding of the Covered Bonds then outstanding or, at any adjourned meeting 2/3 of the votes cast at the relevant meeting; or (iii) if in respect to a Resolution regarding an increase in the obligations of the holders of Covered Bonds, all holders of the relevant Series of Covered Bonds.

For the purposes of these Terms and Conditions, a "**Reserved Matter**" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 14(C);

- (D) A Resolution approved at any meeting of the holders of Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of Covered Bonds of such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.
- (E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*) or to direct the Common Representative to take any enforcement action (each a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.
- (F) Any such meeting to consider a Programme Resolution may be convened by the Common Representative or, if it refuses to convene such a meeting, by the Chairman of the General Meeting of Shareholders of the Issuer; if both the Common Representative and the Chairman of the General Meeting of Shareholders of the Issuer refuses to convene the meeting, then 5% of the holders of Covered Bonds of any Series may petition the court to order a meeting to be convened.
- (G) A Programme Resolution passed at any meeting of the holders of Covered Bonds of all Series shall be binding on all holders of Covered Bonds of all Series, whether or not they are present at the meeting.
- (H) In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any Series not denominated in euro shall be converted into euro at the relevant exchange rate at the date of the meeting.

### 13. **INDEMNIFICATION OF THE COMMON REPRESENTATIVE CONTRACTING WITH THE ISSUER**

- (A) If, in connection with the exercise of its powers and discretions, the Common Representative is of the opinion that the interests of the holders of Covered Bonds of any one or more Series would be materially prejudiced thereby, the Common Representative shall not exercise such powers and discretions without the approval of such holders of Covered Bonds by a Resolution or by a written resolution of such

holders of Covered Bonds of at least the majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

- (B) The Common Representative shall not be required to expend its own funds or otherwise incur or risk incurring any liability in the performance of its duties or in the exercise of any of its rights, powers, authorities or discretions if it has grounds for believing the repayment of such funds is not reasonably assured to it under the Covered Bonds Law or if it has not been provided with adequate indemnity against or security for such risk or liability. Notwithstanding any Programme Resolution or any other Resolution approved at any meeting or any written resolution of any holders of Covered Bonds, the Common Representative may (i) refrain from taking any action until it has been provided with sufficient funds or adequate indemnity against or security for any liability it may incur as a result of any such actions and (ii) refrain from doing anything which might in its opinion be contrary to any law of any jurisdiction or which might otherwise render it liable to any person and (iii) do anything which is in its opinion necessary to comply with any such law, and in no circumstances shall be liable to the holders of Covered Bonds for any consequences of such actions or inaction. The Common Representative Appointment Agreement contains further provisions for the indemnification of the Common Representative and for its relief from responsibility.

#### **14. OVERCOLLATERALISATION, VALUATION OF COVER POOL AND ISSUER COVENANTS**

##### *14.1 Maintenance of overcollateralisation*

For so long as the Covered Bonds are outstanding, the Value (determined in accordance with the Covered Bonds Law and the Bank of Portugal Regulations) of the Cover Pool maintained by the Issuer shall at all times be a minimum of 105.26% of the aggregate Value of all outstanding Covered Bonds issued under the Programme less any Covered Bonds held by the Issuer pursuant to article 21.2 of the Covered Bonds Law and not cancelled or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor (the "**Overcollateralisation Percentage**"), provided that:

- (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26%; and
- (ii) (A) so long as the Covered Bonds are rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of this Condition 14, unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody's, being reduced, removed, suspended or placed on credit watch and (B) so long as the Covered Bonds are not rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of this Condition 14.

##### *14.2 Issuer Covenants*

For so long as any of the Covered Bonds are outstanding, the Issuer shall ensure that:

- (A) *Loan to Value*: the Value of a Mortgage Credit granted by the Issuer may not exceed either 80% of the Current Property Value, in case of a Property intended primarily for residential purposes, or 60% of the Current Property Value, in case of a Property intended primarily for commercial purposes;

- (B) *Asset Cover*: the aggregate value of the Other Assets may not exceed 20% of the aggregate value of the Cover Pool;
- (C) *Average Maturity*: the remaining average Maturity of all outstanding Covered Bonds is at all times shorter than the remaining average Maturity of the Cover Pool entered in the Register;
- (D) *Interest Cover*: the total amount of interest receivable on the Cover Pool will at all times be at least equal to or exceed the total amount of interest payable on the outstanding Covered Bonds;
- (E) *Valuations*: all the required valuations of Covered Bonds, Mortgage Credits, Hedging Contracts, Other Assets and Properties will be made in compliance with the requirements of the Covered Bonds Law and the Bank of Portugal Regulations (in particular Regulation 5/2006 and Regulation 6/2006);
- (F) *Cover Pool Monitor*: the Cover Pool Monitor will be provided with all necessary elements and information to monitor compliance by the Issuer of this Condition 14 in accordance with the Covered Bonds Law;
- (G) *Mortgage Credits*: the Mortgage Credits included in the Cover Pool are not Non-Performing Mortgage Credits; and
- (H) *Liabilities*: The net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis points parallel shifts of the yield curve.

## 15. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the holders of Covered Bonds to create and issue further securities with the same terms and conditions of the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

## 16. GOVERNING LAW

The Common Representative Appointment Agreement, the Set of Agency Procedures, the Covered Bonds and the other Programme Documents are governed by, and shall be construed in accordance with, Portuguese law.

## 17. DEFINITIONS

In these Terms and Conditions, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*).

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or

eliminate, to the extent reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as applicable) to the holders of the Covered Bonds as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (b) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or
- (c) if no such customary market usage is recognised or acknowledged, the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)), in each case in its discretion and acting in good faith and in a commercially reasonable manner, determines to be appropriate.

**"Agent"** means Banco Comercial Português, S.A., in its capacity as Agent with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal.

**"Alternative Reference Rate"** means the rate that the Independent Adviser or, as the case may be, the Issuer determines has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate period and in the same Specified Currency as the Covered Bonds, or, if the Independent Adviser or, as the case may be, the Issuer determines that there is no such rate, such other rate as the Independent Adviser or, as the case may be, the Issuer determines in its discretion is most comparable to the Original Reference Rate.

**"Bank of Portugal Regulations"** means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/ 2006, Instruction 13/2006 and Regulation 8/2006 and any relevant regulation that may be issued by the Bank of Portugal in the future.

**"Benchmark Event"** means:

- (a) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist or be administered; or
- (b) the later of (A) the making of a public statement by the administrator of the Original Reference Rate stating that it will on or prior to a specified date cease to publish the Original Reference Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and (B) the date falling six months prior to the specified date referred to in (b)(A); or

- (c) the making of a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate has been permanently or indefinitely discontinued; or
- (d) the later of (A) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate will, on or before a specified date, be permanently or indefinitely discontinued and (B) the date falling six months prior to the specified date referred to in (d)(A); or
- (e) the later of (A) the making of a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case on or before a specified date and (B) the date falling six months prior to the specified date referred to in (e)(A); or
- (f) it has, or will on or prior to a specified date within the following six months, become unlawful for the Issuer or the Agent, as the case may be, to calculate any payments due to be made to the holders of the Covered Bonds using the Original Reference Rate; or
- (g) the making of a public statement by the supervisor of the administrator of the Original Reference Rate announcing that the Original Reference Rate is no longer representative or may no longer be used.

"**Clearstream, Luxembourg**" means Clearstream Banking *société anonyme*, Luxembourg.

"**CMVM**" means the *Comissão do Mercado de Valores Mobiliários*, the Portuguese Securities Market Commission.

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

"**Cover Pool**" means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register.

"**Cover Pool Monitor**" means Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 20161389, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon.

"**Covered Bond**" means any mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and "**Covered Bonds**" shall be construed accordingly.

"**Covered Bonds Law**" means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-Law No. 59/2006, of 20 March 2006, as amended.

"**Current Property Value**" means, in relation to a Property securing a Mortgage Credit, the updated Property Valuation of such Property.

"**Euro**", "€" or "**euro**" means the lawful currency of member states of the European Union that adopt the single currency introduced in accordance with the Treaty.

"**Euroclear**" means Euroclear Bank S.A./N.V.

"**Euronext Dublin**" means the Irish Stock Exchange trading as Euronext Dublin.

"**Final Terms**" means, in relation to each Tranche, the applicable final terms attached to such Covered Bonds.

"**Hedging Contracts**" means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rate, exchange or liquidity risks in relation to the Cover Pool.

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case selected and appointed by the Issuer.

"**Instruction 13/2006**" means the regulatory instruction ("*Instrução*") No. 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Interbolsa**" means Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., as operator of the Central de Valores Mobiliários.

"**Interbolsa Participant**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

"**Interest Determination Date**" means, in respect of Floating Rate Covered Bonds where Screen Rate Determination applies, the date(s) specified in the applicable Final Terms on which the Rate of Interest for an Interest Period is to be determined.

"**Interest Amount**" means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

"**Loan to Value**" means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Property Value of the Property securing such Mortgage Credit.

"**Maturity**" means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable.

"**Mortgage**" means, in respect of any Mortgage Credit, the charge by way of legal mortgage over the relevant Property together with all other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

"**Mortgage Credit**" means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

- (a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which (a) is secured by first ranking mortgages over residential or commercial real estate located in an EU member state; or
- (b) secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or
- (c) secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing (a) or (b) above.

**"Non-Performing Mortgage Credits"** means, with respect to a Mortgage Credit, that such Mortgage Credit:

- (a) is in the course of being foreclosed or otherwise enforced; or
- (b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

**"Original Reference Rate"** means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) applicable to the Covered Bonds.

**"Other Assets"** means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

- (a) deposits with the Bank of Portugal, in cash or securities eligible for credit transactions in the Eurosystem;
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating required at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least equal to "A-" or equivalent; and
- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal; For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

**"Other Preferred Creditors"** means the Common Representative (or any successor thereof) and the Hedge Counterparties.

**"Overcollateralisation Percentage"** means 105.26% or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26%; and (ii) (A) so long as the Covered Bonds are rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14, unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by any Rating Agency being reduced, removed, suspended or placed on credit watch and (B) so long as the Covered Bonds are not rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14.

**"Paying Agents"** means the paying agents named in the Set of Agency Procedures together with any successor or additional paying agents appointed from time to time in connection with the Covered Bonds under the Set of Agency Procedures.

**"Programme Resolution"** means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

**"Property"** means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and **"Properties"** means all of them.

**"Property Valuation"** means, in relation to any Property:

- (a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and
- (b) the amount determined by resorting to the use of adequate and recognised indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

**"Register"** means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulations.

**"Regulation 5/2006"** means the regulatory notice ("*Aviso*") No. 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

**"Regulation 6/2006"** means the regulatory notice ("*Aviso*") No. 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

**"Regulation 8/2006"** means the regulatory notice ("*Aviso*") No. 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

**"Regulation S"** means Regulation S under the Securities Act.

**"Relevant Date"** means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

**"Relevant Nominating Body"** means in respect of a benchmark or screen rate (as applicable):

- (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof.

**"Reserved Matter"** means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 14(C).

**"Resolution"** means a resolution adopted at a duly convened meeting of holders of Covered Bonds and approved in accordance with the applicable provisions.

**"Securities Act"** means the United States Securities Act of 1933, as amended.

**"Set of Agency Procedures"** means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 15 May 2019 and made and agreed by Banco Comercial Português, S.A., in its capacity as Agent, Paying Agent and the Issuer and agreed to by any subsequent agent, paying agent or agent bank appointed by the Issuer.

**"Stock Exchange"** means Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

**"Successor Rate"** means the rate that the Independent Adviser or, as the case may be, the Issuer determines is a successor to, or replacement of, the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

**"TARGET2 Day"** means any day on which the TARGET2 System is open.

**"TARGET2 System"** means the Trans-European Automated Real-time Gross Settlement Express Transfer System.

**"Tax"** shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and **"Taxes"**, **"taxation"**, **"taxable"** and comparable expressions shall be construed accordingly.

**"Tax Authority"** means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function including the Irish Revenue Commissioners and H.M. Revenue and Customs.

**"Tax Deduction"** means any deduction or withholding on account of Tax.

**"Terms and Conditions"** means in relation to the Covered Bonds, the terms and conditions to be applicable to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

**"Treaty"** means the treaty establishing the European Communities, as amended by the Treaty on European Union.

**"Value"** means:

- (a) in relation to a Mortgage Credit, (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; and (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;
- (b) in relation to any Other Assets:
  - (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;
  - (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

## CHARACTERISTICS OF THE COVER POOL

### INTRODUCTION – CAPACITY TO ISSUE COVERED BONDS

In general, only duly licensed credit institutions allowed by law to grant mortgage loans, and having own funds not lower than EUR 7,500,000, may issue covered bonds. The Issuer complies with these requirements and is thus allowed to issue covered bonds under the Covered Bonds Law.

### ISSUER REQUIRED TO MAINTAIN COVER POOL

The Issuer may issue Covered Bonds only if it maintains a related Cover Pool in compliance with the Covered Bonds Law. The Cover Pool contains mortgage credit assets, substitution assets and other eligible assets subject to the limitations provided for in the Covered Bonds Law. The Covered Bonds Law allows for the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the mortgage credit assets (and other permitted assets) to be comprised in the Cover Pool may change from time to time after the date hereof in order to ensure compliance with the requirements of the Covered Bonds Law and with the Bank of Portugal Regulations (as defined in *Definitions*).

To enable it to issue Covered Bonds, the Issuer has established and will maintain a segregated register (the "**Register**") in relation to the Cover Pool for the purposes of the Covered Bonds Law.

The Issuer plans to issue from time to time Covered Bonds and will include in the relevant Cover Pool additional mortgage credit assets or substitution assets as security for those Covered Bonds in accordance with relevant provisions of the Covered Bonds Law, as further detailed below.

The Issuer is required, as soon as practicable after becoming aware that it has contravened the provisions of the Covered Bonds Law, to take all possible steps to prevent the contravention from continuing or being repeated.

### ELIGIBILITY CRITERIA FOR ASSETS COMPRISED IN THE COVER POOL

Only mortgage credits or receivables which comply with the legal eligibility criteria described below may be included in the Cover Pool:

#### *Mortgage Credits Eligibility Criteria*

Mortgage Credits should be pecuniary receivables of the Issuer not yet matured, which are neither subject to conditions nor encumbered, judicially seized or apprehended and which a) are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State; or b) are secured by a junior mortgage but where all mortgage credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or c) are secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing the characteristics described above.

#### *"Other Assets" Eligibility Criteria:*

The following assets may also be included in the Cover Pool as Other Assets:

- (a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the European Central Bank and the national central banks of the Member States whose currency is the euro);
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating given

at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least equal to "A-" or equivalent; and

- (c) other assets meeting both the low risk and high liquidity requirements of the Bank of Portugal Regulations.

The aggregate value of the Other Assets may not exceed 20% of the aggregate value of mortgage assets and other assets allocated as collateral to all Covered Bonds issued by the Issuer.

At the date of this Base Prospectus, the Issuer intends to include in the Cover Pool mortgage credits which are located in Portugal and secured primarily on residential property for the purposes of the Covered Bonds Law. The Cover Pool may also include mortgage credit that has been granted under the subsidised credit regime, pursuant to Decree-Law No. 349/98, of 11 November 1998.

The Issuer does not intend at the date of this Base Prospectus to include either (i) Mortgage Credits which have their primary security over commercial property or (ii) Mortgage Credits in respect of which the associated Property is located for the purposes of the Covered Bonds Law outside Portugal without first notifying (in each case for so long as the Covered Bonds are rated by such rating agency) Moody's, Fitch and the relevant DBRS entity to ascertain whether any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Covered Bonds.

Asset-backed securities that do not comply with paragraph 1 of Article 80 of Guideline ECB/2014/60 are not included in the Cover Pool at the date of this Base Prospectus and will not be included by the Issuer in the Cover Pool for as long as this Base Prospectus's validity has not expired.

## **HEDGING CONTRACTS**

The Covered Bonds Law allows the Cover Pool to include hedging contracts aimed exclusively at hedging risks, namely interest rate, exchange rate or liquidity risks. These hedging contracts will form part of the Cover Pool and may be taken into account in the assessment of the financial ratios and requirements of the Covered Bonds Law and described in this section.

Pursuant to the requirements of the Covered Bonds Law, any such hedging contract can only be entered into (i) in a regulated market of an EU Member State, or (ii) recognised market of an OECD country, or (iii) with a counterparty which is a credit institution with a rating of at least "A-" or equivalent. The Covered Bonds Law empowers the Bank of Portugal to develop, by regulatory notice ("*Aviso*"), the eligibility criteria for hedging contracts to form part of the Cover Pool.

Also pursuant to the Covered Bonds Law, the Register shall, in relation to each Hedging Contract, identify (i) the Covered Bonds to which the relevant Hedging Contract relates; (ii) the corresponding Cover Pool; (iii) the nominal value of the Hedging Contract; (iv) the Hedge Counterparty; and (v) the commencement date and the maturity date of such Hedging Contract.

If a particular Tranche of Covered Bonds is issued in a denomination other than the euro, the Issuer must enter into Hedging Contracts for the purpose of hedging any currency exchange risk.

Interest rate exposure of the Issuer relating to Mortgage Credits, as and when comprised in the Cover Pool, will be managed through Hedging Contracts. Interest rate swaps will be entered into with a Hedge Counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer. The Hedging Contracts will qualify as derivative financial instruments for the purposes of the Covered Bonds Law.

The terms of any Hedging Contracts to be entered into with a Hedge Counterparty, will include, among other termination events, provisions that provide that if the rating of any Hedge Counterparty short-term Issuer Default Rating (IDR) falls below "F1" by Fitch, and as a result of such downgrade the then

current rating of the Covered Bonds is downgraded or placed under review for possible downgrade, or the rating of any Hedge Counterparty long-term IDR falls below "A" by Fitch, and as a result of such downgrade the then current rating of the Covered Bonds is downgraded or placed under review for possible downgrade, or if the rating of any Hedge Counterparty long-term unsecured, unsubordinated debt obligations falls below "A3" by Moody's (or ceases to be rated) at any time, the Hedge Counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Hedging Contract, subject to any applicable Rating Agencies' criteria regarding Hedge Counterparty exposures; (ii) arranging for its obligations under the Hedging Contracts to be transferred to an entity with ratings given pursuant to the criteria of the relevant rating agency; (iii) procuring another entity with ratings given pursuant to the criteria of the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (iv) taking such other action as it may agree with the relevant rating agency. A failure to take such steps will allow the Issuer to terminate the Hedging Contracts.

### **LOAN-TO-VALUE RESTRICTIONS**

Pursuant to the Covered Bonds Law, the amount of any mortgage credit asset included in the Cover Pool may not exceed (i) the value of the corresponding Mortgage, (ii) 80% of the value of the Property, if it is residential property, or 60% of the value of the Property, if it is commercial property. See *Valuation of Cover Pool* below.

### **WEIGHTED AVERAGE TERM TO MATURITY**

The Covered Bonds Law sets out certain criteria, including matching weighted average term to maturity, which are required to be met by the Issuer in respect of its Cover Pool. In any case, the average maturity of the outstanding Covered Bonds may not exceed, at any time, the average maturity of the Mortgage Credits and Other Assets allocated to the relevant issuance.

### **OVERCOLLATERALISATION**

Pursuant to the Covered Bonds Law, the nominal principal amount of any Covered Bonds outstanding may not exceed 95% of the aggregate nominal amount of the Cover Pool less any Covered Bonds acquired by the Issuer pursuant to the Covered Bonds Law and not cancelled. In addition, the aggregate amount of interest payable to the holders of Covered Bonds may not exceed, at any time, the amount of interest to be collected under the Cover Pool (including both the Mortgage Credits and the Other Assets) allocated to the Covered Bonds.

In compliance with the above legal requirements, Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to over-collateralise the Cover Pool with respect to outstanding Covered Bonds at a minimum level of 105.26% or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26%; and (ii) (A) so long as the Covered Bonds are rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14, unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody's being reduced, removed, suspended or placed on credit watch; and (B) so long as the Covered Bonds are not rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*). See *Terms and Conditions of the Covered Bonds*.

For the purposes of the calculation by the Issuer and the Cover Pool Monitor of the level of overcollateralisation referred to above:

- (a) Mortgage Credits shall be included at their outstanding principal amount, together with any accrued but unpaid interest;
- (b) the Covered Bonds shall be accounted according to the nominal value of outstanding principal, together with accrued but unpaid interest;
- (c) in relation to any Other Assets:

deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

securities eligible for Eurosystem credit transactions shall be accounted for by one value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

Also for the purpose of these calculations the Issuer and the Cover Pool Monitor shall use the exchange rates published by the European Central Bank as a reference.

In addition, the net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis point parallel shifts in the yield curve.

#### **COMPLIANCE WITH FINANCIAL REQUIREMENTS**

The Cover Pool Monitor must monitor the Issuer's compliance with the financial requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations described in this section. The Issuer must, as soon as practicable after becoming aware that it has failed to comply with any provisions of the Covered Bonds Law summarised herein (or when it is reasonable to expect that they will not be complied with), take all steps to comply with that provision, by undertaking one or more of the following procedures:

- (a) allocating new mortgage credit assets, with or without substitution of those already allocated to the Covered Bonds; and/or
- (b) allocating additional Other Assets; and/or
- (c) acquiring Covered Bonds in the secondary market.

#### **VALUATION OF COVER POOL**

The Covered Bonds Law sets out certain requirements and criteria which are required to be met by the Issuer in respect of the valuation of Mortgage Credits comprised in the Cover Pool.

The Covered Bonds Law empowers the Bank of Portugal to specify, by regulatory notice ("*Aviso*"), requirements in relation to the valuation basis and methodology, time of valuation and any other matters that it considers relevant for determining the value of mortgage credit assets or Other Assets for the purposes of the Covered Bonds Law. The Covered Bonds Law also empowers the Bank of Portugal to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of substitution assets that are to be comprised in the Cover Pool. These requirements are set out in Regulation 5/2006 and Regulation 6/2006.

## Valuation of Properties

### *General Overview*

The value of each Property associated with a Mortgage Credit comprised in the Cover Pool corresponds to the commercial value of such Property, determined in accordance with prudent criteria and taking into consideration (i) the sustainable long term characteristics of such Property, (ii) the standard conditions of the local market, (iii) the current use of the relevant Property, and (iv) any alternative uses of the Property in question.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by the Issuer to each of the Properties related to Mortgage Credits comprised in the Cover Pool may not be higher than the market value of such Property. For these purposes, the "**market value**" of each Property shall correspond to the price by which the relevant Property can be purchased by a third party able to complete such purchase on the date of the valuation of the Property, assuming that (i) the Property is publicly put on sale, (ii) the market conditions allow for a regular transfer of such Property, and (iii) there is a normal period of time to, considering the nature of the Property in question, negotiate the purchase and sale of such Property.

### *Valuation by expert*

Prior to the inclusion in the Cover Pool of the related Mortgage Credit, each Property must be valued by a real estate valuation expert. Such valuation shall be reviewed by a real estate valuation expert whenever (i) the information available to the Issuer indicates that there may have been a substantial decrease in the value of the Property or (ii) the value of the Property may have materially decreased in relation to general market prices.

A valuation made by a real estate valuation expert prior to the enactment of Regulation 5/2006 may, however, be used by the Issuer provided that:

- (a) the valuations were carried out by a valuation expert who is independent from the credit analysis and credit decision-making process within the Group;
- (b) the valuations were subject to a written report from the valuation expert that includes, in a clear and accurate way elements that allow the understanding of the analysis and conclusions of the valuation expert;
- (c) the Properties had been valued in light of the corresponding market value or the value of the mortgaged Property, as established by Regulation 5/2006; and
- (d) there has been no evidence that the relevant Property is over-valued at the time of allocation of the relevant Mortgage Credit to the issue of Covered Bonds.

The real estate valuation experts appointed from time to time by the Issuer to conduct the required valuation of Properties shall be independent and be adequately qualified and experienced for the performance of their functions. The Issuer may not appoint a real estate valuation expert with any potential conflicts of interest, notably where there is (i) any specific interest of the real estate valuation expert in the Property subject to the valuation, (ii) any relationship, commercial or personal, with the borrower of the Mortgage Credit related to the Property subject to valuation, or (iii) where the remuneration of the valuation expert is dependent on the valuation of the relevant Property.

The Issuer may appoint a valuation expert within the Group, provided such valuation expert is independent from the credit analysis and decision-making process within the Group.

The selection of real estate valuation experts by the Issuer must ensure adequate diversification and rotation, and the Issuer shall maintain a permanent and updated list of selected valuation experts, setting out the criteria which have led to the respective selection, as well as the Properties valued by each valuation expert. This list shall be sent to the Bank of Portugal by the end of January of each year, indicating, if applicable, any changes made to such list from the list submitted the previous year.

Under Regulation 5/2006, the Bank of Portugal may, in relation to a given Property, require the Issuer to appoint another valuation expert, in particular when the value resulting from the previous valuation raises doubts as to its correctness.

#### *Methods of valuation*

The Issuer must ensure that each real estate valuation expert it appoints uses one of the following methods of valuation, which shall be chosen in light of the specific characteristics of the Property subject to valuation, as well as of the specific conditions of the local market:

- (a) Cost method;
- (b) Income method; or
- (c) Comparison method.

#### *Valuation report*

Each real estate valuation expert appointed by the Issuer shall prepare a report in relation to the valuation of each Property, setting out, in a clear and detailed manner, all the elements relevant for the full understanding of the analysis and conclusions of such valuation, in particular:

- (a) the identification of the relevant Property, with a detailed description of its characteristics;
- (b) a description and basis for the selection of the method(s) of valuation, any parameters used and/or assumptions adopted, identifying the manner in which the volatility effects of the short term market or the market temporary conditions were taken into account;
- (c) a description of possible qualifications to the analysis;
- (d) the valuation of the Property, in terms of both the value of the mortgaged Property and of the market value of the Property;
- (e) a statement of the valuation expert that he has effected the valuation according to the applicable requirements set out in the Covered Bonds Law and in the Bank of Portugal Regulations; and
- (f) the date of the valuation and the identification and the signature of the valuation expert.

#### *Subsequent valuations of Properties and subsequent update of the value of Properties*

In respect of Mortgage Credits that exceed (i) 5% of the own funds of the Issuer or (ii) EUR 500,000, in the case of residential Properties, or EUR 1,000,000, in the case of commercial Properties, the valuation of the relevant Property shall be reviewed by a real estate valuation expert at least every three years.

The Issuer shall also perform any internal check of the value of each of the Properties once every three years, for residential Properties, and at least once a year for commercial Properties. The Issuer may be required to conduct Property valuations whenever there is relevant information that indicates that a

substantial decrease of the Property value has taken place or that the Property value may have suffered a material decline in relation to standard market prices.

For the purpose of conducting an update of the valuation of the Properties, the Issuer may resort to recognised indices or statistical methods. In this case, the Issuer shall send the Bank of Portugal a report with the detailed description of such indices and statistical methods, as well as the grounds for their use, together with an opinion on the adequacy of such indices and statistical methods produced by a reputable independent valuation expert.

All subsequent updates of the value of the Properties shall be documented by the Issuer, setting out the description of the relevant criteria and the frequency of the review.

The Issuer shall provide the Cover Pool Monitor with all information necessary for the Cover Pool Monitor to supervise compliance by the Issuer with the requirements set forth in the Covered Bonds Law and in Regulation 5/2006 relating to the valuation of the Properties securing the Mortgage Credits comprised in the Cover Pool.

### **Valuation of Other Assets**

Pursuant to Regulation 6/2006, the Other Assets shall be valued as follows:

- (a) the deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
- (b) the securities eligible for Eurosystem credit transactions shall be accounted for according to the value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to the nominal value of such securities, including accrued but unpaid interest.

### **Insurance**

Pursuant to the Covered Bonds Law, if any property mortgaged as security for payment of interest and principal in relation to a mortgage credit asset comprised in the Cover Pool does not have an adequate insurance policy contracted by the relevant owner, the Issuer must obtain such insurance coverage adequate to the risks inherent to the relevant property. The Issuer must bear the costs of such insurance. In any case, the insurance policy attached to any property included in the Cover Pool must provide for a full coverage, allowing, in case of total loss, for such property to be rebuilt.

Any compensation due under any such insurance policies must be paid directly to the Issuer, up to the limit of the relevant Mortgage Credit.

### **COVER POOL SEGREGATED REGISTER AND SPECIAL CREDITOR PRIVILEGE**

#### *Autonomous pool of assets and segregated register*

Pursuant to the Covered Bonds Law, the Cover Pool constitutes an autonomous pool of assets ("*património autónomo*"), not liable for any general indebtedness incurred by the Issuer until all amounts due to the holders of Covered Bonds and the Other Preferred Creditors are fully paid and discharged.

The Covered Bonds Law provides that the appropriate particulars of each asset comprised in the Cover Pool (including Mortgage Credits, Other Assets and Hedging Contracts) must be recorded in a segregated register within, and maintained by, the Issuer. Such register must record the following:

- (i) the outstanding principal amount;

- (ii) the applicable interest rate;
- (iii) the applicable amortisation;
- (iv) the notary's office where the relevant mortgage was entered into, when applicable; and
- (v) the reference regarding the definitive inscription of the mortgages in the corresponding real estate registry.

Pursuant to article 4.3 of the Covered Bonds Law, the Cover Pool is identified in the transaction documents by a code. The key to such code is deposited with the Bank of Portugal which has promulgated, by regulatory notice ("*Aviso*"), the conditions under which the holders of Covered Bonds may have access to the segregated register of the Cover Pool.

#### *Special creditor privilege*

Under the Covered Bonds Law, the holders of Covered Bonds enjoy a special creditor privilege over the Cover Pool (including the Mortgage Credits, the Other Assets and the Hedging Contracts) with preference over any other general creditor, in relation to the repayment of principal and payment of interest due under the Covered Bonds. Pursuant to the Covered Bonds Law, this special creditor privilege applies automatically for the benefit of the holders of Covered Bonds, the Common Representative and the Hedge Counterparties and is not subject to registration.

The mortgages created as security for the mortgage credit assets comprised in the Cover Pool shall prevail over all other real estate preferential claims.

#### **DOCUMENTS AVAILABLE REGARDING THE COVER POOL**

On a quarterly basis, the Issuer produces an investor report (the "**Investor Report**") containing key information regarding characteristics of the Cover Pool, outstanding Covered Bonds and Other Assets, as at the last business day of each calendar quarter. The Investor Report is produced and distributed by the end of the calendar month following each calendar quarter, and distributed to the Rating Agencies and Cover Pool Monitor, via electronic mail. The issuer makes the Investor Report available to investors by sending it to Bloomberg L.P.'s financial portal (<http://www.bloomberg.com/>), via electronic mail, as well as by publishing it in on the Issuer's corporate website ([www.millenniumbcp.pt](http://www.millenniumbcp.pt)).

## **INSOLVENCY OF THE ISSUER**

The Covered Bonds Law governs, to a certain extent, the impact on the Covered Bonds of a possible insolvency or winding-up of the Issuer, so as to ensure due protection to the holders of Covered Bonds. In the event of dissolution and winding-up (including on grounds of insolvency) of the Issuer, the Covered Bonds Law establishes that the Cover Pool shall be segregated from the insolvency estate of the Issuer and will not form part thereof until full payment of any amounts due to the holders of Covered Bonds. The amounts corresponding to payment of interest and repayment of principal of the Mortgage Credits and Other Assets will not form part of the insolvency estate of the Issuer.

The Cover Pool will, in such an event, be separated from the Issuer's insolvency estate so as to be autonomously managed until full payment of the amounts due to the holders of Covered Bonds and the Other Preferred Creditors. In this situation, pursuant to the Covered Bonds Law, the holders of Covered Bonds are entitled to adopt a resolution approving the immediate acceleration of the Covered Bonds by a majority of at least two thirds of the votes of the holders of Covered Bonds then outstanding, in which case the entity appointed to manage the Cover Pool shall provide for the liquidation thereof to the benefit of the holders of Covered Bonds.

If an Insolvency Event occurs in relation to the Issuer, the plan for the voluntary dissolution and winding-up of the Issuer, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Banking Law, shall identify a Substitute Credit Institution appointed to (i) manage the Cover Pool allocated to the outstanding Covered Bonds and (ii) ensure that the payments of any amounts due to the holders of such Covered Bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

In addition, if the authorisation of the Issuer to act as a credit institution in Portugal is revoked, the Bank of Portugal is required, simultaneously with the decision to revoke such authorisation, to appoint a Substitute Credit Institution to manage the Cover Pool allocated to the Covered Bonds outstanding and to ensure that payments due to the holders of such Covered Bonds are made.

The fees to be paid to the appointed Substitute Credit Institution shall be determined by the Bank of Portugal at the time of such appointment and shall be paid out of the Cover Pool.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall:

- (i) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes;
- (ii) perform all acts and things necessary or desirable for the prudent management of the Cover Pool and respective guarantees in order to ensure the timely payment of all amounts due to holders of Covered Bonds including, without limitation:
  - a. selling the Mortgage Credits comprised in the Cover Pool;
  - b. ensuring the timely collection in respect of the Mortgage Credits comprised in the Cover Pool; and
  - c. performing administrative services in connection with such Mortgage Credits;
- (iii) maintain and keep updated a segregated register of the Cover Pool in accordance with the Covered Bonds Law; and

- (iv) prepare an annual financial report in relation to the Cover Pool and the outstanding Covered Bonds. This report shall be the subject of an audit report produced by an independent auditor. The independent auditor shall be appointed as Cover Pool Monitor by the Substitute Credit Institution in accordance with Article 34 of the Covered Bonds Law.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under such Mortgage Credits.

## **COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS**

Deutsche Trustee Company Limited, with registered office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, has been appointed by the Issuer as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law and in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement.

The Issuer has appointed the Common Representative to represent the holders of Covered Bonds. According to the Covered Bonds Law and to the relevant provisions of the Portuguese Companies Code, the Common Representative may be entitled to perform all the necessary acts and actions in order to ensure protection of the holders of Covered Bonds, namely: (a) to represent the holders of Covered Bonds in respect of all matters arising from the issuance of the Covered Bonds and to enforce on their behalf their legal or contractual rights; (b) to enforce any decision taken by the general meetings of the holders of Covered Bonds, in particular those where the acceleration of the Covered Bonds may be decided; (c) to represent the holders of Covered Bonds in any judicial proceedings, including judicial proceedings against the Issuer and, in particular, in the context of any winding-up, dissolution or insolvency commenced by or against the Issuer; (d) to collect and examine all the relevant documentation in respect of the Issuer which is provided to its shareholders; and (e) to provide the holders of Covered Bonds with all relevant information regarding the issuance of the Covered Bonds it may become aware of by virtue of its role as Common Representative under the Common Representative Appointment Agreement.

The holders of the Covered Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions and the Common Representative Appointment Agreement, remove the Common Representative and appoint a new common representative.

## **COVER POOL MONITOR**

### **APPOINTMENT OF A COVER POOL MONITOR**

The Covered Bonds Law requires that the Board of Directors of the Issuer appoints a qualified person or entity to be the monitor of the Cover Pool (the "**Cover Pool Monitor**") who shall be responsible, for the benefit of the holders of Covered Bonds, for monitoring the compliance by the Issuer of the requirements contained in the Covered Bonds Law and the Bank of Portugal Regulations.

Pursuant to the Covered Bonds Law, the Cover Pool Monitor must be an independent auditor registered with the CMVM. For these purposes, an independent auditor must be an auditor which is not related with or associated to any group of specific interests within the issuing entity and is not in a position that hinders its ability to make independent analysis and decisions. In particular, such independent auditor shall not (i) hold 2% or more of the share capital of the Issuer, either directly or on behalf of a third party; or (ii) have been re-elected for more than two terms either consecutive or not.

The Issuer is responsible for paying any remuneration or other money payable to the Cover Pool Monitor in connection with the Cover Pool Monitor's responsibilities in respect of the Issuer and the holders of Covered Bonds.

### **ROLE OF THE COVER POOL MONITOR**

Pursuant to the Cover Pool Monitor Agreement, dated 15 May 2019, the Issuer appointed Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. as Cover Pool Monitor. Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. is registered with the CMVM under registration number 20161389.

The Cover Pool Monitor Agreement reflects the requirements of the Covered Bonds Law in relation to the appointment of a monitor in respect of the requirements (namely, financial requirements and the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Covered Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool, the resignation of the Cover Pool Monitor and the replacement by the Issuer of the Cover Pool Monitor.

### **DUTIES AND POWERS OF THE COVER POOL MONITOR**

In accordance with the Covered Bonds Law, the Cover Pool Monitor is required to monitor, for the benefit of the holders of the Covered Bonds, compliance by the Issuer of the financial and prudential requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations in respect of the Cover Pool. In particular, the Cover Pool Monitor shall be engaged to assess compliance by the Issuer with the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*).

Pursuant to the Covered Bonds Law and the Bank of Portugal Regulations, the Cover Pool Monitor is entitled to be provided with all information required to monitor compliance by the Issuer with the requirements relating to outstanding Covered Bonds and the Cover Pool.

In the performance of its duties, the Cover Pool Monitor must produce an annual report with an assessment of the Issuer's compliance with the requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations, in particular those requirements relating to the level of collateralisation, the loan-to-value ratios limitations and the valuation of assets comprised in the Cover

Pool. The Cover Pool Monitor must also prepare opinions certifying the statements of the management body of the Issuer, relating to information and documentation filed with the Bank of Portugal.

The Cover Pool Monitor must notify the Issuer, as soon as reasonably practicable, after becoming aware that the Issuer has contravened any of the provisions of the Covered Bonds Law and/or that any of the requirements of the Cover Pool are not being complied with. If the situation remains unremedied within 10 business days after such notification, the Cover Pool Monitor will notify the Arrangers and the relevant Dealers of the contravention or non-compliance. For the purposes of this notification, the Cover Pool Monitor will develop quarterly procedures to be defined with the Issuer.

The Covered Bonds Law empowers the Bank of Portugal to promulgate, by regulatory notice ("*Aviso*"), requirements applicable to the content and disclosure of any reports of the Cover Pool Monitor.

### **REMUNERATION AND TERMINATION OF THE APPOINTMENT OF THE COVER POOL MONITOR**

In accordance with the Cover Pool Monitor Agreement, the Cover Pool Monitor shall be remunerated by the Issuer for its services as Cover Pool Monitor at a rate as may from time to time be agreed between the Issuer and the Cover Pool Monitor.

The Issuer may at any time terminate the appointment of the Cover Pool Monitor and appoint a new entity to act in such capacity. Any such termination shall not become effective until a new cover pool monitor is appointed in accordance with the terms of the Cover Pool Monitor Agreement. Additionally, the Cover Pool Monitor may retire at any time upon giving not less than three calendar months' notice in writing to the Issuer. Such retirement shall not become effective until the appointment of a new cover pool monitor.

## DESCRIPTION OF THE BUSINESS OF THE GROUP

### Group Overview

The Group is one of the largest privately owned banking groups based in Portugal, in terms of assets, credit and deposits. The Group offers a wide range of banking products and related financial services, both in Portugal and internationally, namely demand accounts, instruments of payment, savings and investment products, mortgage loans, consumer credit, commercial banking, leasing, factoring, insurance, private banking and asset management, among others, and its customers are served on a segmented basis. Internationally, the Group has significant operations in Poland, Angola (in 2016, BMA merged with BPA and as a result the Angola operation is now consolidated under the equity method) and Mozambique. In addition, the Bank has a presence in Switzerland, the Cayman Islands and Macao.

In accordance with IFRS as endorsed by the European Union, the Group had, at the end of December 2019, total assets in the amount of EUR 81,643 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 81,675 million. Loans to customers (gross) amounted to EUR 54,724 million (of which EUR 52.3 billion were recorded in the caption "Financial assets at amortised cost – Loans to customers", EUR 2.1 billion were recorded in the caption "Debt securities held associated with credit operations" and EUR 0.372 billion (gross amount without considering fair value adjustments) 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 and CRR, CET1 fully-implemented ratio pro forma reached 12.2%, as at 31 December 2019. Based on the latest available data from Banco de Portugal, the Group accounted for 17.1% of loans to customers (gross) and 17.8% of deposits in the Portuguese banking sector on 31 December 2019.

In addition, on 31 December 2019, the Bank was the fifth largest company listed on Euronext Lisbon in terms of market capitalisation (EUR 3,065 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 and website [www.millenniumbcp.pt](http://www.millenniumbcp.pt).

The Bank operates notably under the Portuguese Companies Code and the Banking Law. See "*Legislation regulating the activity of the Bank*" below.

### 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 Servicomericial 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 (the "**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 European Commission and, in July 2013, the Bank agreed with the European Commission a Restructuring Plan, entailing an improvement of the profitability of the Bank in Portugal through continued cost reduction. In September 2013, the Directorate-General for Competition announced its formal decision in connection with its agreement with the Portuguese authorities concerning the Bank's Restructuring Plan. Pursuant to the decision, the Bank's Restructuring Plan was found in compliance with the European Union's rules relating to State aid, demonstrating the Bank's viability without continued State support. The approved Restructuring Plan aimed at strengthening the Bank's strategy by focusing on its core activities.

In May 2014, as part of a process aiming to refocus on core activities defined as a priority in its Strategic Plan, the Bank announced that it agreed with the international insurance group Ageas a partial recast of the strategic partnership agreements entered into in 2004, which included the sale of its 49% interest in the (currently jointly owned) insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental – Companhia Portuguesa de Seguros, S.A. and Médis – Companhia Portuguesa de Seguros de Saúde, S.A.

In April 2016, the Bank announced the conclusion of the merger between BMA and BPA, resulting in Angola's second-largest private sector bank in terms of loans to the economy, with a market share of approximately 10% by business volume.

BCP 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.

In August 2019, the merger of Bank Millennium S.A. with Euro Bank S.A. ("**Eurobank**") was approved on an Extraordinary General Meeting of Bank Millennium S.A. The completion of the integration of Eurobank into Bank Millennium S.A. took place on 27 December 2019, with Bank Millennium S.A. being the surviving entity from the merger and now operating under a single brand, a single operating system and a single legal entity.

In December 2019, the merger deed of Banco de Investimento Imobiliário, S.A., a wholly-owned subsidiary of the Bank, by incorporation into the latter, was signed, thus completing the incorporation process of Banco de Investimento Imobiliário, S.A. into the Bank.

## **Business Overview**

### *Nature of Operations and Principal Activities*

The Group provides a wide variety of banking services and financial activities in Portugal and abroad, where it is present in the following markets: Poland, Switzerland, Mozambique, Angola (through its associate BMA) and China. 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*

Since 2011, the Group 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 achievements, such as a cost reduction of approximately 40% in Portugal since 2011, and a reduction in Group NPEs exceeding 60% since 2013 (from EUR 13.7 billion in December 2013 to EUR 4.2 billion in December 2019). 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 to 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, reemphasising 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 leading position in Portugal*, aiming to maximize 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 materialize 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 aspire 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 leading position 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 the improvement of its credit portfolio quality as a clear priority, by reducing the NPE stock (reduction to EUR 3 billion by 2021) and simultaneously lowering the cost of risk. Risk and compliance governance will also be strengthened to ensure a sustainable growth of credit volume with a sound risk profile.

The successful execution of these priorities should enable the Bank to accomplish a set of strategic objectives for 2021: franchise growth (over 6 million active customers), readiness for the future (from 58% to over 60% digital customers by 2021), a sustainable business model (with NPEs reaching EUR

3 billion), and attractive returns for shareholders (approximately 40% cost-to-income and approximately 10% ROE in 2021).

### ***Business Model***

The internal organisational model of the Bank covers four business areas: Retail, Companies, Asset Management & Private Banking and Business Abroad (Europe, Africa and Other), and two support units: Processes and Banking Services and Corporate Areas.

Regarding the internal organisation and decision-making structure, it is important to note the existence of a series of Commissions and Sub-Commissions directly appointed by the Executive 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 3 January 2020, there were 13 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 and Institutional Commission*: The primary mission of this Commission is the assessment of the business context and proposal of commercial actions that are appropriate for these corporate segments; the business main risk indicators and of the models for the articulation of the business concerning its migration in the value proposal and the interconnection of the Bank's networks;
- c) *Human Resources Commission*: The primary mission of this Commission is the definition of the strategy and approval of the Bank's human resources policies, including the overview of the top 10 Key Performance Indicators ("**KPIs**"), contracts and internal mobility, span of control, compensation, benefits and recognition programmes. The Human Resources Commission is internally aiming to reinforce the culture, strategic alignment and mobilisation, and externally, in terms of value proposal and image, as well as the approach/relationship with relevant stakeholders, and the identification of policies, practices and systems to introduce/recommend actions in other countries where the Group operates are also functions of this Commission;
- d) *Retail Commission*: This Commission is entrusted to follow-up on the performance of the commercial networks, segments and channels (objective fulfilment levels and evolution) and to assess the business context and definition of commercial action priorities. This Commission also analyses the main indicators for products and services and the decisions on changes to the Bank's product range, as well of the main indicators for quality and customer experience, claims and customer satisfaction (external and internal);
- e) *Compliance and Operational Risks Commission*: The main mission of this Commission is monitoring the activity of the Bank and/or of the branches/subsidiaries of the Group in each

jurisdiction, regularly coordinating and managing the policies and obligations of the Bank and/or of the branches/subsidiaries of the Group, in order to ensure compliance with the legal and compliance regulations, the alignment of the Group strategies and the setting of priorities; monitoring the risk management framework (including IT and Outsourcing risks), ensuring its application in the Group's operations; monitoring the exposure to the operational risks and the status of the implementation and efficiency of the actions identified to strengthen the internal control environments; monitoring the management and improvement of the Bank's processes, in order to monitor and reduce the levels of exposure to compliance and operational risks.

- f) *Capital Assets and Liabilities Management Commission (CALCO)*: This Commission is entrusted in monitoring and managing market risks associated to assets and liabilities, planning and making capital allocation proposals and proposals to define policies for liquidity and market risk management, in terms of the Group consolidated balance sheet;
- g) *Credit Commission*: This Commission decides on credit proposals transversally related with the banking activity of the Group and issues an advisory opinion on the credit proposals made by entities operating abroad and part of the Group;
- h) *Risk Commission*: The main duty of this Commission is the definition of the framework and of the Group's risk management instruments and policies, establishing the respective principles, rules, limits and practices for the Group's entities, taking into account the risk thresholds set forth in the Risk Appetite Statement ("**RAS**"). This commission is responsible for monitoring compliance of group risk levels with the RAS, implementation of processes and action plans to mitigate eventual deviations versus RAS metrics, including a proposal for adjustment to such metrics, in cooperation with the Committee for Risk Assessment;

One Sub-Commission operates under the Risk Commission, the Monitoring and Validation of Models Sub-Commission, that monitors and confirms the validity of the various models used by the Bank's risk management function, including the technical analysis of models, indicators and monitoring results, qualitative validations, backtesting, benchmarking and analysis of adequacy and adhesion to the reality meant to be modeled. It also identifies the measures necessary to improve model quality and propose to the Risk Commission the methodology to assess model risk and respective tolerance level;

- i) *Pension Funds Risk Monitoring Commission*: This Commission is entrusted for monitoring the performance and risk of the Group's pension funds and the establishment of appropriate investment policies and hedging strategies;
- j) *Quality Security and Data Protection Commission*: The primary mission of this Commission is to define policies for information systems, physical security, data quality and management, disaster recovery plan and business continuity at Group level, ensuring compliance with the legal and regulatory requirements and the safety requirements and articulating between areas resulting from the application of risk management criteria and international standards. This Commission decides and prioritises the implementation of initiatives/projects for the improvement of the security systems in view of the risks and prioritises the implementation of initiatives/projects for the improvement of the security systems in view of the risks and vulnerabilities identified;
- k) *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;

- l) *Monitoring NPA (non-performing assets) Commission*: This Commission is entrusted for following-up the credit exposure and the contracting process; the credit portfolio's quality and the main risk and performance indicators; the counterparty risk and the largest exposures concentration risk and the impairment and the main processes that are object of a separate assessment.
- m) *Sustainability Commission*: the mission of this Commission is the definition and the monitoring of the initiatives that will allow the implementation of the Sustainability Master Plan (SMP) in compliance with the guidelines of the Plan approved by the Executive Committee. Always abiding by the internal regulations applicable to each Commission and by the functions and competences defined in the respective regulations, the competences that the Board of Directors has not reserved for itself or for the Audit Committee, for the Committee for Risk Assessment, for the Committee for Nominations and Remunerations and for the Committee for Corporate Governance, Ethics and Professional Conduct, are delegated to the Sustainability Commission. However, the aforementioned delegation is subject to the condition that any of the executive directors attending the Sustainability Commission decide that the subject should be submitted to the Executive Committee for resolution.

## ***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 Lombarde 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. BII was running a book of outstanding mortgage credit originating from mid-2007, which will progressively be reduced over time. On 27 December 2019, the merger deed of BII, a wholly-owned subsidiary of the Bank, by incorporation into the latter, was signed, thus completing the incorporation process of BII into the Bank.

### *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 16 physical branches, as at 31 December 2019. 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 currently owns 50.1% of Bank Millennium.

On 17 October 2018, 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.

In 2019, the merger of Bank Millennium with Eurobank was approved, on an Extraordinary General Meeting of Bank Millennium. The completion of the integration of Eurobank into Bank Millennium took place on 27 December 2019, with the Bank Millennium being the surviving entity from the merger and now operating under a single brand, a single operating system and a single legal entity

Bank Millennium acquired a 99.79% stake in Eurobank from Société Générale Financial Services Holding ("**SocGen**"), a subsidiary of Société Générale S.A. The completion of the integration of Eurobank into Bank Millennium took place on 27 December 2019.

Bank Millennium stopped granting mortgage loans in foreign currencies in 2009. Consequently the Polish foreign exchange ("**FX**") mortgage loans are a mature portfolio, constantly decreasing according to the repayment rate and with a low impairment ratio and high coverage by provisions. As at 31 December 2019, Bank Millennium's foreign exchange mortgages amounted to approximately 20% of the Polish bank's loan book (EUR 3.2 billion), which represents 6% of the Group's total loans. On top of these, there are also PLN 1.1 billion (approximately EUR 230 million) CHF indexed mortgages from Eurobank but the litigation/political risk on this portfolio is covered by a 20-year indemnity provided by SocGen, which also provided a 10-year guarantee on 80% of the credit risk on that portfolio. FX mortgages represent 7% of its Polish subsidiary total gross loans (approximately 8% market share).

On 3 October 2019, the Court of Justice of the European Union ("**CJEU**") issued a judgment on Case C-260/18, in connection with the preliminary questions formulated by the District Court of Warsaw in the lawsuit against Raiffeisen Bank International AG. The judgment of the CJEU, as well as its interpretation of European Union Law, is binding on domestic courts.

The CJEU's judgment concerns only the situations where the national court has previously found the contract terms to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be identified as abusive in the circumstances of the lawsuit. It can be reasonably assumed that the legal issues relating to FX-indexed mortgage loans will be further examined by the national courts within the framework of the disputes considered, which could possibly result in the emergence of further interpretations relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further requests for clarification and ruling addressed to the CJEU and the Supreme Court of Poland with potential impact on the outcome of the court cases may also be filed.

As at 31 December 2019, Bank Millennium had 2,010 FX-indexed mortgage loans subject to individual litigations, submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 203 million (EUR 47.74 million). Until 31 December 2019, only 19 of these cases had obtained a final verdict, the vast majority being in accordance with Bank Millennium's interest.

According to the Polish Bank Association (ZBP), during 2019, over 70% of the lawsuits regarding FX-indexed mortgage loans obtained a final verdict favourable to the banks involved. However, after the CJEU judgment regarding Case C-260/18 issued on 3 October 2019, there is a risk that this scenario for the banks may change.

Considering the increased legal risk related to FX-indexed mortgages, Bank Millennium created a provision in the amount of PLN 223 million (EUR 52.45 million) for legal risk. The methodology developed by Bank Millennium is based on the following main parameters: (i) the number of current (including class actions) and potential future court cases that will appear within a specified (three-year) time horizon; (ii) the amount of Bank Millennium's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account); and, (iii) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes a number of actions at different levels towards different stakeholders in order to mitigate legal and litigation risk regarding the FX-indexed mortgage loans portfolio. Bank Millennium is open to negotiate case-by-case favourable conditions for early repayment (partial or total) or the conversion of loans to PLN. On the other hand, Bank Millennium will continue to take all possible actions to protect its interests in courts while, at the same time, being open to finding settlement with customers in the court under reasonable conditions.

In December 2019, Bank Millennium recorded net income totalling EUR 130.5 million (EUR 65.4 million of which attributable to the Bank), a decrease of 26.3% (+16.9% excluding one-offs, in particular, related to the integration costs and initial provisions for Eurobank, release of tax asset provisions, positive revaluation of shares in PSP and provisions for FX related risks) when compared to EUR 178.4 million, (EUR 89.4 million of which attributable to the Bank) in the same period of the previous year.

Banking income was up 27.3% to EUR 808.2 million in December 2019, excluding foreign exchange effect, positively influenced by the performance of the net interest income, which increased 33.1% versus December 2018. Operating costs recorded an increase of 36.1% to EUR 401.8 million (+27.2% excluding Eurobank integration costs), due to the rise in staff costs (+31.1%) and in other costs (+46.1%). The cost-to-income ratio<sup>6</sup> stood at 47.9% and ROE was 6.4%, translating an improvement in profitability and in operational efficiency. The cost of risk stood at 70 basis points accrued since the beginning of the year and the loans to deposits ratio at around 86%. Bank Millennium keeps comfortable levels in terms of capital, liquidity and quality of assets. The Total Consolidated Capital Ratio of Bank Millennium stood at 20.1% and CET1 at 16.9%, comfortably above of the minimum capital regulatory thresholds.

As at 31 December 2019, customer funds stood at to EUR 21,237 million, which represents an increase of 20.8%, compared to EUR 17,574 million on 31 December 2018, excluding foreign exchange effect, and loans to customers increased 31.6% from EUR 12,828 million, excluding foreign exchange effect, to EUR 16,914 million (EUR 16,542 million recorded in "Financial assets at amortised cost – Loans and advances to customers"; EUR 372 million (gross amount without considering fair value adjustments) 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 8,464 at the end of December 2019. On that date, the Issuer had 830 branches, 469 more than in December 2018, impacted by Eurobank's integration.

### *Mozambique*

The Bank has had banking operations in Mozambique since 1995. BIM – Banco Internacional de Moçambique, S.A. ("**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 2019, Millennium bim recorded a net income of EUR 99.5 million, an increase of 5.8% compared to EUR 94.1 million in December 2018, when compared to the same period of the previous

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<sup>6</sup> As used in this Base Prospectus, "cost to income ratio" means operating costs divided by net operating revenues

year. In this period, banking income<sup>7</sup> decreased by -0.1% amounting to EUR 247.4 million, excluding foreign exchange effect, driven by the increase of commissions and other income (+9.2%), despite the reduction of the net interest income (-3.0%). Operating costs increased 4.5% to EUR 97.8 million, excluding foreign exchange effect, and cost-to-income stood at 47.2%. ROE stood at 20.3%. Loan impairment amounted to EUR 19.9 million (EUR 34.8 million recorded in December 2018, excluding foreign exchange effect) and the cost of risk decreased from 431 basis points to 277 basis points. As at 31 December 2019, Millennium bim had a capital ratio of 45.8%.

Total customer funds in December 2019 stood at EUR 1,685 million, up from the EUR 1,580 million, excluding foreign exchange effect, recorded in December 2018, showing an increase of 6.6%. Loans to customers (gross) amounted to EUR 717 million in December 2019, compared to EUR 802.1 million in December 2018, a decrease of 11.2%.

As at 31 December 2019, Millennium bim had 200 branches, seven more than in the same period of 2018. At that date, the bank had 2,680 employees (excluding employees from SIM, the insurance company) and had 2,610 employees as at 31 December 2018.

### *Angola*

BMA was incorporated on 3 April 2006, as a result of the transformation of the BCP branch in Angola into a bank incorporated under the laws of the Republic of Angola.

In February 2009, the Bank carried out financial transactions relating to the strategic partnership agreements established with Sonangol (a company that held, as at 30 June 2017, 15.24% of the Bank's share capital and voting rights) and Banco Privado Atlântico, S.A. ("**BPA**") (in which BMA held a shareholding of 6.66%), as a result of which the Bank reduced its stake in BMA to 52.7% through BMA's share capital increase of USD 105,752,496.80.

In April 2012, the Bank reduced its stake in BMA to 50.1%, following BMA's share capital increase, which was fully subscribed to by Global Pactum—Gestão de Activos (main shareholder of BPA), in line with the partnership agreement entered into with Sonangol and BPA. Within the scope of this partnership, the Bank, Sonangol and BPA entered in May 2008 into a shareholders' agreement regarding BMA, which included, among others, clauses on corporate bodies and preferential rights in case of transfer of BMA's shares.

On 8 October 2015, the Bank announced it had signed a memorandum of understanding with the main shareholder of BPA for the merger of BMA with BPA. The public deed for the merger was executed on 22 April 2016. Following the merger, BCP owns 22.5% of the share capital of Banco Millennium Atlântico.

In the context of the BMA merger with BPA, BMA was considered a discontinued operation in March 2016. As of the completion of the merger in May 2016, the new merged entity in which the Bank maintains a 22.5% shareholding, Banco Millennium Atlântico, is consolidated using the equity method.

Banco Millennium Atlântico contribution to BCP Group earnings in December 2019 was EUR 2.5 million which compares to EUR 15.5 million in December 2018.

### *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

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<sup>7</sup> Banking income or net operating revenues is the sum of net interest income, dividends from equity instruments, net commissions, net trading income, other net operating income and equity accounted earnings.

providing services to the Bank's network through support to individual and company customers, broadening the base of local customers and expanding the activity around the China-Macao-Portuguese speaking countries platform, focusing on the offer of investment banking services.

As at 31 December 2019, customer funds stood at EUR 538 million and gross loans reached EUR 289 million. In December 2019, net income amounted to EUR 10.7 million.

#### *Switzerland*

Millennium Banque Privée, incorporated in Switzerland in 2003, is a private banking platform that provides discretionary management services to individual customers of the Group with large assets, as well as financial advisory and orders execution services.

As at 31 December 2019, total customer funds amounted to EUR 3,393 million and loans to customers (gross) amounted to EUR 372 million. In September 2019, net income stood at EUR 6.9 million.

#### *Cayman Islands*

Millennium bcp Bank & Trust, with head office in the Cayman Islands, holds a category "B" banking license, and provides international banking services to customers that are not resident in Portugal. The Cayman Islands are considered a cooperating jurisdiction by Banco de Portugal.

As at 31 December 2019, Bank & Trust's customer funds stood at EUR 2 million and Bank & Trust's gross loans reached EUR 6 million. In September 2019, Bank & Trust's net income amounted to EUR 2.7 million.

#### *Other*

The Bank also has nine representative offices (one in the United Kingdom, three in Switzerland, two in Brazil, one in Venezuela, one in China in Canton and one in South Africa), and five commercial protocols (Canada, United States, Spain, France and Luxembourg).

### ***International Partnerships***

#### *Ageas*

In 2005, the Group and Fortis (currently, Ageas) established a joint venture for bancassurance business, through the insurance company Millennium bcp Fortis (currently, Millenniumbcp Ageas). The Group holds 49% of Millenniumbcp Ageas' share capital, while the remaining 51% is held by Ageas. In September 2005, Ageas increased its shareholding in the Bank to 4.99%. As a consequence of the two Bank share capital increases that took place in 2006, Ageas' shareholding in the Bank decreased to 4.94%. In September 2007, Ageas disposed of its qualifying holding in the share capital of the Bank.

On 26 May 2014, the Bank announced that, as part of a process aiming to refocus on core activities defined as a priority in its Strategic Plan, it had agreed with the international insurance group Ageas to partially recast the strategic partnership agreements entered into in 2004. These include the sale of its 49% interest in the (at that time jointly owned) insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental-Companhia Portuguesa de Seguros, S.A. and Médis - Companhia Portuguesa de Seguros de Saúde, S.A., for a base price of EUR 122.5 million, subject to a medium term performance adjustment. In 2013, the non-life activity posted gross inflows of EUR 251 million and a net profit of EUR 12 million.

On 28 July 2014, the Bank announced that Ageas, on behalf of itself and its subsidiary Ocidental-Companhia Portuguesa de Seguros de Vida, S.A. ("**Ocidental Vida**"), had acquired a qualifying holding

in the share capital of the Bank. The qualifying holding was a result of Ageas and Ocidental Vida having subscribed, respectively, 280,490,558 and 408,855,693 ordinary shares in the rights issue launched by the Bank on 27 June 2014, pursuant to the subscription rights attributed to them considering their participation in the Bank prior to the rights issue (156,623,179 shares in case of Ageas and of 233,631,825 shares in case of Ocidental Vida).

Following the settlement of the rights issue, on 23 July 2014, and allotment of the oversubscription, on 24 July, the number of shares held by Ageas increased to 437,113,737 and the number of shares held by Ocidental Vida increased to 652,087,518, thus Ageas Insurance International Group (i.e. Ageas and Ocidental Vida) increased its participation to 1,089,201,255 shares that correspond to 2.01% of the issued share capital and of voting rights of BCP.

On 16 June 2015, the Bank announced that it had received an announcement from Ageas, issued on behalf of itself and Ocidental Vida, informing that Ageas Insurance International Group (i.e. Ageas and Ocidental Vida) holding in the share capital of the Bank had fallen below the 2% threshold of qualifying holding (1.84%). The dilution of the former qualifying holding is a result of BCP's exchange offer of some of its subordinated debt and preference shares for ordinary shares, causing the issuance of 4,844,313,860 new shares, which increased the total outstanding ordinary shares in BCP to 59,039,023,275.

#### *Sonangol and BPA*

Following the announcement made by the Bank on 8 October 2015, the Bank informed on 25 April 2016 that the public deed for the merger of Banco Millennium Angola, S.A. with Banco Privado Atlântico, S.A. had been executed.

#### **Recent developments in 2020**

On 26 March 2020, the Bank informed that its Board of Directors approved, based on the results for 2019, disclosed on 20 February 2020, the individual and consolidated annual report, balance sheet and financial statements of 2019, which were submitted for approval to the Annual General Meeting held on 20 May 2020.

The Board of Directors considered it important to compensate the efforts of the Bank's employees who, in the period comprised between June 2014 and June 2017, accepted a temporary reduction in their remuneration in order to render the Bank's recovery process feasible and to contribute to the compliance with the requirements imposed to the Bank to be able to benefit from State Aid, pursuing its commitment to propose to the General Meeting the distribution of results to Employees that allows for the gradual delivery of an accumulated amount at least equal to the total not received by them during the period. It has therefore proposed to the Annual General Meeting the distribution of up to EUR 1,000.00 to each employee who has not already been fully compensated with the earnings distributed in 2019 if he/she remains in office on the date of payment of the remuneration corresponding to June 2020, up to a maximum total amount of EUR 5,281,000.00, pursuant to the process of compensation for the reduction of wages agreed under the Collective Labour Agreement, as published on 29 March 2014, in the Bulletin of Labour and Employment No. 12.

In view of the potential impacts and the uncertainty associated with the pandemic situation, and even though the Bank is part of the group of financial institutions with no specific regulatory constraints pertaining to dividend distribution, the Board of Directors also decided to propose to the Annual General Meeting the retention of the remaining results for 2019, of which EUR 13,929,601.66 to reinforce the legal reserve, and the remaining, in the minimum amount of EUR 120,085,414.93, to retained earnings. This proposal aims to ensure that the Bank is better prepared to face the current uncertain context, with the Board of Directors reiterating its determination to resume the approved dividend policy once the crisis is overcome and as the Bank and the national economy begin to recover.

On 3 April 2020, the Bank informed that Fitch, which has been revising the ratings of the European banks in different geographies due to the disruption caused by the COVID-19 outbreak, also made a reassessment of the Portuguese market and communicated the following rating actions on the Bank:

- Affirmed BCP's Long-Term Rating of 'BB' ("IDR"— Issuer Default Rating) and its Intrinsic Rating of 'bb' ("VR"- Viability Rating), and revised the Outlook to Negative from Positive, reflecting the uncertainty related to the COVID-19 crisis;
- Assigned a 'BB-' rating to the Bank's senior non-preferred debt and a 'B+' rating to its Tier 2 debt, according to Fitch's new rating methodology for banks;
- Assigned a 'BB+/'B' rating to the Bank's deposits, one notch above the Long-Term IDR, reflecting the view of Fitch that depositors enjoy a superior level of protection."

On 20 May 2020, the Bank concluded, exclusively through electronic means and with 61.31% of the share capital represented, the Annual General Meeting of Shareholders, with the following resolutions:

- Item One – Approval of the management report, the individual and consolidated annual report, balance sheet and financial statements of 2019, including the Corporate Governance Report;
- Item Two – Approval of the proposal for the appropriation of profit regarding the 2019 financial year;
- 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 Supervisory Bodies;
- Item Five – Approval of the acquisition and sale of own shares and bonds; and
- Item Six – Re-appointment of the elected members of the Board of the General Meeting of Shareholders of Banco Comercial Português, S.A., for the four-year term of office 2020/2023: (i) Chairman: Pedro Rebelo de Sousa and (ii) Vice-Chairman: Octávio Castelo Paulo.

## **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 personalisation. Also, security and trust have reinforced the importance of digitalisation given cyber-risk concerns and cases of misselling. Advances in the ability to deploy technologies (e.g., robotics, machine learning) and the expanded capabilities these enable are setting new ways of working, requiring new skills.

The deregulation and liberalisation process experienced by the Portuguese banking sector, including Eurozone participation, catalysed an increase in business and competition, particularly in the credit market. Customer loans and advances increased significantly in advance of the implementation of the euro and during the early years of economic convergence and integration within the single currency project (Source: Banco de Portugal).

At the same time, the Portuguese banking system experienced a consolidation, which was driven by the need to achieve economies of scale and operating synergies. More recently, against the background of the financial instability beginning in the summer of 2007 and the subsequent euro periphery crisis, deleveraging and strategic repositioning took place. Some foreigner players reappraised their presence and business models and networks developed in Portugal. More recently, major banks in the Portuguese banking system have rationalised their operating structures.

The Portuguese banking market is concentrated with the biggest five banks representing 80% of the market share in terms of business volumes. The Bank is the largest private sector bank in Portugal in terms of business volumes (market share of 18% by gross loans + customer funds), generates 29% of the system core net income and is one of the most efficient banks in Portugal with only 13% of the system branch network.

The growing maturity of the domestic market and globalisation trends led domestic banks to further develop their operations abroad, namely in countries with which Portugal had strong economic and historical relations. Hence, currently, the biggest domestic banking groups manage operations in European and African countries, which bear an increasing strategic relevance for their businesses.

The Portuguese Competition Authority ensures compliance with Portuguese competition rules, asserting regulatory powers over competition in all sectors of the economy, including regulated sectors in coordination with the relevant sector regulators. Banco de Portugal is responsible for the prudential and market conduct supervision, ensuring the stability of the financial system as well as compliance with rules of conduct and transparency for banks' customers. As the national supervisory authority, Banco de Portugal is part of the Single Supervisory Mechanism, the European banking supervision system, entrusted with the safety and robustness of European banks. National competition authorities and the EU 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 December 2019, BCP had a market share of 17.1% of loans to customers (gross) and 17.8% of deposits in its domestic market.

As at the end of 2018, 742 credit institutions, mutual credit banks, saving banks and branches of credit institutions were registered in Portugal, of which 150 were banks (Source: Banco de Portugal). Financial institutions with head offices in the European Economic Area providing cross-border services amounted to 1180, as at the end of 2018 (according to the last data available from Banco de Portugal). Common indicators do not indicate levels of concentration significantly divergent from those of the Eurozone. For instance, as of 2018, the total asset share of the five largest credit institutions represented 73% for Portugal, which is above Germany's 29% but below Greece with 97%, Estonia with 91%, Lithuania with 91%, the Netherlands 85%, Cyprus with 88%, Finland with 82%, Latvia 81%, Croatia with 79%, Malta 77% and Slovakia with 76% (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 December 2019 (last available data), 2018 and 2017:

	<i>As at 31 December 2019</i>	<i>As at 31 December</i>	
		<i>2018</i>	<i>2017</i>
Loans to customers.....	17.1%	17.4%	17.4%

Sources: BCP and Banco de Portugal.

The following table shows the number and geographic location of the Bank's branches as at 31 December 2019, 2018 and 2017:

	<i>2019</i>	<i>2018</i>	<i>2017</i>
Portugal .....	505	545	578
Bank Millennium in Poland .....	830	361	355
Millennium bim in Mozambique.....	200	193	186
Banco Millennium Angola .....	0	0	0
Millennium Banque Privée in Switzerland.....	1	1	1
Total in the International activity .....	1031	555	542
	1536	1100	1120

The following table illustrates the competitive environment in Portugal for the two years ended 31 December 2018 and 2017:

	<i>As at 31 December</i>	
	<i>2018</i>	<i>2017</i>
Number of banks <sup>(1)</sup> .....	29	28
Number of branches .....	4,054	4,411
Population (thousands).....	10,277	10,291
Inhabitants per branch .....	2,535	2,333
Branches per bank .....	140	158

<sup>(1)</sup> Banks associated with the Portuguese Banking Association.

Source: Portuguese Banking Association and Portugal's National Statistics Institute.

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, European Union 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 September 2019, Bank Millennium's market share in Poland, according to the Bank's estimates derived from data published by the National Bank of Poland, was 5.6% of loans to customers (gross) and 6.2% of deposits.

In Mozambique, Millennium bim is the market leader with a market share of 19.9% of loans to customers and 24.7% of deposits in September 2019, according to the Bank of Mozambique. Currently, 21 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 10% in terms of loans and above 12% in terms of deposits (Source: Bank of Angola).

## **Trends Information**

### *Portugal*

Portuguese banks will continue to operate in a challenging environment in 2020. Banks are operating within a context of very low interest rates, exercising pressure on the net interest income. Moreover, Portuguese Banks still have a significant number of non-interest bearing assets in their balance sheets. In addition, the context is marked by fast technological evolution and, pursuant to the Payment Services Directive 2 ("**PSD2**"), by the competition from new players in the market (Fintechs). There are also new regulatory requirements, namely, as a result of the adoption of IFRS16 since January 2019.

As a result of the impact of the COVID-19, and following the economic lockdown, it is expected a severe recession in Portugal's small and open economy. Besides, and despite the Government economic stimulus measures, there could be also an impact in terms of the cost of risk.

At the end of 2019, all the rating agencies assigned an investment grade rating to the Portuguese Republic, which, together with the improvement in the perception of the market *vis-a-vis* the Portuguese economy, led to a sharp reduction in sovereign risk premiums and of banks.

In accordance with Banco de Portugal, Portuguese banks resort to the ECB in the amount of EUR 17.3 billion at the end of December 2019. These figures are consistent with the downwards trend in place since the second half of 2013. These figures show an improvement in the liquidity position of the domestic banks which has benefited from the resilient performance of deposits, namely from individuals (+5.3% year-on-year in December 2019, with demand deposits up 8.8%).

Moreover, the deleveraging of the Portuguese financial sector continues and the total loans to individuals increased 3.5% and loans to companies decreased 2.6%, year-on-year, respectively, in December 2019. The loans-to-deposits ratio of the banking sector in Portugal stood at 88% at the end of September 2019 versus 128% at the end of 2012 and 158% at the end of 2010.

The loans granted by BCP continued to decrease but reflects two different dynamics: the NPE portfolio decreased by EUR 1.3 billion in December 2019, year-on-year, and the performing portfolio increased by EUR 5.0 billion, of which EUR 3.0 billion are related to the Eurobank acquisition (in Portugal: NPE portfolio decreased by EUR 1.6 billion and performing portfolio increased by EUR 1.1 billion). At the same time, deposits also continued to grow: +4.6% year-on-year, in Portugal, in December 2019. As BCP has excess liquidity (loans-to-deposits ratio stood at 86% in December 2019), it decided to reduce its use of net funding from the ECB to EUR 0.3 billion in December 2019.

At the end of December 2019, BCP was the largest Portuguese private sector bank, with a robust asset structure, a fully implemented CET1 ratio of 12.2%, above regulatory requirements (SREP) and a loans-to-deposits ratio of 86%.

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 2019, more than offsetting the lower spreads

in credit. The rates of the term deposits reached, by the end of December 2019, values around 10 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). The profitability of the Portuguese banks is expected to continue to be constrained by the prospects of continuation of a low short term interest rates environment.

Several institutions should continue to apply restructuring plans, to increase operating efficiency and the adjustment of business models, which translates into the decrease in the number of branches and employees and in the release of capital allocated to non-core activities. Profitability in the banking industry is still affected by a high NPE stock. Organic capital generation continues to be limited by the low for longer interest rate environment which resulted in DTAs derecognition and downward revision of the pension fund discount interest rate.

There is great focus on the management of the stock of problematic assets and respective coverage levels by LLRs. BCP presented in 2018 a new Strategic Plan (Mobilising Millennium: 2021 Ambitions and Strategic Plan) which includes a new target of NPEs reduction: 60% reduction of NPE stock, reaching approximately EUR 3 billion by 2021.

#### *Poland*

Regarding mortgage loans granted by Bank Millennium in CHF, there are risks related to verdicts issued by Polish courts in individual lawsuits against banks (including Bank Millennium) raised by borrowers of FX-indexed mortgage loans.

The vast majority of verdicts in lawsuits concerning Bank Millennium have been favourable to the Bank so far. However, it should be noted that there is a significant risk that such favourable verdicts may change, as a result of which pending lawsuits' verdicts may not be taken in accordance with the Bank's expectation. If such risk materializes, it may have a significant negative impact on Bank Millennium.

On 3 October 2019, the CJEU issued a judgment on Case C-260/18, in connection with the preliminary questions formulated by the District Court of Warsaw in the lawsuit against Raiffeisen Bank International AG. The judgment of CJEU, as well as its interpretation of European Union Law, is binding on domestic courts.

CJEU's judgment concerns only the situations where the national court has previously found the contract terms to be abusive. It is the exclusive competence of the national courts to assess, in the course of judicial proceedings, whether a particular contract term can be identified as abusive in the circumstances of the lawsuit. It can be reasonably assumed that the legal issues relating to FX-indexed mortgage loans will be further examined by the national courts within the framework of the disputes considered, which could possibly result in the emergence of further interpretations relevant for the assessment of the risks associated with subject matter proceedings. This circumstance indicates the need for constant analysis of these matters. Further requests for clarification and ruling addressed to the CJEU and the Supreme Court of Poland with potential impact on the outcome of the court cases may also be filed

As at 2019, Bank Millennium had 2,010 FX-indexed mortgage loans subject to individual litigations, submitted to the courts with the total value of claims filed by the plaintiffs amounting to PLN 203 million (EUR 47.74 million). Until 31 December 2019, only 19 of these cases had obtained a final verdict, the vast majority being in accordance with the Bank's interest.

According to the Polish Bank Association (ZBP), during 2019, over 70% of the lawsuits regarding FX-indexed mortgage loans obtained a final verdict favourable to the banks involved. However, after the

CJEU judgment regarding Case C-260/18 issued on 3 October 2019, there is a risk that this so far positive scenario for the banks may change.

Considering the increased legal risk related to FX-indexed mortgages, Bank Millennium created a provision in the amount of PLN 223 million (EUR 52.45 million) for legal risk. The methodology developed by Bank Millennium is based on the following main parameters: (i) the number of current (including class actions) and potential future court cases that will appear within a specified (three-year) time horizon; (ii) the amount of Bank Millennium's potential loss in the event of a specific court judgment (three negative judgment scenarios were taken into account); and, (iii) the probability of obtaining a specific court verdict calculated on the basis of statistics of judgments of the banking sector in Poland and legal opinions obtained. Variation in the level of provisions or concrete losses will depend on the final court decisions about each case and on the number of court cases.

Bank Millennium undertakes a number of actions at different levels towards different stakeholders in order to mitigate legal and litigation risk regarding the FX-indexed mortgage loans portfolio. Bank Millennium is open to negotiate case-by-case favourable conditions for early repayment (partial or total) or the conversion of loans to PLN. On the other hand, Bank Millennium will continue to take all possible actions to protect its interests in courts while, at the same time, being open to find settlement with customers in the court under reasonable conditions.

#### *Novo Banco*

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 2012 (the "**Resolution Fund**").

The Resolution Fund disclosed on 17 June 2019 a set of clarifications related to the payment due in 2019 under the CCA with Novo Banco, namely:

For payments from the Resolution Fund to be made (limited to a maximum of EUR 3,890 million over the lifetime of the mechanism), losses on the assets under the contingent mechanism should be incurred and the capital ratios of Novo Banco should stand below the agreed reference thresholds;

The payment to be made by the Resolution Fund corresponds to the lower of the accumulated losses on the assets covered and the amount necessary to restore the capital ratios above the minimum reference threshold;

The reference capital ratios are, in 2017, 2018 and 2019, linked to the regulatory requirements applicable to Novo Banco (CET1 ratio of 11.25% and Tier 1 ratio of 12.75%), but, as from 2020, the reference ratio will correspond to a CET1 ratio of 12%;

The initial reference value of the portfolio comprising the contingent capitalisation mechanism was as of 30 June 2016 of EUR 7,838 million (book value of the associated assets, net of impairments), and the value of the portfolio, as of 31 December 2018, amounted to approximately EUR 3,920 million (book value, net of impairments);

The accumulated losses of the covered assets and their management, between 30 June 2016 (reference date of the mechanism) and 31 December 2018, correspond to EUR 2,661 million. Of this amount, the Resolution Fund paid in 2018, in accordance with the terms and conditions of the CCA, around EUR 792 million, hence, the amount of losses not borne by the Fund was, at the end of 2018, approximately EUR 1,869 million;

The amount necessary to maintain the capital ratios of Novo Banco for 2018 at the agreed levels is EUR 1,149 million. The amount payable by the Resolution Fund results from a comparison between the

amount of EUR 1.869 million (accumulated loss on the covered assets not supported by the Fund) and the amount of EUR 1,149 million, corresponding to the lower of those amounts, i.e. EUR 1,149 million.

On 24 May 2018, arising from the referred mechanism, the Resolution Fund paid EUR 792 million to Novo Banco using its available financial resources from banking contributions (direct or indirect) and complemented by a State loan of EUR 430 million under the terms agreed between the Portuguese State and the Resolution Fund in October 2017. In its 2018 annual results press release, on 1 March 2019, Novo Banco states that, in connection with the impact of losses related to the sale and write-downs of legacy assets, Novo Banco will request a compensation of EUR 1,149 million under the existing CCA. The Resolution Fund paid to Novo Banco on 6 May 2019 the calculated value relative to 2018 exercise of EUR 1.149 million. For this purpose, the Resolution Fund used its own resources and also resorted to a State loan of EUR 850 million, which corresponds to the annual maximum funding limit agreed between the Resolution Fund and the State. The amount paid by the Resolution Fund to Novo Banco in two years was EUR 1,941 million.

According to Novo Banco's 2019 earnings press release, Novo Banco will request a compensation of EUR 1,037 million under the Contingent Capital Agreement (CCA), as stipulated in the sale agreement. The amount of the compensation requested in 2017 and 2018 and to be requested relating to 2019 totals EUR 2.98 billion. The maximum amount of compensation established in the CCA is EUR 3.89 billion.

As at 31 December 2019, Novo Banco is held by Lone Star and the Resolution Fund, corresponding to 75% and 25% of the share capital respectively.

#### *MREL*

On 30 October 2019, the Bank was notified by the Single Resolution Board of an updated MREL requirement 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**").

Based on financial information of the Resolution Group as at 31 December 2017, the Single Resolution Board set the MREL requirement on a sub-consolidated basis for BCP at 14.99% of Total Liabilities and Own Funds ("**TLOF**"), of which 9.95% shall be met with subordinated instruments, corresponding to 25.98% of Total Risk Exposure Amount ("**TREA**"), of which 17.25% shall be met with subordinated instruments. At the same time, the Bank was informed that the MREL requirement needs to be reached by 1 July 2022 and from that date on shall be met at all times.

On the same date, the Single Resolution Board (the "**SRB**") also notified BCP, as head of the Resolution Group, that Banco ActivoBank, S.A. shall comply with MREL on an individual basis at the level of 7.61% of its TLOF, corresponding to 19.36% of its TREA. This requirement shall be reached by 1 July 2022 and maintained at all times from that date on.

These MREL requirements and the corresponding deadlines will need to be revised with the entering in force of BRRD II (as defined below). Banks are expected to be provided with revised MREL targets (including the interim ones) during the first quarter of 2021 as a result of the 2020 planning cycle.

On 1 April 2020, the **SRB** made public a letter sent on 25 March 2020 to CEOs of banks under its supervision stating, among other matters that, "The SRB will carefully monitor the market conditions in the next months and analyse the potential impact on transition periods needed for the build-up of MREL. The SRB is ready to use its discretion and the flexibility given by the regulatory framework to adapt transition periods and interim targets applied to banking groups, as well as to adjust MREL targets in line with capital requirements, with particular reference to capital buffers".

Moreover, and taking into account the potential impacts for banks of the COVID-19 crisis, on 8 April 2020, Elke König, chairman of the SRB, provided further clarity regarding the future revision of MREL targets stating that the SRB is committed to ensuring that short-term MREL constraints do not prevent banks from lending to business and the real economy.

### *COVID-19 Pandemic*

A widespread global pandemic of the severe respiratory syndrome coronavirus 2 (commonly known as SARS-CoV-2) and of the infectious disease COVID-19, caused by the virus, is currently taking place worldwide, affecting the lives of a large portion of the global population.

The range of implications of this pandemic is not yet fully determined but it is already foreseeable that it will have a material adverse impact on the Portuguese economy, as well as on the economies of all other jurisdictions in which the BCP Group operates.

The COVID-19 pandemic is leading to an adverse economic shock, with very substantial effects on business activities. Therefore, the Portuguese economy is forecasted to undergo a significant deterioration as a result of the pandemic. On 26 March 2020, the Bank of Portugal announced that the recession of the Portuguese economy in 2020 could be between -3.7% in a baseline scenario and -5.7% in an adverse scenario (Source: Bank of Portugal, Economic Bulletin, 26 March 2020). In 14 April 2020, the IMF announced that it expected a more severe recession, with a contraction of -8% of the Portuguese GDP in 2020 (Source: IMF, WEO, April 2020), as the pandemic and the necessary lockdown measures had aggravated. In 2021, both institutions foresee a gradual recovery of the Portuguese economy. However, there is heightened uncertainty underlying this scenario and the possibility of the impact of the pandemic crisis may assume a more persistent nature as a result of the destruction of installed productive capacity.

The pandemic has led to the declaration of state of emergency in various countries, including Portugal, as well as the imposition of travel restrictions, the establishment of quarantines and the temporary shutdown of various institutions and businesses and several institutions have taken unprecedented measures, such as having the vast majority of its employees now working remotely.

The BCP Group is following a "Contingency Plan" adapted to the pandemic scenario, which has been updated specifically for the current crisis, and has created a specific Crisis Management Office for this effect. In this context, in line with the guidelines issued by the authorities and supervisory entities, the Bank has defined an action plan aimed at protecting customers and employees, mitigating the probability of contagion and ensuring the operational continuity of the business. Guidance was also issued to service providers.

The Contingency Plan comprehends, among others, the following measures:

- Communication to employees of mitigation measures and information about the virus that aim to safeguard employees and the entire surrounding community, as well as ensuring that the business activity maintains the service levels that customers expect from the Bank;
- National and foreign travel for work should only occur in exceptional cases. National or foreign trips for personal reasons and using air transport are not recommended;
- Whenever possible, meetings by videoconference or conference calls should be the preferred option;
- Employees must limit some of their social habits, such as minimising physical contact;

- Employees who have been abroad in the past 14 days should inform their hierarchy and their Human Resources Manager to assess the need for additional protection measures;
- Distribution of masks and procedures on when and how to use them;
- Daily monitoring of absent employees;
- Physical segregation of the workspace to minimize the risk of spreading the virus and implementing remote work for part of the teams.
- A significant proportion of employees are currently working remotely to reduce physical contact.

The Contingency Plan may be amended and/or supplemented as the situation evolves. The Crisis Management Office monitors the evolution of the situation and, if necessary, will implement new actions.

Measures were already implemented by the Portuguese Government and the Bank has also announced voluntary measures to address the impact of the pandemic which have an impact on the Bank. Further potential measures may be implemented by the Portuguese Government and the Bank which can also have an impact on the Bank.

The Portuguese Government announced a 6-month moratorium (for the avoidance of doubt it does not imply a cancellation or pardon of any amount) on loan payments (capital and/or interest) until 30 September 2020 (Decree-Law No. 10-J/2020). The moratorium is available for individuals and companies that are not in the financial sector, depending on the fulfilment of certain conditions and, as such, may also be requested by borrowers whose loans are included in the Cover Pool . Decree-Law No. 10-J/2020 also foresees the granting of guarantees by the Portuguese State, including to non-financial corporate entities, subject to certain conditions.

To help families and businesses overcome the economic challenges caused by the COVID-19 pandemic, BCP has launched a set of measures worth a total of EUR 4.7 billion.

As regards individuals the main measures include:

- Interest and capital moratorium for mortgages until the end of September 2020, under the terms announced in Decree-Law No. 10-J/2020;
- Suspension of spread changes in the case of non-compliance with contractual conditions;
- Integrated Solutions ("account packs") for just EUR 1 / month until September 2020;
- Health, disability and death insurance with coverage for COVID-19.

As regards companies, BCP will reinforce credit for cash management and immediate liquidity, with factoring and confirming products, as well as providing the possibility of accessing several credit lines. This plan aims to support the economy, protect employment and strengthen business sustainability. The main measures are:

- Interest and capital moratorium for loans until the end of September 2020, under the terms announced in Decree-Law No. 10-J/2020;
- Reinforcement of cash management credit and immediate liquidity;

- Sociedade de Garantia Mútua guaranteed credit lines up to EUR 6.2 billion;
- EUR 1 billion in credit lines with European guarantees from the European Investment Fund and European Investment Bank;
- 500 million euros in factoring and confirming;
- Financing with extended payment of corporate taxes;
- Discounting of public sector invoices and advance payments from the State;
- Launch of Millennium Help Empresas, a specialised technical support line for corporate customers.

It is not possible at this stage to assess all the specific measures that may be implemented to curb the effects of the COVID-19 pandemic.

### **Summary of the developments between 2011 and 2019 of some relevant indicators of the Bank<sup>8</sup>**

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 achievements such as the reduction of the commercial gap from EUR 20.5 billion at 31 December 2011 to EUR -8.6 billion at 31 December 2019, following a significant deleveraging (net loans decreased by 23% and deposits increased by 28%), a recovery of net interest income in Portugal from EUR 343 million to EUR 803 million in 2018 and EUR 789 million in 2019, a reduction of operating costs from EUR 853 million in 2013 to EUR 614 million in 2018 and EUR 674 million in 2019 and a reduction of cost of risk from 157 bp in 2013 to 76 in the end of December 2019. Pre-provision profit<sup>9</sup> increased from EUR 474 million in 2013 to EUR 1,159 million in 2018 and EUR 1,169 million in 2019. As a percentage of assets pre-provision profit increased from 0.6% in 2013 to 1.5% in 2018 and to 1.4% in 2019. As a result of the significant deleveraging, reliance on ECB funding has decreased from EUR 10 billion in 2013 to EUR 0.3 billion as at 31 December 2019.

The Balance sheet breakdown as at 31 December 2019 is, on the assets side: gross loans and advances to customers (including debt securities and commercial paper) in the amount of EUR 54.7 billion (EUR 52.3 billion recorded in "Loans and advances to customers"; EUR 2.1 billion recorded in "Debt securities held associated with credit operations" and EUR 0.372 billion (gross amount without considering the fair value adjustments) recorded in "Financial assets not held for trading mandatorily at fair value through profit or loss - Loans and advances to customers at fair value"), securities portfolio (including financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and debt securities held not associated with credit operations) in the amount of EUR 15.6 billion and other assets net in the amount of EUR 5.0 billion; and on the liabilities side: deposits in the amount of EUR 60.8 billion (of which EUR 59.1 at the amortised cost), 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 -1.8 billion, debt issued by the Bank in the amount of EUR 6.4 billion and shareholders' equity in the amount of EUR 7.4 billion.

<sup>8</sup> In this section, the terms listed below shall have the following meaning:

"**Net loans**" means loans to customers at amortised cost net of impairment, debt instruments at amortised cost associated to credit operations net of impairment and balance sheet amount of loans to customers at fair value through profit or loss;

"**Commercial gap**" means loans to customers (gross) minus on-balance sheet customer funds;

"**Net Interest Margin**" means net interest income for the period as a percentage of average interest earning assets;

"**Cost of time deposits**" means spread on term deposits book minus 3m Euribor;

"**Total funding costs**" means interest expenses divided by interest bearing liabilities;

"**Performing loans**" means loans to customers (gross) minus the stock of non-performing exposures.

<sup>9</sup> "**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.

The Balance sheet breakdown as at 31 December 2011, is on the assets side: loans and advances to customers in the amount of EUR 68.0 billion, securities in the amount of EUR 12.1 billion and other assets net in the amount of EUR 3.2 billion; and on the liabilities side: deposits in the amount of EUR 47.5 billion, money market net in the amount of EUR 12.9 billion, debt issued by the Bank in the amount of EUR 18.5 billion and shareholders' equity in the amount of EUR 4.4 billion.

The breakdown by instrument of the outstanding amounts of the debt issued by the Bank as at 31 December 2019 (EUR 6.4 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 0.9 billion), Bonds and Certificates (EUR 1.1 billion), Covered Bonds (EUR 1.0 billion), Securitisations (EUR 0.2 billion), Subordinated debt (EUR 1.5 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), Securitisations (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), EUR 0.8 billion of debt repaid in 2018 and EUR 0.4 billion of debt repaid in 2019. The amount of debt to be repaid in the years after 2019 amounts to EUR 6.4 billion. 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 long-term 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 15.6 billion as at 31 December 2019 of which EUR 12.9 billion is sovereign debt (Portuguese Government Bonds totalled EUR 6.5 billion of which EUR 4.6 billion are Bonds and EUR 1.9 billion are T-Bills, Polish Government Bonds totalled EUR 5.1 billion; Mozambican Government Bonds totalled EUR 0.8 billion and other totalled EUR 0.6 billion) and EUR 3.2 billion other instruments.

#### Evolution of some relevant indicators of the Bank between 2011 and 2019

<i>Consolidated</i>	2011	2012	2013	2014	2015	2016	2017	2018	2019
Contribution to consolidated results of international operations ( <i>€ mn</i> )	-	-	159	178	170	173	175	187	144
Net loans ( <i>€ bn</i> )	68.0	62.6	56.8	53.7	52	48	47.6	48.1	52.3
Deposits ( <i>€ bn</i> )	47.5	49.4	49.0	49.8	51.5	48.8	51.2	55.2	60.9
Commercial gap ( <i>€ bn</i> )	20.5	13.2	7.8	3.9	0.4	-0.8	-3.6	-7.1	-8.6
ECB funding ( <i>total collateral</i> ) ( <i>€ bn</i> )	15.7	22.3	19.9	14.2	13.9	12.1	12.8	16.9	17.1
ECB funding ( <i>€ bn</i> )	12.4	10.5	10.0	6.6	5.3	4.4	3.0	2.7	0.3

<i>Individual (Portugal)</i>	2013	2014	2015	2016	2017	2018	2019
Net Interest Income ( <i>€ mn</i> )	343	527	711	736	808	803	789
Net Interest Margin (%)	0.6%	1.0%	1.5%	1.6%	1.8%	1.8%	1.7%
Cost of time deposits ( <i>bps</i> )	-239	-173	-123	-83	-69	-56	-56
Total funding costs (%)	2.41%	1.92%	1.21%	0.78%	0.44%	0.33%	0.26%
Operating costs ( <i>€ mn</i> ) <sup>(*)</sup>	853	690	644	624	588	641	674
Number of branches <sup>(**)</sup>	774	695	671	618	578	546	505
Number of employees <sup>(***)</sup>	8,584	7,795	7,459	7,333	7,189	7,095	7,204
Impairment charges ( <i>€ mn</i> )	743	1,021	730	1,045	533	389	279

Cost of risk ( <i>bps</i> )	157	233	175	266	140	105	76
Performing loans ( <i>€ bn</i> )	34.5	32.9	31.8	30.8	31.2	32.4	33.5
Customer deposits ( <i>Term deposits</i> ) ( <i>€ bn</i> )	24.9	24.3	21.9	19.9	18.9	18.2	16.7
Customer deposits ( <i>On-demand deposits</i> ) ( <i>€ bn</i> )	9.0	10.1	12.9	14.1	16.4	19.5	22.7

(\*) FY 2011: 1,039

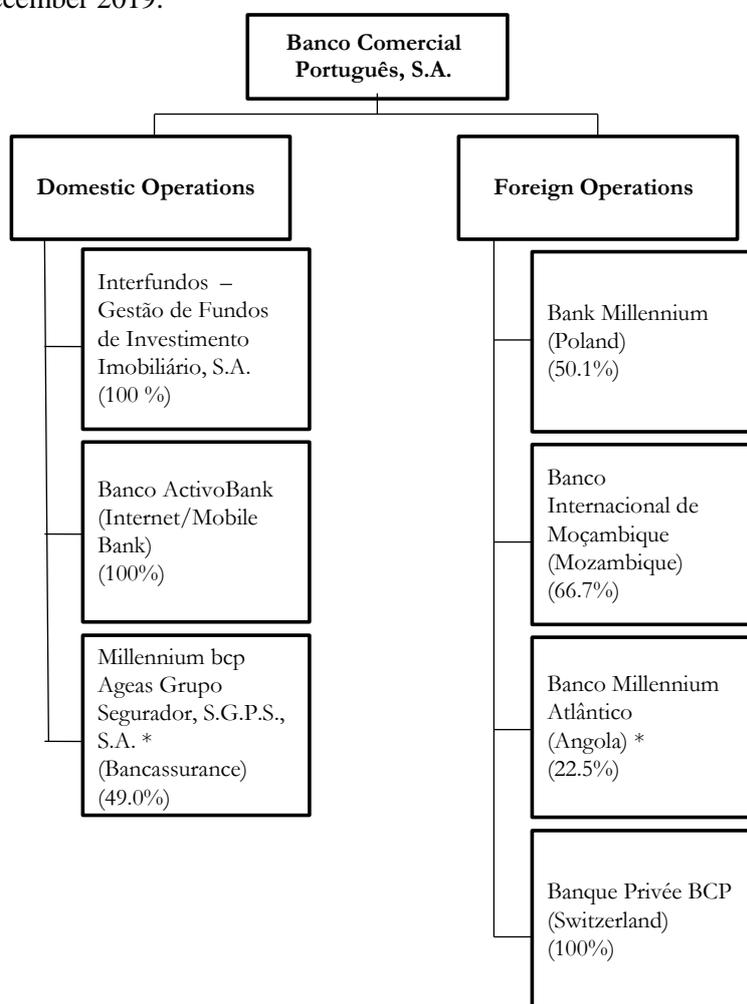
(\*\*) 885 in 2011

(\*\*\*) 9,959 in 2011

## Organisational Structure

### *The Bank and the Group*

The following diagram summarises the organisational structure of the principal subsidiaries of the Group as at 31 December 2019:



\* Consolidated by the equity method.

In addition, the Bank's subsidiary, Millennium bcp – Prestação de Serviços ACE represents its associates regarding third parties, namely in the areas of IT, operational, administrative and procurement. The Bank is, directly or indirectly, the ultimate holding company of all the companies in

the Group and is not dependent upon other entities within the Group. However, being the ultimate holding company of the Group, the activities developed by the other members of the Group have an impact on the Bank.

*Ownership and Control*

The Bank is not aware of any shareholder or group of connected shareholders who directly or indirectly control the Bank.

*Significant Subsidiaries*

The following is a list of the main subsidiaries of the Bank as of 31 December 2019:

<b>Subsidiary companies</b>	<b>Head Office</b>	<b>Activity</b>	<b>% held by the Group</b>	<b>% held by the Bank</b>
Banco ActivoBank, S.A.	Lisbon	Banking	100	100
Banco Millennium Atlântico, S.A.	Luanda	Banking	22.5	–
Bank Millennium, S.A.	Warsaw	Banking	50.1	50.1
Banque Privée BCP (Suisse) S.A.	Geneva	Banking	100	100
Banco Internacional de Moçambique, S.A.	Maputo	Banking	66.7	–
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Oeiras	Investment fund management	100	100
Millennium bcp – Prestação de Serviços, A. C. E.	Lisbon	Services	96.2	88.1
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.

### **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.

### **Legislation regulating the activity of the Bank**

The Bank is governed by European Union rules, banking and commercial Portuguese laws on limited liability companies (*sociedades anónimas*) – notably by the Portuguese Companies Code – and, in particular, by the Banking Law, by the Portuguese Securities Code (*Código dos Valores Mobiliários*) and other complementary legislation.

In general terms, the Bank's activity as a credit institution is subject to the supervision of Banco de Portugal, to the supervision of the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) as an issuer and a financial intermediary and to the supervision of the Portuguese Insurance and Pension Funds Supervisory Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF)*) as the tied insurance intermediary.

## Recent developments on the banking regulation

### *Regulatory requirements*

#### *Capital requirements:*

On 12 September 2010, the Basel Committee on Banking Supervision 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.

CRD IV empowers the European Banking Authority to draw up regulatory technical standards that specify some of the aspects covered by the amended diplomas. Upon the respective adoption by the European Commission 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.

The supervision of internal models is based on current applicable EU and national law, including CRR, the relevant regulatory technical standards of the EBA and EBA guidelines with which the ECB has announced its intention to comply. 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. The revised regulatory framework of Basel III was implemented in the EU through the adoption of Regulation 575/2013/EU of the European parliament and of the Council of 26 June 2013, as amended, on prudential requirements ("**CRR**") and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, as amended, on access to the activity of credit institutions on prudential requirements ("**CRD IV**"). 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.

The CRR is directly applicable to Member States since January 2014 and includes the following provisions in addition to the minimum capital requirement for CET1 capital of 4.5% of RWA, of 6% for Tier 1 capital ratio and the total capital ratio of 8.0%:

- (i) an additional capital conservation ratio requirement of 2.5% over common equity;
- (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%

On 23 November 2014, Decree-Law No. 157/2014, of 24 October 2014 ("**Decree-Law No. 157/2014**"), entered into force, amending the Legal Framework of Credit Institutions and Financial Companies, and implementing CRD IV and CRR at domestic level.

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 banking package approved by the Council in May 2019 implements further material elements of the Basel III framework (**Basel IV**), which was finalised on December 2017, by way of amendments to the CRR ("**CRR II**") and CRD IV ("**CRD V**"), the BRRD ("**BRRD II**") and the SSM Regulation ("**SRMR II**").

This legislative package includes revised rules on calculating capital requirements for market risk, ("Fundamental review of the banking book"), introduction of a binding leverage ratio and a binding net stability funding ratio ("**NSFR**") and streamlining Pillar 2 capital requirements. This legislative package also adjusts the MREL. The above Regulations and Directives entered into force on 27 June 2019. The amendments to the CRR are to be applied for the first time two years after entry into force (subject to certain earlier applications and exemptions, such as those relating to the transitional arrangements for IFRS 9 and the characteristics of new regulatory capital instruments), while the new CRD V rules are to be applied 18 months after entry into force, with application immediately thereafter. Member States shall adopt and publish, by 28 December 2020, the measures necessary to comply with the Directives.

On 7 December 2017, the Basel Committee on Banking Supervision reached an agreement on the remaining Basel III reforms ("**Basel IV**"). Basel IV, which paves the way for CRR III and CRD VI as they are to be transposed to European law, aims at reducing excessive variability of RWA. The agreed reforms address the following topics:

- (i) Improvement of the standardised approaches for credit risk;
- (ii) Constraints to the use of internal models: banks may, for example, for their exposures to large and mid-sized corporates no longer use own estimates for two parameters (the loss-given-default and exposure at default) but rather use fixed values instead. Moreover, after the reform, internal ratings-based approaches will no longer be allowed for exposures to equities;
- (iii) Improvement of the operational risk framework: current approaches are replaced with a single risk-sensitive standardised approach to be used by all banks; internal models will no longer be allowed to address losses that stem from misconduct, inadequate systems and controls, *etc.*;
- (iv) Introduction of a 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;
- (v) Revised procedure for calculating credit valuation adjustments (CVAs) in derivatives

On January 2019, the Basel Committee on Banking Supervision published the revised standards for minimum capital requirements for Market Risk (Fundamental Review of the Trading Book – "**FRTB**") introducing deep changes to the framework and calibration of internal models and standardized models used for the calculation of own funds requirements for this type of risk.

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.

Following the COVID-19 pandemic, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision, has endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of the coronavirus.

These measures comprise the following changes to the implementation timeline of the outstanding Basel III standards:

- The implementation date of the Basel III standards finalised in December 2017 has been deferred by one year to 1 January 2023. The accompanying transitional arrangements for the output floor has also been extended by one year to 1 January 2028.
- The implementation date of the revised market risk framework finalised in January 2019 has been deferred by one year to 1 January 2023.
- The implementation date of the revised Pillar 3 disclosure requirements finalised in December 2018 has been deferred by one year to 1 January 2023.

As at 31 December 2019, the Bank's fully implemented CET1 ratio was 12.2%. Starting from the "Total Equity attributable to the Banks shareholders" (EUR 6,120 million), deducting EUR 361 million of DTAs, EUR 130 million of EL gap and deducting EUR 133 of other items one reaches to the CET1 which as at 31 December 2019 stood at EUR 5,496 million.

The capital ratio has increased from 6.4% at the end of December 2009 to 9.3% at the end of December 2011 (both figures refer to the CT1 ratio calculated according to the definition of Banco de Portugal) and to 11.1% at the end of December 2016, 11.9% at the end of December 2017 and 12.0% at the end of December 2018 and 12.2% at the end of December 2019 (these three figures refer to CET1 fully implemented ratio, calculated according to CRD IV and 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 capital conservation buffer requirement aims to accommodate losses from a potential adverse scenario. The Bank has a requirement (at an individual and consolidated level) to maintain a minimum CET1 capital buffer of 2.5%, 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, with credit exposures to the domestic private non-financial sector, of credit institutions and investment firms subject to the supervision of Banco de Portugal or the ECB (SSM), as applicable.

The countercyclical buffer rate for credit exposures to the domestic counterparties (Portugal) will remain at zero % of the total risk exposure amount in effect since 1 April 2020. This decision is reviewed on a quarterly basis by Banco de Portugal, the next decision to be taken by 30 June 2020. As at 31 March 2020 the weighted average of the countercyclical buffer rates that apply in the countries where the Bank is located was also zero %.

On 15 April 2020, the ECB released a statement supporting the macroprudential policy actions taken by euro area macroprudential authorities in response to coronavirus outbreak. These included releases or reductions of the countercyclical capital buffer, systemic risk buffer and buffers for O-SII. In addition, some authorities have postponed or revoked earlier announced measures.

*Systemic risk buffer:* In order to calculate the systemic risk buffer, Banco de Portugal categorises institutions as global systemically important institution ("**G-SII**") or other systemically important institution ("**O-SII**"). 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.

A 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 O-SII, and as such it is subject to concurrent additional capital requirements. The O-SII buffer rates range from 0.25% to 1% of the total risk exposure (maximum level of 2%) and consists of CET1 capital on a consolidated basis. The cap on the O-SII buffer rate of

2% has been lifted with CRD V to 3%, subject to the approval of the European Commission. These buffers are revised each year or in the event of a significant restructuring process, particularly, a merger or acquisition.

On 29 November 2019, Banco de Portugal disclosed that it had conducted the annual reassessment of the list of institutions identified as O-SIIs and the respective capital buffers. The O-SII buffer applicable to BCP increased by 25 basis points to 1.00% to be in force starting 1 January 2022.

Following the pandemic outbreak, on 8 May 2020, Banco de Portugal decided to postpone the phase-in period by 1 year of the capital buffer for O-SII, changing the end of the phase-in period of BCP from 1 January 2022 to 1 January 2023 (0.56% in 2020 and 2021, 0.75% in 2022 and 1.00% in 2023).

### *Leverage ratio*

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.

CRD V introduces a binding leverage ratio minimum requirement of 3%. Under the new CRD V rules, additional leverage ratio requirements can be imposed to address the institution-specific risk of excessive leverage. G-SII will be required to hold an additional leverage ratio buffer in the future, amounting to 50% of the risk-based G-SII capital buffer. It is not anticipated that Portuguese banks may be classified as G-SIIs. These changes deriving from CRR II, except for the G-SII, are to be applied for the first time two years after CRR II enters into force. Currently, the Leverage ratio only has to be reported to the supervisor and disclosed publicly.

The Bank's leverage ratio was 7.0% fully implemented, as at 31 December 2019.

### *Liquidity requirements*

Basel III and CRD IV and CRR, provide for the setting of short- and long-term liquidity ratios and funding ratios, namely the LCR and the NSFR. The NSFR, currently a mere reporting obligation will become binding following CRD V.

The Bank's LCR calculated in accordance with the Commission Delegated Regulation (EU) 2015/61, of 10 October 2014, and the NSFR, estimated in accordance with Basel III methodology that supported the ECB's Short-Term Exercise report, were 216% and 135%, respectively, as at 31 December 2019, higher than the reference value of 100% (fully implemented).

The LCR requires that banks have sufficient high-quality liquid assets ("**HQLA**") in their liquidity buffer to cover the difference between the expected cash outflows and the expected capped cash inflows over a 30-day stressed period. The value of the ratio is to be no lower than 100% (the stock of HQLAs should at least equal total net cash outflows). In relation to the LCR, the EBA:

- (i) defined assets as 'extremely high' and of 'high' quality;
- (ii) put in place operational requirements for the holdings of liquid assets;
- (iii) recommended that all types of bonds issued or guaranteed by Member States' central governments and central banks in local currency as well as those issued or guaranteed by supranational institutions should be considered transferrable extremely high-quality assets;

- (iv) stated that the credit quality standards and eligibility of covered bonds, bonds, RMBS and bonds issued by local government entities should be considered highly liquid and credit quality assets; and
- (v) recommended that common equity shares should be considered high quality liquid assets.

The NSFR, 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.

### ***Response to the COVID-19 crisis***

#### *ECB Banking Supervision provides temporary capital and operational relief in reaction to the COVID-19 crisis*

On 12 and 20 March 2020, the ECB announced several measures to support banks.

The ECB will allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance, the capital conservation buffer and the liquidity coverage ratio ("**LCR**"). The ECB also clarified that capital buffers may be used in full and that no negative judgment will be attached to those making use of these relief measures. Once this period of financial distress is over banks will be granted sufficient time to build up the buffers again.

Banks will also be allowed to partially use capital instruments that do not qualify as CET1 capital, for example Additional Tier 1 or Tier 2 instruments, to meet the P2R. This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the CRD V.

In addition, the ECB has taken individual measures, such as adjusting timetables, processes and deadlines (e.g. rescheduling on-site inspections and extending deadlines for the implementation of remediation actions stemming from recent on-site inspections and internal model investigations; extending deadlines for certain non-critical supervisory measures and data requests). Banco de Portugal clarified some of these measures through Carta Circular 2020/00000017 and 2020/00000021.

The ECB has supported the decision by the EBA to postpone the 2020 EBA EU-wide stress test.

Banks are expected not to increase dividend distributions or variable remuneration.

On 16 April 2020, the ECB Banking Supervision provided temporary relief for capital requirements for market risk by allowing banks to adjust the supervisory component of these requirements.

#### *Banking Package to help mitigate the economic impact of the COVID-19 pandemic*

On 28 April 2020, the European Commission adopted a banking package to help mitigate the economic impact of the COVID-19 pandemic.

- CRR

In this regard, the following set of amendments to the CRR have been proposed:

- (i) transitional arrangements for mitigating the impact of IFRS 9 provisions on regulatory capital, namely the extension of the current transitional arrangements in the CRR by two years, in line

with the international agreement of the Basel Committee. Only provisions incurred as of 1 January 2020 would be eligible;

- (ii) date of application of the leverage ratio buffer for G-SIIs is proposed to be deferred by one year to 1 January 2023; and
- (iii) more favourable treatment of publicly guaranteed loans under the NPL prudential backstop, namely by temporarily extending preferential treatment to NPLs guaranteed by the public sector in the context of measures aimed at mitigating the economic impact of the COVID-19 pandemic in accordance with EU State aid rules.

- **IFRS 9**

The banking package also includes an Interpretative Communication on the EU's accounting and prudential frameworks which has clarified:

- (i) the flexibility available in IFRS 9 as regards (i) the Expected Credit Loss (ECL) approach under IFRS 9; (ii) the Assessment of a "Significant Increase in Credit Risk" (SICR) and (iii) the use of moratoria and "Significant Increase in Credit Risk";
- (ii) that individual or corporate loans that benefit from moratoria should not automatically be considered to have suffered a "Significant Increase in Credit Risk" if they have become subject to private or public moratoria. As such, if they fulfil a number of conditions (as specified in the EBA guidelines of 2 April 2020 on payment moratoria, EBA/GL/2020/02) they are not considered as forbearance measures and therefore do not affect the classification of the loans concerned; and
- (iii) how the prudential rules on the classification of NPLs (definition of default and loan forbearance under the CRR) can accommodate Government guarantees and payment moratoria in line with the statements and guidance by the EBA and the ECB.

- **Other measures**

The banking package also envisages the following measures:

- (i) advancing the date of application of the revised supporting factor for SME and the new supporting factor for infrastructure finance, the preferential treatment of certain software assets, and the preferential treatment of certain loans backed by pensions or salaries; and
- (ii) a proposal for the modification of the offsetting mechanism associated with competent authorities' discretion to allow credit institutions to temporarily exclude exposures in the form of central bank reserves from the calculation of the leverage ratio.

### ***Banking Union***

In an effort to harmonise the regulation and supervision of banking activities across the European Union and especially in the Eurozone, the European Commission established a new common regulation (Single Rule Book) and a common supervisory architecture (European Supervisor Authorities together with National Competent Authorities). The key-elements of the Banking Union are the Single Supervisory Mechanism ("**SSM**"), the 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 European Commission presented a legislative proposal that aims to add another element to the Banking Union, the EDIS, which is to be built on the basis of existing national Deposit Guarantee Schemes ("**DGS**"), 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 Single Resolution Fund (the "**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 European Union policy relating to the prudential supervision of credit institutions is implemented in a coherent and effective manner, that the single rulebook for financial services is applied in the same manner to credit institutions in all Member States concerned and that those credit institutions are subject to supervision of the highest quality, unfettered by other non-prudential considerations.

The ECB directly supervises approximately 120 financial institutions, including (since 4 November 2014) the Bank, that are considered to be systemically relevant, given their dimension and importance in the banking system of each Member State. The ECB's supervision of the approximately 6,000 other financial entities is exercised in conjunction with national authorities. The "**SSM Regulation**" and the "**SSM Framework Regulation**" provide the legal basis for the operational arrangements of the SSM.

The SSM is also responsible for regularly assessing and measuring the risks for each bank and, consequently, the capital and liquidity adequacy of credit institutions through the global evaluation of own funds adequacy, by means of the SREP:

- (i) During the SREP, the supervisor not only defines banks' capital requirements, (e.g. Pillar 2 capital requirements – ("**P2R**") and Pillar 2 capital guidance ("**P2G**")), but may also decide to impose additional measures on banks, including liquidity and qualitative measures;
- (ii) The prudential requirements require banks to maintain a total SREP capital requirement ("**TSCR**") that includes CET1 instruments and other capital instruments;
- (iii) Banks are also subject to the overall capital requirement ("**OCR**") that includes, in addition to the TSCR, additional capital buffers, namely "the combined buffer", comprised of the countercyclical capital buffer, capital conservation buffer and systemic buffer, as described above; and
- (iv) The P2G is to be made up entirely of CET1 capital and should be held over and above the OCR. Failure to comply with the P2G is not itself a breach of own funds requirements, but it may be subject to additional measures adjusted to the individual situation of the bank. The P2G is not relevant for purposes of the Minimum Distributable Amount ("**MDA**"). The MDA is the maximum amount a bank is allowed to pay out, for example for bonuses or dividends. A bank whose capital ratio falls below the MDA trigger point faces restrictions on the amount of distributable profits.

During the SREP, the supervisor not only defines banks' capital requirements but may also decide to impose additional measures on banks, including liquidity and qualitative measures. The final measures to be adopted will be assessed, on a case-by-case basis, by the Supervisory Board of the ECB.

CRD V clarifies the conditions for imposing Pillar 2 additional requirements, i.e., the institution-specific nature of Pillar 2 add-ons makes them unsuitable for macro-prudential purposes, for which other specific tools are set out. It also clarifies the interaction between the Pillar 2 add-ons, the Pillar 1 requirements, the own funds and eligible liabilities requirement, the MREL and the combined buffers (the 'stacking order') while clarifying the distinction between Pillar 2 requirements imposed by supervisors to address institution-specific actual risks and (non-binding) P2G, which refers to the possibility for competent authorities to indicate to banks the level of capital in excess of Pillar 1, Pillar 2 and combined buffers requirements that they expect them to hold to face forward-looking and remote stresses.

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*

A new recovery and resolution regime introduced tools and powers aimed at addressing banking crisis in advance through Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, as amended, established a framework for recovery and resolution ("**BRRD**"). The SRM establishes uniform rules and procedures for the resolution of credit institutions (the "**SRM Regulation**") regarding the loss-absorbing and recapitalisation capacity.

The BRRD was implemented in Portugal through Law No. 23-A/2015, of 26 March 2015, as amended (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 holders of any Covered Bonds) (the "bail in" tool, as per Article 43 of the BRRD), in line with the valuation of the failing business and according to the sequence provided in Article 48 of the BRRD. Shareholders and creditors must therefore absorb losses for at least 8% of their total liabilities, including own funds, before any use of the resolution fund.

Guaranteed deposits are expected to be safeguarded and creditors should not bear losses greater than those that they would have suffered had the institution been liquidated under ordinary insolvency proceedings. The BRRD contemplates that subordinated liabilities may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool.

As such, the Banking Union and, in particular, the use of resolution tools and powers provided for by the Banking Union may disrupt the rights of shareholders and creditors. In particular, the power of the authorities to transfer the shares or all or part of the assets of an institution to a private purchaser without the consent of shareholders affects the property rights of shareholders. In addition, the power to decide which liabilities to transfer out of a failing institution based upon the objectives of ensuring the continuity of services and avoiding adverse effects on financial stability may affect the equal treatment of creditors.

To avoid institutions structuring their liabilities in a manner that impedes the effectiveness of the bail-in tool, the BRRD requires that institutions meet at all times a 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 45c(1) 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 or in concurrence with 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 European Commission adopted the Delegated Regulation (EU) 2016/1450, of 23 May 2016, supplementing the BRRD regulatory technical standards, which entered into force on 23 September 2016, specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities. This directive requires that institutions meet the MREL to avoid excessive reliance on forms of funding that are excluded from bail-in or other resolution measures and prevent the risk of contagion to other institutions and "bank run" situations, since failure to meet the MREL would negatively impact the institutions' loss absorption and recapitalisation capacity and, ultimately, the overall effectiveness of resolution.

The MREL shall be calculated based on different components, namely:

- the loss absorption amount, based on the current capital requirements, including regulatory capital requirements (8% of RWA), the combined buffer requirements, and additional pillar 2 bank-specific requirements set by the supervisor;
- the recapitalisation amount (RCA), which aims to cover the capital requirements of the failing institution post-resolution, taking into account potential divestments and other resolution actions under the preferred resolution strategy, and the need to maintain sufficient market confidence; and
- adjustments to overall MREL target, namely the DGS adjustment, linked to any potential involvement of a DGS to protect insured depositors.

Resolution authorities may be able to require, on a case-by-case basis, the MREL to be wholly or partially composed of own funds or of a specific type of liabilities.

On 23 November 2016, the European Commission published proposals for certain amendments to the BRRD (BRRD II), which include certain proposals in relation to the quality and quantity of MREL required by European banks. BRRD II, which entered into force in 27 June 2019, will be applied after

being transposed into national law, up to December 2020. A new category of banks ("top-tier banks") was created with the entry into force of the BRRD II, enlarging the group of banks for which a statutory minimum requirement is applicable. Top-tier banks are non-G-SIIs with assets above EUR 100 billion. MREL is calculated differently for G-SIIs, "top-tier banks" and other banks subject to resolution. Institutions not meeting the criteria for "top-tier banks" can, however, under certain conditions, be classified as such.

The Bank is currently subject to an entity-specific MREL requirement. As further described in the section Trends Information, the Bank has been notified by the Banco de Portugal on the Single Resolution Board's decision regarding the MREL.

On a speech made to the European Parliament ECON Committee, Elke König referred to the adoption by the SRB of a pragmatic common-sense approach as required by circumstances created by the Covid-19 outbreak by postponing less urgent reporting and thus providing operational relief. As regards existing MREL binding targets, the SRB is taking a forward-looking approach to banks that may face difficulties meeting those targets before new decisions, as part of the 2020 resolution cycle.

On 27 December 2017, Directive (EU) 2017/2399 of the European Parliament and of the Council, of 12 December 2017, amending the BRRD as regards the ranking of unsecured debt instruments in insolvency hierarchy was published in the Official Journal of the EU. The Directive entered into force on 28 December 2017 and was transposed to Portuguese legal framework by Law No. 23/2019, of 13 March, in addition to the governing of the position of the unsecured debt instruments in the insolvency hierarchy, providing greater legal certainty to the issuance of non-preferred debt, also confers a preferential claim to all deposits vis-a-vis senior debt.

On 19 March 2020, the European Commission adopted a Temporary Framework to enable Member States to further support the economy in the COVID-19 outbreak. It establishes that if due to the COVID-19 outbreak, banks would need direct support in the form of liquidity recapitalisation or impaired asset measure, the bank receiving such direct support would not automatically be deemed to be failing-or-likely-to-fail, as established by the BRRD. To the extent such measures address problems linked to the COVID-19 outbreak, they would be an exception to the requirement of burden-sharing by shareholders and subordinated creditors.

The SRM and SRF are regulated by 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 SRB 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, as amended, 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 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.

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.

#### *The Portuguese Resolution Fund*

This fund consists of a resolution fund whose primary purpose has been to provide financial support for the application of resolution measures as determined by Banco de Portugal ("**Resolution Fund**"). The Resolution Fund foresees the participation of:

- (i) credit institutions with a head office in Portugal, including the Bank;
- (ii) branches of credit institutions in states that do not belong to the EU;
- (iii) relevant companies for the management of payment systems subject to supervision of Banco de Portugal; and
- (iv) certain types of investment companies.

Decree-Law No. 31-A/2012, of 10 February 2012, which amended the Banking Law, also introduced, on terms subsequently amended by Law No. 23-A/2015, of 26 March 2015, the creation of the privileges accorded to claims associated with loans backed-up by deposits under the Deposit Guarantee Fund (the "**DGF**"), as well as credit secured by the DGF, by 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) or by 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.

The regime established in Decree-Law No. 24/2013 establishes that the Bank of Portugal fixes, by instruction, the rate to be applied each year based on objective incidence of periodic contributions. The instruction of the Bank of Portugal no. 24/2019, published on 16 December 2019, set the base rate to be effective in 2020 for the determination of periodic contributions to the Resolution Fund by 0.06% against the rate of 0.057% in 2019.

Increases in the base rate in future years may reduce the Bank's profitability. The contribution of the Bank to the Resolution Fund was EUR 16.0 million in 2019, 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 Novo Banco*

On 3 August 2014, with the purpose of safeguarding the stability of the financial system, Bank of Portugal applied a resolution measure to Banco Espírito Santo, S.A. (BES) in accordance with the Article 145-C (1.b) of the Legal Framework of Credit Institutions and Financial Companies, namely by the partial transfer of assets, liabilities, off-balance sheet items and assets under management into a transition bank, Novo Banco, S.A. (Novo Banco), incorporated on that date by a decision issued by the Bank of Portugal. Within the scope of this process, the Resolution Fund made a capital contribution to Novo Banco amounting to EUR 4,900 million, becoming, on that date, the sole shareholder.

Within this context, the Resolution Fund borrowed EUR 4,600 million, of which EUR 3,900 million were granted by the State and EUR 700 million by a group of credit institutions, including the Bank.

As announced on 29 December 2015, Bank of Portugal transferred to the Resolution Fund the liabilities emerging from the "eventual negative effects of future decisions regarding the resolution process that may result in liabilities or contingencies".

On 7 July 2016, the Resolution Fund declared that it would analyse and evaluate the diligences to be taken, following the publication of the report on the result of the independent evaluation, made to estimate the level of credit recovery for each category of creditors under a hypothetical scenario of a normal insolvency process of BES on 3 August 2014.

In accordance with the applicable law, when the BES liquidation process is over, if it is verified that the creditors, whose credits were not transferred to Novo Banco, would take on a higher loss than the one they would hypothetically take if BES had gone into liquidation right before the application of the resolution measure, such creditors shall be entitled to receive the difference from the Resolution Fund.

On 31 May 2019, the Liquidation Committee of BES presented a list of all the acknowledged and a list of the non-acknowledged creditors before the court and the subsequent terms of the proceedings. This list details that the total of the acknowledged credits, including capital, remunerative and default interest amounts to EUR 5,056,814,588, of which EUR 2,221,549,499 are common credits and EUR 2,835,265,089 are subordinated claims, there being no guaranteed or privileged claims. Both the total number of acknowledged creditors and the total value of the acknowledged credits and their ranking will only be ultimately determined with the definitive judicial judgment of the verification and ranking of credits to be given in the liquidation proceedings.

Following the resolution measure of BES, a significant number of lawsuits against the Resolution Fund was filed and is underway. According to note 23 of the Resolution Fund's annual report of 2018, "Legal actions related to the application of resolution measures have no legal precedents, which make it impossible to use of case law in their evaluation, as well as a reliable estimate of the associated contingent financial impact. However, on 12 March 2019, the Administrative Court of Lisbon unanimously by its 20 judges delivered its judgment, confirming the constitutionality of the legal regime of the resolution and the full legality of the resolution measure applied to BES on 3 August 2014. Also, by decision of the Supreme Administrative Court on 13 March 2019, a judgment on the substance was entirely favourable to the Resolution Fund associated to the impugnation of the sale process of Novo Banco. The Board of Directors supported by lawyers opinion, which sponsored these actions, and in the light of the legal and procedural information available so far, considers that there is no evidence to cast doubt on their belief that the probability of success is higher than the probability of failure".

On 31 March 2017, Bank of Portugal communicated the sale of Novo Banco, where it states the following: "Banco of Portugal today selected Lone Star to complete the sale of Novo Banco. The Resolution Fund has consequently signed the contractual documents of the transaction. Under the terms of the agreement, Lone Star will inject a total of EUR 1,000 million in Novo Banco, of which EUR 750 million at completion and EUR 250 million within a period of up to 3 years. Through the capital injection, Lone Star will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital".

The terms agreed also include a Contingent Capital Agreement, under which the Resolution Fund, as a shareholder, undertakes to make capital injections if certain cumulative conditions are to be met related to the performance of a specific portfolio of assets and to the capital ratios of Novo Banco going forward.

If these conditions are met, the Resolution Fund may be called upon to make a payment to Novo Banco for the lesser of the accumulated losses in the covered assets and the amount necessary to restore the capital ratios at the agreed levels. Any capital injections to be carried out pursuant to this contingent mechanism are limited to an absolute cap. The terms agreed also provide for mechanisms to safeguard the interests of the Resolution Fund, to align incentives as well as monitoring mechanisms, notwithstanding the limitations arising from State Aid rules.

On 18 October 2017, following the resolution of the Council of Ministers no. 151-A/2017 of 2 October 2017, the Bank of Portugal communicated the conclusion of the sale of Novo Banco to Lone Star, with an injection by the new shareholder of EUR 750 million, followed by a further capital increase of EUR 250 million by the end of 2017. Upon completion of the transaction, the status of Novo Banco as a bridge institution ceased, fully complying with the purposes of the resolution of Banco Espírito Santo.

On 26 February 2018, the European Commission published the non-confidential version of its decision regarding the approval of State aid underlying Novo Banco's sale process. This statement identifies the three support measures by the Resolution Fund and the State that are part of the sale agreement associated with a total gross book value of around EUR 10-20 billion<sup>10</sup> that revealed significant uncertainties regarding adequacy in provisioning<sup>11</sup>:

- (i) Contingent Capital Agreement (CCA) which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to an ex-ante agreed portfolio of existing loan stock, up to a maximum of EUR 3.89 billion, subject to a capital ratio trigger (CET1 below 8%-13%) as well as to some additional conditions<sup>8 9 12</sup>;

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<sup>10</sup> Exact value not disclosed by the European Commission for confidentiality reasons

<sup>11</sup> As referred to in the respective European Commission Decision

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

- (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). The amount that can be reclaimed by the Resolution Fund under the Contingent Capital Agreement is subject to the cap of EUR 3.89 billion<sup>13</sup>;
- (iii) in case the Supervisory Review and Evaluation Process ("**SREP**") total capital ratio of Novo Banco falls below the SREP total capital requirement, the State will provide additional capital in certain conditions and through different instruments<sup>14</sup>.

According to the 2018 Resolution Fund's annual report, the Resolution Fund and Novo Banco have agreed that a Verification Agent - an independent entity which is essentially responsible for settling any differences that may exist between Novo Banco and the Resolution Fund regarding the set of calculations inherent to the Contingent Capital Agreement or regarding the practical application of the principles stipulated in the contract - is in charge of confirming that the perimeter of the mechanism is correct and that the balance sheet values of Novo Banco are being correctly reflected in the mechanism, as well as verifying the underlying set of calculations, namely by confirming the correct calculation of losses and the reference value of the assets.

Also in its 2018 annual report, the Resolution Fund states that "Regarding future periods, a significant uncertainty as to the relevant parameters for the calculation of future liabilities is deemed to exist, either for their increase or reduction, under the terms of the agreement on the Contingent Capital Agreement with Novo Banco".

The Resolution Fund disclosed on 17 June 2019 a set of clarifications related to the payment due in 2019 under the CCA with Novo Banco, namely:

- For payments from the Resolution Fund to be made (limited to a maximum of EUR 3,890 million over the lifetime of the mechanism), losses on the assets under the contingent mechanism should be incurred and the capital ratios of Novo Banco should stand below the agreed reference thresholds;
- The payment to be made by the Resolution Fund corresponds to the lower of the accumulated losses on the assets covered and the amount necessary to restore the capital ratios above the minimum reference threshold;
- The reference capital ratios are, in 2017, 2018 and 2019, linked to the regulatory requirements applicable to Novo Banco (CET1 ratio of 11.25% and Tier 1 ratio of 12.75%), but, as from 2020, the reference ratio will correspond to a CET1 ratio of 12%;
- The initial reference value of the portfolio comprising the Contingent Capitalisation Agreement was as of 30 June 2016 of EUR 7,838 million (book value of the associated assets, net of impairments), and the value of the portfolio, as of 31 December 2018, amounted to approximately EUR 3,920 million (book value, net of impairments);
- The accumulated losses of the covered assets and their management, between 30 June 2016 (reference date of the mechanism) and 31 December 2018, correspond to EUR 2,661 million. Of this amount, the Resolution Fund paid in 2018, in accordance with the terms and conditions of the CCA, around EUR 792 million, hence, the amount of losses not borne by the Fund was, at the end of 2018, approximately EUR 1,869 million;

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<sup>13</sup> As referred to in the respective European Commission Decision

<sup>14</sup> As referred to in the respective European Commission Decision

- The amount necessary to maintain the capital ratios of Novo Banco for 2018 at the agreed levels is EUR 1,149 million. The amount payable by the Resolution Fund results from a comparison between the amount of EUR 1.869 million (accumulated loss on the covered assets not supported by the Fund) and the amount of EUR 1,149 million, corresponding to the lower of those amounts, i.e. EUR 1,149 million.

On 24 May 2018, arising from the referred mechanism, the Resolution Fund paid EUR 792 million to Novo Banco using its available financial resources from banking contributions (direct or indirect) and complemented by a State loan of EUR 430 million under the terms agreed between the Portuguese State and the Resolution Fund in October 2017. In its 2018 annual results press release, on 1 March 2019, Novo Banco states that, in connection with the impact of losses related to the sale and write-downs of legacy assets, Novo Banco will request a compensation of EUR 1,149 million under the existing CCA. The Resolution Fund paid to Novo Banco on 6 May 2019 the calculated value relative to the 2018 exercise, in the amount of EUR 1.149 million. For this purpose, the Resolution Fund used its own resources and also resorted to a State loan of EUR 850 million, which corresponds to the annual maximum funding limit agreed between the Resolution Fund and the State. The amount paid by the Resolution Fund to Novo Banco in two years was EUR 1,941 million.

According to Novo Banco's 2019 earnings press release, Novo Banco will request a compensation of EUR 1.037 million under the Contingent Capital Agreement (CCA), as stipulated in the sale agreement. The amount of the compensation requested in 2017 and 2018 and to be requested relating to 2019 totals EUR 2.98 billion. The maximum amount of compensation established in the CCA is EUR 3.89 billion.

As at 31 December 2019, Novo Banco is held by Lone Star and the Resolution Fund, corresponding to 75% and 25% of the share capital respectively.

#### *Resolution measure of Banif – Banco Internacional do Funchal, S.A.*

On 19 December 2015, the Board of Directors of Bank of Portugal announced that Banif was "at risk of insolvency or insolvent" and started an urgent resolution process of the institution through the partial or total sale of its activity, which was completed on 20 December 2015 through the sale to Banco Santander Totta S.A. (BST) of the rights and obligations of Banif, formed by the assets, liabilities, off-balance sheet items and assets under management.

The largest portion of the assets that were not sold, were transferred to an asset management vehicle denominated Oitante, S.A. (Oitante) specifically created for that purpose, having the Resolution Fund as the sole shareholder. For that matter, Oitante issued bonds representing debt in the amount of EUR 746 million. The Resolution Fund provided a guarantee and the Portuguese State a counter-guarantee. The operation also involved state aid, of which EUR 489 million were provided by the Resolution Fund, which was funded by a mutual contract given by the State.

According to the Resolution Fund's 2018 annual report, "to ensure that the Fund has, at due date, the financial resources necessary to comply with this guarantee, if the principal debtor – Oitante - defaults, the Portuguese State counter-guarantees the referred bond issue. Until 31 December 2018, Oitante made partial prepayments of EUR 360,961, which reduces the amount of the guarantee provided by the Resolution Fund to EUR 385,038. Considering the anticipated reimbursements, as well as information provided by Oitante's Board of Directors regarding 2018 exercise, it is envisaged that there are no relevant situations that could trigger the guarantee provided by the Resolution Fund". On 13 July 2019, Oitante states that "at the end of the current month, July 2019, the debt reimbursed since it was incurred will reach 57.7%".

Also, according to this source, "The outstanding debt related to the amount made available by the State to finance the absorption of BANIF's losses, following the resolution measure applied by Banco de Portugal to that entity amounts to EUR 352,880.3 thousand". This partial early repayment of EUR 136

million corresponds to the revenue of the contribution collected, until 31 December 2015, from the institutions covered by the SRM Regulation which was not transferred to the Single Resolution Fund and which will be paid to the Single Resolution Fund by the credit institutions that are covered by this scheme over a period of 8 years starting in 2016 (according to the Resolution Fund's 2016 annual report).

#### *Liabilities and Financing of the Resolution Fund*

Pursuant to the resolution measures applied to BES and Banif the Resolution Fund borrowed loans and assumed other responsibilities and contingent liabilities resulting from:

- The State loans, on 31 December 2018 included the amounts made available (i) in 2014 for the financing of the resolution measure applied to BES (EUR 3,900 million); (ii) to finance the absorption of Banif's losses (EUR 353 million); (iii) under the framework agreement concluded with the State in October 2017 for the financing of the measures under the Contingent Capital Agreement (EUR 430 million plus EUR 850 million of additional funding requested in 2019, as described above);
- Other funding granted by the institutions participating in the Resolution Fund in the amount of EUR 700 million, in which the Bank participates, within the scope of BES resolution measure;
- Underwriting by the Resolution Fund of a Tier 2 instrument to be issued by Novo Banco up to the amount of 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;
- Effects of the application of the principle that no creditor of the credit institution under resolution may assume a loss greater than the one it would take if that institution did not go into liquidation;
- Negative effects resulting from the resolution process that result in additional liabilities or contingencies for Novo Banco, S.A., which must be neutralized by the Resolution Fund;
- Legal proceedings filed against the Resolution Fund;
- Guarantee granted to the bonds issued by Oitante S.A. This guarantee is counter-guaranteed by the Portuguese State;
- Contingent Capital Agreement which allows Lone Star to reclaim, from the Resolution Fund, funding costs, realised losses and provisions related to the aforementioned ex-ante portfolio of existing loan stock agreed upon the sale process to Lone Star up to EUR 3,89 billion under the aforementioned conditions, among which a reduction of CET1 below 8%-13%;
- In case the Supervisory Review and Evaluation Process (SREP) total capital ratio of Novo Banco falls below the SREP total capital requirement, the State will provide additional capital in certain conditions and through different instruments as referred to in the respective European Commission Decision.

According to note 24 of the Resolution Fund's 2018 annual report, the Resolution Fund considers that, to date, there are no elements that allow a reliable estimate of the potential financial effect of these potential liabilities.

By a public statement on 28 September 2016, the Resolution Fund and the Ministry of Finance communicated the agreement based on a review of the terms of the EUR 3,900 million loan originally granted by the State to the Resolution Fund in 2014 to finance the resolution measure applied to BES.

According to the Resolution Fund, the extension of the maturity of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Office of the Minister of Finance also announced that increases in the liabilities arising from the materialisation of future contingencies will determine the maturity adjustment of State and Bank loans to the Resolution Fund, in order to maintain the contributory effort required to the banking sector at current levels.

According to the communication of the Resolution Fund of 21 March 2017:

- "The conditions of the loans obtained from the Fund to finance the resolution measures applied to Banco Espírito Santo, S.A. and to Banif– Banco Internacional do Funchal, S.A. were changed. These loans amount to EUR 4,953 million, of which EUR 4,253 million were granted by the Portuguese State and EUR 700 million were granted by a group of banks";
- "Those loans are now due in December 2046, without prejudice to the possibility of being repaid early based on the use of the Resolution Fund's revenues. The due date will be adjusted so that it enables the Resolution Fund to fully meet its liabilities based on regular revenues and without the need for special contributions or any other type of extraordinary contributions. The liabilities resulting from the loans agreed between the Resolution Fund and the State and the banks pursuant to the resolution measures applied to BES and Banif are handled with one another";
- "The revision of the loans' conditions aimed to ensure the sustainability and financial balance of the Resolution Fund";
- "The new conditions enable the full payment of the liabilities of the Resolution Fund, as well as the respective remuneration, without the need to ask the banking sector for special contributions or any other type of extraordinary contributions".

On 2 October 2017, by Council of Ministers (Resolution no. 151-A/2017), the Portuguese State, as the ultimate guarantor of financial stability, was authorised to enter into a framework agreement with the Resolution Fund, to make available the necessary financial resources to the Resolution Fund, if and when it deemed necessary, to satisfy any contractual obligations that may arise from the sale of the 75% stake in Novo Banco. It is also mentioned that the reimbursement will consider the stability of the banking sector, i.e. without the Resolution Funds' participants being charged special contributions or any other extraordinary contributions.

The Resolution Fund's own resources had a negative equity of EUR 6,114 million, according to the latest 2018 annual report of the Resolution Fund.

To reimburse the loans obtained and to meet other liabilities that it may take on, the Resolution Fund receives proceeds from the initial and regular contributions from the participating institutions (including the Bank) and from the contribution over the banking sector (Law no. 55-A/2010). It is also provided for the possibility of the member of the Government responsible for the area of Finance to determine, by ordinance that the participating institutions make special contributions, in the situations provided for in the applicable legislation, particularly if the Resolution Fund does not have resources to fulfil with their obligations.

Pursuant to Decree-Law No. 24/2013, of 19 February 2013, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund, provided for in the Legal Framework of Credit Institutions and Financial Companies, the Bank has been proceeding, since 2013, to the mandatory contributions, as provided for in the Decree-Law.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which it is clarified that the periodic contribution to the Resolution Fund should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in Article 9 of the referred Decree-Law, thus the Bank is recognising as an expense the contribution to the RF in the year in which it becomes due.

The Resolution Fund issued, on 15 November 2015, a public statement declaring: "...it is further clarified that it is not expected that the Resolution Fund will propose the setting up of a special contribution to finance the resolution measure applied to Banco Espírito Santo, S.A., ('BES'). Therefore, the eventual collection of a special contribution appears to be unlikely".

The regime established in Decree-Law No. 24/2013 establishes that the Bank of Portugal fixes, by instruction, the rate to be applied each year based on objective incidence of periodic contributions. The instruction of the Bank of Portugal no. 24/2019, published on 16 December 2019, set the base rate to be effective in 2020 for the determination of periodic contributions to the FR by 0.06% against the rate of 0.057% in 2019.

During 2019, the Group made regular contributions to the Resolution Fund in the amount of EUR 15.965 million. The amount related to the contribution on the banking sector, registered in 2019, was EUR 31.818 million. These contributions were recognized as a cost in 2019, in accordance with IFRIC no. 21 – Levies.

In 2015, following the establishment of the SRF, the Group had to make an initial contribution in the amount of EUR 31.364 million. In accordance with the Intergovernmental Agreement on the Transfer and Mutualisation of Contributions to the SRF, this amount was not transferred to the SRF but was used instead to partially cover for the disbursements made by the RF in respect of resolution measures prior to the date of application of this Agreement. This amount will have to be reinstated over a period of 8 years (started in 2016) through the periodic contributions to the SRF. The total amount of the contribution attributable to the Group in 2019 was EUR 21.918 million, of which the Group delivered EUR 18.747 million and the remaining was constituted as irrevocable payment commitment. The SRF does not cover undergoing situations with the Resolution Fund as at 31 December 2015.

It is not possible, on this date, to assess the effects on the Resolution Fund due to: (i) the sale of the shareholding in Novo Banco in accordance with the communication of Banco de Portugal dated 18 October 2017 and the information provided by the European Commission on this subject under the terms described above, including the effects of the application of the Contingent Capital Agreement; (ii) the application of the principle that no creditor of the credit institution under resolution may take on a loss greater than the one it would take if that institution did not go into liquidation; (iii) additional liabilities or contingencies for Novo Banco, S.A. which need to be neutralized by the Resolution Fund; (iv) legal proceedings against the Resolution Fund, including "processo dos lesados do BES"; and (v) the guarantee provided to the bonds issued by Oitante, in this case, the referred trigger is not expectable in accordance to the most recent information communicated by the Resolution Fund in its annual accounts.

According to Article 5 (e) of the Regulation of the Resolution Fund, approved by the Ministerial Order 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 the Resolution Fund's 2018 annual report, under note 10, "the Resolution Fund is not obliged to present positive equity. In case of insufficient resources, the Resolution Fund may receive special contributions, as determined by the member of the Government responsible for finance, in accordance with article 153-I of the Legal Framework of Credit Institutions and Financial Companies

and no such contributions are foreseen, in particular after a review of the financing conditions of the Resolution Fund".

Eventual alterations regarding this matter may have relevant implications in future financial statements of the Group.

The COVID-19 pandemic and heightened uncertainty about the magnitude and duration of the outbreak create an additional context of uncertainty with respect to its impacts.

### *The European Deposit Guarantee System*

On 16 April 2014, the European Parliament and the Council adopted Directive 2014/49/EU on DGS ("DGS Directive"). The Directive encompasses the harmonisation of the funding mechanisms of DGS, the introduction of risk-based contributions and the harmonisation of the scope of products and depositors covered. In accordance with the DGS Directive, each credit institution should be part of a DGS recognised under this Directive, thereby ensuring a high level of consumer protection and a level playing field between credit institutions, while also preventing regulatory arbitrage. The DGS Directive sets the harmonised coverage level at EUR 100,000 and retains the principle of a harmonised limit per depositor rather than per deposit (such limit to be applied, in principle, to each identifiable depositor, except for collective investment undertakings subject to special protection rules). Each institution's contribution to DGS will be based on the amount of covered deposits and the degree of risk incurred by the respective member. The DGS Directive was transposed into the Portuguese law by Law No. 23-A/2015, of 26 March.

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

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

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

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

### *Other financial service laws and regulations*

The Bank is still subject to other Directives and Regulations, among which:

- Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, as amended, transposed into the national legal framework by Law No. 35/2018, of 20 July 2018, and already in force with some additional related regulations pending, and Regulation (EU) No.

600/2014 of the European Parliament and of the Council, of 15 May 2014, as amended, relating to markets in financial instruments, known as the Markets in Financial Instruments Directive II ("**MiFID II**") and Markets in Financial Instruments Regulation ("**MiFIR**"), respectively.

- Regulation (EU) No. 1286/2014 of the European Parliament and of the Council, of 26 November 2014, as amended, 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**"), as amended, 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.
- 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;
- Rules and regulations related to the prevention of money laundering, bribery and terrorism financing - Banco de Portugal is responsible for the preventive supervision of money laundering and terrorist financing ("**ML/TF**") in the financial sector. Within the applicable legal framework, the following are paramount: (i) Law No. 83/2017, of 18 August 2017, as amended, which sets forth preventive and repressive measures to combat ML/TF; (ii) Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015, as amended, on the information on payers and payees, accompanying transfers of funds, in any currency, for the purposes of preventing, detecting and investigating ML/TF; (iii) Law No. 97/2017, of 23 August 2017, which governs the application and execution of the restrictive measures approved by the United Nations or by the European Union and sets forth the sanctions applicable to breaches of such measures and (iv) the regulatory notice ("*Aviso*") of Banco de Portugal No. 2/2018, of 26 September 2018, which governs enforcement conditions, procedures, instruments, mechanisms, enforcement measures, reporting obligations and other aspects necessary for ensuring compliance with obligations for the prevention of ML/TF.

#### *Prevention, mitigation and monitoring of asset quality*

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 European Union 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 to achieve a sustainable reduction of NPEs in credit institutions' balance sheets. On 31 October 2018, the EBA published the final guidance on management of non-performing and forborne exposures. These guidelines specify sound risk management practices for credit institutions in their management of NPEs and forborne exposures, including requirements on NPE reduction strategies, governance and operations of NPE workout framework, internal control framework and monitoring.

The regulation amending the CRR to introduce common minimum coverage levels for potential losses stemming from newly originated loans that become nonperforming has been published in Official Journal on 17 April 2019 (Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) no 575/2013). This regulation establishes a requirement for

credit institutions to build their loan loss reserve up to common minimum levels to cover the incurred and expected losses on newly originated loans that become non-performing. Where the minimum coverage requirement is not met, the difference between the actual coverage level and the requirement should be deducted from a bank's own funds (CET1). The new rules should not be applied in relation to exposures originated prior to 26 April 2019. A proposal for a directive on credit servicers, credit purchasers and recovery of collateral was also included in the comprehensive package of measures to be tackled by the European Commission. The proposal strengthens the ability of secured creditors to recover value from secured loans to corporates and entrepreneurs. The review by the Parliament and Council's Working Party is ongoing.

All in all, the legal and regulatory framework regarding NPLs and NPEs 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.

Furthermore, as the 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, the regulatory notice ("*Aviso*") No. 4/2017 of Banco de Portugal, which entered into force on 1 January 2018, established procedures and criteria for banks for assessing customer's financial capacity before granting mortgage loans.

On 31 January 2020, Banco de Portugal announced the amendment to the macroprudential recommendation on new credit agreements for consumers: (i) the maximum maturity of new personal credit operations decreases from 10 to 7 years, with some exceptions (ii) up to 10% of the total amount of new credit granted by each institution may have a DSTI (debt service-to-income) of up to 60%, continuing to allow institutions to consider other important aspects for assessing the borrowers' creditworthiness that are risk mitigating factors. The 5% exception to the DSTI ratio limits will be maintained.

Following the COVID-19 pandemic, Banco de Portugal has relaxed some of the macroprudential measures for consumer credit. Banco de Portugal has decided that personal credit with maturities of up to two years and duly identified as intended to mitigate households' temporary liquidity shortage situations will no longer have to comply with a DSTI ratio limit and is also exempted from observing the recommendation of regular principal and interest payments. This measure applies to new personal credit granted from 1 April 2020 until September 2020, date on which Banco de Portugal will reassess the adequacy of this change.

#### *Relief measures regarding asset quality deterioration and non-performing loans*

Under the Decree-Law No. 10-J/2020, of 26 March 2020, the Portuguese government approved a six-month moratorium on bank loan repayments for households and companies affected by the COVID-19 outbreak. The Portuguese Government also launched state-guaranteed credit lines for medium, small and micro enterprises in affected sectors which will be operated through the banking system.

In this context, the ECB decided to temporarily exercise flexibility in the classification requirements and expectations on loss provisioning for NPL that are covered by public guarantees and COVID-19 related public moratoria.

In particular, and on a temporary basis, supervisors will exercise flexibility regarding: (i) the classification of debtors as “unlikely to pay” when banks call on public guarantees granted in the context of coronavirus and (ii) loans under COVID-19 related public moratoria. Furthermore, loans which become non-performing and are under public guarantees will benefit from preferential prudential treatment in terms of supervisory expectations about loss provisioning. Lastly, when discussing with banks the implementation of NPL reduction strategies, the extraordinary nature of current market conditions will be taken into account.

In addition, excessive volatility of loan loss provisioning should be addressed to avoid excessive procyclicality of regulatory capital and published financial statements. Within its prudential remit, the ECB recommends that all banks avoid procyclical assumptions in their models to determine provisions and for banks to opt for the IFRS 9 transitional rules.

On 2 April 2020, the EBA issued guidelines (EBA/GL/2020/02) on public and private payment moratoria on loan repayments applied before 30 June 2020, aiming to clarify the following points in the context of the COVID-19 pandemic: (i) the criteria that payment moratoria have to fulfil not to trigger forbearance classification, (ii) the application of the prudential requirements in the context of these moratoria and (iii) ensuring the consistent treatment of such measures in the calculation of own funds requirements.

In this context, these guidelines clarify that payment moratoria do not trigger classification as forbearance or distressed restructuring if the measures taken are based on the applicable national law or on an industry or sector-wide private initiative agreed and applied broadly by the relevant credit institutions. In addition, the Guidelines recall that institutions must continue to adequately identify those situations where borrowers may face longer-term financial difficulties and classify exposures in accordance with the existing regulation. The requirements for identification of forborne exposures and defaulted obligors remain in place.

### *Insurance business*

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

## **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.

On 22 May 2019, the General Meeting of Shareholders ratified the co-optation of one director for the exercise of functions in the term-of-office ending in 2021, filling in a member vacancy in the Audit Committee.

Currently, following persons exercise functions as members of the Board of Directors of BCP:

Chairman:	Nuno Manuel da Silva Amado
Vice-Chairmen:	Jorge Manuel Baptista Magalhães Correia Valter Rui Dias de Barros Miguel Maya Dias Pinheiro
Members:	Ana Paula Alcobia Gray Cidália Maria Mota Lopes João Nuno de Oliveira Jorge Palma José Manuel Alves Elias da Costa José Miguel Bensliman Schorcht da Silva Pessanha Lingjiang Xu Maria José Henriques Barreto de Matos de Campos Miguel de Campos Pereira de Bragança Rui Manuel da Silva Teixeira Teófilo César Ferreira da Fonseca Wan Sin Long XiaoXu Gu Fernando da Costa Lima

Positions held outside the Group by the abovementioned members of the Board of Directors that are relevant to the Group:

<b>Name</b>	<b>Position</b>	<b>Company</b>
<b>Nuno Manuel da Silva Amado</b>	Member of the Supervisory Board	EDP-Energias de Portugal, S.A. (in representation of BCP)
	Member of the Board of Auditors	Fundação Bial

<b>Name</b>	<b>Position</b>	<b>Company</b>
<b>Cidália Maria Mota Lopes</b>	Effective member of the Plenary	Universidade de Lisboa
	Member of the Senior Board	Alumni Clube ISCTE
	Professor and Member of the Scientific Board	Coimbra Business School - Instituto Superior de Contabilidade e Administração de Coimbra (ISCAC) on tax issues
	Invited Professor at the Masters Degree in Accounting and Finance	School of Economics of the University of Coimbra
<b>Jorge Manuel Baptista Magalhães Correia</b>	Member of the Scientific Board	Portuguese Fiscal Association (AFP)
	Chairman of the Board of Directors	Luz Saúde, S.A.
	Member of the Board of Directors	REN- Redes Eléctricas Nacionais, SGPS, S.A.
	Vice-Chairman of the Board of Directors and Chairman of the Executive Committee	Fidelidade Companhia de Seguros, S.A
<b>José Miguel Bensliman Schorcht da Silva Pessanha</b>	Chairman of the Audit Board	Millenniumbcp Ageas Grupo Segurador, SGPS, S.A.
	Vice-Chairman of the Board of Directors and Chairman of the Audit Board	Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
	Vice-Chairman of the Board of Directors and Chairman of the Audit Committee	Ageas – Sociedade Gestora de Fundos de Pensões, S.A. (formely denominated Ocidental - Sociedade Gestora de Fundos de Pensões, S.A.)
<b>Lingjiang Xu</b>	Chairman of the Board of Directors	Longrun Portugal, SGPS, S.A.
	Member of the Board of Directors	Fidelidade – Companhia de Seguros, S.A.
<b>Miguel de Campos Pereira de Bragança</b>	Manager	Quinta das Almoínhas Velhas-Imobiliária Lda.

<b>Name</b>	<b>Position</b>	<b>Company</b>
	Non-executive Member of the Board	SIBS, SGPS, S.A. and SIBS Forward Payment Solutions, S.A. (in representation of BCP)
	Non-executive Member of Board	Unicre- Instituição Financeira de Crédito, S.A. (in representation of BCP)
<b>Miguel Maya Dias Pinheiro</b>	Member of the Senior Board	Alumni Clube ISCTE
	Member of the advisory Board	INDEG/ISCTE Executive Education
	Member of the advisory Board	BCSD Portugal – Conselho Empresarial para o Desenvolvimento Sustentável, (in representation of the Bank)
<b>Rui Manuel da Silva Teixeira</b>	Member of the Remunerations Committee	UNICRE – Instituição Financeira de Crédito, S.A. (in representation of BCP)
	Member of the Remunerations Committee	SIBS, SGPS, S.A., and SIBS Forward Payment Solutions, S.A. (in representation of BCP)
	Chairman of the Board	Porto Business School.
<b>Valter Rui Dias de Barros</b>	Chairman of the Board of Directors	Recredit - Gestão de Activos, S.A. (Angola)
<b>XiaoXu Gu (Julia Gu)</b>	Senior Management	Fosun High Technology (Group) Co., Ltd.
	Chairman	Zhangxingbao (Shanghai) Network Technology Co., Ltd. (subsidiary of Fosun)
	Member of the Board of Directors	MYBank
<b>Fernando da Costa Lima</b>	Non-executive Director	Netinvoice, S.A.
	Non-executive Director	Euronext Lisbon
	Adviser	Comissão do Mercado de Capitais (CMC), Luanda, Angola

To the best of the Issuer's knowledge, none of the abovementioned members of the Board of Directors of the Bank has any external activity relevant for the Bank other than the ones listed above.

For all the purposes resulting from the functions of the members of the Board of Directors, their professional domicile is at Av. Prof. Dr. Cavaco Silva (Parque das Tecnologias), Edifício 1, no. 32, Piso 2, 2744-256 Porto Salvo.

### ***Executive Committee***

Under the terms of the law and of the Articles of Association of the Bank, the Board of Directors appointed an Executive Committee on 24 July 2018, composed of six of its members, which performs all the Bank's current management functions that are not to be exercised by the Board of Directors. The members of the Executive Committee are as follows:

Chairman:	Miguel Maya Dias Pinheiro
First Vice-Chairman:	Miguel de Campos Pereira de Bragança
Second Vice-Chairman:	João Nuno de Oliveira Jorge Palma
Members:	José Miguel Bensliman Schorcht da Silva Pessanha Maria José Henriques Barreto de Matos de Campos Rui Manuel da Silva Teixeira

### ***Audit Committee***

Under the terms of the articles of association of the Bank, the Bank's supervision pertains to an Audit Committee elected by the General Meeting of Shareholders and composed of a minimum of three and a maximum of five members.

The Audit Committee, created in accordance with the provisions of number 1 of Article 278 of the Portuguese Companies Code and in accordance with Article 39 of the articles of association of the Bank, is particularly responsible for (amid the remaining powers attributed to it by law):

- a) Monitoring the Bank's management;
- b) Verifying the compliance with the law and the articles of association;
- c) Verifying the regularity of the books, accounting records and documents supporting them;
- d) Verifying the accuracy of the financial statements;
- e) Supervising the efficiency of the risk management system, the internal control system and the internal audit system;
- f) Receiving the communications stating irregularities reported by shareholders, employees of the Bank or others;
- g) Monitoring the preparation and disclosure of financial information;
- h) Proposing to the General Meeting of Shareholders the election of the Chartered Accountant and of the External Auditor;
- i) Supervising the audit of the annual report and financial statements of the Bank;
- j) Verify the Statutory Auditor's independence, namely regarding the rendering of non-audit services;
- k) Engaging the provision of services by experts to assist one or several of its members in the exercise of their functions. This engagement and the remuneration of the experts must take into account the importance of the issues committed to them and the Bank's economic situation; and
- l) Complying with all the other duties attributed to it by the law or by the Articles of Association.

The Audit Committee is composed of the following members:

Members: Cidália Maria Mota Lopes  
Valter Rui Dias de Barros  
Wan Sin Long  
Fernando da Costa Lima

#### *Statements regarding the Members of Management and Supervision Bodies*

To the best of the Issuer's knowledge and in its understanding, having made enquiries, there are no potential conflicts of interests between the duties of any member of the management and supervision bodies identified above towards the Issuer or towards any other Group company and his/her personal interests and duties. There are non-executive members of the Board of Directors with functions in other financial institutions that can be considered competitors of the Bank. For this situation, the General Meeting of Shareholders held on 28 February 2012 resolved to authorise the presence of those members in the Board of Directors, which was also authorised in the General Meeting of Shareholders held on 11 May 2015, and the General Meeting of Shareholders held on 30 May 2018, where the majority of the current members of the Board of Directors were elected, with the mention of the adoption of a restrictive regime of access to sensitive information.

#### ***Statutory Auditor***

The current Statutory Auditor and External Auditor of the Bank, Deloitte & Associados SROC, S.A., and alternatively Jorge Carlos Batalha Duarte Catulo, ROC No. 992, were elected at the General Meeting of Shareholders held on 22 May 2019, for the two year term of office 2019/2020, by a majority of 99.9283% and 99.8834% of the votes cast, respectively.

The term of office of the Statutory Auditor and External Auditor began on 5 May 2016, after the first quarter's financial statements were presented to the Board of Directors.

There are no potential conflicts of interest between the duties to the Bank of the persons listed above and their private interest or duties.

#### **Evolution of the Solvency Ratio in 2019**

According to BCP's interpretation of CRD IV and CRR to date, the CET1 estimated ratio as at 31 December 2019 stood at 12.2% both phased-in and fully implemented, consistent with the amounts presented at the same period of 2018 (12.1% phased-in and 12.0% fully implemented) and above the minimum required ratios under the SREP (Supervisory Review and Evaluation Process) for 2019 (CET1 9.625%, T1 11.125% and Total 13.125%).

The CET1 phased-in ratio performance during 2019 mainly reflects:

- the phased-in progression along with the application of the 2019 SREP result, determined an increase of EUR 47 million in CET1 and EUR 53 million in risk weighted assets (+10 basis points in CET1 phased-in ratio);
- the IFRS16 adoption originated EUR 256 million of increase in risk weighted assets (-7 basis points in CET1 phase-in ratio);
- the acquisition of Eurobank by Bank Millennium in Poland, that took place in May 2019, determined an increase of EUR 32 million in CET1 and of EUR 2,067 million in risk weighted assets (-49 basis points in CET1 phase-in ratio);

- the pension fund's responsibilities discount rate reduction, as a consequence of the interest rate decrease, although partially compensated by the fund's appreciation, led to a decrease of EUR 389 million in the CET1 and EUR 148 million in the risk weighted assets (-89 basis points in CET1 phase-in ratio).
- The T1 and Total ratio were also influenced, in 2019, by the following impacts:
- the issuance of perpetual subordinated notes qualified as Additional Tier 1, in January, in the amount of EUR 400 million (+96 basis points in both T1 and Total ratios phased-in);
- the issuance, also in January, by Bank Millennium in Poland of subordinated bonds qualified as Tier 2 capital instruments, amounting PLN 830 million (+10 basis points in Total ratio phased-in).

The organic generation of capital, including the positive net income of 2019, contributed significantly to the positive capital ratios performance in this period.

## SOLVABILITY RATIOS

(Euro million)

	31 Dec. 19	31 Dec. 18	31 Dec. 19	31 Dec. 18
	PHASED-IN		FULLY IMPLEMENTED	
<b>OWN FUNDS</b>				
Common Equity Tier 1 (CET1)	5,508	5,047	5,496	5,024
Tier 1	6,012	5,121	6,000	5,102
<b>TOTAL CAPITAL</b>	<b>7,036</b>	<b>5,688</b>	<b>7,028</b>	<b>5,663</b>
<b>RISK WEIGHTED ASSETS</b>	<b>45,031</b>	<b>41,883</b>	<b>44,972</b>	<b>41,819</b>
<b>CAPITAL RATIOS (*)</b>				
CET1	12.2%	12.1%	12.2%	12.0%
Tier 1	13.4%	12.2%	13.3%	12.2%
Total	15.6%	13.6%	15.6%	13.5%

(\*) Includes the cumulative net income recorded in each period.

## Impact of the COVID-19 pandemic

On 12 March 2020, the ECB announced to the banks a set of measures to be adopted in order to guarantee the continue financing of households and corporations experiencing temporary difficulties, due to the economic effects of the COVID-19 pandemic that are felt worldwide.

The supervisory measures aim to support banks in serving the economy and addressing operational challenges, including the pressure on their staff.

The capital buffers have been designed with a view to allowing banks to withstand stressed situations and since the European banking sector has built up a significant amount of these buffers, the ECB will allow banks to operate temporarily below the capital level defined by P2G and the capital conservation buffer.

Banks will also be allowed to partially use capital instruments that do not qualify as CET1 capital, for example Additional Tier 1 or Tier 2 instruments, to meet the P2R. This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the CRD V.

Despite the above measures providing significant capital relief, the Bank does not currently have objective data to estimate the impacts of this crisis on its activity and capital levels.

## **THE PORTUGUESE MORTGAGE MARKET AND THE SERVICING OF THE COVER POOL**

### **PORTUGUESE MORTGAGE MARKET**

Since Portugal joined the EU in 1986, the country has steadily improved its living standards. GDP per capita in purchasing power has increased from less than 60% of the EU average in 1986 to 77% in 2018<sup>15</sup>.

The EU integration process during the 1990s provided a favourable environment of political and financial stability, which was conducive to a strong expansion of the mortgage business in Portugal. The "EU convergence momentum" has moderated significantly since 2001 leading to a prolonged period of gradual adjustment in the construction business and weak housing dynamics.

The Portuguese economy has not been immune to the global recession. The abrupt change in global financial markets, mainly in relation to access to capital, coupled with high indebtedness levels, led the Portuguese government to request external assistance by mid-2011. From May 2011 to May 2014 Portugal was under a specific economic and adjustment programme that has entailed a wide range set of structural reforms, which were expected to allow for stable public finances and stronger economic growth over the long term.

Notwithstanding the longer-term positive effects expected to emanate from the PAEF and its conclusion<sup>16</sup> in May 2014, the austerity coupled with adverse external and financial conditions significantly constrained the country's ability to grow in the 2011-2013 period. Following these three consecutive years of recession, the Portuguese economy has been recovering, supported by the growth of exports and less depressed levels of domestic demand. Between 2014 and 2019, the economic activity, measured by real GDP growth rate, grew near 13%<sup>17</sup> in accumulated terms.

However, this positive growth trend has undergone a sudden and marked deterioration due to the COVID-19 pandemic, as the health crisis is having a severe impact on economic activity. Against this background, the outlook for the mortgage markets has darkened, amid prospects of rising unemployment and high levels of uncertainty around the pandemic itself and its macroeconomic fallout, which should weigh on households' confidence levels.

#### **1. Long-term developments**

The Portuguese economy has recorded a decent performance over the past 33 years, driven by the process of EU integration – "cohesion" (1986-1993) and then "convergence" (1993-1998) – but has lately shown some difficulties in adjusting to the monetary union (1999 to date).

During the first two phases, from the high levels of unemployment, inflation and public deficit recorded in the mid-1980s, Portugal managed to comply with the Maastricht criteria only ten years later. The country's unemployment rate declined from 9% to 4%; inflation dropped from close to 30% in 1985 to 2% in the late 1990s. Over those years, real GDP growth averaged 3.5% per year. The three-month Lisbon interbank offer rate moved from 10% in 1993 to about 3% by the end of the decade.

The ongoing deregulation and liberalisation of the banking and financial markets led to growing competition among market participants. Demand for residential property was strong. The growth rate of credit granted to households rose quickly for most of the 1990s, topping 38% year-on-year in 1998.

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<sup>15</sup> Eurostat, April 2020.

<sup>16</sup> Statement by the EC, ECB and IMF on the Twelfth Review Mission to Portugal, 2 May 2014.

<sup>17</sup> Portugal's National Statistics Institute, April 2020.

After 2000, the Portuguese economy convergence process stalled. The loss of the exchange rate instrument, greater emphasis on productivity gains and flexible markets and increasing competition all resulted in the Portuguese economy facing great difficulties in the global marketplace. At a domestic level, households' build-up of debt, uncertainty and fiscal policy constraints led to a downward adjustment of spending patterns. In sharp contrast with the 90s' performance, real GDP growth averaged only 0.9% from 2000 to 2009 (comparing with 1.7% for the Eurozone average)<sup>18</sup>.

Despite a more adverse economic climate and the end of public subsidies for housing loans after 2002, housing loans continued to grow for most of the decade. More sophisticated scoring systems, judicious allocation of capital, strong home-ownership ratio and financial innovation contributed to easing households' financial burden and contain credit risks. Credit delinquency remained rather low throughout the period.

However, the degree of indebtedness across certain sectors of the economy, including households, continued to increase steadily. These circumstances put the Portuguese economy in a rather vulnerable position for what was to happen in 2007/2008 as the subprime meltdown morphed into a full-blown global financial crisis. This event severely restricted the access of Portuguese issuers to funding and unravelled a recession which, together with the eruption of the European sovereign debt crisis in 2010, provoked a jump in mortgage credit delinquency that greatly damaged the housing market. New mortgage lending collapsed, foreclosures spiked, and house prices fell.

## 2. Current situation

### (a) *The economy*

The intensification of the European sovereign crisis put the Portuguese debt-driven growth model to an end. Back in April 2011, the Portuguese government negotiated the PAEF with the IMF, the ECB and the European Commission envisioning a total of EUR 78 billion of institutional funding through 2014, conditional on Portugal achieving several goals in terms of consolidation of public finances, implementation of structural reforms and support to the financial system.

In the short term, the structural reforms and readjustment of the productive structure had a negative impact on Portuguese economic activity, which contracted by 7%, in accumulated terms, between 2011 and 2013<sup>19</sup>.

However, as a result of the structural reforms and the fiscal consolidation, the economic situation eventually improved. Since the last quarter of 2013, the year-on-year GDP growth rates have turned positive, beginning a period of sustained recovery of economic activity, which has been supported by growth of exports, alongside an improving trend in domestic demand. Recently, the recovery gained further breadth, with GDP recording annual growth rates above 2.0% between 2017 and 2019<sup>20</sup>. In line with the economy's recovery, the unemployment rate declined to 6.5% in 2019, after reaching a peak of 17.5% in the first quarter of 2013<sup>21</sup>. The consolidated value of the gross debt of the public administration declined from 132.9% of GDP in 2014 to 117.7% of GDP in 2019<sup>22</sup> and the government balance, which was -11.2% of GDP in 2010, recorded a surplus of 0.2% in 2019 for the first time in decades<sup>23</sup>. The restructuring of balance sheets in both the public and private sectors, and growth in exports have helped to reduce the external imbalance, leading to significant improvements in current and capital account balances.

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<sup>18</sup> Portugal's National Statistics Institute and Bank of Portugal, April 2020.

<sup>19</sup> Portugal's National Statistics Institute, April 2020.

<sup>20</sup> Portugal's National Statistics Institute, April 2020.

<sup>21</sup> Portugal's National Statistics Institute, April 2020.

<sup>22</sup> Bank of Portugal, April 2020.

<sup>23</sup> Portugal's National Statistics Institute, April 2020.

Despite recent improvements, the Portuguese economic context has undergone a sudden and marked deterioration due to the COVID-19 pandemic.

The pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity, as protecting lives and allowing health care systems to cope have required isolation and lockdowns to slow the spread of the virus. As a result, the global economy is projected to contract sharply - by -3% - in 2020, according to the IMF<sup>24</sup>.

Against this background, the IMF foresees that the Portuguese economy will drop 8% as a result of the economic impact of the pandemic<sup>25</sup>. In 2021, the Portuguese economy should return to positive growth rates (5%)<sup>26</sup>, assuming that economic policies work out as planned at the global level, meaning that the world economy will start to recover once the acute phase of the pandemic is passed, which will favour the recovery of the Portuguese economy.

However, there are high levels of uncertainty surrounding that scenario as the evolution of economic conditions depends on: the evolution of the pandemic, the intensity and efficacy of the containment efforts, the extent of global supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, behavioural changes, and confidence effects.

Specific vulnerabilities of the Portuguese economy could compound the shock associated to the pandemic crisis. Specifically, (i) the importance of the tourism sector exposes the overall economy to the reduction in global demand for this type of service, which will be very substantial; (ii) the Portuguese corporate sector presents currently a relatively fragile financial situation, which increases the risks of widespread defaults; (iii) the high percentage of households close to or below the poverty line in Portugal means that there is only a small margin to absorb the expected shock to income; and (iv) the high level of Portuguese government debt could lead to relevant limitations on the ability of the Portuguese government to stimulate growth in response to a downturn as severe as the one likely to follow the current economic shock.

Moreover, there are important domestic political risks as the 2019 parliamentary elections in Portugal have not conferred an absolute majority to the party that formed the government. Against this background, the current health and economic crisis could lead to political instability.

On the external front, the risks relate mainly to fears about the integrity of the European Union, as the need to strengthen coordination and cooperation at the European level has been raising divergences among the Member States, notably regarding the adoption and implementation of economic recovery measures and their funding.

#### *(b) The housing market*

The housing market has been stricken hard by the overall economic crisis as the demand for big tickets such as houses was sharply cut back in a context of high uncertainty, reduced income and a dearth of supply of mortgage financing. However, in 2013 this depressing trend started to give way to a recovery that has since been gaining considerable traction, benefiting from the rebound in the overall economic activity, especially within the tourism sector, and a surge in the involvement of foreign investors in the residential real estate. As a result, the number and value of transactions in the residential real estate market have soared and house prices have risen strongly and consistently (the annual growth rate in 2018 and 2019 was 10.3% and 9.6%<sup>27</sup>, respectively). The evolution of the demand for new housing loans has mirrored the trends of the overall housing market albeit with some lag as cash-only transactions gained considerable prominence. Residential permits issued and new dwellings completed,

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<sup>24</sup> IMF, WEO, April 2020.

<sup>25</sup> IMF, WEO, April 2020.

<sup>26</sup> IMF, WEO, April 2020.

<sup>27</sup> Portugal's National Statistics Institute, April 2020.

which had been declining since 2002, contributing to some rebalancing of the residential property market, have embarked on an upward trajectory since 2016. Credit delinquencies have recently been stabilising, reflecting a marked improvement in the unemployment rate and historical low EURIBOR rates, the main indexer in Portuguese housing loans, which have mitigated the impact of higher prices on house affordability, thereby contributing to maintain mortgage instalments at low values.

Despite the significant improvement in the last years, the economic shock stemming from the COVID-19 pandemic could have an important adverse impact on Portuguese real estate market.

The drop in tourism activity, along with the pervasive uncertainty regarding the timing and pace of the global economic recovery is bound to dampen interest of residents and non-residents in Portuguese housing market, likely leading to a significant decrease of housing demand and thereby to a significant devaluation of housing prices.

Moreover, the rising risk of default by the Portuguese households, as unemployment increases, should put non-performing loans on a renewed upward trend. Even though the residential mortgage market credit delinquency sits below other credit segments, and has been moving downwards continuously (after peaking in June 2016<sup>28</sup>), dropping in 2019 to historical minimum (0.8% of loans<sup>29</sup>), it should start to increase again in the next years, notably 2021 onwards, as in 2020 the households experiencing a financial stress are eligible for mortgage payment moratoria.

Most of the mortgage lending is done at a variable interest rate, usually indexed to the average three-month or six-month EURIBOR, with a one-month lag. Although fixed-rate lending or capped-rate alternatives have been increasing, its share in the total outstanding mortgage book is still quite limited. The spread charged over the benchmark interest rate is a function of several factors: the individual's credit assessment; the loan-to-value level; the banking relationship; other collateral arrangements; and global market conditions. The widespread use of contracts at variable interest rate makes households exposed to interest rate risk. However, during the last crisis this feature eased the debt servicing burden. In the current crisis, the forceful action of the European Central Bank in providing monetary stimulus and liquidity facilities in order to reduce systemic stress should contribute to a protracted environment of low interest rates, which should avoid a further deterioration of the debt service capacity. Nevertheless, any additional tightening in global financial market conditions could lead to higher EURIBOR rates and thereby an increase of the households' debt burden.

The ratio of mortgages outstanding per nominal GDP moved upwards consistently, from slightly less than 20% at the end of 1995 to a peak of about 65% by the end of 2012<sup>30</sup>. Since then, the ratio has been falling and in 2019 it reached 44%. The mortgage credit share in total lending to private individuals has grown over the years, standing currently near 80% of the total, at around EUR 93 billion (excluding securitised loans)<sup>31</sup>. Portuguese households have been steadily reducing their indebtedness ratios. In fact, household loans declined from almost 90% of disposable income in 2009 to 63% in 2019<sup>32</sup>. Moreover, considering the asset side, and according to Bank of Portugal's estimates, households' global financial situation is not as perilous as it might have seemed, as financial wealth (i.e. excluding real estate assets) is roughly three times higher than households' total financial debt. Against this background, despite the risks of a deterioration of the mortgage market, it is important to stress that households (thus banks) are now in a much-improved condition to face a marked deterioration in the Portuguese real estate fundamentals.

The residential mortgage legal framework has changed over the years, from a highly regulated market with few institutions qualified to grant mortgage loans, to a more liberal setting. In 2002, subsidised

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<sup>28</sup> Bank of Portugal, April 2020.

<sup>29</sup> Bank of Portugal, April 2020.

<sup>30</sup> Bank of Portugal, April 2020.

<sup>31</sup> Bank of Portugal, April 2020.

<sup>32</sup> Bank of Portugal and Statistics Portugal, April 2020.

mortgage schemes were discontinued, and the terms of the loan were liberalised. By mid-2007, a cap on prepayment penalties, conditional on the type of interest rate index (variable or fixed), as well as specific rounding procedures for the interest rate charged were introduced. Lenders must disclose a full set of the loan conditions when publicising product offers. Since 2018, lenders are subject to comprehensive duties of information in respect of consumers – both borrowers and guarantors – and are required to reflect negative interest rates and the decline of the EURIBOR rate in loan documentation. This set of rules enhances both competition and transparency in the marketplace.

## **B. The Residential Mortgage business of the Bank**

In 1992, the Bank established, in association with Cariplo, an autonomous residential mortgage bank – Banco de Investimento Imobiliário S.A. ("**BII**"). Until December 2000, all residential mortgage loan business generated by Bank's branch network and by BII's own branches was booked at and administered by BII. In December 2000, all residential mortgage loans granted by BII to clients of the Group were separated from BII's portfolio and migrated into the Bank's. Since then, the Bank has granted mortgage loans to its clients directly.

### **Origination**

The Bank's residential mortgages are originated at branch level as a result of direct contact by borrowers. Customers may also use digital channels (home banking, mobile App) in order to initiate a mortgage loan application process; however further steps will be conducted at branch level. Until 2011, applications could also be submitted by real estate agents (which would nevertheless require customers to go to a branch to deliver the required information).

### **Underwriting**

The Bank's residential mortgage loan applications data and prospective borrowers' and guarantors' details are introduced at branch level through an electronic front-end system application linked to an automatic decision-making support process and an electronic underwriting and pricing workflow.

Appropriate behaviour or application probability of default ("**PD**") models (according to customer segment and risk portfolio) are embedded in the automatic decision-making support process and generate a credit risk rating assigned to the customer. PD models are owned by Risk Office since June 2019. PD models performance is monitored by independent teams at Models Monitoring and Validation Cabinet (Gabinete de Acompanhamento e Validação de Modelos). Although rarely used, a rating override facility may be performed at the Rating Division (Direção de Rating).

Income checking is based on income tax statements, salary slips or salary paid in the customer's current account. Additional layers of risk assessment are considered in credit underwriting: filters (negative risk filters, product specifications, financial and real estate criteria), minimum down payment, loan-to-value ratio, risk assessment using PD models and debt service to income ratio or assessment of financial available capacity using customers' financial information at the Bank.

Information available at the Bank of Portugal's credit bureau is checked automatically.

The electronic workflow system where credit applications are automatically processed will define, according to the automatic decision-making support message and underwriting empowerment rules (defined per credit regulations), whether the underwriting decision will be made by credit officers at the branch or at the Credit Division (Direção de Crédito) and which commercial level will be establishing the pricing conditions.

The branch credit committee is empowered to underwrite by automated models according to predefined rules and constraints, if no filters apply, and taking also into account the customer's probability of default and additional underwriting criteria.

If the branch credit committee is not empowered to underwrite the credit risk, the loan application can be forwarded electronically to the Credit Division.

At the Credit Division, additional enquiries may be made, notably on borrowers' and guarantors' (if any) delinquency records at the Bank, information on total borrowings and credit in arrears or in default at the Bank of Portugal's credit bureau, bank accounts information on the Bank's Customer Information System, bank account statements at other banks and additional information collected by the branch officers (e.g. other assets owned by the client).

Underwriting decisions are sent electronically to the branch and, in the case of an "accept" decision, a real estate appraisal is automatically requested from a randomly selected independent appraiser. The Credit Division's agreed period of response is 48 hours.

The issue of a formal letter of approval, loan agreement contract and loan disbursement occurs only after confirmation of all data provided by the Contracting Area (*Direção de Operações – Departamento Operacional de Crédito*).

### **Insurance Cover**

Life and property insurance coverage is required, although the former is waived in some exceptional cases. While life insurance covers the amount of the loan, property insurance covers the replacement cost of a reconstruction of the property.

### **Mortgage Products**

Under the laws of the Portuguese Republic, since 2 November 2002 the maturity of new residential mortgage loans is freely agreed among the parties. The maturity of mortgage loans originated in the Group cannot exceed 40 years. Shorter maturity loans are common, with the most recent ones having an average maturity of approximately 31 years. Most residential mortgage loans pay interest on a floating rate basis indexed to twelve-month EURIBOR, with a spread depending on the LTV ratio and customer risk grade. Most loans, once fully drawn up, must be repaid in instalments, with payments of interest and principal being made by direct debit, usually on a monthly basis, although different amortisation profiles or interest-only payment periods may be agreed with the borrowers. Since July 2018, the mortgage loan amount cannot exceed 90% for owner occupier homes; exceptions for bank's foreclosed properties and leasing housing deals, which can go up to 100%, and second homes, which cannot exceed 80%, in both cases of the purchase price in the property contract.

Since mid-March 2020, due to the COVID-19 pandemic and its effects on consumers income and economy, most risk criteria for new credit underwriting have been tightened up.

### **Arrears Procedures**

In Retail Network, delinquencies persisting for less than 60 days are dealt with directly at branch level (this may be extended to 90 days if the customer only has overdrafts in his current account). Branch officials receive a daily report on arrears, on which they are expected to take appropriate action depending on their relationship with the borrower. Seven days after the first day of arrears the bank initiates a remote communication plan with the borrowers, using SMS, CAT (self-service machines for BCP's customers) and the internet and all branches receive lists of these customers in their working lines (in the IT tool they use daily) in order to contact each of them. More recently, the bank has invested on increasing its effectiveness with the remote communication collecting procedures, using

statistic decision models in order to define the load, channel and periodicity of those remote collecting attempts.

Once 60 days' overdue, loans are transferred to the retail recovery department. Everyday a centralised strategy team runs a segmentation decision tree on the newcomers, defining which team will be responsible for the next recovery actions. Customers can be segmented into 4 categories: Leasing (for customers with a leasing dominant exposure), SME's, individuals with collateralised loans and uncollateralised customers. On that same day, newcomers in the retail recovery department are distributed to the teams that are responsible for managing each segment.

When distributed, each team / recovery manager will apply the collections and recovery strategies that are defined for each segment. That may include phone contacts, emails and SMS in order to collect or restructure the loans in debt or even meetings with customers (although not very frequent). If these attempts are unsuccessful, the recovery manager will proceed to the judicial execution of the debt (if applicable), calling upon external lawyers.

Throughout the whole recovery process, a set of letters following a sequential pattern is sent to the borrower and any guarantors in order to inform the debtors of their failure to pay and facilitate the recovery process by warning them about the next steps.

The team that receives the customers for treatment and, usually, the same recovery manager, will be responsible for handling the recovery procedure until it ends, whether that happens with a recovery or with a write-off. This means the customer is managed on an end-to-end approach when in the retail recovery department.

### **Moratoria on loan repayments**

In March 2020, a legislative moratorium was enacted and it applies to home mortgage loan repayments until the end of September 2020 of debtors meeting the relevant requirements (including, without limitation, that the relevant loan relates to their own permanent residence) and adhering to it (Decree-Law No. 10-J/2020, of 26 March 2020). BCP has extended this moratorium to other mortgage loans for debtors that would be eligible according to the legislative moratorium. At present, the industry is discussing a common understanding in order to comply with EBA's Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02, 2 April 2020).

## **USE OF PROCEEDS**

The net proceeds resulting from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes or as otherwise stated in paragraph 4 (*Reasons for the offer*) of the applicable Final Terms or Pricing Supplement (as the case may be).

## THE COVERED BONDS LAW

### FRAMEWORK

The Covered Bonds Law introduced a framework for the issuance of asset covered debt securities into Portuguese law.

The Covered Bonds Law has been supplemented by secondary legislation issued by the Bank of Portugal (the "**Bank of Portugal Regulations**"), which comprises both regulations ("*Avisos*") and instructions ("*Instruções*"). The Bank of Portugal Regulations address matters such as the segregation of cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties.

### ISSUERS OF COVERED BONDS

Mortgage covered bonds ("*obrigações hipotecárias*") may be issued by credit institutions (the "**Institutions**") legally authorised to grant credit guaranteed by mortgages over property and having own funds amounting to no less than EUR 7,500,000. Institutions can either be universal credit institutions ("**Credit Institutions**") or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (the "**Mortgage Credit Institutions**").

If the issuer of covered bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue covered bonds directly, maintaining the underlying cover pool on its balance sheet.

If the issuer of covered bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting, acquiring and selling (i) credits guaranteed by mortgages and (ii) credits to, or guaranteed by, the central public administration, regional or local authorities of any EU Member State. Mortgage Credit Institutions may thus issue covered bonds backed by credits originated by itself or otherwise acquired from third party originators.

In the event of insolvency, winding-up and dissolution of an Institution, the cover pool over which the holders of covered bonds have a special creditor privilege will be segregated from the insolvent estate of such Institution and will form an autonomous pool of assets managed in favour and to the benefit of the holders of covered bonds and other preferred creditors as specified in the Covered Bonds Law. In this respect, the Covered Bonds Law establishes a special regime which prevails over general Portuguese insolvency regulations.

If the cover assets are insufficient to meet interest and principal payments due on the covered bonds of the insolvent Institution, the holders of covered bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.

### COVER ASSETS

The following assets are eligible to collateralise issues of covered bonds made by an Institution in accordance with the Covered Bonds Law:

- Pecuniary credit receivables secured by a Mortgage and/or any Additional Security which are not yet matured, and which are neither subject to conditions nor encumbered, judicially seized or apprehended, and
  - (a) which are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State; or

- (b) are secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or
  - (c) are secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing paragraph (a) or (b) above.
- Other assets (up to 20% of the aggregate cover pool), such as:
    - (a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem;
    - (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating of at least "A-" or equivalent; and
    - (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

The geographical scope of eligible assets is restricted to credits guaranteed by mortgages on property located in the EU.

Hedging contracts may also be included in the cover pool for hedging purposes, namely to hedge interest rate, exchange rate and liquidity risks. The Bank of Portugal Regulations contain certain rules governing the limits and conditions for the use of these hedging contracts.

The cover pool is of a dynamic nature. Accordingly, the Institution may be required, or may otherwise decide, to include new assets in such cover pool or substitute assets in case the existing ones no longer comply with the applicable financial and prudential requirements.

Furthermore, an Institution is required by the Covered Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts.

## **VALUATION AND LTV CRITERIA**

Institutions are required to conduct valuations of mortgage properties and periodic updates of such valuations in accordance with the rules defined by the Bank of Portugal (in particular, pursuant to Regulation 5/2006, which establishes rules on the methods and frequency of the valuations of assets and derivatives).

The maximum Loan to Value for residential mortgages is 80% and 60% for commercial mortgages loans.

The value of each property securing a mortgage credit comprised in a cover pool corresponds to the commercial value of such property, determined in accordance with criteria of prudence and taking into consideration (i) the sustainable long term characteristics of such property, (ii) the standard conditions of the local market, (iii) the current use of the relevant property, and (iv) any alternative uses of such property.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by an issuer of covered bonds to each of the properties securing mortgage credits comprised in a cover pool may not be higher than the market value of the relevant properties. For these purposes, the market value of each property corresponds to the price for which such property can be purchased by a third party purchaser on the date of the valuation of such property, assuming that (i) the property is publicly put on sale, (ii)

the market conditions allow for a regular transfer of the property and (iii) there is a normal period of time to negotiate the corresponding purchase and sale, considering the nature of the property.

Regulation 5/2006 contains detailed provisions regarding valuation of properties securing mortgage credits included in a cover pool (including subsequent valuations), the methods and frequency for such valuations, the appointment, remuneration and role of the real estate valuation experts and transitional provisions concerning valuations made prior to the enactment of the Bank of Portugal Regulations.

## ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS

The Covered Bonds Law and the Bank of Portugal Regulations establish asset and liabilities matching requirements namely, the global nominal value of the outstanding covered bonds cannot exceed 95% of the global value of the mortgage credits and other assets at any time comprised in the relevant cover pool.

- The average maturity of outstanding mortgage covered bonds cannot exceed the average maturity of the mortgage credits and substitution assets allocated to the relevant issue of covered bonds.
- The total amount of interest to be paid by an Institution under any covered bonds shall not exceed, at any time, the amount of interest to be collected from the mortgage credits and other assets comprised in the corresponding cover pool – this means, therefore, that under the Covered Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of covered bonds.
- The net present value of the liabilities arising from issues of covered bonds pursuant to the Covered Bonds Law cannot exceed the net present value of the cover pool allocated to such covered bonds, including any hedging contracts also comprised in the cover pool. This ratio must also be met for 200 basis points parallel shifts in the yield curve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

- (i) the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;
- (ii) the covered bonds shall be accounted according to the nominal value of outstanding principal, including accrued but unpaid interest; and
- (iii) in relation to any other assets:
  - (a) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and
  - (b) securities eligible for Eurosystem credit transactions shall be accounted for under margin valuation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant covered bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the provision of liquidity in connection with the liabilities arising under the covered bonds. The credit facility counterparty must have a minimum credit rating of "A-" or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated "A-" or above. If a particular issue of covered bonds is denominated in a currency other than the currency of the Cover Pool, the

Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (i) allocating new mortgage credits, (ii) purchasing outstanding covered bonds in the secondary market and/or (iii) allocating other eligible assets.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law and the Bank of Portugal Regulations, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or encumbered if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and any redemptions occurred.

#### **COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION**

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

Also, a common representative of the holders of the covered bonds must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

#### **SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS**

##### *Asset segregation*

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. This information will be deposited with the Bank of Portugal in the form of a code key. If the holders of covered bonds decide to accelerate the relevant covered bonds, the common representative of such holders shall request the Bank of Portugal to disclose the information associated with such code key, in accordance with article 4(5) of the Covered Bonds Law.

The assets included in the register maintained by the Institution will form a segregate estate over which the holders of the covered bonds will have a special creditor privilege ("*privilégio creditório*"), in particular in the case of winding-up and dissolution of the Institution.

In the event of insolvency of the Institution, the assets allocated to one or more issues of covered bonds will be segregated from the corresponding insolvent estate and will be managed autonomously by a third party until full payment of the amounts due to the holders of covered bonds. In any case, and even if the Institution is declared insolvent, the Covered Bonds Law determines that timely payments of interest and reimbursements under the covered bonds shall continue to be carried out.

In the case of voluntary dissolution of an Institution, the plan for such dissolution and winding-up, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Banking Law, shall identify a Substitute Credit Institution appointed to (i) manage the relevant cover pool allocated to the covered bonds outstanding, and (ii) ensure that the payments of any amounts due to the holders of such covered bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following insolvency of the Institution shall: (i) immediately upon being appointed, prepare an opening balance sheet in relation to the cover pool, supplemented by the corresponding explanatory notes; (ii) perform all acts and things necessary or convenient for the prudent management of the cover pool, including, without limitation, selling the mortgage credits comprised in the cover pool; ensuring the timely collection in respect of the mortgage assets comprised in the cover pool; and performing all other acts and administrative services in connection with such mortgage assets and related mortgages and additional security; (iii) maintain and keep updated a segregated register of the cover pool in accordance with the Covered Bonds Law; and (iv) prepare an annual financial report in relation to the cover pool and the outstanding covered bonds. This report shall be the subject of an auditing report produced by an independent auditor who shall be appointed as cover pool monitor by the Substitute Credit Institution.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following the insolvency of an Institution shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under the mortgage credits comprised in the relevant cover pool.

#### *Preferential status for covered bonds holders*

Pursuant to the Covered Bonds Law, holders of covered bonds benefit from a special creditor privilege over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant covered bonds.

The mortgages that serve as collateral for the entitlements of the holders of covered bonds prevail over any real estate preferential claims. If the assets comprised in the cover pool are not enough to pay interest and principal under the covered bonds, the holders of covered bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege over such cover pool. Accordingly, these counterparties will have similar rights to those of the holders of the covered bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of all Series of Covered Bonds then outstanding may decide, by a 2/3 majority vote,

to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant covered bonds in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such Covered Bonds.

## TAXATION

*The following is a general description of certain tax considerations relating to the Covered Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Covered Bonds, whether in those countries or elsewhere. The tax laws of an investor's Member State and of the Issuer's Member State of incorporation might have an impact on the income received from the securities. Prospective purchasers of Covered Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Covered Bonds and receiving payments of interest, principal and/or other amounts under the Covered Bonds and the consequences of such actions under the tax laws of those countries. It should also be noted that there are differences in the tax treatment of different Covered Bonds. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.*

### **Portugal**

The following is a general summary of the Issuer's understanding of current law and practice in Portugal as in effect on the date of this Base Prospectus in relation to certain current relevant aspects to Portuguese taxation of the Covered Bonds and is subject to changes in such laws, including changes that could have a retroactive effect. Potentially applicable transitional rules have not been considered. The following summary is intended as a general guide only and is not exhaustive. It is not intended to be, nor should it be considered to be, legal or tax advice to any holder of Covered Bonds. It neither takes into account nor discusses investors' individual circumstances or the tax laws of any country other than Portugal, and it relates only to the position of persons who are absolute beneficial owners of the Covered Bonds. Prospective investors are advised to consult their own tax advisers as to the Portuguese or other tax consequences of the purchase, ownership and disposal of Covered Bonds. Tax consequences may differ according to the provisions of different double taxation treaties, as well as according to a prospective investor's particular circumstances.

The reference to "interest", "other investment income" and "capital gains" in the paragraphs below means "interest", "other investment income" and "capital gains" as understood in Portuguese tax law. The statements below do not take into account different definitions of "interest", "other investment income" or "capital gains" which may prevail under any other law or which may be used in the Terms and Conditions of the Covered Bonds or any related documentation.

Economic benefits derived from interest, accrued interest, amortisation or reimbursement premiums and other instances of remuneration arising from the Covered Bonds are designated as investment income for Portuguese tax purposes.

Gains obtained with the repayment of Covered Bonds or of any other debt securities are qualified as capital gains for Portuguese tax purposes.

#### **1. Covered Bonds not held through a centralised control system**

##### *Portuguese resident holders and non-resident holders with a Portuguese permanent establishment*

Interest and other types of investment income obtained on Covered Bonds by a Portuguese resident individual is subject to withholding tax at 28%, which, if such income is not earned as business or professional income, is the final tax on that income unless the individual elects to include it in his/ her taxable income subject to tax at progressive rates of up to 48%. In the latter case, an additional income tax rate will be due on the part of the taxable income exceeding EUR 80,000 as follows: (i) 2.5% on the part of the taxable income up to EUR 250,000 and (ii) 5% on the remaining part (if any) of the taxable income exceeding EUR 250,000.

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.

Gains obtained on the disposal or the refund of the Covered Bonds by an individual resident in Portugal for tax purposes are subject to Portuguese capital gains taxation on the (annual) 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 48%. In the latter case, an additional income tax rate will be due on the part of the taxable income exceeding EUR 80,000 as follows: (i) 2.5% on the part of the taxable income up to EUR 250,000 and (ii) 5% on the remaining part (if any) of the taxable income exceeding EUR 250,000.

Stamp tax at 10% applies to the acquisition through gift or inheritance of Covered Bonds by an individual who is domiciled in Portugal. An exemption applies to transfers in favour of the spouse (or person living together as spouse), descendants and parents/grandparents.

Interest or other investment income derived from the Covered Bonds and capital gains realised with the transfer of the Covered Bonds by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable profits and are subject to corporate tax at 21% or 17% on the first EUR 25,000 in the case of small and medium-sized enterprises and may be subject to a municipal surcharge ("*derrama municipal*") of up to 1.5%. A state surcharge ("*derrama estadual*") also applies at 3% on taxable profits in excess of EUR 1,500,000 up to EUR 7,500,000, at 5% on taxable profits in excess of EUR 7,500,000 up to EUR 35,000,000 and at 9% on taxable profits in excess of EUR 35,000,000.

Withholding tax at 25% applies to interest and other investment income, which is deemed a payment on account of the final tax due. The withholding (and final) tax rate is 21% in the case of entities benefiting from a tax exemption under Articles 9 and 10 of the corporate tax code that does not apply to investment income.

Financial institutions, pension funds, retirement and/or education savings funds, venture capital funds, collective investment undertakings and some exempt entities, among other entities, are not subject to withholding tax.

The acquisition of Covered Bonds through gift or inheritance by a Portuguese resident legal person or a non-resident acting through a Portuguese permanent establishment is subject to corporate income tax at 21% or 17% on the first EUR 25,000 in the case of small and medium-sized enterprises and may be subject to a municipal surcharge ("*derrama municipal*") of up to 1.5%. A state surcharge ("*derrama estadual*") also applies at 3% on taxable profits in excess of EUR 1,500,000 up to EUR 7,500,000, at 5% on taxable profits in excess of EUR 7,500,000 up to EUR 35,000,000 and at 9% on taxable profits in excess of EUR 35,000,000.

There is neither wealth nor estate tax in Portugal.

#### *Non-resident holders without a Portuguese permanent establishment*

Interest and other types of investment income obtained by non-resident holders without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at 28% (individuals) or 25% (legal persons), which is the final tax on that income. The withholding tax 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 are met. These formalities include the certification, through a document issued by the competent tax authorities, of the residence of the beneficial owners of the interest and other investment income in the periods concerned, as well as the certification that they are subject to taxation. The reduction may apply at source or through the refund of the excess tax. The standard forms currently applicable for these purposes, to be presented with the document issued by the competent tax authorities, were approved by Order ("*Despacho*") No. 4743-A/2008 (second 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](http://www.portaldasfinancas.gov.pt).

Interest paid to an associated company of the Bank which is resident in the European Union is exempt from withholding tax.

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

- (i) A company which is subject to one of the taxes on profits listed in Article 3 (a) (iii) of Council Directive 2003/49/EC without being exempt, which takes one of the forms listed in the Annex to that Directive, which is considered to be resident in an EU Member State and is not, within the meaning of a double taxation convention on income concluded with a third state, considered to be resident for tax purposes outside the European Community; and
- (ii) Which holds a minimum direct holding of 25% in capital of the Bank, or is directly held by the Bank in at least 25% or which is directly held in at least 25% by a company which also holds at least 25% of the capital of the Bank; and
- (iii) Provided that the holding has been maintained for an uninterrupted period of at least two years. If the minimum holding period is met after the date the withholding tax becomes due, a refund may be obtained.

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

Capital gains obtained on the disposal or the refund of the Covered Bonds by an individual non-resident in Portugal for tax purposes are subject to Portuguese capital gains taxation on the (annual) positive difference between such gains and gains on other securities and losses in securities. Tax applies at 28%. An exemption applies to non-resident individuals, unless they are resident in a country, territory or region included in Ministerial Order No. 150/2004. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

Gains obtained on the disposal or the refund of Covered Bonds by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the holder is (a) more than 25% directly or indirectly, held by Portuguese resident entities or (b) if the holder is resident in a country, territory or region subject to a clearly more favourable tax regime included in Ministerial Order No. 150/2004. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

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

The acquisition of Covered Bonds through gift or inheritance by a non-resident legal person is subject to corporate tax at 25%. Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

There is neither wealth nor estate tax in Portugal.

## 2. Covered Bonds held through a centralised control system

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

Nevertheless, pursuant to the Special Taxation Regime for Debt Securities, approved by Decree-Law No. 193/2005, of 7 November 2005, as amended from time to time (hereafter "**the special regime approved by Decree-Law No. 193/2005**"), investment income and gains on the disposal or the refund of debt securities issued by Portuguese resident entities, such as the Covered Bonds, may be exempt from Portuguese income tax, provided that the debt securities are integrated in a centralised system managed by Portuguese resident entities (such as the Central de Valores Mobiliários, managed by Interbolsa), by other European Union or European Economic Area entities that manage international clearing systems (in the latter case if there is administrative co-operation for tax purposes with the relevant country which is equivalent to that in place within the European Union), or, when authorised by the member of the government in charge of finance (currently the Finance Minister), in other centralised systems and:

- (i) the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and
- (ii) the beneficial owners are central banks and government agencies, international organisations recognised by the Portuguese state, residents in a country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force or other non-resident entities which are not domiciled in a country, territory or region subject to a clearly more favourable tax regime included in Ministerial Order No. 150/2004.

The special regime approved by Decree-Law No. 193/2005 sets out the detailed rules and procedures to be followed on the proof of non-residence by the holders of Covered Bonds to which it applies.

Under these rules, the direct register entity is to obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity that is entitled to the exemption. As a general rule, the proof of non-residence by the holders of Covered Bonds should be provided to, and received by, the direct register entities prior to the relevant date for payment of any interest, or the redemption date (for zero coupon Covered Bonds), and, in the case of domestically cleared Covered Bonds, prior to the transfer of Covered Bonds, as the case may be. For the avoidance of doubt it is envisaged that the Covered Bonds will be integrated in a centralised system managed by a Portuguese domestic entity (Interbolsa).

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Base Prospectus.

### (a) Domestically Cleared Covered Bonds

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

- (i) If a holder of Covered Bonds is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese state, a declaration of tax residence issued by the holder of Covered Bonds, duly signed and authenticated or proof pursuant to paragraph (iv) below;
- (ii) If the beneficial owner of Covered Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country 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 or by the tax authorities confirming the legal existence of the holder of Covered Bonds and its domicile; or (C) proof of non residence, pursuant to the terms of paragraph (iv) below;
- (iii) If the beneficial owner of Covered Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence and the law of incorporation; or (B) proof of non-residence pursuant to the terms of paragraph (iv) below;
- (iv) In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant Tax Authorities; or (B) a document issued by the relevant Portuguese consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable.

There are rules on the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the holder of Covered Bonds must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3-year period starting on the date such document is issued. The holder of Covered Bonds must inform the register entity immediately of any change that may preclude the tax exemption from applying.

In what concerns the documents mentioned in sub-paragraphs (i) to (iii) above, proof of non-residence is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption.

**(b) Internationally Cleared Covered Bonds**

If the Covered Bonds are registered in an account with an international clearing system, prior to the relevant date for payment of any interest or the redemption date (for Zero Coupon Covered Bonds), the entity managing such system is to provide to the direct register entity or its representative the identification and number of securities, as well as the income and, when applicable, the tax withheld, itemised by type of beneficial owner, as follows: (i) Portuguese resident entities or permanent establishments of non-resident entities to which the income is attributable which are not exempt from tax and are subject to withholding tax; (ii) Entities domiciled in a country, territory, or region subject to a clearly more favourable tax regime included in Ministerial Order No. 150/2004, which are not exempt from tax and are subject to withholding tax ; (iii) Portuguese resident entities or permanent

establishments of non-resident entities to which the income is attributable which are exempt from tax and are not subject to withholding tax; (iv) other non-Portuguese resident entities.

In addition, the international clearing system managing entity is to provide to the direct register entity, in relation to each income payment, at least the following information concerning each of the beneficiaries mentioned in items (i), (ii) and (iii) above: name and address, tax identification number, if applicable, identification of the securities held and amount thereof and amount of income.

No Portuguese exemption shall apply at source under the special regime approved by Decree-Law No. 193/2005 if the above rules and procedures are not followed. Accordingly, the general Portuguese tax provisions shall apply as described above.

If the conditions for an exemption to apply are met, but, due to inaccurate or insufficient information, tax is withheld, a special refund procedure is available under the regime approved by Decree-Law No. 193/2005.

The refund claim is to be submitted to the direct or indirect register entity of the Covered Bonds within 6 months from the date the withholding took place.

The refund of withholding tax in other circumstances or after the above 6 months period is to be claimed to the Portuguese Tax Authorities within 2 years from the end of the year in which tax was withheld. The refund is to be made within 3 months, after which interest is due.

The forms currently applicable for the above purposes were approved by Order ("*Despacho*") No. 2937/2014 of the Portuguese Secretary of State for Tax Affairs, published in the Portuguese official gazette, second series, No. 37, of 21 February 2014 and may be available for viewing and downloading at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

### **Foreign Account Tax Compliance Act**

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

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

Portugal signed an IGA with the United States on 6 August 2015 and has implemented through Law No. 82-B/2014, of 31 December 2014 (as amended), the legal framework based on the reciprocal exchange of information with the United States on financial accounts subject to disclosure. The IGA entered into force in 10 August 2016, and through Decree-Law No. 64/2016, of 11 October 2016, amended by Law No. 98/2017, of 24 August 2017 and Law No. 17/2019 of 14 February 2019, the Portuguese government approved the regulation required to comply with FATCA. Under this legislation, the Issuer is required to obtain information regarding certain accountholders and report such information to the Portuguese Tax Authorities, which, in turn, will report such information to the US Internal Revenue Service. The exchange of information shall be made by 31 July of each year comprising the information gathered respecting the previous year.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in Covered Bonds.

The Issuer is not obliged to gross up any amounts which may be withheld or deducted pursuant to FATCA.

### **The proposed financial transactions tax**

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a FTT in Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia, Slovakia (the "**participating Member States**") and Estonia. However, Estonia has since stated that it will not participate.

Currently, after the withdrawal of the Republic of Estonia as a Member State wishing to participate in the establishment of the enhanced cooperation, ten countries are participating in the negotiations on the proposed directive. At the working party meeting of 7 May 2019, participating Member States indicated that they were discussing the option of an FTT based on the French model of the tax, and the possible mutualisation of the revenues among the participating member states as a contribution to the EU budget.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

### **Administrative co-operation in the field of taxation**

Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014 (the Common Reporting Standard).

Portugal has implemented Directive 2011/16/EU through Decree-Law No. 61/2013, of 10 May 2013, as amended by Decree-Law No. 64/2016, of 11 October 2016, Law No. 98/2017, of 24 August 2017, and Law No. 17/2019, of 14 February 2019.

The Council Directive 2014/107/EU, of 9 December 2014, regarding the mandatory automatic exchange of information in the field of taxation was also transposed into the Portuguese law through the Decree-Law No. 64/2016, of 11 October 2016, as amended, Law No. 98/2017, of 24 August 2017, and Law No. 17/2019, of 14 February 2019. Under such law, the Issuer is required to collect information regarding certain accountholders and report such information to Portuguese Tax Authorities – which, in turn, will report such information to the relevant tax authorities of EU Member States or third States which have signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information for the Common Reporting Standard. Law no. 17/2019, of 14 February

2019 introduced the regime for the automatic exchange of financial information to be carried out by financial institutions to the Portuguese Tax Authority (until 31 July, with reference to the previous year) with respect to accounts held by holders or beneficiaries resident in the Portuguese territory with a balance or value that exceeds EUR 50,000 (assessed at the end of each civil year). This regime covers information related to years 2018 and following years.

Under Council Directive 2014/107/EU, of 9 December 2014, 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 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 Directive. The information refers to the account balance at the end of the calendar year, income paid or credited in the account and 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.

In view of the regime enacted by Decree-Law No. 64/2016, of 11 October 2016, which was amended by Law No. 98/2017, of 24 August 2017, and Law No. 17/2019, of 14 February 2019, all information regarding the registration of the financial institution, the procedures to comply with the reporting obligations arising thereof and the applicable forms were approved by Ministerial Order ("*Portaria*") No. 302-B/2016, of 2 December 2016, as amended by Ministerial Order ("*Portaria*") No. 282/2018, of 19 October 2018, Ministerial Order ("*Portaria*") No. 302-C/2016, of 2 December 2016, Ministerial Order ("*Portaria*") No. 302-D/2016, of 2 December 2016, as amended by Ministerial Order ("*Portaria*") No. 255/2017, of 14 August 2017, and by Ministerial Order ("*Portaria*") No. 58/2018, of 27 February 2018, and Ministerial Order ("*Portaria*") No. 302-E/2016, of 2 December 2016.

## **SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS AND SECONDARY MARKET ARRANGEMENTS**

The Dealers have, in the Programme Agreement dated 26 May 2020, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds.

In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **United States**

The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws or "blue sky laws" of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Covered Bonds are initially being offered and sold only outside the United States in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

The applicable Final Terms (or, in the case of Exempt Covered Bonds, the applicable Pricing Supplement) will identify whether TEFRA C rules apply or whether TEFRA is not applicable. If TEFRA C applies, the Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has agreed (and each further Dealer named in a Final Terms will be required to agree) that it will not offer or sell Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of which such Covered Bonds are part, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act, and it will have sent to each dealer to which it sells Covered Bonds during the Distribution Compliance Period a confirmation or other notice setting out the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have meanings given to them by Regulation S.

Until 40 days after the completion of the distribution of all Covered Bonds of the Tranche of which such Covered Bonds are a part, an offer or sale of the Covered Bonds within the United States by any dealer whether or not participating in the offering of such Tranche may violate the registration requirements of the Securities Act.

### **Japan**

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "FIEA"). Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## Prohibition of sales to EEA and UK Retail Investors

Unless the Final Terms in respect of any Covered Bonds (or Pricing Supplement, in the case of Exempt Covered Bonds) specify "Prohibition of Sales to EEA and UK Retail Investors" or "Prohibition of Sales to EEA Retail Investors" (as the case may be) as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available to and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area or in the United Kingdom (as the case may be). For the purposes of this provision:

- (a) the expression retail investor means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
  - (ii) a customer within the meaning of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016, on insurance distribution (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

If the Final Terms in respect of any Covered Bonds (or Pricing Supplement, in the case of Exempt Covered Bonds) specifies "Prohibition of Sales to EEA and UK Retail Investors" or "Prohibition of Sales to EEA Retail Investors" (as the case may be) as "Not Applicable", in relation to each Member State of the European Economic Area and the United Kingdom (as applicable) (each, a "**Relevant State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant State except that it may make an offer of such Covered Bonds to the public in that Relevant State:

- (a) at any time to any legal entity which is a qualified investor, as defined in the Prospectus Regulation;
- (b) at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Articles 1(4) and 3(2) of the Prospectus Regulation,

provided that no such offer of Covered Bonds referred to in paragraphs (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Covered Bonds**" in relation to any Covered Bonds in any Relevant State means the communication in any form and by any means of

sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129, as amended from time to time.

### **United Kingdom**

Each Dealer has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Covered Bonds in, from or otherwise involving, the United Kingdom.

### **Italy**

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of Regulation (EU) No. 1129 of 14 June 2017 (the "**Prospectus Regulation**") and any applicable provision of Legislative Decree-Law No. 58 of 24 February 1998, as amended (the **Italian Financial Services Act**) and Italian CONSOB Regulations; or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation No. 11973 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under paragraph (i) or (ii) above must be:

- (A) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Services Act, CONSOB Regulation No. 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) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

### **Portugal**

In relation to the Covered Bonds each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Covered Bonds may not be and will not be offered to the public in Portugal under circumstances which are deemed to be a public offer ("*oferta pública*") under the Portuguese Securities Code (*Código dos Valores Mobiliários*)

enacted by Decree-Law No. 486/99, of 13 November 1999, as amended (or under any legislation which may replace or complement it in this respect from time to time), unless the requirements and provisions applicable to the public offerings in Portugal are met and the registration or approval by the Portuguese Securities Market Commission ("*Comissão do Mercado de Valores Mobiliários*" ("**CMVM**")) is obtained or a recognition procedure is made with the CMVM. In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer ("*oferta pública*") of securities pursuant to the Portuguese Securities Code (or under any legislation which may replace or complement it in this respect from time to time), notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; or (ii) it has not distributed, made available or caused to be distributed and will not distribute, make available or cause to be distributed the Base Prospectus or any other offering material relating to the Covered Bonds to the public in Portugal other than in compliance with all applicable provisions of the Portuguese Securities Code (or under any legislation which may replace or complement it in this respect from time to time), any regulations implementing the Prospectus Regulation, and any applicable CMVM regulations and all relevant Portuguese securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Covered Bonds by it in Portugal or to individuals or entities resident in Portugal or having a permanent establishment located in Portuguese territory, as the case may be including the publication of a base prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

## **France**

Each Dealer and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only made and will only make an offer of Covered Bonds to the public in France following the notification of the approval of this Base Prospectus to the *Autorité des marchés financiers* ("**AMF**") by the Central Bank of Ireland and in the period beginning on the date of the publication of the Final Terms relating to the offer of Covered Bonds and ending at the latest on the date which is 12 months after the date of the approval of this Base Prospectus by the Central Bank of Ireland, all in accordance with Articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF; or
- (b) it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2, D.411-1 and D.411-3 of the French *Code monétaire et financier*.

## **General**

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms or Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will, to the best of its knowledge, comply with all relevant securities laws, regulations and directives in each jurisdiction, in particular **Australia, South Africa** and **Canada**, in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms or Pricing Supplement and neither the Issuer nor any other Dealer shall have responsibility therefor.

### **Secondary Market Arrangements**

The Issuer may enter into agreements with Dealers or other persons in relation to a Tranche or Series of Covered Bonds whereby such Dealers may agree to provide liquidity in those Covered Bonds through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements may agree to quote bid and offer prices for the relevant Covered Bonds at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Covered Bonds under the Programme will benefit from such agreements.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 7 May 2007, in accordance with the provisions of the Covered Bonds Law. The updates of the Programme were duly authorised by resolutions of the Board of Directors of the Issuer dated 17 July 2008, 21 July 2009, 19 April 2010 and by resolutions of the Executive Committee of the Issuer dated 19 June 2012, 10 July 2013, 5 August 2014, 20 October 2015, 13 December 2016, 8 May 2019 and 12 May 2020 in accordance with the provisions of the Covered Bonds Law.

### Listing

Application has been made to Euronext Dublin for Covered Bonds issued under the Programme during the period of twelve months from the date of this Base Prospectus to be admitted to the Official List and to trading on the Euronext Dublin Regulated Market.

### Clearing system

The Covered Bonds have been accepted for clearance through Interbolsa. The appropriate ISIN for each Tranche of Covered Bonds allocated by Interbolsa (and the appropriate Common Code for each such Tranche allocated by Euroclear or Clearstream, Luxembourg) will be specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Covered Bonds).

### Yield

In relation to any Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price, using the formula set out below. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

$$P = \frac{C}{r} (1 - (1 + r)^{-n}) + A(1 + r)^{-n}$$

where:

"P" is the Issue Price of the Covered Bonds;

"C" is the annualised amount of interest payable;

"A" is the principal amount of Covered Bonds due on redemption;

"n" is time to maturity in years; and

"r" is the annualised yield.

### Significant or material change

There has been no significant change in the financial performance or trading position of the Group since 31 March 2020. There has been no material adverse change in the prospects of the Issuer since the date of the last audited accounts, 31 December 2019.

## Litigation

1. In 2012, the Portuguese Competition Authority initiated an administrative proceeding relating to competition restrictive practices. During the investigations, on 6 March 2013, several searches were conducted in the Bank's premises, as well as to at least eight other credit institutions, where documentation was seized in order to investigate allegations of exchange of privileged commercial information among Portuguese banks.

The Portuguese Competition Authority has declared the administrative proceeding to stay under judicial secrecy, once it considered that the interests dealt with in the investigation, as well as the parties' rights, would not be compatible with the publicity of the process. On 2 June 2015, the Bank was notified of the Portuguese Competition Authority's notice of illegality in connection with an administrative offence, by which the Bank is accused of participating in an information exchange between banks of the system related to prices already approved and housing and consumer credit operations already granted or approved. In light of the accusations, the Bank filed a response to the note of illegality, to which may follow a judicial appeal. Note that the notification of a note of illegality does not constitute a final decision in relation to the accusations. According to the terms foreseen in the law, the illicit under investigation in this administrative proceeding may be punished with a fine up to a maximum limit of 10% of the defendant's annual consolidated turnover with reference to the year preceding the decision. However, judicial appeal against such decision is possible. In October 2016, the Lisbon Court of Appeals overruled an earlier decision by the Competition, Regulation and Supervision Court to suspend the Competition Authority's investigation.

On 4 July 2017, the Competition Authority notified the Bank on the decision regarding the withdrawal of the suspension concerning the access to documents deemed as confidential and of the extension of the term for the making of a decision on the illicit act for more 40 days. The Portuguese Competition Authority refused the Bank's application for confidential treatment of some of the information in the Bank's defence against the notice of illegal act. In June 2018 the Bank filed an appeal with the Portuguese Competition, Regulation and Supervision Court (which is pending) and filed its defence against the notice of illegal act in a non-confidential version.

On 5 November 2018, the Bank was notified of the ruling of the Portuguese Competition, Regulation and Supervision Court, that gives approval to the appeal presented by BCP, on the subject of secrecy, accepting, in its essence, BCP's argument that the Portuguese Competition Authority, infringed on the right to a prior hearing.

On 25 January 2019, the PCA granted the Bank a 10-business day period to provide summaries for the co-defendants' confidential information. On 4 February 2019, the Bank filed an appeal before the Competition Court and, on 11 February 2019, submitted a reply to the PCA (although restating its opposition to the PCA's request).

On 9 September 2019, the PCA adopted its final decision on this proceeding, fining BCP in EUR 60 million for its alleged participation in a confidential information exchange system with its competitors in the mortgage, consumer and small and medium enterprises credit segments. The Bank considers that this decision contains serious factual and legal errors, having filed an appeal on 21 October 2019 before the Competition Court requesting the annulment of the decision and the suspensive effect of the appeal. The admission of the appeal and the decision on its respective effect are expected.

2. On 20 October 2014, the Bank became aware of a class action brought against Bank Millennium in Poland 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 approximately PLN 132.7 million (approximately 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 approximately 5,400 persons, while the total value of the subject matter of the dispute was indicated as approx. PLN 146 million (approximately EUR 34 million).

On 14 January 2019, the Regional Court in Warsaw issued a decision on the composition of the group. Both parties appealed against this decision. On 27 August 2019, the Court of Appeal in Warsaw issued a final decision on the composition of the group. The proceedings have thus entered the phase of reviewing the case on the merits. The date of the hearing was scheduled for 20 March 2020. Due to the COVID-19 pandemic, the hearing was cancelled. The date of the next hearing is not yet set.

Currently, the number of the group members is 5.350 and the value of the litigation has been estimated to approximately PLN 146 million. The number of loan agreements involved is 3,281.

On 3 December 2015, Bank Millennium received notice of a class action lawsuit lodged by a group of 454 borrowers represented by the Municipal Consumer Ombudsman in Olsztyn pertaining to low down payment insurance used with CHF-indexed mortgage loans. The plaintiffs demand the payment of the amount of PLN 3.5 million (approximately EUR 0.83 million) claiming for some clauses of the agreements pertaining to low down-payment insurance to be declared null and void. The Bank already contested the claim, demanding that the lawsuit be dismissed. The first hearing took place on 13 September 2016, the Court having ruled that the proceedings were admitted. On 16 February 2017, the Court of Appeal denied the appeal brought forward by the Bank and the previous sentence became definitive. On 30 March 2017 the Regional Court in Warsaw dismissed Bank's motion to oblige the plaintiff to provide security for costs of proceedings. On 10 April 2017 Bank filed a complaint to the Court of Appeal in Warsaw against the decision dismissing the motion to provide security. On 13 September 2017, the Court of Appeal in Warsaw dismissed the complaint against the decision of the Regional Court in Warsaw of 30 March 2017 on dismissal of the motion to provide security. The Regional Court in Warsaw announced the initiation of group proceedings in the daily newspaper "Rzeczpospolita", thus setting a period of three months for submitting statements on joining the group by the interested parties. Pursuant to the court's order, the representative of the group filed with the Regional Court in Warsaw an update list of all the members of the group amounting to 709 persons and lodged a further claim for slightly above 5 million PLN altogether.

On 1 October 2018, the group's representative corrected the total amount of claims pursued in the proceedings and submitted a revised list of all group members, covering a total of 697 borrowers and 432 loan agreements. The value of the subject of the dispute, as updated by the claimant, is PLN 7,371,107.94.

On 21 November 2018, the Bank filed objections regarding the membership of individual persons in the group. The court also ordered the Bank to submit its objections as to the revised list of all group members by 28 January 2019.

The next stage of the proceedings is establishing the composition of the group (i.e. determining whether all persons who joined the proceedings may participate in the group).

On 28 January 2019, the Bank submitted second objection regarding the membership in the group of persons included in the revised list. On 27 July 2019, the Bank filed a motion to exclude a judge from the case. On 26 October 2019, the court issued a decision to exclude three judges from hearing the case.

On 1 April 2020, the court issued a decision on establishing the composition of the group and determined that all persons indicated by the plaintiff are allowed to participate in the group. The decision is not final and has not yet been officially delivered to the Bank. Upon an official service of the decision, the Bank will have the right to file an appeal.

3. On 28 December 2015 and 5 April 2016, Bank Millennium was notified of two cases filed by PCZ SA in the amount of PLN 150 million (approximately 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 (approximately EUR 119.4 million) based on the same grounds. The claimants allege in their petitions that Bank Millennium misrepresented certain contractual clauses, which determined the maturity of the credits, causing losses to the claimants. In the case brought by EFWP-B a decision of the first instance of the Warsaw Regional Court is pending. As regards the case brought by PCZ SA, on 7 April 2017 the Wrocław Regional Court (first instance) issued a verdict favourable to Bank Millennium by

rejecting the case. The plaintiff has lodged an appeal. On 21 December 2017, the Appeal Court of second instance in Wrocław has issued a verdict favourable to the Bank dismissing the appeal. This decision is final.

The Bank is requesting complete dismissal of the suit, stating disagreement with the charges raised in the claim. Supporting the position of the Bank, the Bank's attorney submitted a binding copy of final verdict of Appeal Court in Wrocław favourable to the Bank, issued in the same legal state in the action brought by PCZ S.A. against the Bank.

Favourable forecasts for the Bank, as regards dismissal of the suit brought by EFWP-B to the Warsaw Regional Court, have been confirmed by a renowned law firm representing the Bank in this proceeding.

4. On 19 January 2018, the Bank has received the lawsuit petition of First Data Polska SA requesting the payment of PLN 186.8 million (approximately EUR 43.5 million). First Data claims a share in an amount which the Bank has received in connection with the Visa Europe takeover transaction by Visa Inc. The plaintiff based its request on an agreement with the Bank on cooperation in scope of acceptance and settlement of operations conducted with the usage of Visa cards. The Bank does not accept the claim and filed the response to the lawsuit petition within the deadline set forth in the law.

In accordance with the decision issued on 13 June 2019, the Bank won the case before the Court of First Instance. The case is currently pending before the Court of Appeal. According to the current risk estimation of losing the dispute, the Bank has not created a provision in its accounts.

5. On 3 January 2018, Bank Millennium was notified of a decision of the President of the Office of Competition and Consumer Protection (the "UOKiK"), in which the President of UOKiK found infringement by the Bank of the rights of consumers. In the opinion of the President of UOKiK, the essence of the violation was that the Bank informed consumers (connected with 78 agreements), in response to their complaint, that the court verdict stating the abusiveness of the provisions of the loan agreement regarding exchange rates did not apply to them. According to the position of the President of UOKiK, the abusiveness of contract's clauses determined by the court in the course of abstract control is constitutive and effective for every contract from the beginning. As a result of the decision, the Bank had to: 1) send information of the UOKiK decision to the said 78 clients; 2) post the information on the decision and the decision itself on the website and on twitter, which it has already done; and 3) to pay a fine amounting to PLN 20.7 million. 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.

On 7 January 2020, the first instance court dismissed the Bank's appeal in its entirety. The court presented the view that the judgment issued in the course of the control of a contractual template (in the course of an abstract control), recognising the provisions of the template as abusive, determines the abusiveness of similar provisions in previously concluded contracts. Therefore, the information provided to consumers was incorrect and misleading. As regards the penalty imposed by UOKiK, the court pointed out that the policy of imposing penalties by UOKiK had changed in the direction of tightening penalties and that the court agrees with this direction.

In the Bank's assessment, the court should not assess the Bank's behaviour in 2015 from the perspective of today's case-law views on the importance of abstract control (it was not until January 2016 that the Supreme Court's resolution supporting the view of the President of UOKiK was published), nor should it impose penalties for these behaviours using current policy. The above constitutes a significant argument against the validity of the judgment and supports the appeal which the Bank submitted to the Court of Appeal.

6. In October 2015, a set of companies connected to a group which has debts in default towards the Bank in the amount of approximately EUR 170 million, resulting from a financing agreement entered into in 2009 – such debts having been fully provisioned for in the Bank's accounts – brought a judicial proceeding against the Bank, after having received a notification from the Bank enforcing payment of such debts. In the judicial proceedings it is envisaged:
- (a) to deny the obligation of payment of those debts, by arguing the voidness and nullity of the respective agreement, but without the correspondent obligation of returning the amounts received;
  - (b) that the Bank is also convicted to bear the amounts of approximately EUR 90 million and EUR 34 million related to other debts contracted by those entities with other banking institutions, as well as the amounts, in a total sum of approximately EUR 26 million, that the debtors would have already paid in the context of the respective financing agreements; and
  - (c) to declare that the Bank is the owner of the object of the pledges associated with said financing agreements, which corresponds to approximately 340 million shares of the Bank itself, allegedly acquired at the request of, on behalf of and in the interest of the Bank.

The Bank has filed its defence and counterclaim, reinforcing the demand for payment of the debt. The claimants filed their statements of defence regarding the counterclaim filed by the Bank and the Bank replied to those statements in July 2016.

The Court issued a decision establishing the facts that are considered to be proven and those that must still be proven in court. The parties presented their requests for proof and each of the parties appointed its expert. The Court shall now issue a decision regarding the proof requested by the parties and appoint the third expert.

The claimants challenged both experts appointed by BCP and the Court, but the Court maintained the appointed experts, who were notified on 13 March 2020 to proceed with the expert evidence.

The proceedings are waiting for the expert evidence to proceed.

7. In 2013, the Bank filed a lawsuit against a former Chairman of its Board of Directors, his wife and an insurance company, requesting mainly that the following be recognised: (a) that the amount of the retirement instalments of the former Chairman, to be paid by the Bank, cannot exceed the highest fixed remuneration earned by the directors exercising functions in the Bank at any moment; (b) that the former Chairman cannot maintain, at the Bank's expenses, the unique benefits he had when still in active functions; and (c) that the wife of the former Chairman cannot benefit from a survival lifelong pension paid by the Bank in case of death of the former Chairman, under conditions different from the ones foreseen for the majority of the Bank's employees.

On 25 May 2018 the court rejected the request made by the Bank consisting in the reduction of the pensions paid and to be paid and partially accepted a counter-claim, sentencing the Bank to compensate him for certain past and future expenses (that, as incurred as at 16 June 2016, the court computed in the amount of EUR 2,124,923.97), plus default interest accounted at the legal rate of 4% per year since the date of the reimbursement request up to their effective and full payment.

The Bank disagrees with the interpretation adopted by the court and, on 12 July 2018, appealed to the Lisbon Court of Appeals.

The lower stage court had to annul the sentence mentioned above.

After several procedural extraordinary events, on 27 January 2019, the Court issued a new decision, which fully reproduces the previous one issued on 25 May 2018 as detailed above.

On 5 March 2020, the Lisbon Court of Appeals abrogated the court of first instance's decision, upholding the Bank's legal action and declaring the non-existence of the right of the defendant to receive the retirement supplements paid by the insurance company, condemning the defendant to return to the Bank the amounts received monthly in excess of the limits provided for in Article 402 (2) of the Commercial Companies Code, as from the date of retirement. The Court also enacted the partial nullity of the insurance contracts titled by the capitalisation and lifelong pension policy, sentencing the insurance company to return to the Bank the amounts paid by the latter to support the retirement supplements of such former Chairman of the Board of Directors. Finally, the court dismissed the counterclaim, acquitting the Bank of the request. There may be an appeal to the Supreme Court of Justice for this last decision.

8. Litigation initiated by BCP and Millennium bim in relation to their exposure to Mozambique entities and sovereign guarantees:

On 8 April 2020, the Bank filed a Claim in the High Court of Justice Business & Property Courts of England and Wales Commercial Court in which the Bank claims sums due and in default under a facility agreement and a sovereign guarantee in the amount of USD 158,942,748.88, as at 8 April 2020, plus other interest and other costs.

Further to legal action brought by the State with a view to seek, inter alia, a declaration that a State guarantee is not valid, legal or enforceable, on 27 April 2020 Millennium bim issued a Claim in the High Court of Justice Business & Property Courts of England and Wales Commercial Court against the original arranger and lender of a credit facility benefiting from said State guarantee and related persons. Millennium bim was assigned loans under this facility in the amounts of USD 37.2 million and USD 24 million. The total amount outstanding as at 27 April 2020 was US\$79,639,385.33.

Save as disclosed in this section entitled "Litigation" there are no, nor have there been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months before the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of the Issuer or the Group.

### **Accounts**

The current auditors of the Issuer are Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ("**Deloitte**") (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*")), with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon.

The financial statements of the Group for each of the financial years ended 31 December 2018 and 31 December 2019 were prepared in accordance with International Financial Reporting Standards as adopted by the EU and audited by Deloitte.

All financial information in this Base Prospectus relating to the Issuer for the years ended 31 December 2018 and 31 December 2019 has been extracted without material adjustment from the audited consolidated financial statements of the Issuer for the financial years then ended.

## **Documents available for inspection**

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection at <https://ind.milenniumbcp.pt/en/Institucional/investidores/Pages/Inv.aspx>:

- (a) the constitutional documents (including the Articles of Association in English) of the Issuer;
- (b) the audited consolidated financial statements of the Issuer and the auditor's report contained in the Issuer's Annual Report in respect of the financial years ended 31 December 2018 and 31 December 2019 in English;
- (c) the most recently published unaudited interim consolidated financial statements (if any) of the Issuer;
- (d) the Set of Agency Procedures dated 15 May 2019;
- (e) the Common Representative Appointment Agreement dated 15 May 2019;
- (f) this Base Prospectus; and
- (g) any future prospectuses, offering circulars, information memoranda and supplements, including Final Terms and (in the case of Exempt Covered Bonds) Pricing Supplements (save that Pricing Supplements will only be available for inspection by a holder of such Covered Bond and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Covered Bonds and identity), to this Base Prospectus and any other documents incorporated herein or therein by reference.

The documents listed under paragraphs (a) to (c) above are a direct and accurate translation from the original Portuguese versions. In the event of a discrepancy, the Portuguese version will prevail.

## **Post-issuance information**

The Issuer does not intend to provide any post-issuance information in relation to any issues of Covered Bonds.

## **Dealers transacting with the Issuer**

Certain of the Dealers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions. Certain of the Dealers and their respective affiliates may have positions, deal or make markets in the Covered Bonds issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer or its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default

swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purposes of this paragraph, the term "**affiliates**" includes parent companies.

### **Third party information**

Information sourced from Banco de Portugal, Portuguese Banking Association (*Associação Portuguesa de Bancos*), Portugal's National Statistics Institute (*Instituto Nacional de Estatística*), the National Bank of Poland, the Bank of Mozambique, the Bank of Angola and from other sources mentioned in this Base Prospectus has been accurately reproduced and, so far as the Issuer is aware and is able to ascertain from information published by such entities, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Where information from third parties is referenced in this Base Prospectus, the source of the information is identified alongside each statement.

## DEFINITIONS

In this Base Prospectus, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*).

"**Additional Security**" means any other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of a Mortgage Credit.

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as applicable) to the holders of the Covered Bonds as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (b) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or
- (c) if no such customary market usage is recognised or acknowledged, the Independent Adviser or, as the case may be, the Issuer (following consultation with the Independent Adviser (if any)), in each case in its discretion and acting in good faith and in a commercially reasonable manner, determines to be appropriate.

"**Agent**" means Banco Comercial Português, S.A., in its capacity as Agent, with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal.

"**Alternative Reference Rate**" means the rate that the Independent Adviser or, as the case may be, the Issuer determines has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate period and in the same Specified Currency as the Covered Bonds, or, if the Independent Adviser or, as the case may be, the Issuer determines that there is no such rate, such other rate as the Independent Adviser or, as the case may be, the Issuer determines in its discretion is most comparable to the Original Reference Rate.

"**AMF**" means the *Autorité des marchés financiers*.

"**Arranger**" means each of Barclays Bank Ireland PLC, the Co-Arranger and any other entity appointed as an arranger for the Programme and references in this Base Prospectus to the Arranger shall be references to the relevant Arranger.

"**BANIF**" means Banco Internacional do Funchal, S.A.

"**Bank**" means Banco Comercial Português, S.A.

"**Bank Millennium**" means Bank Millennium S.A.

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/2006, Instruction 13/2006 and Regulation 8/2006 and any applicable regulations which may be issued in the future.

"**Banking Act**" means Legislative Decree-Law No. 385, of 1 September 1993, as amended.

"**Banking Law**" means Decree-Law No. 298/92, of 31 December 1992, as amended.

"**Base Prospectus**" means this base prospectus dated 26 May 2020 prepared in connection with the Programme.

"**Basel III**" means the Basel III framework released by the Basel Committee on Banking Supervision relating to banking capital and liquidity minimum requirements.

"**Basel IV**" means the additional material elements of the Basel III framework which were finalised by the Basel Committee on Banking Supervision on 7 December 2017.

"**BCP**" means Banco Comercial Português, S.A.

"**Benchmark Event**" means:

- (a) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or
- (b) a public statement by the administrator of the Original Reference Rate stating that it will, by a specified date on or prior to a specified date within the following six months, cease to publish the Original Reference Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (c) a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate has been or will be, by a specified date within the following six months, permanently or indefinitely discontinued; or
- (d) a public statement by the supervisor of the administrator of the Original Reference Rate stating that the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case by a specified date within the following six months; or
- (e) it has, or will on or prior to a specified date within the following six months, become unlawful for the Issuer or the Agent, as the case may be, to calculate any payments due to be made to the holders of the Covered Bonds using the Original Reference Rate.

"**Benchmarks Regulation**" means Regulation (EU) No. 2016/1011 (as amended from time to time).

"**BES**" Banco Espírito Santo, S.A.

"**BII**" Banco de Investimento Imobiliário, S.A.

"**BMA**" means Banco Millennium Angola, S.A.

"**BPA**" means Banco Privado Atlântico, S.A.

"**BRRD**" means Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, as amended.

"**BRRD II**" means the amendments to the BRRD which entered into force in 27 June 2019

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

"**Capital Requirements Directive**" 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 amended.

"**Central Bank**" means the Central Bank of Ireland.

"**Central de Valores Mobiliários**" means the Portuguese Centralised System of Registration of Securities.

"**CET1**" Common Equity Tier 1 capital.

"**CJEU**" means the Court of Justice of the European Union.

"**Clearing System**" means Interbolsa.

"**Clearstream, Luxembourg**" means Clearstream Banking *société anonyme*, Luxembourg.

"**CMVM**" means the Comissão do Mercado de Valores Mobiliários, the Portuguese Securities Market Commission.

"**Co-Arranger**" means Banco Comercial Português S.A. and, together with the Arranger, the "**Arrangers**".

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

"**Common Representative Appointment Agreement**" means the agreement dated 15 May 2019 entered into between the Issuer and the Common Representative and which sets out the terms and conditions upon and subject to which the Common Representative has agreed to act as Common Representative.

"**Cover Pool**" means the pool of assets maintained by the Issuer and allocated to the issue of Covered Bonds under the Programme, held to the benefit of the holders of Covered Bonds and the Other Preferred Creditors, and including the Mortgage Credits, the Hedging Contracts and the Other Assets, as specified in the Register.

"**Cover Pool Monitor**" means Deloitte & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ("**Deloitte**") (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 20161389, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon.

"**Cover Pool Monitor Agreement**" means the agreement dated 15 May 2019 as amended and restated entered into between the Issuer and the Cover Pool Monitor.

"**Covered Bond**" means any mortgage covered bond issued by the Issuer pursuant to the Covered Bonds Law in the form specified in the applicable Final Terms and "**Covered Bonds**" shall be construed accordingly.

"**Covered Bonds Law**" means the Portuguese legal framework applicable to the issuance of covered bonds, enacted by Decree-Law No. 59/2006, of 20 March 2006, as amended.

"**CRA Regulation**" means Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended.

"**CRD IV/CRR**" means the Directive 2013/36/EU and Regulation EU 575/2013.

"**CRD V**" means the amendments to CRD IV that were approved by the Council in May 2019.

"**CRR II**" means the amendments to the CRR that were approved by the Council in May 2019.

"**CSD**" means a central securities depository.

"**Current Property Value**" means, in relation to a Property securing a Mortgage Credit, the updated Property Valuation of such Property.

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

- (a) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (d) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

- (e) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis set out in Condition 4.2(D)(v);
- (f) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis set out in Condition 4.2(D)(vi); and
- (g) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis set out in Condition 4.2(D)(vii).

"**DBRS**" means any entity that is part of DBRS Group and any successor to the relevant rating agency.

"**Dealers**" means Banco Comercial Português S.A., Banco Santander Totta, S.A., Barclays Bank Ireland PLC, BNP Paribas, BofA Securities Europe SA, Citigroup Global Markets Europe AG, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, HSBC France, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, NatWest Markets N.V., NatWest Markets Plc, Nomura International plc, Société Générale, UBS Europe SE and UniCredit Bank AG.

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

"**Distribution Compliance Period**" means the period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds.

"**DGF**" means the Deposit Guarantee Fund, as introduced by Decree-Law No. 31-A/2012, of 10 February, which amended the Banking Law.

"**DGS**" means the European Union national Deposit Guarantee Schemes.

"**DGS Directive**" means Directive 2014/49/EU.

"**DTAs**" means deferred tax assets.

"**EBA**" means the European Banking Authority.

"**ECB**" means the European Central Bank.

"**EDIS**" means the European Deposits Insurance Scheme.

"**EEA**" means the European Economic Area.

"**EFWP-B**" means the Europejska Fundacja Współpracy Polsko - Belgijskiej / European Foundation for Polish-Belgian Cooperation.

"**ESMA**" means the European Securities and Markets Authority.

"**EU**" means the European Union.

"**Euro**", "€" or "**euro**" means the lawful currency of Member States of the European Union that adopt the single currency introduced in accordance with the Treaty.

"**Eurobank**" means Euro Bank S.A.

"**Euroclear**" means Euroclear Bank S.A./N.V.

"**Euronext Dublin**" means the Irish Stock Exchange plc trading as Euronext Dublin.

"**Eurosystem**" means the central banking system for the Euro.

"**FIEA**" means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended).

"**Final Terms**" means, in relation to each Tranche, the applicable final terms attached to such Covered Bonds.

"**Financial Services Act**" means the Legislative Decree-Law No. 58 of 24 February 1998, as amended.

"**Fitch**" or "**Fitch Ratings**" means any entity that is part of Fitch Group and any successor to the relevant rating agency.

"**FSMA**" means the Financial Services and Markets Act 2000.

"**FRTB**" means the Fundamental Review of the Trading Book.

"**FX**" means foreign exchange.

"**FX-indexed**" means foreign exchange indexed.

"**G-SII**" means global systemically important institution.

"**GBP**", "£" or "**pounds sterling**" means pounds sterling, the lawful currency of the United Kingdom.

"**GDPR**" means the European Union General Data Protection Regulation, approved by the Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27 April of 2016, as amended.

"**Group**" means the Issuer and its subsidiaries.

"**Hedge Counterparties**" means the party or parties that, from time to time, will enter into Hedging Contracts with the Issuer in accordance with the Covered Bonds Law.

"**Hedging Contracts**" means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rate, exchange or liquidity risks in relation to the Cover Pool.

"**HQLA**" means high-quality liquid assets.

"**ICSDs**" means Euroclear and Clearstream, Luxembourg.

"**IDR**" means Issuer Default Rating.

"**IGA**" means an intergovernmental agreement with the United States.

**"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.

**"IMF"** means the International Monetary Fund.

**"Insolvency Event"** means the winding-up and dissolution of the Issuer under any applicable laws and regulations (including under Decree-Law No. 199/2006, of 25 October 2006, Decree-Law No. 298/92, of 31 December 1992 and/or (if applicable) under the Code for the Insolvency and Recovery of Companies introduced by Decree-Law No. 53/2004, of 18 March 2004).

**"Instruction 13/2006"** means the regulatory instruction ("*Instrução*") No. 13/2006 issued by the Bank of Portugal relating to certain information duties applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

**"Interbolsa"** means Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the Central de Valores Mobiliários.

**"Interbolsa Participant"** means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg for the purpose of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

**"Interest Amount"** means, as applicable, the amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination, calculated by the Calculation Agent pursuant to Condition 4 (*Interest*).

**"ISDA"** means the International Swaps and Derivatives Association Inc.

**"Issue Date"** means the date so specified in the applicable Final Terms being, in respect of any Covered Bond, the date of issue and purchase of such Covered Bond pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s).

**"Issuer"** means Banco Comercial Português, S.A.

**"KPIs"** means key performance indicators.

**"LCR"** means liquidity coverage ratio.

**"Loan to Value"** means, in respect of a Mortgage Credit, the ratio of the aggregate Value of such Mortgage Credit to the Current Property Value of the Property securing such Mortgage Credit.

**"Maturity"** means the final legal maturity of any outstanding Covered Bonds, Mortgage Credits, Hedging Contracts or Other Assets, as applicable.

**"MDA"** means minimum distributable amount.

**"Millennium bcp Ageas"** means Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.

**"Millennium bim"** means BIM - Banco Internacional de Moçambique, S.A.

**"MiFID II"** means the Directive 2014/65/UE of the European Parliament and of the Council, of 15 May 2014, as amended.

"**MiFIR**" means the Regulation 600/2014 of the European Parliament and of the Council, of 15 May 2014, as amended.

"**Moody's**" means any entity that is part of Moody's Group and any successor to the relevant Rating Agency.

"**Mortgage**" means, in respect of any Mortgage Credit, the charge by way of voluntary mortgage over the relevant Property the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

"**Mortgage Credit**" means the pecuniary credit receivables secured by a Mortgage and/or any Additional Security which is comprised in the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

- (a) it is a pecuniary receivable not yet matured, which is neither subject to conditions nor encumbered, judicially seized or apprehended and which (a) is secured by first ranking mortgages over residential or commercial real estate located in an EU member state; or
- (b) secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or
- (c) secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing paragraph (a) or (b) above.

"**MREL**" means minimum requirement for own funds and eligible liabilities.

"**Non-Performing Mortgage Credits**" means, with respect to a Mortgage Credit, that such Mortgage Credit:

- (a) is in the course of being foreclosed or otherwise enforced; or
- (b) has one or more payments of principal or interest payable on the related credit in arrears and those payments are referable to a period of 90 days or more.

"**Novo Banco**" means Novo Banco, S.A.

"**NPEs**" means non-performing exposures.

"**NPLs**" means non-performing loans.

"**NSFR**" means net stability funding ratio.

"**O-SII**" means other systemically important institution.

"**Ocidental Vida**" means Ocidental-Companhia Portuguesa de Seguros de Vida, S.A.

"**OCR**" means overall capital requirement.

"**Official List**" means the Official List of the Euronext Dublin.

"**Original Reference Rate**" means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) applicable to the Covered Bonds.

"**OTC**" means over-the-counter.

"**Other Assets**" means all assets other than Mortgage Credits and Hedging Contracts which comply with the eligibility criteria established in the Covered Bonds Law and which are included in the Cover Pool as specified in the Register, including:

- (a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem;
- (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating given at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least "A-" or equivalent; and
- (c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal.

For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

"**Other Preferred Creditors**" means the Common Representative (or any successor thereof) and Hedge Counterparties.

"**Overcollateralisation Percentage**" means 105.26% or such other percentage as may be selected by the Issuer from time to time and notified to the Cover Pool Monitor, provided that: (i) the Overcollateralisation Percentage shall not, for so long as there are Covered Bonds outstanding, be reduced by the Issuer below 105.26%; and (ii) (A) so long as the Covered Bonds are rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14 (Overcollateralisation, Valuation of Cover Pool and Issuer Covenants), unless, always provided that (i) above is satisfied, Moody's has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to the Covered Bonds by Moody's being reduced, removed, suspended or placed on credit watch, and (B) so long as the Covered Bonds are not rated Aa1 or above by Moody's, the Issuer shall not at any time reduce the Overcollateralisation Percentage which applies for the purposes of Condition 14 (Overcollateralisation, Valuation of Cover Pool and Issuer Covenants).

"**P2G**" means Pillar 2 capital guidance.

"**P2R**" means Pillar 2 capital requirements.

"**Paying Agents**" means the paying agents named in the Set of Agency Procedures together with any successor or additional paying agents appointed from time to time in connection with the Covered Bonds under the Set of Agency Procedures.

"**Portuguese Companies Code**" means the commercial companies code approved by Decree-Law No. 262/86, of 2 September 1986 (as amended from time to time).

"**Portuguese Securities Code**" means Decree-Law No. 486/99, of 13 November 1999 (as amended from time to time).

"**PRIIPs Regulation**" means Regulation (EU) No. 1286/2014 (as amended).

**"Principal Amount Outstanding"** means, in respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

**"Programme"** means the Euro 12,500,000,000 covered bonds programme established on 5 June 2007 and updated on 4 August 2008, on 23 July 2009, on 6 May 2010, on 29 June 2012, on 10 July 2013, on 14 August 2014, on 23 October 2015, 20 December 2016, 15 May 2019 and 26 May 2020 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

**"Programme Agreement"** means the agreement dated 26 May 2020 entered into between the Issuer and the Dealers.

**"Programme Documents"** means the Base Prospectus, the Programme Agreement, the Set of Agency Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme.

**"Programme Resolution"** means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*) or directing the Common Representative to take any enforcement action and which shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

**"Property"** means, in relation to any Mortgage Credit, the property upon which the repayment of such Mortgage Credit is secured by the corresponding Mortgage and **"Properties"** means all of them.

**"Property Valuation"** means, in relation to any Property:

- (a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and
- (b) the amount determined by resorting to the use of adequate and recognised indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

**"Prospectus Regulation"** means Regulation (EU) 2017/1129, as amended from time to time.

**"PSD2"** means Payment Services Directive 2.

**"RAS"** means Risk Appetite Statement.

**"Rating"** means the then current rating of rated Covered Bonds given by the relevant Rating Agency and **"Ratings"** means all of such Ratings.

**"Rating Agencies"** means Moody's, Fitch, Standard & Poor's and DBRS as applicable.

**"Register"** means the register of the Cover Pool and associated collateral maintained by the Issuer in accordance with the Covered Bonds Law and the Bank of Portugal Regulations.

**"Regulation 5/2006"** means the regulatory notice ("*Aviso*") No. 5/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the valuation of real estate assets serving as security for mortgage credits comprised in cover pools allocated to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 6/2006**" means the regulatory notice ("*Aviso*") No. 6/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the prudential limits applicable in relation to the issue of mortgage covered bonds in accordance with the Covered Bonds Law.

"**Regulation 8/2006**" means the regulatory notice ("*Aviso*") No. 8/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the insolvency, winding-up or dissolution of a credit institution which has issued covered bonds issued in accordance with the Covered Bonds Law.

"**Regulation S**" means Regulation S under the Securities Act.

"**Relevant Date**" means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the holders of Covered Bonds in accordance with Condition 11 (*Notices*).

"**Relevant State**" means a Member State of the European Economic Area and (until the end of the transition period under the UK-EU Withdrawal Agreement) the United Kingdom.

"**Relevant Nominating Body**" means in respect of a benchmark or screen rate (as applicable):

- (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof.

"**Reserved Matter**" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series; (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 12(C) of the Terms and Conditions.

"**Resolution**" means a resolution adopted at a duly convened meeting of holders of Covered Bonds and approved in accordance with the applicable provisions.

"**Resolution Fund**" means the Portuguese Resolution Fund (*Fundo de Resolução*).

"**Resolution Group**" means 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.

"**RWA**" means risk weighted assets.

"**Securities Act**" means the United States Securities Act of 1933, as amended.

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

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

"**SKOK Piast**" means Spółdzielcza Kasa Oszczędnościowo-Kredytowa Piast.

"**SME**" means small and medium enterprises.

"**SRB**" means the Single Resolution Board.

"**SREP**" means the Supervisory Review and Evaluation Process.

"**SRF**" means the Single Resolution Fund.

"**SRM**" means the Single Resolution Mechanism.

"**SRM Regulation**" means Regulation No. 806/2014/EU of the European Parliament and of the Council, of 15 July 2014.

"**SSM**" means the Single Supervisory Mechanism.

"**Stabilisation Manager**" means the Dealer or Dealers (if any) named as the stabilisation manager(s) for a particular Tranche of Covered Bonds.

"**Standard & Poor's**" means any entity that is part of Standard & Poor's Group and any successor to the relevant rating agency.

"**Statutory Auditor**" means Deloitte & Associados, SROC, S.A., member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 20161389, with registered office at Av. Eng. Duarte Pacheco, 7, 1070-100 Lisbon.

"**Stock Exchange**" means Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms or Pricing Supplement.

"**Substitute Credit Institution**" means the credit institution appointed in case of an Insolvency Event to manage the Cover Pool allocated to the outstanding Covered Bonds and to ensure the payments of the amounts due to the holders of such Covered Bonds.

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

"**Successor Rate**" means the rate that the Independent Adviser or, as the case may be, the Issuer determines is a successor to, or replacement of, the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

"**TARGET2 Day**" means any day on which the TARGET2 System is open.

**"TARGET2 System"** means the Trans-European Automated Real-time Gross Settlement Express Transfer system.

**"Tax"** shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and "Taxes", "taxation", "taxable" and comparable expressions shall be construed accordingly.

**"Tax Authority"** means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function including the Irish Revenue Commissioners and H.M. Revenue and Customs.

**"Tax Deduction"** means any deduction or withholding on account of Tax.

**"Terms and Conditions"** means in relation to the Covered Bonds, the terms and conditions to be endorsed on the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

**"TLOF"** means Total Liabilities and Own Funds.

**"Tranche"** means Covered Bonds which are identical in all respects (including as to listing).

**"TREA"** means Total Risk Exposure Amount.

**"Treaty"** means the treaty establishing the European Communities, as amended by the Treaty on European Union.

**"U.S.\$", "USD" or "U.S. dollars"** means United States dollars, the lawful currency of the United States of America.

**"UK-EU Withdrawal Agreement"** means the ratified EU-UK article 50 withdrawal agreement.

**"UOKiK"** means Office of Competition and Consumer Protection.

**"Value"** means:

- (a) in relation to a Mortgage Credit:
  - (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; or
  - (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register; and
- (b) in relation to any Other Assets:
  - (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register; or
  - (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

"**VR**" means Viability Rating.

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