BANCO COMERCIAL PORTUGUÊS, S.A.

(incorporated with limited liability in Portugal)

Euro 12,500,000,000
COVERED BONDS PROGRAMME

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

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

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

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

This base prospectus (the "**Base Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under the Prospectus Directive. When used in this Base Prospectus, "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and, where the context so requires in this section, shall include any relevant implementing measure in a relevant Member State of the European Economic Area. The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to the Covered Bonds which are to be admitted to trading on the regulated market of the Irish Stock Exchange (the "**Regulated Market**") or other regulated markets for the purposes of Directive 2004/39/EC, as amended.

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

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

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

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

Arranger
Barclays

Co-Arranger
Millennium Investment Banking

Dealers

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

The date of this Base Prospectus is 20 December 2016.

IMPORTANT INFORMATION AND RESPONSIBILITY STATEMENTS

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

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

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

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

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

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

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

As at the date of this Base Prospectus short-term and long-term senior obligations of the Issuer are rated, respectively, "NP" and "B1" by Moody's Investors Service España, S.A. ("**Moody's España**"), "B" and "B+" by Standard & Poor's Credit Market Services Europe Limited Branch en España ("**Standard & Poor's**"), "B" and "BB-" by Fitch Ratings Ltd. (UK) ("**Fitch**") and "R-3" and "BB (high)" by DBRS Ratings Limited ("**DBRS**").

Covered Bonds issued under the Programme are expected on issue to be rated "A3" by Moody's Investors Service Limited ("**Moody's**"), "BBB-" by Fitch and "A (low)" by DBRS. 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.

Each of Moody's, Moody's España, Standard & Poor's, Fitch and DBRS is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**").

As such Moody's, Moody's España, Standard & Poor's, Fitch and DBRS 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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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.

OVERVIEW OF THE COVERED BONDS PROGRAMME

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

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

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

Description:	Covered Bonds Programme.
Programme size:	Up to Euro 12,500,000,000 (or its equivalent in other currencies, all calculated as described under *General Description of the Programme*) aggregate principal amount (or, in the case of Covered Bonds issued at a discount, their aggregate nominal value) of Covered Bonds outstanding at any time. The Issuer will have the option at any time to increase the amount of the Programme, subject to compliance with the relevant provisions of the Programme Agreement.
Issuer:	Banco Comercial Português, S.A.
Arranger:	Barclays Bank PLC.
Co-Arranger:	Banco Comercial Português, S.A.
Dealers:	Banco Comercial Português, S.A., Banco Santander Totta, S.A., Barclays Bank PLC, BNP Paribas, 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 Bank plc, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, Nomura International plc, Société Générale, The Royal Bank of Scotland plc (trading as NatWest Markets), UBS Limited and UniCredit Bank AG and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement.
Common Representative:	Deutsche Trustee Company Limited in its capacity as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law in accordance with the Terms and Conditions and the terms of the Common

	Representative Appointment Agreement, having its registered office at Winchester House, 1 Great Winchester Street, London EC2N 2DB.
Agent:	Banco Comercial Português, S.A., in its capacity as Agent, with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal.
Paying Agent:	Banco Comercial Português, S.A., in its capacity as Paying Agent, with head office at Praça Dom João I, 28, 4000-295 Oporto, Portugal, and any other Paying Agent appointed from time to time by the Issuer in accordance with the Programme Documents.
Cover Pool Monitor:	KPMG & Associados, SROC, SA, 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 20161489, with registered office at Edifício Monumental, Av. Praia da Vitória 71 - A, 110, 1069-006 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:	Covered Bonds issued under the Programme are expected on issue to be rated "A3" by Moody's, "BBB-" by Fitch and "A (low)" by DBRS. Each of Moody's, Fitch and DBRS is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended, (the "**CRA Regulation**"). 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 the Irish Stock Exchange for Covered Bonds issued under the Programme to be admitted to its Official List and trading on the 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 2004/39/EC, as amended, or on any other market which is not a regulated market. The relevant Final Terms will state on which stock exchange(s) and/or market(s) the relevant Covered Bonds are to be listed and/or admitted to trading (if any).
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA (including Italy, Portugal and the United Kingdom) and Japan as set out in S*ubscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.
United States Selling Restriction:	The Covered Bonds have not been and will not be registered under the Securities Act 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. Accordingly, the Covered Bonds are being offered and sold only outside the United States in reliance upon Regulation S under the Securities Act. There are also restrictions under United States federal tax laws on the offer or sale of Bearer Covered Bonds to U.S. persons; Bearer Covered Bonds may not be sold to U.S. persons except in accordance with United States Treasury regulations as set forth in the applicable Final Terms. See *Subscription and Sale and Transfer Restrictions and Secondary Market Arrangements*.

Use of Proceeds:	Proceeds from the issue of Covered Bonds will be used by the Issuer for its general corporate purposes.
Status of the Covered Bonds:	The Covered Bonds will constitute direct, unconditional and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves. The Covered Bonds will be mortgage covered bonds issued by the Issuer in accordance with the Covered Bonds Law and, accordingly, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law, and will rank *pari passu* with all other obligations of the Issuer under mortgage covered bonds issued or to be issued by the Issuer pursuant to the Covered Bonds Law. See *Characteristics of the Cover Pool*.
Terms and Conditions of the Covered Bonds:	Final Terms will be prepared in respect of each Tranche of Covered Bonds, completing the Terms and Conditions of the Covered Bonds set out in *Terms and Conditions of the Covered Bonds*. A Pricing Supplement will be prepared in respect of each Tranche of Exempt Covered Bonds and may replace, modify or supplement the Terms and Conditions of the Covered Bonds.
Clearing Systems:	Interbolsa, and/or Euroclear, and/or Clearstream, Luxembourg, (together the "**Clearing Systems**" and, each, a "**Clearing System**") and/or, in relation to any Series of Covered Bonds, any other clearing system as specified in the relevant Final Terms. See *Form of the Covered Bonds and Clearing Systems*.
Form of the Covered Bonds:	The Covered Bonds held through Interbolsa will be in book-entry form (*forma escritural*) and can be either *nominativas* (in which case 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) or *ao portador* (in which case Interbolsa cannot inform the Issuer of the identity of the holders of Covered Bonds), 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 Covered Bonds held through Interbolsa. The Covered Bonds held through Euroclear and/or Clearstream, Luxembourg will be issued in the form of either a Temporary Bearer Global Covered Bond or a Permanent Global Covered Bond and may be issued in bearer or registered form, as indicated in the applicable Final Terms. Bearer Covered Bonds held through Euroclear and/or Clearstream, Luxembourg may be issued in new global note form ("**NGN**"). Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds or Book Entry Covered Bonds and vice versa. See *Form of the Covered Bonds and Clearing Systems*.
Transfer of Covered Bonds:	The Covered Bonds may be transferred in accordance with the

provisions of the relevant Clearing System or other central securities depositary with which the relevant Covered Bond has been deposited. The transferability of the Covered Bonds is not restricted.

Maturities:	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body), the Covered Bonds Law or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than two years or in excess of 50 years. See also *Extended Maturity Date*.
Issue Price:	The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.
Events of Default:	Issuer Insolvency. See *Terms and Conditions of the Covered Bonds*.
Negative Pledge:	None.
Cross Default:	None.
Guarantor:	None.
Fixed Rate Covered Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
Floating Rate Covered Bonds:	Floating Rate Covered Bonds will bear interest determined separately for each Series as follows: • on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. ("**ISDA**") and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or • on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Covered Bonds. Interest periods will be specified in the applicable Final Terms.

Zero Coupon Covered Bonds: Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.

Exempt Covered Bonds: The Issuer may agree with any Dealer that Exempt Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds, in which event the relevant provisions will be included in the applicable Pricing Supplement, which will replace, modify or supplement those Terms and Conditions.

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

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

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

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

Interest Payment Date in arrear or as otherwise provided for in the applicable Final Terms on each Interest Payment Date after the Maturity Date at the rate provided for in the applicable Final Terms.

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

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

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

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

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

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

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

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

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

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

RISK FACTORS

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

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

RISKS RELATING TO THE ISSUER

RISKS RELATING TO THE PORTUGUESE ECONOMY

The Bank is highly sensitive to the evolution of the Portuguese economy, whose signs of recovery are still not enough to ensure a sustainable growth trend.

The evolution of the Portuguese economy has a considerable impact on the Bank's business, its financial situation and net income. A substantial portion of the Bank's assets and operating profit is derived from Portugal, which accounted for 63% of the Bank's net operating revenue and 77% of total gross loans to customers in the end of the first nine months of 2016, compared to 62% and 75%, respectively, as at 31 December 2015. In addition, as at 30 September 2016, the Bank's holdings of EUR 4.4 billion (EUR 3.9 billion as at 31 December 2015) in Portuguese government bonds represented 6% (5.2% as at 31 December 2015) of its total assets. As such, developments in the Portuguese economy have had and will continue to have a material impact on the quality of the Bank's assets, its business, financial condition, results of operations and prospects.

The financial and economic difficulties that have affected the world economy since mid-2007 impacted the growth model that had supported the Portuguese economy since its adoption of the single currency which led Portuguese authorities to negotiate a financial assistance programme of EUR 78 billion (the "**PAEF**"), with the International Monetary Fund ("**IMF**"), the European Commission ("**EC**") and the European Central Bank ("**ECB**"), which was formally approved on 17 May 2011, in a bid to stabilise its public finances, initiate a set of structural reforms that would promote competitiveness and stabilise the banking system.

In the short term, the structural reforms and readaptation of the productive structure had a negative impact on the economic activity between 2011 and 2013, which contracted by 7%, in accumulated terms (source: Portugal's National Statistics Institute, August 2016).

As the structural reforms and the fiscal consolidation started to bear results, the economic situation improved. In this sense, since the last quarter of 2013, the year-on year GDP growth rates have turned positive, beginning a period of moderate recovery of the economic activity, which has been supported by growth of exports, alongside an improving trend in domestic demand. In line with the economy's recovery, the unemployment rate declined to 10.8% in the second quarter of 2016 (source: Portugal's National Statistics Institute, August 2016). The consolidated value of the gross debt of the public administration in 2015 stabilised at 129% of GDP in 2015 (source: Portugal's National Statistics

Institute, August 2016) and the public deficit, which was 11.2% of GDP in 2010, decreased to 4.4% in 2015 (source: Portugal's National Statistics Institute, September 2016). Although it is slightly above the Excessive Deficit Procedure (the "**EDP**") target, it represents an important effort of budgetary consolidation. This result was largely due to an increase in revenues, amid the growth in economic activity, efforts to reduce tax evasion and measures to control expenditure. The restructuring of balance sheets in both the public and private sectors, and growth in exports helped to reduce the external imbalance, leading to significant improvements in current and capital account balances which have been recording consecutive surpluses since 2012 (source: Banco de Portugal, August 2016).

In spite of recent improvements, the economic context remains challenging for Portugal. A significant degree of uncertainty persists regarding the ability of Portuguese issuers to obtain funding from abroad. External risks relate, in particular, to the possibility of a global economic slowdown in a context of greater volatility in international financial markets and to political uncertainty associated with the fears regarding the integrity of the European Union ("**EU**") amid the negotiations for the United Kingdom's exit from the EU (See *The United Kingdom's impending departure from the EU could adversely affect the Bank's activity*.)

These aspects, combined with internal risks related to the process of reducing private and public sector debt and the potential need to implement further structural reforms in the labour and products and services markets, the pressure of a high tax burden on the real disposable income of families and companies, and the possibility of political turbulence associated with the governmental solution reached after the October 2015 parliamentary elections in Portugal, which did not give a parliamentary absolute majority to any of the parties, represent a challenging economic and political environment. Despite the prospect that the GDP growth of 1.5% recorded in 2015 will be followed by an annual growth pace of 1.5% in 2016 and 1.7% in 2017 (Source: EC, Spring 2016), this growth is unlikely to increase disposable income and domestic demand in a material way or drastically reduce the still elevated levels of unemployment. In addition, the possibility of economic performance below expectations cannot be excluded in view of the deceleration of GDP growth during the second half of 2015 and the six months ended 30 June 2016, on the back of a negative contribution of net external demand to GDP growth, due to an increase in imports and investment retraction. If these risks to economic growth were to materialise, demand for credit would predictably fall, the cost of funding could rise and the credit quality of the loans portfolio and other segments of the asset side of the Bank's balance sheet would deteriorate. (See *The completion of the PAEF and the successful return of the Portuguese Republic to the capital markets do not eliminate the risk of further deterioration of Portugal's economic and financial condition.*)

The still uncertain macroeconomic conditions in Portugal are affecting, and will continue to affect, the behaviour and financial position of the Bank's customers and, therefore, the supply and demand of the products and services offered by the Bank. In particular, it is still expected that the growth of loans will remain sluggish for the forthcoming years, hindering the creation of revenue supporting net interest income. Unemployment, low levels of business profitability and increased insolvency of companies and/or households had and may continue to negatively influence customers' capacity to repay loans. Consequently, non-performing loans ("**NPLs**") may increase which would negatively impact the quality of the Bank's assets. Finally, taking into account Caixa Geral de Depósitos' recapitalisation, among other things, Portugal is still at risk of failing to comply with the deficit target, which could lead to repercussions from the EU level, including fines. This scenario could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Portuguese economy is undergoing a complex process of structural change with uncertain impact on potential economic growth and banking activity.

The evolution of the Portuguese economy since the creation of the single currency in 1999 was characterised by weak growth levels in an environment of strong debt accumulation, public and private, internal and external, and of loss of competitiveness. Consequently, the Portuguese economy was placed in a vulnerable position upon the occurrence of the international financial crisis in 2007-2008 and the sovereign debt crisis in the Eurozone periphery in 2010. Faced with an unsustainable economic model that had been followed in the previous decade, the Portuguese economy was forced to adjust in a profound and structural manner. Some of the resulting changes arose from the need for improved competitiveness, which found an alternative to declining domestic demand in foreign demand, while other changes were expressly agreed in the context of the PAEF.

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

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

In light of constraints on domestic demand, economic activity in the main countries receiving Portuguese exports is extremely important to the Portuguese economy. In this context, the possible deterioration of economic activity in the main trading partners of Portugal (as at August 2016 and according to Statistics Portugal, in decreasing order: Spain, France, Germany, United Kingdom, United States, Netherlands, Italy, Angola, Belgium and Norway) could increase the risk of recession in the EU, which would exacerbate the economic and financial difficulties experienced in Portugal and affect the achievement of budgetary and structural targets required by the European authorities under the reinforced rules on macroeconomic stability, including the Fiscal Compact or Fiscal Stability Treaty and legislative measures implemented under the Stability and Growth Pact. Such deterioration may be derived from, among other factors, excessive levels of European debt, lower effectiveness of the transmission of monetary policy in a context of interest rates close to zero and deflation risks and the persistence of a climate of uncertainty and speculation inhibiting the creation of value that would have otherwise resulted from a full exercise of economic integration. Regarding markets outside the EU – particularly to countries in Africa and Latin America – the risks may be derived, among other adverse factors, from the intensification of competition, the emergence of protectionist policies and/or the maintenance of prices of the commodities on which those economies are heavily reliant at historically depressed levels, namely the oil-exporting countries, whose economic activity is expected to continue to be undermined by the declining trend of oil prices occurring since September 2014.

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

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

The completion of the PAEF and the successful return of the Portuguese Republic to the capital markets do not eliminate the risk of further deterioration of Portugal's economic and financial condition.

The successful completion of the PAEF (source: IMF statement, 2 May 2014) and the return of the Portuguese Republic to the capital markets to raise funds do not preclude the need for additional austerity measures or structural adjustment actions to comply with the European treaties and directives, which may cause sudden and unexpected political or social instability and impart short term recessionary effects. In such circumstances, banking activity may face an adverse economic and financial climate, negative macroeconomic effects stemming from Portuguese or European public finances and the volatility of international financial markets which would hinder the liquidity and profitability of the Portuguese financial system and result, for instance, in the devaluation of the Bank's holdings of Portuguese sovereign debt securities; liquidity restrictions on the Portuguese banking system and its concomitant dependence on external institutional funding; an increase in competition for customers' deposits and associated rise in cost; falling demand for banking products; limited lending; and the deterioration of the quality of the Bank's loan portfolio. Any of the foregoing could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank still relies on funding from the ECB in significant amounts.

The ECB has been a major funding source used by the majority of Portuguese banks during the financial crisis and the European sovereign debt crisis. As at 30 September 2016, the Bank had EUR 4.9 billion net of borrowings with the ECB (EUR 5.3 billion as at 31 December 2015), EUR 4 billion of which related to the new series of targeted longer term refinancing operations ("**TLTRO II**"), corresponding to 7.1% of the Bank's liabilities (7.9% as at 31 December 2015, excluding Angola) and 21% of the total usage of the Portuguese banking system in that month (20.3% as at 31 December 2015), a level that stands clearly below the maximum value of EUR 17.4 billion recorded in April 2011 and that emphasises the gradual reduction of the Bank's dependency on the liquidity provided by the ECB.

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

The objective of the Bank is to reduce the use of funding from the ECB by reducing the commercial gap[1] and issuing debt in the international wholesale funding markets. In order to achieve it, the Bank is implementing various measures to diversify its funding sources besides ECB funding, which could present a risk of increased cost of deposits (as at 30 September 2016, customer deposits accounted for 78% of the funding structure, from a liquidity management perspective).

The uncertainty surrounding access to capital markets as a source of funding for the Bank may also harm the ongoing diversification process of its banking sources, leading the Bank to excessive use of funding from the ECB. Increased market risk perception associated with accessing the markets and/or the persistency of the uncertainty surrounding access to the capital markets would exert pressure on the Bank to seek alternative funding sources, to accelerate its capital and liquidity plan and to increase

[1] Commercial gap – total loans to customers net of balance sheet impairments accumulated minus on-balance sheet customer funds.

its pool of collateral eligible for funding by the ECB, although there can be no assurances that it would be successful in its efforts to do so. If regulators require a quicker reduction of exposure to the ECB or if there are restrictions to access ECB funding, the Bank may be forced to anticipate the compliance time frame of its capital and liquidity plan, which would likely reduce profitability and hinder the deleveraging process. In addition, in the current economic climate, a review of liquidity conditions by the ECB could force the Bank to dispose of assets at a potentially significant discount in relation to their respective book values, with a corresponding negative impact on capital position and results of operations. Any of the aforementioned could result in a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to the risk of deterioration of the Portuguese sovereign risk premium.

Despite a significant narrowing of the spread between the yields of Portuguese and German sovereign bonds of equivalent maturities since the peaks of 30 January 2012 (1441 basis points) (source: Thomson Reuters), there is no guarantee that this trend will continue as some signs have emerged during 2016 that it might have already changed (in the first ten months of 2016, the difference between yields of 10-year sovereign debt of Portugal and Germany was 298 basis points, which compares to 190 basis points as at 31 December 2015) (source: Thomson Reuters). In fact, there is a risk of deterioration of the Portuguese sovereign risk premium due to a number of factors:

– the high level of indebtedness of the Portuguese Republic raises sustainability issues if the long term growth potential of the economy remains low;

– the possibility that the Portuguese economy grows below the State's budget forecasts implies that the government's budgetary targets may not be met, in which case the EC may impose sanctions that adversely affect the economic and financial situation of the country;

– the uncertainty regarding the impact of both the recapitalisation programme of Caixa Geral de Depósitos and the selling conditions of Novo Banco on the budgetary balance measure relevant for the EDP;

– the possibility of further capital injections by the Portuguese government into the banking sector and the impact thereof on the public deficit and sovereign debt levels; and

– the eventual reduction or discontinuation of the ECB's sovereign debt securities purchase programme (see *The Bank is exposed to risks associated with the implementation of ECB's Quantitative Easing*.)

Should the foregoing occur, the resulting substantial worsening of sovereign debt risk could negatively impact the Bank's liquidity position, both through funding difficulties and the reduction of the pool of assets eligible for discount with the ECB, in addition to funding costs and the Bank's capacity to increase its loan and other asset portfolio with a negative impact on the financial condition, credit quality and operating results of the Group. These circumstances could be further aggravated by persistent volatility in the financial sector and capital markets or by financial difficulties, including the possible default of one or more financial institutions, which could lead to significant liquidity problems in the market in general, and to losses and defaults by other institutions. Furthermore, it is not possible to predict from current market conditions which structural and/or regulatory changes may be effected or if such changes could have a negative impact on the Bank. If current market conditions deteriorate, in particular for an extended period of time, this could lead to a reduction in credit availability, credit quality and increased default on debt, which could have a negative impact on the Bank's rating, business, financial condition, results of operations and prospects. On 21 October 2016, DBRS reviewed the Portuguese Republic's rating and maintained its long-term rating at BBB (low), affirming the stable outlook. Based on this decision, Portugal maintains its investment grade rating.

Changes to the Portuguese government's economic policies may negatively impact the Bank's activities.

The parliamentary elections in Portugal held at the beginning of October 2015 did not return a parliamentary majority of any of the parties and led to a government with parliamentary support from several political parties. This could prevent the implementation of economic policies aimed at ensuring the sustainability of public debt and the necessary fiscal adjustment to comply with the European treaties. Furthermore, even if such policies are implemented, their goals might not be achieved. In turn, this could affect the long-term growth potential of the Portuguese economy, thereby reducing the prospective profitability of the Bank's business. This could have a material adverse effect on the Bank's business, financial condition, results of operation and prospects.

The Bank is exposed to risks associated with deflation.

The resolution of recent economic turbulence remains uncertain and subject to changes in investor sensitivity and the current economic regime, and remains in need of an improvement in price competitiveness.

Such an environment is prone to deflationary pressures. In extreme cases, an unanticipated market shock that impacts on confidence levels may lead to a downward spiral of economic activity, employment rates, companies income levels and prices, with adverse repercussions on the Bank's business, financial conditions, result of operations, business prospects and profitability.

In the Eurozone, the annual inflation rate in July 2016 was estimated at 0.2% (source: Eurostat, August 2016), well below the ECB's target of close to, but below, 2%. According to the ECB analysis, the inflation rate is expected to remain at low levels for a prolonged period of time. Consequently, the ECB decided to implement new stimulus measures to fight the risk of deflation and contribute to the price stability goal. In Portugal, the inflation rate in 2015 (measured by the annual average growth rate of the harmonised index of consumer prices) was slightly positive (0.5%) and has stood at similar levels ever since (source: Portugal's National Statistics Institute, August 2016).

A context of a general reduction in prices affects expenditure, consumption and investment decisions, while increasing the real cost of debt and the risk of insolvency of companies, in particular when debt average levels are very high, as is the case in Portugal. A typical response of central banks to deflation is to aggressively reduce interest rates, in certain instances to negative figures, thus placing a downward pressure on the interest rate levels applied in the market. In this regard, the ECB announced on 10 March 2016, a set of measures aimed at strengthening economic activity and reducing the risk of deflation. These include an expansion of and an increase in the amount of the pool of eligible assets of the asset purchase programme, announced on 1 March 2015; a new series of four-year TLTROs, first announced in June 2014, aiming to support lending to the non-financial private sector; the decision to decrease the interest rate on the main refinancing operations of the Eurosystem from 0.05% to 0%, the marginal lending facility from 0.3% to 0.25% and the deposit facility interest rate from -0.3% to -0.4%.

A deflationary environment may affect the financial condition of the Bank, in particular: (i) by reducing business volumes due to a decrease in expenditures commensurate with the expected contraction of economic activity; (ii) by compressing the net interest margin, as imbalances may arise between the indexing of income yields to market reference rates, which remain at very low or negative levels, and the income paid on fixed interest-bearing liabilities, representing a real burden on debt; (iii) by reducing the relative income benefit on demand deposits; (iv) by lowering asset quality, as the credit at risk increases or the assets on the balance sheet or collateral have been devalued; and/or (v) through expectations of market participants and economic agents, making it more difficult or costly for regular financing in wholesale markets and establishing a climate of uncertainty and volatility in financial markets, in trading results and on counterparty risks.

A deflationary environment in general could adversely affect the Bank's business, financial condition, results of operations and prospects.

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

In order to restore financial stability and fulfil its inflation mandate, in January 2015 the ECB decided to implement a programme of quantitative easing. Under this programme, the ECB purchases debt securities issued by both private and public entities. This measure, which has never been adopted before in the Economic and Monetary Unit (the "**EMU**"), has been crucial to maintaining the yields of Portuguese government bonds at relatively low levels (the average yields of 10-year Portuguese sovereign debt were 2.36% for the year ended 31 December 2015, which compares to 3.76% for the year ended 31 December 2014 (source: Thomson Reuters).

Therefore, the tapering of the ECB's debt purchase program or its outright discontinuation could have a substantial downward impact on the valuation of the Portuguese government's debt, which would in turn hurt banks directly through the investment book and indirectly by affecting the price and availability of the banks' funding in the market. The tapering or discontinuation of the ECB's debt purchase program could be the result of technical reasons, related to the need to preserve normal competitive conditions in the debt markets, political restrictions, or improvements in the prospects of the European economy. If the ECB continues tapering or even discontinues its public debt purchase program, it may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

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

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

Given the current magnitude of Portuguese government debt (131.7% of GDP in the six months ended 30 June 2016, according to Banco de Portugal), these measures will likely impose a long-term limit on the ability of the Portuguese government to stimulate economic growth through increased expenditure or a reduction of the tax burden.

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

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

Rating agencies Standard & Poor's, Moody's, Fitch and DBRS have downgraded the long and short-term ratings of the Portuguese Republic on several occasions since the beginning of the financial crisis due to the uncertainties and risks of a prolonged recession, the outlook for modest GDP growth, high levels of unemployment, limited fiscal flexibility, the high leverage of the private sector and the level of sustainability of Portuguese public debt. The long term ratings of the Portuguese Republic as at 30 September 2016 were as follows: Moody's (Ba1), Standard & Poor's (BB+), Fitch (BB+) and DBRS (BBB Low), all with a stable outlook.

The rating by DBRS is the only rating classifying Portugal as investment grade, thus allowing Portuguese banks to post Portuguese treasury bonds as collateral at the ECB. Consequently, a downgrade by DBRS could lead to the Portuguese banking system's loss of access to ECB funding, which could materially adversely affect the Bank's business, results of operations, financial condition and prospects. A change of the outlook to negative by DBRS, although not leading to the loss of eligibility of the treasury bonds, may reduce the potential for financing with the ECB. If DBRS downgrades the rating of the Portuguese Republic by one notch, the Bank's portfolio of assets eligible for refinancing with the ECB of the Bank will decrease by around EUR 2 billion, while representing approximately EUR 6 billion in available assets (compared to EUR 8.2 billion as at 30 September 2016). On 21 October 2016, DBRS reviewed the Portuguese Republic's rating and maintained its long-term rating at BBB (low), affirming the stable outlook. Based on this decision, Portugal maintains its investment grade rating.

Moreover, the rating of the Portuguese banking sector may be negatively affected by the implementation of certain legislative measures, including those that may have potentially adverse effects in the investors' level of protection, such certain measures foreseen by the BRRD.

On the other hand, the risk of political turmoil, resulting from the minority position of the governing party in the elections held in October 2015, together with the concerns about the reversion of the structural reforms established under the PAEF and the materialisation of a scenario of slowdown in the recovery of the Portuguese economy (see *The completion of the PAEF and the successful return of the Portuguese Republic to the capital markets do not eliminate the risk of further deterioration of Portugal's economic and financial condition* and *The Bank is highly sensitive to the evolution of the Portuguese economy, whose signs of recovery are still not enough to ensure a sustainable growth trend* and *The Bank is exposed to the risk of deterioration of the Portuguese sovereign risk premium*) could also lead to a downgrade of the Portuguese Republic's debt rating, which would worsen the economy's funding conditions and would have a negative effect on the Bank's credit risk and consequently on its business, financial condition, results of operations and prospects.

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

The possibility of another sovereign default, the continuing high levels of public and private debt in several Member States and the uncertainty regarding the robustness of the European financial sector could lead to market turbulence and instability, which could negatively impact the Bank's activity. Additional risks to the stability of the EU could arise from the negotiations in connection with the United Kingdom's exit from the EU following the 23 June 2016 referendum (see *The United Kingdom's impending departure from the EU could adversely affect the Bank's activity*). The growing popularity of anti-European and Eurosceptic political parties in several Member States is creating uncertainty, in particular given the fact that both France and Germany will hold general elections in 2017. In this regard, should any of these elections result in a parliamentary constellation detrimental to the stability of the EU or the EMU, it could lead to negative consequences for the Portuguese economy. If any or all these risks were to materialise, it could result in severe pressure on the conditions and financing costs of Portuguese banks, particularly regarding deposits and asset depreciation, with a significant impact on the net interest margin and results of the Bank, credit impairments and mark-to-market valuation of financial assets.

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

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

On 23 June 2016, the United Kingdom held a referendum on the country's membership of the EU, according to which the United Kingdom voters elected to leave the EU ("**Brexit**"). The referendum does not directly bind the British government to specific actions and does not require that it begins the exit procedure under Article 50 of the Treaty on EU or set any time limit for this to be done, although the negotiation process for the exit is expected to be initiated in 2017. However, the full impact of Brexit is currently unknown and would vary depending on the terms of the United Kingdom's withdrawal (if the membership is not renegotiated), which would have to be negotiated with the EU, and on the prevailing economic climate.

The consequences of Brexit are uncertain with respect to the EU integration process, the relationship between the United Kingdom and the EU, and the impact on economies and European businesses. Should international trade between the United Kingdom and the Member States become significantly restricted in the future, the Portuguese economy could be adversely affected, given the importance of the United Kingdom as a market for the export of goods, with a 6.7% share in 2015 (source: Ministry of Economy, October 2016) and as a source of tourism, with 24.3% of Portuguese tourists arriving from the United Kingdom in 2015 (source: Portugal Statistics, July 2016).

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

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

Investment returns are an important part of the Bank's overall profitability, particularly in relation to the life insurance business carried out by the Millenniumbcp Ageas joint venture and the Bank's investment banking business. Uncertainty in global financial markets stemming from the price volatility of capital market instruments may materially and adversely affect the Bank's life insurance business and investment banking operations, impacting its financial operations and other income, and the value of its financial holdings and securities portfolios.

In particular, a decline in the global capital markets could have an adverse effect on the sales of many of the Group's products and services, such as unit-linked products, capitalisation insurance, real estate investment funds, asset management services, brokerage, primary market issuances and investment banking operations, and significantly reduce the fees related to them, as well as adversely affect the Bank's business, financial condition, results of operations and prospects. As a minority shareholder of Millenniumbcp 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 Millenniumbcp 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 4.4 billion as at 30 September 2016, of which EUR 4.2 billion is on the available for sale book, EUR 38 million is in the trading portfolio and EUR 146 million is in the portfolio of other financial assets using the fair value option), creating a risk of substantial losses. In particular, the gains pertaining to the portfolio of Portuguese public debt held until maturity were EUR 296.7 million in 2014 and EUR 396.3 million in 2015, with potential losses in the Portuguese public debt available for sale assets portfolio in September 2016 standing at around EUR 305.7 million. However, the reversal of the downward trend in Portuguese government bond yields that led to the positive results observed in 2014 and 2015 may not be repeated in the future and there is a risk that losses may arise. Volatility can also lead to losses relating to a broad range of the other trading and hedging products that the Bank uses, including swaps, futures, options and structured products. Significant reductions in estimated or actual values of the Bank's assets have occurred from previous events in the market. Continued volatility and further fragmentation of certain financial markets may affect the Bank's business, financial condition, operating results and prospects. In the future, these factors may have an influence on day-to-day valuations of the Bank's financial assets and liabilities, recorded at fair value.

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

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

LEGAL AND REGULATORY RISKS

The Bank is subject to increasingly 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 in Portugal and in other countries where the Bank operates. As a result of the economic and financial crisis which began in 2007, Portuguese and international regulatory entities, including the ECB, Banco de Portugal and the European Banking Authority (the "**EBA**"), have considered and continue to consider significant changes to the Bank's regulatory framework, particularly in relation to capital adequacy and the scope of the Bank's operations. Consequently, the Bank could face more intense regulation that could adversely and significantly impact the results of its operations.

The credit 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 credit risks models, with a view to their better calibration in light of possible context changes, requested by the supervisory authorities or as a result of a Bank's initiative, may imply an upward revision of the amount of risk weighted assets and, having in that case a negative impact on the capitalisation level of the Bank.

Currently, the Bank is introducing changes to the set of models used in the scope of the IRB approach for capital requirements calculation. These changes reflect either findings from inspections performed by the Single Supervisory Mechanism (the "**SSM**"), namely in what concerns the Loss Given Default ("**LGD**") models (for performing and defaulted exposures) for the retail and corporate asset classes, or the development of the agreed IRB rollout plan for asset classes that are currently covered by the standardised approach. When approved these model changes may increase capital requirements and affect the review of market risk calculation.

In this respect, the Bank has recently received improvement recommendations from ECB for its internal capital requirements models for the corporate asset class (to be implemented still in 2016) and for its internal capital requirements models for defaulted exposures in the retail segment (to be implement until the end of the first half of 2017). At this moment, it is still difficult to anticipate the implications of the recommendations received, which may imply a reduction in capital ratios.

Regarding the capital requirements, the implementation of and compliance with new regulations may increase the regulatory capital requirements and costs of the Bank, and could result in increased disclosure requirements, restrictions on certain types of transactions, limitations to the Bank's strategy, and/or limitations to or modification of the rates or fees charged by the Bank for certain loans and products. Any of the above may reduce 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.

In this context, the rules related to the implementation of Basel III and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 ("**CRD IV**"), and Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 ("**CRR**" and together with CRD IV, "**CRD IV/CRR**") stand out.

Basel III and CRD IV/CRR

In 2010 the Basel Committee on Banking Supervision ("**BCBS**") announced a new agreement on banking supervision known as "Basel III", which has amended most of the minimum requirements relating to capital and liquidity. This agreement has stricter capital requirements that will be applied over a transitional period in order to mitigate their impact on the international financial system. The minimum capital requirements for common equity tier 1 ("**CET 1**") capital will gradually increase from 3.5% of risk weighted assets as at 1 January 2013 to 7% of risk weighted assets, including the capital conservation buffer, by 2019. The total solvency ratio will increase from 8% to 10.5% between 2016 and 2019.

Changes include:

(i) a capital conservation buffer of 2.5% on common equity, with phased implementation from 2016 to 2019, in light of the above;

(ii) a countercyclical capital buffer, which will stand between 0% and 2.5% of risk weighted assets, with loss absorption properties, according to the credit cycle phase pursuant to its application by the national supervisory authorities;

(iii) a capital buffer for systemically important institutions and a systemic risk buffer; and

(iv) a leverage ratio that will be tested for a non-adjusted ratio of 3% risk.

Furthermore, the CRD IV/CRR framework contains stricter requirements regarding the quality of the capital that may be considered CET 1 capital and the calculation of risk weighted assets. Full implementation of CRD IV/CRR is expected to occur by the beginning of 2018, with the exception of Deferred Tax Assets ("**DTAs**") already recorded on the balance sheet in January 2014, the subordinated debt and all the hybrid instruments not eligible to own funds, for which the transition period extends until the end of 2023 and 2021, respectively. The main impact of CRD IV/CRR on consolidated capital ratios is related to DTAs, shortfall of provisions to expected losses, the pension fund corridor, minority holdings in consolidated subsidiaries, significant holdings in non-consolidated financial institutions and increased capital requirements for market and counterparty risks.

At the start of 2014, the adoption of the CRD IV/CRR regulatory framework was accompanied by the entry into force of Banco de Portugal's Notice No. 6/2013, of 23 December 2013, which established how the transitional provisions of the CRR would apply to minimum capital requirements and the respective calculation. The new regime established that credit institutions and investment companies should permanently maintain a minimum CET 1 ratio of 7%.

In May 2014, Banco de Portugal issued a series of recommendations with respect to banks' capital plans, in order to ensure an adequate transition to the full implementation of CRD IV/CRR and prepare major Portuguese banks for the ECB's comprehensive assessment exercise of the banking system. In particular, it recommended the reinforcement and maintenance of the following minimum thresholds for the various regulatory ratios:

- Minimum CET 1 ratio of 8% for the eight major banking groups, including the Bank (7% for the other groups);
- Minimum Tier 1 ratio of 9.5% for the eight major banking groups, including the Bank (8.5 % for the other groups);
- Minimum total solvency ratio of 11.5% for the eight major banking groups, including the Bank (10.5% for the other groups).

Decree-Law No. 157/2014, of 24 October 2014, transposed CRD IV into Portuguese law and has amended several laws and decree laws, including the Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras, "RGICSF"). Decree-Law No. 157/2014 entered into force on 23 November 2014.

CRD IV empowers the EBA to draw up regulatory technical standards ("**RTS**") that specify some of the aspects covered by the diplomas. Upon the respective adoption by the EC these norms are directly applicable under Portuguese law. Decree-Law No. 157/2014 establishes several communication obligations to the EBA, by Banco de Portugal, as well as the need for consultation of its database.

As at 30 September 2016, the Bank's fully implemented CET 1 was 9.7%. According to the Bank´s interpretation of CRD IV/CRR to date, CET 1 phased-in reached 12.3% as at 30 September 2016.

New upcoming recommendations by the BCBS focus on risk weighted asset calculations, which include a modification on credit, market and operational risk categories as well as additional risks, such as the step-in risk.

- *Credit Risk:* the "Internal Based Risk Approach" proposal aims at reducing the complexity of the regulatory framework, improve comparability between banks and reduce the variability in capital requirements for credit risk, as amendments to risk parameters estimation and introduction of floors. The regulations also foresee changes on the standardised approach, but not limited to, in order to introduce some risk sensitivity to this approach, such as the loan to value ("**LTV**") concept and the introduction of real estate classes.

- *Market risk*: a redefinition of trading and banking book portfolios and changes on the standardized approach and the "Internal Modal Method".

- *Operational risk*: recommendations include the abolition of Advanced Measurement Approach ("**AMA**") due to its complexity and lack of comparability and the introduction of a new Standardized Measurement Approach ("**SMA**").

These regulations are not yet finalised and there is no binding date for implementation. Notwithstanding, in the case that the modifications come into force, they could lead the Bank being required to raise new capital or to implement other equivalent measures to strengthen its capital ratios at unfavourable terms, thus impacting on the Bank's business, financial condition and prospects.

Capital buffers: The criteria for maintenance by credit institutions' and certain investment companies' additional own funds include:

(i) a capital conservation buffer;

(ii) the institution's specific countercyclical capital buffer;

(iii) the systemic risk buffer; and

(iv) 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 Banco de Portugal and/or the SSM 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 CET 1 own funds as well as an obligation to submit to Banco de Portugal a capital conservation plan within five business days of the breach.

Capital conservation buffer

The new regulatory framework provides that the capital conservation buffer which aims to accommodate losses from a potential adverse scenario can be gradually implemented from 1 January 2016 onwards. However, the national macroprudential authority may impose a shorter transitional period or even frontload the total buffer. The Bank has a requirement (at an individual and consolidated level) to maintain a minimum CET 1 capital buffer of 0.625% (of the total risk exposure amount) in 2016, 1.25% in 2017, 1.875% in 2018, and 2.5% in 2019, as provided in Article 23 of Decree-Law 157/2014, of 24 October 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;

(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 CET 1 capital. The ECB, in the context of the SSM, can propose higher minimum requirements than the ones defined by the national authorities.

On 30 September 2016, in exercising its powers as the national macro-prudential authority, Banco de Portugal decided that the countercyclical buffer rate for credit exposures to the domestic private non-financial sector would remain at 0% of the total risk exposure amount. This capital buffer will apply, from 1 October 2016 onwards, to all credit risk exposures, whose counterpart is the Portuguese private non-financial sector, of credit institutions and investment firms subject to the supervision of Banco de Portugal or the ECB (SSM), as applicable. This decision shall continue to be reviewed on a quarterly basis by Banco de Portugal.

Under the guidance of the SSM, the conclusions of the supervisory review take the form of prudential requirements being set (Pillar 2) to be held in excess of the minimum capital requirements (Pillar 1). Banks are required to maintain a total capital requirement that includes CET 1 instruments and other capital instruments and are also subject to the overall capital requirement that also includes the combined own funds buffer requirement.

Systemic risk buffer: In order to calculate the systemic risk buffer, Banco de Portugal categorises institutions as "systemically important institutions" ("**O-SII**") and as "global systemically important institution" ("**G-SII**"). Banco de Portugal can also impose a systemic risk buffer of CET 1 capital on an individual, subconsolidated or consolidated basis of at least 1% of the risk exposure to which such buffer is applicable, to prevent or reduce the long-term non-cyclic systemic or macroprudential risks that present a risk of disruption in the financial system and the Portuguese economy.

On 29 July 2016, Banco de Portugal decided to apply a two-year phase-in regime of the other O-SII buffer:

(i) the timeline for the phase-in of the O-SII buffer is 50% as at 1 January 2018 and 100% as at 1 January 2019;

(ii) these buffers shall consist of CET 1 capital on a consolidated basis;

(iii) the buffers shall be applicable from 1 January 2018; and

(iv) the rates range from 0.25% to 1% of the total risk exposure (maximum level of 2%).

In this context, the Group was identified as an O-SII and will have to maintain a buffer of CET 1 of 0.375% of the total risk exposure applicable from 1 January 2018 and 0.750% by 1 January 2019.

If the Bank's capital ratios fall below the minimum (legal or regulatory) threshold, the Bank may need to adopt additional measures, such as an acceleration of the deleveraging process, the reduction of risk weighted assets, the sale of non-core assets and other measures including future rights issues. Furthermore, the demand for additional capital adequacy requirements from the Bank may result in the need to further reinforce its equity in order to fulfil more demanding capital ratios, thereby increasing the costs to the Bank and reducing the return on equity. Such a demand may also hinder the Bank's ability to fully reimburse the Government Subscribed Core Tier 1 Capital Instruments ("**GSIs**") according to the schedule contemplated by the Recapitalisation Plan, the Restructuring Plan and by law in the event that the Bank is unable to repay the GSIs in accordance with the transactions. See *Use of Proceeds*. Any of the aforementioned situations could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Basel III recommendations also provide for the setting of short and long term liquidity ratios and funding, namely the "Liquidity Coverage Ratio" ("**LCR**") and the "Net Stable Funding Ratio" ("**NSFR**"). As the profitability of financial assets is generally inversely correlated with their liquidity, the compliance with these ratios by the Bank may lead to the need to strengthen or create a portfolio of highly liquid but low-margin assets and/or increase funding costs, since the method for calculating these ratios favours long-term over short-term funding, which may therefore adversely impact the Bank's business, financial condition, results of operations and prospects.

The Bank's LCR calculated in accordance with the Delegated Regulation (EU) 2015/61 of the EC, of 10 October 2014, and the NSFR, estimated in accordance with Basel III methodology, that supported the ECB's Short Term Exercise report, were 121% and 113%, respectively, as at 30 June 2016, higher than the reference value of 100% (fully implemented).

LCR: The LCR will be progressively implemented, with a progressive (10 percentage points per year) rate of application rising from 60% of the ratio in 2015 to reach 100% in 2019. The LCR requires that banks have sufficient high quality liquid assets ("**HQLA**") in their liquidity buffer to cover the difference between the expected cash outflows and the expected capped cash inflows over a 30-day stressed period. The value of the ratio is to be no lower than 100% (the stock of HQLAs should at least equal total net cash outflows). In relation to the LCR, the EBA:

(i) defined assets as 'extremely high' and of 'high' quality;

(ii) put in place operational requirements for the holdings of liquid assets;

(iii) recommends that all types of bonds issued or guaranteed by Member States' central governments issued in local currency by central banks as well as those issued or guaranteed by supranational institutions should be considered transferrable extremely high quality assets;

(iv) has 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.

NSFR: The NSFR, which is expected to become a minimum standard by 1 January 2018, is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an on-going basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The ratio aims at ensuring that the funding of illiquid assets is made through stable sources, both in normal as well as adverse conditions.

On 15 December 2015, the EBA, mandated by the CRR, established the methodologies for determining the amounts of stable funding that are required, as well as uniform definitions for the calculation of the NSFR.

The Banking Union's regulatory framework uses a leverage ratio, and the leverage ratio was 6.2% phased-in and 4.8% fully implemented, as at 30 September 2016. In particular, a G-SII could face additional requirements, although it is currently not anticipated that Portuguese banks may be classified as G-SIIs. However, the classification of the Bank as an O-SII could lead to increased costs to the Bank, which may therefore adversely impact the Bank's business, financial condition, results of operations and prospects.

Although the implementation process is close to being concluded, there are still some uncertainties regarding the implementation of Basel III, given the process of revision of some of the measures and procedures, including the development process of redefinition of materiality of sovereign risk, revision of standard models for credit risk and operational risk, technical revision of estimation of risk factors used in internal models and calibration procedures of floors used in risk-weighted assets. The revision of the regulatory framework could imply equity changes and asset and liability management of the Bank, which may therefore adversely impact the Bank's financial condition, results of operations and prospects.

The Banking Union may impose additional regulatory requirements that may condition the Bank's results, and relevant uncertainties remain regarding the definition and implementation of the European Deposit Insurance Scheme.

In an effort to harmonise the regulation and supervision of banking activities across the EU and especially in the Eurozone, the EC established two new institutions and has modified the rules related to banking resolution and to the European deposit guarantee schemes:

- the SSM, which assigns the role of direct banking supervisor to the ECB in order to ensure that the largest banks in Europe are independently supervised under common rules (fully operational since 4 November 2014); and

- the Single Resolution Mechanism ("**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.

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 ("**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.

On 24 November 2015, the EC presented a legislative proposal that aims to add another element to the Banking Union, namely the European Deposit Insurance Scheme ("**EDIS**"), which is to be built on the basis of existing national deposit guarantee schemes ("**DGS**").

The regulatory framework under the Banking Union and future modifications to it may result in or require changes to the strategic positioning of financial institutions, including their business model and risk exposure, and could result in additional costs in order to ensure compliance with the new requirements. Therefore, the new regulatory regime, even if gradually implemented until the beginning of the next decade, will limit the Bank's room for discretion. This may potentially restrict the Bank's ability to comply with its financial undertakings regarding the State aid repayment (namely the GSIs issued by the Bank in 2012) as well as other debt and equity instruments.

Single Supervisory Mechanism

The Banking Union assigned the role of direct banking supervisor to the ECB to ensure that the largest banks in Europe, including the Bank, are independently supervised under common rules.

Under the SSM, which establishes minimum capital requirements and harmonised deposit protection schemes, the ECB and national authorities, are responsible for banking supervision, while the EBA develops and monitors the implementation of the regulatory framework.

The SSM is also responsible for regularly assessing and measure the risks for each bank and consequently the capital and liquidity adequacy of credit institutions through the Supervisory Review and Evaluation Process ("**SREP**"):

- The conclusions of the supervisory review can take the form of prudential requirements, which may also include qualitative measures (Pillar 2 capital requirements – "P2R").
- Recommendations through the establishment of a Pillar 2 capital guidance ("**P2G**") which the banks should comply with.

The prudential requirements require banks to maintain a total SREP capital requirement ("**TSCR**") that includes CET 1 instruments and other capital instruments.

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.

The P2G is to be made up entirely of CET 1 capital. Failure to comply with the P2G is not itself a breach of own funds requirements.

The P2G is not Maximum Distributable Amount ("**MDA**") relevant. The MDA is the maximum amount a bank is allowed to pay out, for example for bonuses or dividends. A bank whose capital ratio falls below the MDA trigger point faces restrictions on the amount of distributable profits.

The Bank is currently in compliance with SREP requirements. Even though the Bank is convinced that its current and expected levels of capital are adequate, these requirements may change in the future which could have an impact on the Bank's capital needs and adversely affect the Bank's business, financial condition, results of operations and prospects.

A change in the prudential supervision framework may:

(i) 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 subject the Bank to additional capital requirements, or to any future stress tests; and

(ii) the classification of the Bank as an O-SII may lead to higher combined capital buffer requirements.

If, following a capital requirement exercise, such as a stress test, capital quality or risk management assurance exercise or equivalent exercise, a capital deficit is identified, it could adversely affect the cost of funding for the Bank and have a materially adverse impact on its business, financial condition, results of operations and prospects. The Recapitalisation Plan could include, among other measures that aim to reduce capital needs:

(i) the voluntary conversion of subordinated debt instruments;

(ii) liability management exercises;

(iii) sale of specific assets;

(iv) sale of credit risk portfolios (either outright or synthetically); and

(v) earnings retention.

Any residual capital deficit that is not covered by the Recapitalisation Plan may need to be covered by the bailing in of noteholders under the BRRD or through recourse to State aid. This assistance involves an allocation of costs by shareholders and creditors, including the holders of CET1 hybrid capital instruments. It may also take the form of conversion of major CET 1 or a reduction in the value of the financial instruments foreseen in the Recapitalisation Plan. Under the current applicable regime, contributions from the priority debt holders (including deposits guaranteed by the Deposit Guarantee Fund (the "**DGF**") and deposits with real guarantees) are not required.

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

Single Resolution Mechanism

BRRD: Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, the BRRD, establishes a framework for the recovery and resolution of credit institutions and investment companies. The BRRD has been implemented into Portuguese law by Law No. 23-A/2015, of 26 March 2015, encompassing several changes to the Legal Framework of Credit Institutions and Financial Companies. By delivering a comprehensive bail-in tool that ensures that shareholders and creditors bear the cost of bank failure, it aims at:

- safeguarding the continuity of essential banking operations;
- protecting depositors, client assets and public funds;
- minimising risks to financial stability; and
- avoiding the unnecessary destruction of value.

The powers provided to resolution authorities under the BRRD include write-down and conversion into CET 1 instruments immediately before any other resolution decision is made, if such action is necessary to ensure that capital instruments (including additional Tier 1 and Tier 2 instruments) and eligible liabilities fully absorb losses at the point of non-viability of the issuing institution.

The BRRD stipulates, inter alia, that resolution authorities should exercise the powers of reduction or conversion according to the credit priority order under normal insolvency procedures in a manner that:

- reduces or converts CET 1 instruments proportionally in accordance with relevant losses;
- reduces or converts the nominal value of other capital instruments in CET 1 instruments (Tier 1 and Tier 2 instruments); and
- reduces and converts the remaining liabilities accordingly with a certain order of priority.

In the event of a bank's critical financial instability, the Banking Union's framework is also designed to minimise the impact of any particular bank's financial difficulties on the financial system and on taxpayers. Under the envisaged SRM, shareholders of the institution would be the first to bear losses, followed by lenders.

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. As such, the use of resolution tools and powers provided for by the Banking Union may disrupt the rights of shareholders and creditors. In particular, the power of the authorities to transfer the shares or all or part of the assets of an institution to a private purchaser without the consent of shareholders affects the property rights of shareholders. In addition, the power to decide which liabilities to transfer out of a failing institution based upon the objectives of ensuring the continuity of services and avoiding adverse effects on financial stability may affect the equal treatment of creditors. To avoid having institutions structure 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.

On 3 September 2016, the EC adopted the delegated regulation (EU) 2016/1450 of 23 May 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to RTS, 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 under the BRRD. This directive requires that institutions meet an MREL to avoid excessive reliance on forms of funding that are excluded from bail-in, since failure to meet the MREL would negatively impact the institutions' loss absorption and recapitalisation capacity and, ultimately, the overall effectiveness of resolution.

This framework attempts to shift the burden of bailing-in banks from taxpayers to bank creditors. To that end, resolution authorities were given the power to allocate losses to shareholders and creditors (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.

When determining MREL in accordance with points (a) and (b) of Article 45(6) of Directive 2014/59/EU 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 it is recapitalised by an amount sufficient to restore its CET 1 ratio to a level that is adequate under the capital requirements, 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.

The MREL will be calculated based on three components:

- the loss absorption amount, based on the current capital requirements, including regulatory capital requirements (8% of risk weighted assets), 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
- the DGS adjustment, linked to any potential involvement of a DGS to protect insured depositors.

For each of the components of the MREL, the resolution authority may consider upward or downward adjustments, on the basis of a thorough case by case analysis of financial information, supervisory data and resolution strategies. In order to meet MREL requirements, the Bank may need to issue

MREL eligible instruments, impacting its funding structure and financing costs. Such mechanisms and procedures, besides having the capacity to restrain the Bank's strategy and diluting existing shareholders, could increase the average cost of the Bank's liabilities, in particular, without limitation, and the cost of additional Tier 1 and Tier 2 instruments and thus negatively affect the Bank's earnings.

MREL tentative phased-in approach: the Single Resolution Board ("**SRB**") will engage with banking groups over the course of 2016 to draft a preferred resolution strategy, and an indicative MREL target will be set at consolidated level, subject to a phase in period. The phase in period, by decision of the SRB, can be extended over the initially envisaged 48 months, depending on the bank's and markets' underlying conditions.

The SRM and SRF are regulated by Regulation (EU) No. 806/2014 of the European Parliament and of the Council, of 15 July 2014 ("**SRM Regulation**"), which also established the framework for recovery and resolution of credit institutions and the calculation method of the annual contributions for the funding of the resolution mechanism.

The main decision-making body of the SRM is the SRB which is responsible for:

- the planning and resolution phases of the Banking Union's cross-border and large banks, which are directly supervised by the ECB;
- all resolution cases that require recourse to the SRF, irrespective of the size of the bank; and
- all banks in the Banking Union.

The SSM 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 are responsible for planning and adopting resolution plans in respect of those banks for which the SRB is not directly responsible.

SRF: 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:

- 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;
- 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**"));
- are calculated by the methodology as set out in the Commission Delegated Regulation (EU) 2015/63, of 21 October 2015 and the SRM Regulation; and
- 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 to the risk profile of the participating institution, considering its solvability situation.

In 2015, following the establishment of the SRF, the Group made an initial EUR 31.4 million contribution. In accordance with the Intergovernmental Agreement, this amount was not transferred to the SRF but was used instead to partially cover the disbursements made by the Resolution Fund for resolution measures applied prior to the date of application of this Intergovernmental Agreement. Consequently, an equivalent amount will have to be transferred over a period of eight years (starting in 2016) through periodic contributions to the SRF. During the first semester of 2016, the Group made a periodic EUR 21 million contribution to the SRF.

Pursuant to the SRM Regulation, the use of the SRF shall be contingent on an agreement coming into force between the Member States involved, regarding the transfer of funds obtained at a national level for the SRF and the gradual merger of the different funds obtained at a national level, to be allocated to the national sections of the SRF, including the resolution fund created in Portugal (the "**Resolution Fund**"), in order to give financial support to the application of resolution measures adopted by Banco de Portugal . The SRM Regulation is applicable since 1 January 2016. As such, the SRF does not cover current situations related to the Portuguese Resolution Fund as at 31 December 2015.

Any losses incurred by the Bank in connection with the Resolution Fund are currently not recognized as a liability and therefore do not have an impact on capital ratios. There can be no assurance that such accounting treatment may be maintained in the future.

The Portuguese Resolution Fund: A resolution fund, whose primary purpose has been to provide financial support for the implementation of resolution measures determined by Banco de Portugal, was created in Portugal (the "**Resolution Fund**"). The Resolution Fund foresees the participation of:

(i) credit institutions with a head office in Portugal, including the Bank;

(ii) branches of credit institutions in states that do not belong to the EU;

(iii) relevant companies for the management of payment systems subject to supervision of Banco de Portugal; and

(iv) certain types of investment companies.

Pursuant to the Bank of Portugal's Instruction No. 19/2015, of 29 December 2015, in 2016 Portuguese banks paid contributions to the Resolution Fund at a 0.02% base rate, which represents an increase from the previous rate of 0.015%. 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 6.4 million in 2015 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 new 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.

In 2015, the periodical contributions paid by the Bank to the Resolution Fund correspond to approximately 20% of the total periodical contributions paid by the banking sector.

On 28 September 2016, the Resolution Fund and the Ministry of Finance announced the extension of the EUR 3.9 billion loan originally granted to the Resolution Fund in 2014 for the financing of the resolution measure applied to Banco Espírito Santo, S.A. ("**BES**"). According to the Resolution Fund, the extension of the maturity of the loan ensures the capacity of the Resolution Fund to meet its obligations in full through its regular revenue, regardless of the positive or negative contingencies to which the Resolution Fund is exposed. Therefore, according to the Ministry of Finance, there will be no need to levy any extraordinary contributions to finance the Resolution Fund, thereby maintaining the contributive efforts demanded to the banking sector in the current levels and any increase or decrease in the responsibilities resulting from the materialisation of future contingencies will only determine the adjustment of the maturity of loans granted by the State and by the participant banks to the Resolution Fund. Any increases or reductions in the responsibilities resulting from the materialisation of future contingencies, following the resolution measures applied to BES and Banco Internacional do Funchal, S.A. ("**BANIF**") will only determine the adjustment of maturity of the loans of the State and of the banks to the Resolution Fund.

BES Resolution: Pursuant to the decision by Banco de Portugal on 3 August 2014, the Resolution Fund participated in the recapitalisation of Novo Banco, S.A. ("**Novo Banco**", the so-called "good bank" of former BES) in the amount of EUR 4.9 billion. The Resolution Fund owns in full Novo Banco's equity, valued at EUR 4.9 billion as at 31 December 2015 (of which EUR 3.9 billion from a loan granted by the State, EUR 700 million from a loan granted by a group of credit institutions, including the Bank, that are members of the Resolution Fund, and the remaining amount from the mobilisation of resources available to the Resolution Fund).

As announced on 29 December 2015, Banco de Portugal transferred to the Resolution Fund the responsibilities arising from the "[...] possible negative effects of future decisions, resulting from the resolution process (of Banco Espírito Santo, SA), which result in liabilities or contingencies". On 7 July 2016, the Resolution Fund stated that it will analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3 August 2014. Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors whose credits have not been transferred to Novo Banco, S.A. suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

As at the date of this Base Prospectus, the second procedure for the sale of the Resolution Fund's stake in Novo Banco was ongoing. As communicated by Banco de Portugal on 4 November 2016, five acquisition proposals have been received, which are being analysed in light of the admissibility and selection criteria set out in the tender documents. Although the Bank has participated in that phase of the process, it has not presented a proposal for the referred acquisition. However, it has sent a letter in which it states that the Bank is available to re-evaluate the process under certain conditions which would be compatible with its objectives and priorities and would not have an adverse impact on the capital ratios. According to publicly available information, the volume of litigation associated with the BES resolution process is high. The losses that the Resolution Fund may incur have not been quantified. If Novo Banco is sold below the Resolution Fund contribution, BCP may have be required to account for a loss upfront relating to the capital loss, with negative impact on its capital ratios, as well as be required to increase its yearly contributions to the Resolution Fund.

Banif resolution: Banco de Portugal decided on 19 and 20 December 2015, to apply a resolution measure to BANIF. In January 2013, BANIF was recapitalised by the Portuguese State in the amount of EUR 1,100 million (EUR 700 million in the form of special shares and EUR 400 million in hybrid instruments). This recapitalisation plan also included a capital increase by private investors in the amount of EUR 450 million, which was concluded in June 2014. Since then, BANIF reimbursed the Portuguese State EUR 275 million, but was unable to reimburse a EUR 125 million tranche in December 2014. BANIF's sale process was initiated in 2015, but on 19 December 2015 the Ministry of Finance informed Banco de Portugal that a voluntary sale was not feasible, and thus a sale would have to be made in the context of a resolution procedure. BANIF was sold to Banco Santander Totta, S.A. ("**BST**") on 20 December 2015 for EUR 150 million, but some of the assets and liabilities that were not included in the perimeter of Banif that was subject to sale were transferred to a special purpose vehicle, Oitante, S.A., that, as at 30 September 2016, is held by the Resolution Fund. According to Banco de Portugal, the adjustments associated with the agreement between the Portuguese and European authorities and BST involve estimated public support of EUR 2,255 million intended to cover future contingencies, of which EUR 489 million will be contributed by the Resolution Fund and EUR 1,766 million will be contributed directly by the Portuguese Republic.

Under Article 153-O of the Legal Framework of Credit Institutions and Financial Companies, 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. As at 30 September 2016, 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, ii) the litigation relating to the BES resolution process, iii) the resolution process of BANIF and related expenses, and iv) the amount and timing of the Bank's contributions to the Resolution Fund and the reimbursement of the loans granted by the Bank to the Resolution Fund. Thus, the impact of the BES and BANIF resolution processes on the Bank, which participates in the Resolution Fund, could depend on external factors not controlled by the Bank, including the proceeds from the Resolution Fund assets that will be sold and the future funding needs and contingent liabilities of the Resolution Fund. The Ministry of Finance has stated that there will be no need to levy any extraordinary contributions to finance the Resolution Fund as it will continue to be financed over the coming years by the periodical contributions and the proceeds from the levy on the banking sector.

On 28 September 2016, the Resolution Fund and the Ministry of Finance communicated the agreement on the basis of a review of the terms of the EUR 3.9 million loan originally granted by the State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. This loan is currently due on 31 December 2017 and, according to these communications, the terms of the agreement will allow the maturity to be extended in order to guarantee that it will not be necessary to collect extraordinary contributions for the financing of the Resolution Fund, regardless the income or additional liabilities that the Resolution Fund may receive or pay as a result of the resolution measures applied to BES and BANIF. It is also mentioned that the conditions agreed between the Ministry of Finance and the Resolution Fund will be formalised as soon as the necessary technical work is completed and should be extended to the remaining loans obtained by the Resolution Fund. At the present date, changes to loans obtained by the Resolution Fund have not yet been formalised.

In the case of the resolution measure applied to BES, a loan by a banking syndicate to the Resolution Fund in the total amount of EUR 700 million was also executed in 2014, and BCP participated in this loan. The initial maturity of the loan was extended and currently also matures on 31 December 2017, providing for the repayment of principal and interest from the date of its initial grant in a single installment maturing on the date of its expiration. The financing agreement entered into between the banking syndicate and the Resolution Fund establishes a seniority regime for the financing of the Portuguese State in relation to the financing granted by the banking syndicate.

There is no guarantee that the Bank's business, financial condition, results of operations, prospects and capital ratios will not be affected by the factors described above.

Decree Law No. 31-A/2012, of 10 February 2012, which amended the Legal Framework of Credit Institutions and Financial Companies, 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 to loans backed-up by deposits under the DGF, as well as credit secured by the DGF, by SICAM 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.

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

European Deposit Insurance Scheme

The EDIS is currently still dependent on political decisions. There is no consensus on 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.

As of the date of this Base Prospectus, 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, may result 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 Legal Framework of Credit Institutions and Financial Companies, with the amedments 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. They can therefore affect the activity of the relevant banks and consequently their business activities, financial condition, results of operations and prospects.

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

The Bank may be unable to issue certain capital requirement instruments and therefore be either unable to meet its capital requirements or required to meet its capital requirements through costly or less effective instruments.

The Bank can issue Additional Tier I instruments to meet its minimum CET 1 ratio requirement. However, these instruments might be viewed by investors as riskier than other debt instruments, primarily due to the risk of capital losses and missed coupon payments. As a result, investor appetite for these instruments may decline in the future, which could render the Bank unable to sell them in the market. In this case, the Bank would either be unable to meet its capital requirements or would have to issue Tier 1 capital, composed of equity capital and disclosed reserves, to meet its CET 1 ratio. This would raise the Bank's costs and could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The resolutions adopted by the EC regarding financial services and products in the context of disclosure compliance may restrict the results of the Bank.

Several EC initiatives regarding financial services and products are still in a transposition/implementation phase, including:

- Directive 2014/65/UE of the European Parliament and of the Council, of 15 May 2014, and Regulation 600/2014 of the European Parliament and of the Council, of 15 May 2014, relating to markets in financial instruments, known as the Markets in Financial Instruments Directive II ("**MiFID II**")/Markets in Financial Instruments Regulation ("**MiFIR**") (together, "**MiFID II/MiFIR**");

- Regulation 1286/2014 of the European Parliament and of the Council, of 26 November 2014, relating to retail and insurance-based investment products ("**PRIIPs**"); and

- the European Market Infrastructure Regulation, Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 ("**EMIR**").

MiFID II/MiFIR: This is one of the current EU regulatory initiatives, initiated as a response to the financial crisis. It will enter into force on 3 January 2018 and aims to create more efficient, transparent and safe markets, improving investors' protection. It intends to effect changes affecting transparency requirements for a broad category of assets, derivative contracts and requirements relating to high frequency trading and algorithmic trading and other regulatory tools associated with commodity derivatives. It also seeks to limit the use of commissions, the rules for independent investment advice, the requirements for the production and distribution of new products and the intervention skills associated with the level of products and disclosure of burden and costs.

PRIIPs regulation: This regulation relates to consumer protection and aims to establish a common standard for key information documents. On 14 September 2016, the European Parliament objected to an EC draft of the regulation concerning the RTS with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents. Consequently, the EC has to propose a new RTS for the implementation of the PRIIPs legislation. On 9 November, the EC proposed the postponement of the date of entry into force of this regulation, having foreseen that the revision of the regulatory framework would be made in the first semester of 2017 and apply from 1 January 2018.

EMIR: This regulation establishes certain obligations in respect of clearing, reporting and risk mitigation of over-the-counter ("**OTC**") derivative contracts. While reporting and certain risk mitigation obligations have already been fully implemented, other obligations are under implementation (mandatory clearing) or yet to be implemented (exchange of collateral). As a Category 2 Entity, the deadline for BCP with respect to mandatory clearing is 21 December 2016, with a phase-in period. Compliance with these obligations entails increased operational and financial costs for the Bank. Moreover, the Bank depends on third-party providers to comply with these obligations, including registered trade repositories for the reporting obligation, central counterparties ("**CCP**") and clearing agents for the clearing obligation. These third-party providers charge service or activity fees and, in the case of CCPs and clearing brokers, impose certain risk mitigation actions, including collateral posting, which increase the cost and may limit the ability of the Bank in entering into OTC derivatives.

The legislative initiatives in course relating to "basic bank accounts" and "credit contract conditions" may restrict the delivery of services and negatively affect the Bank's results.

Some legislative initiatives in Portugal are currently being examined, including those concerning:

- the inability of banks to unilaterally change rates and other contractual terms;
- standardised current accounts ("**basic bank account**"), with no commissions, costs or other charges associated with services made in the context of such an accounts;
- free of charge "basic bank accounts"; and
- the potential for the Euribor decrease to be reflected in mortgage and consumption loans.

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

The Bank is subject to increased obligations and costs resulting from the new legal framework related to the prevention and monitoring of the default risk of customers.

At the end of 2012, a set of legal and regulatory rules were approved contemplating actions that credit institutions should follow for the prevention and monitoring of default situations in credit contracts entered into with private bank customers, including:

- Decree-Law No. 227/2012, of 25 October 2012, encouraging credit institutions to adopt an Action Plan for Default Risk ("**PARI**"), setting forth procedures and measures to prevent defaulting loans and creating the Extra-Judicial Procedure for the Correction of Default Situations ("\"), which aims to promote negotiations outside the courts between credit institutions and bank customers in cases of loan defaults. As at 30 September 2016, 105,175 operations in connection with PARI had been restructured, corresponding to EUR 2,371 million, 32,724 of which comprised mortgage credit operations (EUR 2,016 million) and 72,451 comprised personal credit operations (EUR 280 million). From January 2013 to September 2016, 15,540 operations in connection with PERSI were restructured, corresponding to EUR 463.7 million;
- Law No. 58/2012, of 9 November 2012, (subsequently amended by Law No. 58/2014, of 25 August 2014), which provides for an extraordinary regime for the protection of certain mortgage loan debtors in the event of certain economic situations. Even though this law expired on 31 December 2015, the enactment of a law to replace the existing law is currently being discussed in the Parliament.

Furthermore, in December 2013 Banco de Portugal issued its Instruction No. 32/2013, which set out the new method to identify and select credit restructuring events that are facing financial difficulties and should be qualified as a "restructured credit due to client financial difficulty". These operations should be registered in the institution's information systems and must include the required fields of information, such as dates and previous operations that led to the present operation, in order to identify if they could be classified as "restructured credit due to client financial difficulty". This would facilitate the management of credit risk in determining impairment of the loan portfolio and compliance with other prudential requirements.

This legal framework creates an assortment of obligations for credit institutions and sets forth protection measures for bank customers, including, among other things, the following:

- 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, which may include the suspension of the mortgage foreclosure during the period of application of the protection measures, grace periods for the monthly payments of the borrower, extension of loan terms or reduction of spreads for the duration of the grace period.

If PERSI rules and principles apply to a customer, the Bank cannot (i) terminate the relevant agreements; (ii) initiate judicial proceedings against the debtor; (iii) assign its credits over the client; or (iv) transfer its contractual position to a third party.

The implementation of these legislative measures, as well as any potential additional regulatory or self-regulation measures, may lead to an increase of the Bank's credit impairment, which in turn could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. Furthermore, these initiatives represent significant changes in terms of execution of loan agreements within an adverse economic environment. The associated costs with the implementation of these measures coupled with implicit limitations in terms of fees, financial margin and flexibility in terminating contracts, as well as the uncertainty regarding the behavioural effects that may result in response to these changes, may have a negative impact on the Bank's business, financial condition, results of operations and prospects.

Adoption of ECB guidelines and recommendations and supervisory practice based thereon may lead to an acceleration in non-performing exposure ("NPE") reductions, which may adversely impact the activity, financial condition, results of operations and prospects of the Bank.

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

- the strengthening of the monitoring of credit quality;
- the implementation and development of new assessment models;
- new internal regulations and recovery models; and
- improvement to the risk management governance model.

In addition, and in compliance with the ECB's banking supervision priorities that highlighted credit risk and heightened levels of NPL as key risks facing euro area banks, the Bank has been implementing a NPE reduction plan. The Bank has the goal to decrease NPE in Portugal from EUR 9.3 billion as at 30 September 2016 (excluding securities) to less than EUR 7.5 billion by December 2017. The NPE strategy and reduction plan are globally aligned with ECB's draft guidance to banks on NPLs, which addresses the main aspects of the strategy, governance and operations relating to an efficient disposal of NPLs.

The mentioned plan implemented by the Bank builds on the following main lines of action:

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

Currently BCP is preparing a detailed plan to present to the ECB by January 2017 in respect of the Bank's strategy and goals to reduce the stock of NPE. From the follow-up discussions regarding this matter may arise further requirements imposed by the ECB to accelerate the NPE reduction. This could adversely and significantly impact the Bank's business, results of operations, financial condition, including capital position, and prospects.

Changes to tax legislation, regulations, higher taxes or lower tax benefits could have an adverse effect on the Bank's activity.

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

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

For example, under Law No. 55-A/2010 of 31 December 2010, as amended, and Ministerial Order (*Portaria*) No. 121/2011 of 30 March 2011, as amended, a bank levy is applicable to the Bank (24.9 million in 2015) and will be applied over (i) the Bank's liabilities at a tax rate of 0.11% and (ii) 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 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.

Implementation of legislation relating to taxation of the financial sector could have a material adverse effect on the Bank's results of operations.

Although this measure is not foreseen in the Portuguese State Budget Law for 2016, the Portuguese State Budget Law for 2013, 2014 and 2015 (Law No. 66-B/2012, of 31 December 2012, Law No. 83-C/2013, of 31 December 2013 and Law No. 82-B/2014, of 31 December 2014) included legislative authorisations that allowed the Portuguese government to introduce a financial transaction tax under the scope of the Portuguese stamp duty. However, currently, a financial transaction tax has yet to be implemented in Portugal. The legislative authorisation for 2015 provided a broad range of transactions that would fall under the scope of the proposed financial transaction tax, including all the transactions involving the sale and purchase of financial instruments, namely (i) share capital participations; (ii) bonds; (iii) money market instruments; (iv) participation units on investment funds; and (iv) derivative and structured financial products. According to the legislative authorisation, the expected rates are as follows: up to 0.3% on general transactions; up to 0.1% on highly frequent transactions; and up to 0.3% on transactions involving derivatives.

On 14 February 2013 the EC published its proposal for a Council Directive for enhanced co-operation in the form of a financial transaction tax ("**FTT**"), of which Portugal would be a member and which was intended to take effect on 1 January 2014, but negotiations are still ongoing.

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 was charged and convicted by the CMVM and the Bank of Portugal in administrative proceedings in connection with certain transactions, including the financing of the acquisition of shares issued by the Bank by companies incorporated in certain offshore jurisdictions.

Between 2008 and 2015, the Bank was charged and convicted by the CMVM and Banco de Portugal. Similar charges and convictions in the future could hurt the Bank's reputation, among other things, and materially adversely affect the Bank's business, financial condition, results of operations and prospects.

The Bank was charged and convicted by CMVM under administrative proceeding No. 41/2008, a decision which was subject to an appeal to Tribunal de Pequena Instância Criminal de Lisboa (the "**Small Instance Criminal Court of Lisbon**"). In July 2010, the Small Instance Criminal Court of Lisbon convicted the Bank, requiring it to pay a fine of EUR 5 million, half of which was suspended and half of which was paid by the Bank. This ruling became final after the respective appeals were decided.

On 12 December 2008, the Bank was notified by Banco de Portugal of an accusation under administrative proceeding No. 24/07/CO, with respect to alleged breaches of accounting rules and alleged provisions of false or incomplete information to Banco de Portugal. The Board of Directors of Banco de Portugal convicted the Bank to pay a single fine in the amount of EUR 5 million, a decision that the Bank appealed.

Following several intermediate decisions and appeals, the Tribunal da Relação de Lisboa (the "**Lisbon's Court of Appeal**"), of 9 June 2015, granted partial approval to BCP's appeal. BCP was consequently exonerated from all alleged breaches concerning the provision of false information to Banco de Portugal and from two alleged breaches of accounting rules, and the fine to which BCP had been convicted was reduced to EUR 750,000. This decision became final.

At this date, and given also the time elapsed and the final decision of the proceedings initiated by Banco de Portugal and CMVM mentioned above, the Bank considers unlikely any risk that new lawsuits or investigations will be initiated in the future or of being subject to restrictive measures of civil, administrative or other natures, including fines or being subject to investigations or other proceedings by other regulators, or being subject to litigation in Portugal or elsewhere by shareholders or others, that, if adversely determined, could result in significant losses to the Bank and a decline in its corporate and debt ratings. Although unlikely, any such regulatory proceedings and any related litigation could result in adverse publicity or negative perceptions regarding the Bank's business, which could result in a loss of customers and, an increase in the Bank's cost of capital, and could divert management's attention from the day-to-day management of the Bank's business and, if adversely determined, could have a material adverse effect on its business, financial condition, results of operations and prospects.

The new solvency framework for insurance companies is uncertain and may negatively impact the Bank's operations.

The EU developed a new solvency framework for insurance companies, referred to as "Solvency II". The new approach is based on the concept of three pillars: minimum capital requirements, supervisory review of firms' assessment of risk and enhanced disclosure requirements, and encompasses valuations, the treatment of insurance groups, the definition of capital and the need for capital at a global level. The EC is continuing to develop the detailed rules that will complement the high-level principles of Directive 2009/138/EC, of 25 November 2009, as amended, having already issued some regulations in this respect, including Delegated Regulation (EU) 2015/35 and regulations referred to as "implementing measures" (Commission Implementing Regulation (EU) 2015/498, of 24 March 2015, Commission Implementing Regulation (EU) 2015/499, of 24 March 2015, Commission Implementing Regulation (EU) 2015/500, of 24 March 2015, Commission Implementing Regulation (EU) 2015/462, of 19 March 2015, Commission Implementing Regulation (EU) 2015/460, of 19 March 2015, and Commission Implementing Regulation (EU) 2015/461, of 19 March 2015).

In parallel, Directive 2009/138/EC, of 25 November 2009, that was last amended by Directive 2014/51/UE, of 16 April 2014, was transposed into Portuguese law through Law No. 147/2015, of 9 September 2015 ("Regime jurídico de acesso e exercício da atividade seguradora e resseguradora"), introducing a significant change in the legal framework of the insurance business.

Solvency II implementation poses challenges for insurers that may require them to gradually adapt to the new requirements, provide for data quality and analytics needs, revise their governance systems and develop adequate tools for recurrent reporting and disclosure of information. Further regulatory developments are expected in the forthcoming years, such as review of capital requirements, long term guarantees and macroprudential tools.

There is a risk that the effect of the measures adopted and to be adopted could be adverse for Millenniumbcp Ageas, impacting its business operations, strategy and profitability, including potentially increasing the capital required to support its business and creating a competitive disadvantage with respect to other European and non-European financial services groups. Such impact may affect the dividends policy and/or result in an increase of capital that could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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

The Bank's financial statements are prepared in accordance with EU IFRS, which is periodically revised or expanded. Accordingly, from time to time the Bank is required to adopt new or revised accounting standards issued by recognised bodies, including the International Accounting Standards Board ("**IASB**"). 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. For example, IFRS 9 on financial instruments, which will replace IAS 39, will likely have an effect on the Bank's financial statements. This contemplated accounting change is expected to become effective for annual periods beginning on or after 1 January 2018, and is still subject to endorsement by the EU. Given the endorsement advice of the European Financial Reporting Advisory Group ("**EFRAG**") on 15 September 2015, it is expected that IFRS 9 will be endorsed by the EU in due time before mandatory implementation. However, it is currently unknown whether there will be a phased-in period for its implementation. As a result of IFRS 9, the Bank will have to recognise credit losses on loans and other financial instruments based on expected losses rather than incurred losses. 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 provisions could have impact on lending activities and the potential for greater pro-cyclicality on lending and provisioning exists owing to implementation of IFRS 9.

Further changes in financial reporting standards or policies, including as a result of choices made by the Group, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and may have a corresponding material adverse effect on capital ratios.

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

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

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

Judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and known at the date of preparation and issuance of the respective financial statements. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Bank's results and financial condition, based upon materiality and significant judgements and estimates, include the following areas: valuation of financial instruments, provisions, income tax, impairment of financial and non-financial assets, contingent liabilities, consolidation and deconsolidation. If the exercise of judgement and the use of estimates and assumptions by the Group in preparing its consolidated financial statements in conformity with EU IFRS are subsequently found to be incorrect, this could have a material impact on the Bank's business, results of operations and financial condition, including capital ratios.

The use of standardised contracts and forms carries certain risks.

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

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

RISKS RELATING TO THE RECAPITALISATION PLAN AND THE RESTRUCTURING PLAN OF THE BANK

The Restructuring Plan of the Bank approved by the EC has an associated execution risk and both the Restructuring Plan's success and the Bank's strategic autonomy depend on the ability to repay the "GSIs" in the amount of EUR 3 billion (EUR 750 million currently outstanding) on time.

The EC approved the Bank's Restructuring Plan on 30 August 2013. The non-confidential version of the Restructuring Plan is available on the EC's website: (http://ec.europa.eu/competition/state_aid/cases/247497/247497_1600000_491_2.pdf).

The decision concluded that the Restructuring Plan was in compliance with the EU rules on State aid by demonstrating the Bank's viability without continued State support. The plan operates on the following elements:

– increasing funding to the economy through full compliance with the regulatory requirements of capital levels;

– separating core and non-core assets (non-core assets include loans to purchase securities, highly leveraged loans, subsidised mortgage housing loans and credit to certain segments associated with construction, football clubs and real estate) to strategically refocus activity, aimed at gradually reducing non-core assets;

– deleveraging the balance sheet;

– improving operational efficiency, the commitment of achieving a minimum ROE[2] of approximately 10% and a maximum cost to income of 50% from 2016 having been assumed (as at 30 September 2016, ROE was −7.7%, cost to income[3] was 46% and the cost to core income[4] was 52%);

– implementing a new approach in the management of investment funds by adopting a model of distribution of open architecture business, allowing for a wider range of client investment options; and

– continuing the process of adjusting the structure of the Bank in the domestic market, in particular by adapting the number of branches and other areas of business support, and highlighting the continuity of human resources policies that calibrate the staff numbers to the demand for banking services.

In addition to the commitments already fulfilled by the Bank in respect of the improvement of operational efficiency, the sale of Millennium Gestão de Activos ("**MGA**") and the Bank's Romanian subsidiary, the loan portfolio operations in Switzerland and the Cayman Islands and the Piraeus Bank SA holding, the Restructuring Plan contains a set of general restrictions that may temporarily restrict the operational and strategic flexibility of the Bank, including: the prohibition of equity acquisitions; prohibition of aggressive commercial practices; remuneration of corporate bodies and employees on the basis of long-term goals of the organisation; restrictions on business with related parties; prohibition on the payment of dividends and coupons, primarily related to preferential shares and

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2 **Return on equity (ROE)** – Net income (including the minority interests) divided by the average attributable equity, deducted from preference shares and other capital instruments.

3 **Cost-to-income** – operating costs divided by net operating revenues.

4 **Cost to core income** – operating costs divided by the net interest income and net fees and commission income.

subordinated and perpetual bonds (unless legally required) and on the repurchases of hybrid instruments and subordinated debt and prohibition of financing the purchase of shares or hybrid capital instruments issued by the Bank.

As mentioned above, ROE was negative 7.7% as of 30 September 2016 which was below the aforementioned commitment of approximately 10%. Consequently, there is a high probability that this target will not be achieved as at 31 December 2016. A failure to properly implement the Restructuring Plan could result in the possible obligation to reimburse the public investment earlier than expected or the potential conversion of GSIs into ordinary or special shares, resulting in the dilution of shareholder interests and rendering the Portuguese State the majority shareholder of the Bank, or even in the filing, by the EC, of additional proceedings to analyse the potential improper use of public funds received by the Bank, which could result in the imposition of additional measures to those currently foreseen in the Restructuring Plan.

The Restructuring Plan also provides for the conditional sale of the investment operation in Poland, if the Bank does not repay a minimum of 2.3 billion of GSIs by the end of 2016. At the present date the Bank has repaid EUR 2.25 billion and has EUR 750 million outstanding, and there can be no assurance that, until the end of 2016, the Bank will be authorised to repay an amount that causes the obligation of conditional disposal of the financial holding in the Polish operation to become inapplicable. A potential obligation of disposal could affect the market value of the asset, the return of such disposal as well as the earnings capacity and capital position of the Bank.

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

If the Bank is authorised to repay in full the outstanding amount of GSIs, the limitations on the payment of dividends by the Bank and prohibitions related to coupon payments and interest on hybrid instruments and subordinated debt where there is no legal obligation to make such payment will automatically terminate with a full repayment of GSIs; however, other implied obligations arising out of the Restructuring Plan shall continue to be in force until 31 December 2017, unless waived by the EC. See *Conditions imposed on the Bank as a result of the Recapitalisation Plan and the Restructuring Plan may constrain the Bank's operations.*

The Bank may not be able to ensure payments related to GSIs, which could render the Portuguese State the majority shareholder of the Bank.

On 29 June 2012, the Bank issued EUR 3 billion of GSIs that have a high and increasing coupon (8.5% during the first year, with subsequent annual increases thereafter, which are currently at 10% per year). The Bank has already redeemed EUR 2.25 billion, with EUR 750 million of the principal thus remaining outstanding. As at 30 September 2016, the accumulated expense of all interest payments associated with the GSIs was EUR 698 million.

The Bank may not be able to avoid the dilution that may result from an event that would convert the GSIs into ordinary or special shares. Such events may include, among others, the non repayment of the whole amount of the GSIs at the maturity (29 June 2017); the total or partial cancelation or suspension, by the Bank, of the payment of interest of the GSIs; any other circumstance that proves to be a materially relevant non compliance with the Recapitalisation Plan; or other circumstances that the Bank may be unable to control, including decisions made by Banco de Portugal on the Bank's viability, changes to its control structure or in the applicable regulatory framework, the request for additional State aid or even the exclusion of its shares from trading in the market.

A potential conversion of the GSIs into ordinary or special shares (or the respective payment in kind with delivery of new ordinary shares, in accordance with the conditions approved at the General Meeting of Shareholders held on 25 June 2012 and pursuant to the respective terms and conditions of the issue attached to the Decision (Despacho) 8840 B/2012 of the Minister of State and Finance of 28 June 2012, as amended, published in the Supplement of the Official Gazette, 2nd series of 3 July 2012, approving the public investment pursuant to the Recapitalisation Plan, the "**Decision**"), would represent a considerable risk of dilution of shareholder interests and could mean that the State would be able to exercise a significant control over the Bank's operations, as a majority shareholder. Both the resulting dilution and loss of control could have material adverse effects on its business, financial condition, results of operations and prospects.

The Bank is exposed to contingent risks for the implementation of its strategy, and may not, totally or partially, achieve the objectives in its Strategic Plan 2012-2017 and Strategic Agenda 2016–2018.

The Bank is exposed to strategic risk, with the possibility of inadequate strategic decisions, failures in the implementation of decisions or lack of response capability in light of changes to market conditions, and may not, totally or partially, achieve the objectives in its Strategic Plan 2012-2017 (the "**Strategic Plan**"), which was reviewed in 2015, including what is foreseen in the Recapitalisation Plan and in the Restructuring Plan. Since 2011, the eight major Portuguese banks (including BCP) have been subject to monitoring by the Troika and have assumed several goals regarding their capital and liquidity. With respect to BCP specifically, these goals, set out in a Funding and Capital Plan, which has been updated on a regular basis, are consistent with the provisions of the Recapitalisation Plan and the Restructuring Plan. It is not assured that the Bank will be able to fully implement its strategic agenda due primarily to general constraints, such as (i) the further deterioration of market conditions; (ii) increased competition or the actions taken by its main competitors; (iii) measures to resume growth and leadership in the retail banking segment and attract greater value in the Companies, Corporate and Investment Banking (including Large Corporate) segments; (iv) maintaining the drive to reduce costs and to optimise capital and liquidity management; and (v) the strengthening of risk management. Furthermore, the Bank could face difficulties in the implementation of critical management measures aimed at continued re-pricing, optimising the recovery of banking revenues and profitability, mitigating exposure to various types of risk and increasing its own funds, with a negative impact on expected efficiency levels and compromising the defined objectives and solvency. If the Bank is unable to achieve its strategic objectives, it could have a material adverse effect on its business, financial condition, results of operations and prospects.

Conditions imposed on the Bank as a result of the Recapitalisation Plan and the Restructuring Plan may constrain the Bank's operations.

As a result of the Portuguese Republic's investment in the Bank pursuant to the Recapitalisation Plan and the Restructuring Plan, the Bank assumed certain undertakings in the specific context of the approval of its Recapitalisation Plan, in addition to the limitations on distribution of dividends, which include, amongst other undertakings:

- a ban on buy-backs of hybrid instruments and subordinated debt without the consent of the Portuguese Minister of State and Finance (the "**Minister of State and Finance**"); in this respect, the Restructuring Plan approved by the EC extends the prohibition to the buy-back of shares, hybrid instruments, subordinated debt and similar securities held by entities other than the Portuguese State or entities in the consolidation perimeter of BCP, with the exception of prior authorisation by the EC, if such repurchases do not trigger payments to third parties;

- a ban on coupon and interest payments on hybrid instruments and subordinated debt where there is no legal obligation to proceed with such payment;

- a ban on the acquisition of equity stakes in other companies, unless previously authorised by the EC, the Minister of State and Finance and Banco de Portugal;

- granting the Minister of State and Finance the right to appoint two non-executive members to the Board of Directors of the Bank (the "**Appointed Members**"), one of whom will serve on the Audit Committee and the other on the Compensation and Welfare Board and Risk Commission. If required, after having consulted the senior executive officer of the Bank in that respect, acting in a commercially reasonable manner and in accordance with market standards, the Appointed Members will be able to require, at the Bank's expense, external independent review and reporting of aspects of the financial position, conduct and plans of the Bank. On 29 November 2012, the Bank announced to the market the appointment of two representatives of the Portuguese Republic to the corporate bodies of Millennium bcp (Bernardo Sottomayor, as first non-executive director—who has subsequently resigned to his position and has not yet been replaced—, and José Rodrigues Jesus, as second non-executive director (who is also a member of the Audit Committee)) in connection with the Bank's recapitalisation process and in accordance with what was provided in Article 14, No. 2 of Law 63-A/2008, as amended and Decision (*Despacho*) No. 8840-B/2012 of 28 June 2012;

- remuneration and benefits of senior management and executives will be subject to appropriate levels of transparency and scrutiny to ensure they remain appropriate;

- granting the Minister of State and Finance the ability to limit the commitment by the Bank of further financial resources to any non-lending businesses, mergers or acquisitions by the Bank;

- the prohibition of financing by the Bank of mergers or acquisitions of businesses in the financial services sector, except upon written approval of the Minister of State and Finance;

- the operation and maintenance of an internal specialised unit (or units) to be accountable for the management of problem and workout assets, in line with international best practices;

- the implementation of the Recapitalisation Plan and carrying out the Bank's activities accordingly, in particular with respect to the contribution of the Bank to the financing of the Portuguese economy, including households and small- and medium-sized enterprises, and particularly within the sectors of tradable goods and services. The Bank has changed the focus of its credit policy, which is now mainly directed towards funding companies of the tradable goods and services sector;

- the reduction, already achieved by 31 December 2013, and which shall be maintained until 31 December 2017, in lending to shareholders holding more than 2% of the Bank's outstanding shares to less than 30% of the Bank's own funds after the deduction of publicly invested funds, except where expressly authorised in writing by Banco de Portugal. In September 2016, credit exposure to shareholders holding more than 2% of the Bank's outstanding shares was approximately 3%, which compares with 25.9% in December 2013. In this respect, the Restructuring Plan approved by the EC also includes limits of exposure to these shareholders that are applicable during the restructuring period; and

- the commitment by the Bank of EUR 30 million per annum to a fund that will invest in equity in Portuguese small- and medium-sized enterprises and in Portuguese companies with a medium level of capitalisation. Under this commitment, as at 30 September 2016, the Bank has already invested EUR 98 million in this fund.

Certain covenants and undertakings described above may require further interpretation and clarification, in particular, from the EC, considering the terms of the decisions approving the Recapitalisation Plan and the Restructuring Plan. All of the aforementioned undertakings can have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Recapitalisation Plan and the Restructuring Plan may not be sufficient to meet the Bank's future regulatory capital requirements, which could necessitate further engagement in liability management transactions, sales of assets or additional public investment.

Deterioration of the economic and financial situation in European and global markets, a persistent low or even negative interest rate environment, further reductions in the credit ratings of the Bank or changes to the regulatory framework of capital requirements may affect the Bank's ability to comply with minimum regulatory capital requirements in regulations, as described in – *Risks Relating to the Portuguese Economy* and *Risks Relating to the Bank's Business*. If any of these were to materialise, the Bank may have to raise additional capital or issue other financial investments in order to comply with the minimum capital requirements. Such issuances may be made with respect for the shareholders' pre-emption rights or, to the extent authorised by the general meeting of shareholders (the "**General Meeting of Shareholders**"), without regard to shareholders' pre-emption rights.

The Bank may also decide to engage in other liability management exercises, as long as they are previously approved by the EC, under which the Bank could propose to holders of other classes of securities issued by the Bank or its subsidiaries an exchange or any other form of conversion of other securities into the Bank's ordinary shares.

Additionally, the Bank may be required to sell assets in sub optimal conditions or even to request additional funds from public entities in exchange for the issuance of ordinary shares, which may result in an exercise of significant State control over Bank operations, particularly where such a circumstance may in certain cases lead to conversion (in whole or in part) of the GSIs.

Any issuance of additional shares by the Bank or the perception by the market that such issuance may occur could adversely affect the market price of securities of the Bank, and have a material adverse effect on its business, financial condition, results of operations and prospects.

RISKS RELATING TO THE BANK'S BUSINESS

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

The Bank is exposed to its customers' credit risk. Gross exposure to risk of credit (position in original risk) on 30 September 2016 was EUR 90.3 billion (EUR 91.5 billion on 31 December 2015 and EUR 91.8 billion on 31 December 2014).

As at 30 September 2016, the breakdown of this exposure was the following: EUR 11.3 billion for central governments or central banks, EUR 0.8 billion for regional administrations or local authorities, EUR 0.8 billion for administrative entities and non profit organisations, EUR 0.07 billion for multilateral development banks, EUR 3.6 billion for other credit institutions, EUR 60.1 billion for retail and companies customers and EUR 13.7 billion for other elements.

As at 31 December 2015, the breakdown of this exposure was the following: EUR 9.5 billion for central governments or central banks, EUR 0.7 billion for regional administrations or local authorities, EUR 0.8 billion for administrative entities and non profit organisations, EUR 0.05 billion for multilateral development banks, EUR 3.2 billion for other credit institutions, EUR 63.8 billion for retail and companies customers and EUR 13.5 billion for other elements.

According to the ECB, Portugal's NPE coverage by LLR and collaterals was 104% in 2015. NPEs as at 30 September 2016 were EUR 9.3 billion.

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.

In addition, the ongoing process of revising IAS 39, particularly within the context of the amendment of the new impairment model imposed by IFRS 9, due to enter into force on 1 January 2018, could determine the need for recognition of different levels of impairments, which could adversely affect the business, results of operations, financial condition and prospects of the Group.

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 exposures in its loan portfolio. The 20 largest loan exposures of the Bank as at 30 September 2016 represented 10.4% of the total loan portfolio (gross) (9.1% as at 31 December 2015 and 10.7% as at 31 December 2014). The qualified shareholders' loan exposures as at 30 September 2016 represented 0.02% (0.3% as at 31 December 2015 and 0.4% as at 31 December 2014).

The Bank also has a high sectorial concentration in its loan book. As at 30 September 2016, the Bank's credit exposure to the real estate and civil construction sectors was 3% (real estate activities) and 5.8% (construction companies) of the total loan portfolio (gross). On that date, 46.1% of the loan portfolio consisted of mortgage loans, the exposure to retail and wholesale commerce was 6% and the exposure to service sector companies was 18%.

As at 31 December 2015 the Bank's credit exposure to the real estate and civil construction sectors was 3.3% (real estate activities) and 6.4% (construction companies) of the total loan portfolio (gross), respectively. On that date, 46% of the loan portfolio consisted of mortgage loans, the exposure to retail and wholesale commerce was 6.1% and the exposure to service sector companies was 18.1%.

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

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

Off-balance sheet customer funds, as at 30 September 2016 totalled EUR 12.8 billion, largely consisting of assets under management (EUR 4.1 billion) and financial insurance (EUR 8.7 billion), including unit linked products (EUR 4.5 billion) and capitalisation insurance/PPR (retirement savings plans) (EUR 4.2 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 conditions, 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 5.8%, 3% and 46.1% of the consolidated loan portfolio, respectively, as at 30 September 2016 in assets related to its operations or obtained in lieu of payment, and indirectly through properties securing loans or through funding of real estate development projects (assets received in lieu of payment in Portugal represented 2.3% of total assets of the Bank as at 30 September 2016), 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) increased from EUR 1,262 million as at 31 December 2014 (impairments of EUR 259 million) to EUR 1,446 million as at 31 December 2015 and EUR 1,685 million as at 30 September 2016 (impairments of EUR 234 million as at 31 December 2015 and of EUR 210 million as at 30 September 2016). The coverage of assets received in lieu of payment decreased from 20.5% as at 31 December 2014 to 16.2% as at 31 December 2015 and to 12.5% as at 30 September 2016. In the nine months ended 30 September 2016, the Bank received 1,685 new properties and sold 1,066 properties, from its stock of properties, for EUR 131 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 IFRS, were subject to the full consolidation method represented as at 30 September 2016 EUR 411.3 million (EUR 326.5 million as at 31 December 2015 and EUR 325.1 million as at 31 December 2014). The item Investment Properties includes the amount of EUR 57.5 million as at 30 September 2016 (EUR 144.6 million as at 31 December 2015 and EUR 174.9 million as at 31 December 2014), concerning properties held by Fundo de Investimento Imobiliário Imosotto Acumulação, by Fundo de Investimento Imobiliário Gestão Imobiliário, by Fundo de Investimento Imobiliário Imorenda, by Fundo de Investimento Imobiliário Fechado Gestimo and by Imoport—Fundo de Investimento Imobiliário Fechado.

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

The item Properties, which includes the real estate booked in the pension fund's financial statements and used by Group companies, in the pension fund amounted to EUR 282.1 million recorded as at 30 September 2016, EUR 301.6 million as at 31 December 2015 and EUR 301.5 million at the end of 2014.

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 45% of the total loan portfolio as at 31 December 2015, with a low delinquency level and an average loan to value ratio of 67%. Although Portugal did not face a housing bubble during the recent financial crisis as in other European countries, such as Ireland and Spain, and real estate prices in Portugal have been fairly stable over the last years, the economic and financial crisis still had an impact on the real estate market. Portuguese banks are granting a low amount of new mortgage loans with very low spreads, and real estate developers have encountered a difficult market for sales. Moreover, there was a reduction in public works activity that severely affected construction companies, which had to redirect their activities to foreign markets. Furthermore, difficult credit conditions associated with the contraction of tourism have affected certain real estate developers that had been involved with tourism related projects, in particular in the southern part of Portugal. All of the aforementioned effects have increased delinquency among construction companies and real estate developers, impacting the Bank's NPLs and contributing to the increase in impairment charges.

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

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

Mortgage loans represented 46% of BCP's total loan portfolio (consolidated) as at 30 September 2016. The average spread of the mortgage loans portfolio in Portugal stood at 124 basis points; 39% of the contracts and 46% of the balance of mortgage loans had spreads under 1%. As at 30 September 2016, 82% of the contracts and 80% of the balance of the mortgage loans portfolio in Portugal were indexed to Euribor 3 months and 16% of the contracts and 19% of the balance of the portfolio were indexed to Euribor 6 months. In 2015, the average spread of the mortgage loans portfolio in Portugal stood at 139 basis points; 40% of the contracts and 47% of the balance of mortgage loans had spreads under 1%. As at 31 December 2015, 82% of the Bank's contracts and 80% of the balance of the mortgage loans portfolio in Portugal were indexed to Euribor 3 months and 16% of the contracts and 19% of the balance of the portfolio were indexed to Euribor 6 months.

As a counterbalancing measure, the Bank, along with other banks in Portugal, limited the granting of new mortgage loans. In the nine months ended 30 September 2016, 4,041 new mortgage credit operations were contracted with an average spread of 207 basis points, compared to 6,609 new mortgage credit operations contracted with an average spread of 240 basis points in 2015.

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 Banks business, financial condition, results of operations and prospects. Furthermore, a continuation of the historically low interest rate environment may adversely affect the Bank's net interest income, which in turn would likely have an adverse effect on the Bank's profitability.

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

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

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

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

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

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

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

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

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

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

The Bank's total exposure to funds specialised in the recovery of loans was EUR 1,673 million as at 30 September 2016, with an impairment of EUR 472 million, including impairment of the senior and junior tranches with 100% of the latter provisioned. Therefore, the net exposure of the Bank to funds specialised in the recovery of loans was EUR 1,201 million as at 30 September 2016.

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

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

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

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

The Bank's portfolio may continue to contract.

Bank loans to customers (gross) at a consolidated level decreased from EUR 57.2 billion in December 2014 to EUR 55.4 billion in December 2015 and EUR 52.6 billion as at 30 September 2016. In the current economic environment, the Bank's loan portfolio in Portugal may continue to shrink and its loan portfolio abroad may not continue to grow at historic rates, or may even decrease. Furthermore, in addition to the obligations undertaken in the context of the Banks's Restructuring Plan, in some of the Bank's target markets, there is a limited number of customers of high creditworthiness. The Bank has also undertaken commitments in respect of operational efficiency, including the sale of the loan portfolio operations in Switzerland and the Cayman Islands. As the demand for credit in the economy is reduced and the good quality credit loans are repaid, the Bank may face difficulties in exchanging loans being reimbursed for loans with good credit quality loans. Developments in the Bank's loan portfolio will be affected by, among other factors, the condition of the Portuguese economy. The continued decline in the value or quality of the Bank's loan portfolio could limit its ability to generate net interest income, which in turn could have a material adverse effect on the Bank's business, financial position, results of operations and prospects.

The Bank is exposed to further deterioration of asset quality.

The value of assets collateralising the Bank's secured loans could decline significantly as a result of a general decline in market prices or a decline in the value of the asset class underlying the collateral, which could result in an increase of the impairment recognised for the collateralised loans granted by the Group. Loan volume to both businesses and individuals is expected to remain depressed in Portugal due primarily to downward pressure on household disposable income and the firms profitability from austerity measures, 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 (as at 30 September 2016, 5% of the loan portfolio's collateral consisted of financial assets, compared to 4.7% as at 31 December 2015).

Considering the Portuguese macroeconomic situation and the Bank's older loan exposures to some of the more vulnerable sectors in the economy, in the context of a prudent management of its balance sheet, the Bank has materially increased the amount of provisions and credit impairments booked during the last two quarters (from 31 March 2016 to 30 September 2016). In the three months ending 31 December 2016, the Bank expects to book additional impairments of comparable amounts to those booked in the three months ended 30 September 2016.

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

The Bank's consolidated gross loan portfolio, as at 30 September 2016, was EUR 52.6 billion. As at 31 December 2015, the Bank's consolidated loan portfolio was EUR 55.4 billion.

The ratio of overdue loans over 90 days stood at 7.2% as at 30 September 2016, compared to 7.4% as at 30 September 2015; the ratio of overdue loans stood at 7.4% as at 30 September 2016, compared to 8.1% as at 30 September 2015; the ratio of NPLs stood at 11% as at 30 September 2016, compared to 11.5% as at 30 September 2015; the ratio of credit at risk stood at 11.4% as at 30 September 2016, compared to 11.9% as at 30 September 2015. The ratio of NPEs stood at 19% as at 30 September 2016, compared to 20.8% as at 30 September 2015. As at 30 September 2016 the restructured loans ratio reached 10.1% of total loans, a favourable performance from the 10.5% registered at the end of September 2015, and the restructured loans not included in the credit at risk ratio stood at 4.1% of total loans as at 30 September 2016 (6.6% as at 30 September 2015).

The ratio of overdue loans over 90 days stood at 7.2% as at 31 December 2015, compared to 7.3% as at 31 December 2014; the ratio of overdue loans stood at 7.4% as at 31 December 2015, compared to 7.5% in 31 December 2014; the ratio of NPLs stood at 10.9% as at 31 December 2015, compared to 11.5% as at 31 December 2014; the ratio of credit at risk stood at 11.3% as at 31 December 2015, compared to 12% as at 31 December 2014. The ratio of NPEs stood at 20.1% as at 31 December 2015, compared to 21.2% as at 31 December 2014.

As at 30 September 2016, the loan portfolio in Portugal amounted to EUR 40.3 billion. In Portugal, the ratio of overdue loans over 90 days stood as at 30 September 2016 at 8.7%, compared to 9.1% as at 30 September 2015; the ratio of overdue loans stood at 9% as at 30 September 2016, compared to 9.9% as at 30 September 2015; the ratio of NPLs stood at 13.5% as at 30 September 2016, compared to 14% as at 30 September 2015; the ratio of credit at risk stood at 13.7% as at 30 September 2016, compared to 14.1% as at 30 September 2015. The ratio of NPEs stood at 17.6% as at 30 September 2016, compared to 18.7% as at 30 September 2015.

As at 31 December 2015, the loan portfolio in Portugal amounted to EUR 41.6 billion. In Portugal, the ratio of overdue loans over 90 days stood at 8.9% as at 31 December 2015, compared to 8.9% as at 31 December 2014; the ratio of overdue loans stood at 9.1% as at 31 December 2015, compared to 9.1% in 31 December 2014; the ratio of NPLs stood at 13.4% as at 31 December 2015, compared to 14% as at 31 December 2014 and the ratio of credit at risk stood at 13.5% as at 31 December 2015, compared to 14.1% as at 31 December 2014. The ratio of NPEs stood at 18% as at 31 December 2015, compared to 19.4% as at 31 December 2014.

The persistence of volatility and adverse economic and financial circumstances at worldwide, European and national levels increases the risk of deterioration of the quality of the consolidated loan portfolio and may also lead to increased impairment losses and deterioration of the regulatory capital ratios. Loan impairment (net of recoveries) amounted to EUR 870.2 million as at the nine-month period ended on 30 September 2016, to EUR 833 million as at 31 December 2015 and to EUR 1,107 million as at 31 December 2014. From 2011 to 30 September 2016, the Bank made impairment provisions amounting to EUR 5,815.9 million. A significant portion of the foregoing related to inspections to the Bank's loan portfolio, namely Special Inspections Programme Work Stream 1 (EUR 381 million), On-site Inspections Programme (EUR 290 million), Exercício Transversal de Revisão das Imparidades das Carteiras de Crédito-ETRICC (Transversal Exercise of Impairments Revision on the Loan Portfolio) (EUR 306 million) and Asset Quality Review (EUR 313.5 million). Cost of risk[5], measured by the proportion of loan impairment annualised charges (net of recoveries) compared to loans to customers (gross), stood at 221 basis points as at 30 September 2016, compared to 150 basis points as at 31 December 2015, and 194 basis points as at 31 December 2014. The credit at risk coverage stood at 63.2% as at 30 September 2016, compared to 53.7% as at 30 September 2015. The credit at risk coverage stood at 55.2% as at 31 December 2015, compared to 50.8% as at 31 December 2014. 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 30 September 2016 was 2.7%, compared to 2.9% as at 30 September 2015. As at 31 December 2015, the NPL ratio was 2.8%, compared to 3% as 31 December 2014.

In Mozambique, the NPL ratio as at 30 September 2016 was 5.3%, compared to 6.2% as at 30 September 2015. As at 31 December 2015, the NPL ratio was 6.2%, compared to 4.1% as at 31 December 2014.

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. 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.

[5] **Cost of risk,** net ratio of impairment charges (net of recoveries) accounted to customer loans (gross).

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

The Portuguese banking market is well developed, containing major national and foreign competitors which follow multi-product, multi-channel and multi-segment approaches and are, in general, highly sophisticated. Over recent years, there has been a significant development 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 is unpredictable and could add to increased competition as the bank could potentially be acquired by an institution with no current presence in the Portuguese banking system. Furthermore, many Portuguese banks are dedicated to increasing their market shares by launching new products, implementing cross-selling strategies and engaging in more aggressive commercial strategies. Additional integration of European financial markets may contribute to increased competition, particularly in the areas of asset management, investment banking, and online banking and brokerage services.

In the nine months ended 30 September 2016, the Bank had 2.3 million customers in Portugal and, in June 2016, 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: 18% in loans to customers, 18% in loans to companies, 16.7% in loans to individuals, 17.5% in mortgage loans, 10.1% in consumer credit, 19.2% in customer funds, 17.9% in on-balance sheet customer funds, 17.3% in deposits and 23.3% in off-balance sheet customer funds.

The Bank's financial success depends on its capacity to maintain high levels of loyalty among its customer base and to offer a wide range of competitive and high quality products and services to its customers. In order to pursue these objectives, the Bank has adopted a strategy of segmentation of its customer base, aimed at serving the various needs of each segment in the most suitable manner, in addition to cross-selling its products and services through its distribution network in Portugal, under the brand "Millennium bcp". However, high levels of competition in Portugal, as well as in other countries where the Bank operates and an increased emphasis on cost reduction may result in the Bank's inability to maintain these objectives. In addition, within the scope of its restructuring programme, on 30 September 2016 the Bank operated 634 branches, meeting the goal of reducing the number of branches to less than 700 until the end of 2017. In addition, the Bank announced a new goal of further decreasing the number of branches by 100 by 2018, working towards its goal of becoming a more digital bank. This resulted in the downsizing of the Bank's branch network and consequently in BCP's branches' market share in Portugal. This may result in a weaker competitive position on the Portuguese retail market. As a consequence, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Moreover, as at 30 September 2016, around 6% of the Bank's total domestic customers also held ordinary shares of the Bank (around 5.9% as at 31 December 2015 and 2014). If the price of the Bank's ordinary shares continues to decline, this could lead to shareholder dissatisfaction and, to the extent that such shareholders are also customers of the Bank, this could result in broader customer dissatisfaction, any of which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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

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

In the nine months ended 30 September 2016, more than 81% of the fees and commissions related to banking (27.5% to cards and transfers, 30.6% to loans and guarantees, 14.8% to bancassurance, 17.4% to customer account related fees and 9.7% to other fees and commissions), with market related fees and commissions accounting for the remaining 19%. 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.

Changes in consumer protection laws may limit the fees that the Bank can charge in certain banking transactions.

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 funds transfers and remittances. If introduced, such changes could reduce the Bank's net income, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

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

The Bank's ratings are assigned by Moody's, Standard & Poor's, Fitch and DBRS. The ratings as of the date of this Base Prospectus are the following: (i) Moody's: "B1/NP", (ii) Standard & Poor's: "B+/B", (iii) Fitch: "BB−/B" and (iv) DBRS: "BB (high)/R-3". The risk ratings for the Bank's subordinated debt are: "BB" by DBRS, "B+" by Fitch, "Caa1" by Moody's and "CCC" by Standard & Poor's. In June 2016, Moody's, Fitch and DBRS confirmed a stable outlook for the Bank, while Standard & Poor's confirmed a positive outlook.

Credit ratings represent an important component of the Bank's liquidity profile and affect the cost and other terms upon which the Bank is able to obtain funding. Changes to the Bank's credit ratings reflect, apart from changes to the rating of the Portuguese Republic, a series of factors intrinsic to the Bank. Currently, the ratings assigned to the Bank, with the exception of the ratings assigned by the British branch of DBRS, are non investment grade. In terms of capital and despite the fact that the rating agencies recognise that the solvency levels of the Bank are better primarily due to the recapitalisation by the Portuguese State and by shareholders in June and September 2012, respectively, and more recently in July 2014 and in June 2015 (the latter within a context of a voluntary and partial tender offer for the purchase of securities, Oferta Pública de Aquisição Voluntária e Parcial de Valores Mobiliários), there remains uncertainty whether adverse conditions of the Portuguese economy could impact the Bank's profitability and ability to generate income, jeopardising the Bank's ability to preserve capital. The rating agencies also consider the following additional risk factors: (i) the declining quality of the loan portfolio and any exposure to small and medium enterprises in Portugal; (ii) the Bank's exposure to public debt; (iii) the Bank's exposure to its main clients, particularly shareholders (6% of BCP's shareholders were also clients of BCP as at 30 September 2016); and (iv) continued dependency on funding from the ECB.

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

The Bank is exposed to risks in its international operations.

In the first nine months of 2016, the Bank's net profit attributable to international operations was EUR 217 million, compared to net losses of EUR 251.1 million for the Bank as a whole. For the same period, net income in Poland was EUR 130.3 million, EUR 65.3 million of which was attributable to the Bank, net income in Angola was EUR 28.5 million and net income in Mozambique was EUR 51.8 million, of which EUR 34.5 million was attributable to the Bank.

In 2015, the Bank's net profit attributable to international operations was EUR 302.7 million, compared to net profits of EUR 235.3 million for the Bank as a whole. For the same period, net income in Poland was EUR 130.7 million, EUR 71.5 million of which was attributable to the Bank, net income in Angola was EUR 75.7 million, of which EUR 37.9 million was attributable to the Bank, and net income in Mozambique was EUR 84.2 million, of which EUR 55 million was attributable to the Bank.

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

The Bank faces exposure to macroeconomic risks in its operations in Poland and Mozambique, as well as a result of its participation in Angolan BPA, whose materialisation in the future may have an adverse impact on the business, financial condition, results of operations and prospects of the Bank.

Poland

Poland withstood the impact of the global crisis resiliently. After a marked slowdown in 2012, which deepened in the first half of 2013, economic activity in Poland rebounded, benefiting mainly from the strong growth in exports, notwithstanding the geopolitical tension in the Ukraine. During 2014 and 2015, the Polish GDP accelerated further through firmer exports and increased domestic demand due to improvement in the labour market. In 2015 the Polish GDP growth rate was 3.7% and, in 2016, the Polish GDP growth rate is expected to remain above 3.5% with GDP expected to decrease to 3.3% for 2018 and to 3% for 2021 (sources: EC, spring 2016; IMF, WEO October 2016). In 2016, the Polish GDP growth rate is expected to remain above 3.7% (source: EC, spring 2016).

Against this positive background, a potential downward revision of external demand, namely by the rest of the EU, the main trading partner of Poland, and by Russia, which faces a recessive environment, may constrain activity and negatively affect the confidence levels of households and businesses, which would have repercussions on the financial conditions of customers and therefore on the Bank's results. In addition, the risks of renewed instability in financial markets and political tensions in Poland and elsewhere the EU, on the back of the United Kingdom's exit from the EU, could lead to greater volatility of the Polish zloty exchange rate and affect the Bank's results directly through financial operations and indirectly through repercussions on the clients' financial situation. Moreover, there is the risk that the implementation of more economic policy decisions targeting the banking system by Polish authorities could negatively affect investor's 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 against the euro and the zloty. The granting of loans in Swiss francs was a common practice to most Polish banks (and in other economies of Central and Eastern Europe) in the past. Bank

Millennium SA ("**Bank Millennium**") granted mortgage loans in Swiss Francs until December 2008 and its Swiss francs mortgage loans portfolio on 30 September 2016 stood at approximately EUR 4.1 billion (approximately 37.3% of the total loan portfolio). The mortgage loans denominated in CHF impaired ratio stood at 4.6% and the coverage by provisions at 64% at 30 September 2016. Considering the loans more than 90 days past due the ratio is only 2.7% and the coverage by provisions is at 107% at 30 September 2016.

Bank Millennium stopped granting mortgage loans in foreign currencies in 2009, consequently the Polish foreign exchange mortgage loans is a mature portfolio, constantly decreasing according to the repayment rate and with a low impairment ration and high coverage by provisions. Currently, Bank Millennium's foreign exchange mortgages amount to 37.3% of the Polish bank's loan book (EUR 4.1 billion), which represents 7.8% of the Group's total loans.

Andrzei Duda, the Polish President, convened a team of experts to modify his proposed bill for the conversion of CHF denominated mortgages, after his initial proposal was scraped primarily due to its high cost to Poland's financial system. The Polish banking regulator estimated the proposed bill's cost for banks at PLN 44.6 billion to 66.9 billion (EUR 10.2 billion to EUR 15.4 billion).

The Polish President announced a new plan for CHF-denominated mortgage loans in August 2016, according to which banks must return the cost of excessive foreign exchange spreads they charged their clients, potentially equalling several billion zloty. The decision to limit the scale of requirement was due primarily to concerns regarding the deteriorating situation of European financial institutions.

According to news publications that mention the Polish President's advisors as their source, the planned bill envisages different methods for restructuring the loans. It is expected to include the foreign exchange spread charged to clients, the conversion of the loan at a "fair" exchange rate and the cancellation of the loan through the delivery of the real estate collateral. The bill may assume debt-to-income criteria for conversion eligibility. Polish banks should be able to spread the conversion costs over time and will have the option to create a special purpose vehicle to spin-off foreign exchange loan portfolios. In any case, also based on the statements of polish authorities, it is expected that any solution that may be approved will take into consideration the stability of the polish financial system and the overall impacts for the polish economy.

The draft law was sent to Polish Parliament for further proceeding as a Presidential Proposal. Polish Banking Association and National Bank of Poland sent to the Parliament remarks and reservations to the draft law. The first debate in Parliament took place on 20 October 2016. The process is still going on.

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

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

Bank Millennium's foreign exchange mortgages amount to 38.5% of the Polish bank's loan book (EUR 4.2 billion), which represents 7.9% of the Group's total loans.

Mozambique

Mozambique continues to face economic challenges. After being one of the fastest growing economies in Sub-Saharan Africa, with five consecutive years of GDP growth rates above 7%, the

Mozambican economy decelerated in 2015 to 6.6% and is projected to expand 4.5% in 2016 (source: IMF, 24 June 2016). The Mozambican GDP growth rate is expected to remain at 6.7% for 2018 and 6.8% for 2021 (sources: EC, spring 2016; IMF, WEO October 2016). The deceleration resulted from the fall of commodity prices, in particular gas, coal and aluminium, which caused a fall in export revenues and a slower pace of foreign direct investment. This led to deterioration of public finances and of the current account balance and to the depreciation of the metical. According to the IMF, the general gross government debt as a percentage of GDP rose from 62.4% in 2014 to 86% in 2015, while the current account balance as a percentage of GDP was negative 39% in 2015, compared to negative 38.2% in 2014. Due to exchange rate instability, the Mozambican government requested an emergency loan from the IMF at the end of 2015 (source: IMF, 2 December 2016) and adopted a more restrictive monetary and fiscal policy in order to restore economic stability. However, in April 2016, the IMF and international donors halted aid to Mozambique, after finding an undisclosed external guaranteed debt of $1.4 billion (source: IMF, 24 June 2016). Mozambican authorities were urged to implement quick and decisive measures to avoid further deterioration of the country's economic and financial condition and to strengthen transparency and governance. Against this background, delays in the implementation of structural reforms and the policies outlined in the Memorandum of Economic and Financial Policies (source: IMF, 2 December 2015) could worsen the country's economic and financial conditions. Furthermore, any downward movements in the prices of commodities, namely aluminium and coal, could negatively impact the reform effort. Finally, a deterioration of the economic and financial situation may contribute to the rise of political tensions (Frelimo and Renamo have been holding start-stop talks aimed at ending a military conflict that was resumed in 2013), which may negatively affect the business environment.

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

Despite the Mozambican banking sector's high concentration – in 2015 the three largest banks had a combined market share of approximately 70% – the competitive environment is dynamic, with a total of 19 banking groups currently competing in the market. Mozambique exhibits a low level of banking activities, with low but increasing banking business volumes. The ratio of credit to the private sector to GDP stood at 35.4% at the end of 2015 (source: World Bank). Moreover, both credit and deposits recorded average annual growth rates above 20% between 2010 and 2015.

According to the IMF, the banking sector in Mozambique in September 2015 (i) had a return on equity ratio of 23.4%; (ii) may be considered adequately capitalised, with an equity capital ratio of 16.5%; (iii) may be considered liquid, with a ratio of loan-to-deposits of 79.9%; and (iv) has a moderate delinquency level with a ratio of overdue loans of 4.3%.

Angola

In Angola, the real GDP growth rate slowed down from 4.8% in 2014 to 3% during 2015 with GDP growth rate expected to decline to 2.4% in 2018 before expanding again to 3.5% in 2021 (source: IMF, April 2016; WMF, WEO October 2016). Since 2014, the fall of oil prices significantly reduced fiscal revenues and foreign exchange earnings from energy sector exports, a development that has especially hampered private consumption and public investment, leading to a reduction of the Angolan GDP growth rate. The developments in international oil markets also led to a scarcity of US dollars in the Angolan economy, which in turn pressured the value of the Kwanza against the American currency downwards, leading to a rise in inflation and imposing the need for a more restrictive monetary policy and for a significant fiscal effort to ensure public debt sustainability.

Against this background, Angola's government requested technical and financial support from the IMF and discussions were held between Angolan authorities and the IMF from 1 June 1 to 14 June 2016 (IMF, 14 June, 2016; press release No. 16/283). However, the government decided to discontinue the discussion regarding a request for an extended fund facility support programme (IMF, 30 June 2016, press briefing transcription), maintaining only interest on technical support. This could delay the structural reforms conducive to a more diversified economic structure and also lower the level of solvency and perceived safety of the banking system, thereby raising the risks of financial and economic instability. Political uncertainty around the general elections, which are set to occur in August 2017, may also delay the implementation of important structural reforms to ensure economic diversification and exchange rate stability.

The adverse fiscal impact of lower oil prices may lead to a further weakening of budgetary management which would increase vulnerability to external shocks. In this context, the Angolan economy is considerably vulnerable to further decreases in the price of oil.

Despite the large number of banks operating in Angola, with 28 banking institutions authorised in 2015, the Angolan banking sector shows a relatively high degree of concentration. In 2015, the five largest banks had a combined share of 69% of credit and 68% of deposits (source: Banco Nacional de Angola). Although the ratio of credit to the private sector to total GDP (27.2% in 2015) and the loans annual growth rates (2% in 2015) are relatively low, the deposits have displayed great dynamism and registering annual growth rates of 14% in 2015.

In quantitative terms, the banking sector in Angola presented in 2015 (i) a return on equity ratio of 12.9%; (ii) adequate capitalisation levels, with a solvency ratio of 19.8%; (iii) high levels of liquidity, with a ratio of loans-to-deposits of 59% and (iv) a ratio of overdue loans of 11.6%.

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

The Bank's operations in emerging markets expose its business to risks associated with social, economic and political conditions in those markets.

The Bank operates in certain emerging markets, particularly in Africa, which present specific political, economic, fiscal, legal, regulatory and social risks that differ from those encountered in countries with European economic and political systems, including, but not limited to, those related to political and social environments, different business practices, logistical challenges, shortages of skilled labour, trade restrictions, macroeconomic imbalances and security challenges.

The Group's operations are currently exposed in particular to the political and economic conditions of Angola and Mozambique. These conditions also relate to the fact that structural improvements are still needed in many sectors in these markets, including transport, 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. For example, upcoming elections in Angola in 2017 could give rise to political uncertainty and any changes in the government could result in significant policy changes.

Additionally, the Bank's operations in those markets may involve protracted negotiations with host governments, companies or other local entities and may be subject to instability arising from political, economic, military or legal disturbances. Both Mozambique and Angola impose certain restrictions due primarily to exchange policy controls and capital flows to and from other jurisdictions are likewise subject to such controls and restrictions. Therefore, the ability to transfer U.S. dollars and 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 Millennium bim, in Mozambique, the amount of dividends paid out to the Group in 2015 totalled EUR 18 million, while the Angolan company, which was a subsidiary at that time, paid out dividends amounting to EUR 15 million, referring to 2015 and paid in 2016.Any of the factors detailed above or similar factors could adversely 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 (78% of the Bank's funding as at 30 September 2016, 80% as at 31 December 2015 and 75% as at 31 December 2014, from a liquidity management perspective). 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 one, amounting to EUR 174.6 million through the private placement of 157,437,395 new shares, subscribed by Chiado (Luxembourg) S.à r.l. ("**Chiado**"), an affiliate of Fosun Industrial Holdings Limited ("**Fosun**"), following the capital increase amounting to EUR 481.2 million as a result of the public offer of securities, completed in June 2015, following in its turn the share capital increases in cash of EUR 2.25 billion completed in July 2014 and of EUR 500 million completed in October 2012) and the June 2012 GSIs of EUR 3 billion (EUR 2,250 million of which were repaid with the outstanding amount standing at EUR 750 million).

The Bank's liquidity coverage ratio and the net stable funding ratio recorded as at 30 September 2016 were 135% and 113%, respectively, compared to a benchmark of 100% (fully implemented) for both ratios. The leverage ratio stood at 6.2% (phased in) and at 4.8% (fully implemented) as at 30 September 2016, compared to a reference value of 3% (fully implemented).

In case the Bank is unable to maintain its capacity of obtaining 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 possible incorporation of a "bad bank" in Portugal may result in additional capital needs for the Bank.

In the last few months, members of the Portuguese government and representatives of Banco de Portugal have been making public references to the possibility of incorporation of an entity or mechanism aiming at the acquisition (addressed to Portuguese banks) and management of credits in default.

The Bank has publicly stated that such solution is not necessary, as it has been implementing a plan that aims at the reduction of NPEs from its balance sheet, through the adoption of a set of internal measures and proceedings.

Notwithstanding the fact that no final decision is known to have been taken in relation to this matter regarding the precise terms and conditions according to which such entity or mechanism could be incorporated and any transfer of assets that could occur, as well as the respective timeline for creation of such "bad bank", the implementation of the plan to create such "bad bank" for the reduction of the NPEs held by the Bank could cause the transfer of credits at a value lower than the accounting value, which would constitute a loss for the Bank and, consequently, a deterioration of its capital ratios. This could have a material adverse effect on the Bank's business, financial conditions, 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. On 29 July 2016, the EBA published the results of the 2016 EU-wide stress test, which involved a significant sample of EU banks, and disclosed the outcomes for

51 banks, of which 37 are directly supervised by the ECB, covering 70% of banking assets in the Eurozone.

The EBA-led stress test was conducted in coordination with the ECB. Besides the coordination of the exercise, the EBA was responsible for running the exercise for the major banks in the Eurozone. The ECB has conducted a parallel stress test for additional significant banks under its supervision, including BCP.

No minimum capital threshold to which the banks have to comply with was set, but the stress tests results will be taken as an input for the overall 2016 SREP. The minimum 5.5% CET 1 ratio (phased-in) required in 2014 was initially kept as a reference in the adverse scenario. The Bank is currently in compliance with SREP requirements; however, if the requirements change in the future, it could have an impact on the Bank's capital needs and adversely affect the Bank's business, financial condition, results of operations and prospects.

Regarding the Portuguese banks, the adverse scenario consisted of an economic recession, together with deflation, increase in unemployment, increase in public debt yields and massive real estate devaluation.

While BCP's CET 1 phased-in ratio stood at 7.2% under the adverse scenario (compared to 2.99% in the stress test of 2014), there can be no guarantee that this CET 1 ratio will be maintained in the future. Moreover, additional tests could reveal further need for capital in a specific bank or in the Portuguese banking system in general, and could lead to the approval of new regulations for the financial system.

The disclosure of the results of the 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 buffers, the minimum CET 1 phased-in ratio required is 8.15%, the Tier 1 is 9.65% and the total capital ratio is 11.65% from 1 January 2017. The capital ratios in 30 September 2016 were 12.2% (phased in) and 9.5% (fully implemented).

SREP may increase as buffers are being rolled over and additional cushion may be requested as well as Polish CET 1 requirements may increase, requiring further capital injection or prevent dividend payments, which would result in trapped capital in the Polish subsidiary.

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 Recapitalisation Plan and the Restructuring Plan;

– 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 current provisions against NPLs;

– the Bank's ability to reduce NPEs;

– the quality of the Bank's assets;

– the Bank's ability to reduce costs;

– the Bank's ability to deleverage;

– the financial condition of the Bank's customers;

– reductions to the Bank's ratings;

– growth of the financial markets in the countries in which the Bank operates;

– the Bank's ability to grow internationally;

– future market conditions;

– currency fluctuations;

– the actions of regulators;

– changes to the political, social and regulatory framework in which the Bank operates;

– macroeconomic or technological trends or conditions, including inflation and consumer confidence;

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

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

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

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

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. ECB interest rates were cut to zero, which could affect market interest rates. Furthermore, market interest rates could remain negative for a long period, as is the case with Euribor. These developments may negatively affect the Bank through, among others things, the lower average interest rate of its loan portfolio, reduced demand for deposits and increased competition. As a result of these factors, interest rate changes or volatility may materially and adversely affect the Bank's net income, business, financial condition, results of operations and prospects.

Although the data released for the Eurozone related to the 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.

The Bank currently operates in a negative interest rate environment, which may continue for a long period of time, which could have a negative impact on the Bank's financial margin and results.

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

The Bank's profitability depends largely on its ability to generate a financial margin (the difference between the interest rates perceived 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 financial margin, 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.

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 that could be resolved against the Bank's favour, could adversely affect the Bank's ability to maintain and attract customers, 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 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 tax procedures or other aspects of tax law, 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 Notice No. 5/2013 of the Banco de Portugal, as amended. Although the Bank exercises increasingly stricter scrutiny of transactions with politically exposed persons in order to ensure compliance with applicable laws, the services provided to these individuals may expose the Bank to reputational risks, notwithstanding the Bank's compliance with applicable laws.

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

The Bank's ability to successfully implement its strategy depends on its ability to recruit and maintain the most qualified and competent members for its governing bodies and for employment positions in Portugal and other countries. Restrictions on the compensation of members of management and supervisory bodies provided for in Ministerial Order 150-A/2012, of 17 May 2012, to the greater of: (i) 50% of such members' average compensation over the previous two years; or (ii) the remuneration received by members of management and supervisory bodies of public credit institutions, may hinder the Bank's ability to maintain and/or attract members with the desired profile.

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

On 31 December 2013, a memorandum of understanding was signed with the unions to implement a process of salary adjustments of temporary duration, allowing the Bank to achieve the commitments undertaken with the EC and the Portuguese State to reduce personnel costs. This agreement entered into force on 1 July 2014 and, besides reducing compensation, it suspends promotions, progressions and seniority payments that were to be paid up until the end of 2017. This salary reduction is to be returned to the employees, subject to approval by the Bank's General Meeting of Shareholders following a proposal from the Executive Committee.

Regarding the international operations, there has been a high staff turnover in the Bank's operations in Poland and Mozambique. In Poland, 1,059 employees left the Bank and 857 employees were hired in 2015, with the total number of employees by the end of 2015 being 5,911 (5,992 headcount). In Mozambique, in 2015, the exits surpassed the number of new employees, with staff turnover of 156 and 148 employees, respectively. At the end of 2015 the total headcount stood at 2,505 employees.

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

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

The Bank has undertaken the obligation to pay pensions to its employees upon retirement or due to disability and other obligations, in accordance with the terms established in the Collective Labour Agreement of the Banking Sector. The Bank's liabilities are primarily covered by the pension fund, which is managed by PensõesGere—Sociedade Gestora de Fundos de Pensões, S.A. The total number of the pension fund participants was 27,451 as at 30 September 2016 and 27,505 as at 31 December 2015.

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 99% at the end of September 2016 (111% as at 31 December 2015). As at 30 September 2016, the liabilities related to the pension fund and other employee benefits reached EUR 3,160 million, compared with EUR 3,136 million recorded as at 31 December 2015. In the first nine months of 2016, the pension fund recorded a negative 2.37% rate of return, whereas in 2015 it stood at negative 0.8%.

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

Banco de Portugal authorised the maintenance of the corridor for prudential purposes only in the calculation of the phased in capital ratio, establishing its annulment within the period of five years, starting 1 January 2014. For the purposes of the fully implemented capital ratio, the corridor is no longer considered. Accordingly, as at 30 September 2016, the corridor plus the regulatory capital (CET 1) for purposes of the phased in capital ratio was of EUR 127 million. This value shall be progressively deduced to the phased in capital ratio until 2018.

The level of coverage of pension fund liabilities could turn out to be insufficient. If the deterioration of global financial markets leads to lower investment income and, consequently, a lower value of the fund, this would result in actuarial losses for the year, which would be recognised against reserves in the financial year in which they were recorded. As at 30 June 2016, the Bank used a discount rate of 2.5% to measure its liability for the defined benefits pension plans of its employees and managers, equivalent to the rate used in its accounts as at 31 December 2015. In the financial statements with reference to 30 September 2016, the discount rate and the pension growth rate were reduced to zero (it was previously considered a growth of 0% until 2017 and 0.5% after 2017), considering the reduction in the level of relevant market interest rates in this context and the need to adequately frame the evolution of the liabilities to retired and pensioners while maintaining the current level of market interest rates for the settlement period of these liabilities, considering that, unlike pensionners, active employees have supported salary reductions, which have been in force since 2014. The Bank shall re-evaluate the adequacy of its actuarial assumptions for the calculation of its liabilities with pensions until the end of the year. A decrease in level of the interest rates for the liabilities liquidation deadline or an increase in the pensions growth rate would imply a decrease in the Bank's own capital. A decrease of 25 bps in the discount rate results in a reduction of around EUR 139 million in the Bank's own capital, excluding the tax effect. An increase of 25 bps in the pensions growth rate results is a reduction of around EUR 141 million in the Bank's own capital, excluding the tax effect.

Actuarial gains and losses resulting from the differences between the assumptions used and the values actually verified (experience gains and losses) and the changes in the actuarial assumptions are recognised against own capitals. In the nine months ended 30 September 2016, actuarial differences represented negative EUR 180 million (negative EUR 111 million as at 31 December 2015). To the extent there are shortfalls in the pension fund's rate of return, the Bank would have to increase its contributions, which would have an impact on the Bank's regulatory capital ratios. The Bank cannot guarantee that changes will not take place in the actuarial assumptions relating to the pension obligations and other employee benefits. Any changes in the assumptions could lead to additional actuarial losses which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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

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

The Bank is exposed to the risk of labour disputes and other industrial actions. 84.8% of the Bank's employees in Portugal and 72% of all its employees were members of labour unions at the end of 2015 and the Bank may experience strikes, work stoppages or other industrial actions in the future. Any of these actions could, possibly for a significant period of time, result in disruption to the Bank's activity and increased salaries and benefits granted to employees or otherwise have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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

The performance of the financial markets could cause changes in the value of the Bank's investment and trading portfolios. Changes in the interest rate level, yield curve and spreads could reduce the Bank's net interest margin. Changes in foreign exchange rates could affect the value of its assets and liabilities denominated in foreign currencies and could affect the results of trading. The main measure used by the Bank in evaluating the market risks (including interest rate risk, foreign exchange rate risk and equity price risk) is Value at Risk ("**VaR**"). VaR is calculated based on analytical approximation defined in the methodology adopted by Risk Metrics (1996). It is calculated using a 10 business day time horizon and a unilateral statistical confidence interval of 99%. During the nine months ended 30 September 2016, the average VaR for the trading portfolio was EUR 4.8 million.

The interest rate risk derived from the operations of the banking book is assessed through a risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated balance sheet. The sensitivity is determined by the difference between the present value of the interest rate mismatch (discounted at market interest rates) and the value of the same mismatch discounted at rates with +100 basis points (for all terms), worth EUR 11 million, as at 30 September 2016, for the currency in which the Bank has the most significant position, the Euro.

The trading portfolio and portfolio of assets available for sale (shares) totalled EUR 74.8 million as at 30 September 2016, compared to EUR 176.7 million as at 31 December 2015 and EUR 123.6 million as at 31 December 2014. Any depreciation in the value of the Bank's trading portfolio, portfolio of assets available for sale and other variable yield securities could have a material adverse effect on its financial condition and results of operations.

The Bank has significant exposure to participation units in closed end funds, which are companies with audited accounts, resulting from the transfer of restructured loans. The variable income securities classified as level 3 includes units in restructuring funds in the amount of EUR 1,200.6

million (EUR 1,352.2 million as at 31 December 2015) which value resulted from the 'Net assets attributable to unit holders' ("**NAV**") quote determined by the management company (as at 30 September 2016 this NAV was related to the financial position of the funds as at 30 June 2016) and in accordance with the audited accounts for the respective funds. These funds have a diverse set of assets and liabilities valued in their respective accounts at fair value through internal methodologies used by the management company. It is not practicable to present a sensitivity analysis of the different components of the underlying assumptions used by entities in the presentation of NAV, nevertheless it should be noted that a variation of +/- 10 % of the NAV has an impact of EUR 120 million (EUR 135.2 million as at 31 December 2015) in Equity. This impact includes the effect on Fair value reserves of EUR 40.3 million (EUR 53 million as at 31 December 2015) and in Net income / (loss) for the period, of EUR 79.8 million (EUR 82.2 million as at 31 December 2015).

The instruments classified as level 3 have associated net gains not performed in the amount of EUR 27.2 million (EUR 96.3 million as at 31 December 2015) recorded in fair value reserves. The amount of impairment associated to these securities amounts to EUR 445.6 million as at 30 September 2016 (EUR 282.5 million as at 31 December 2015) and capital gains or losses were not generated in the period.

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

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

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

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.

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

The Bank is also subject to rules and regulations related to the prevention of money laundering, bribery and terrorism financing. Compliance with anti-money laundering, anti-bribery and counter-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although the Bank believes that its current anti-money laundering, anti-bribery and counter-terrorism financing policies and procedures are adequate to ensure compliance with applicable legislation, the Bank cannot guarantee that it 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 workers under all circumstances.

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

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

In its normal activity and as a result of its organisational structure, the Bank is subject to certain operational risks, including interruptions in the services provided, errors, fraud attributable to third parties, and omissions and delays in the provision of services and implementation of requirements for risk management. A majority of the Bank's operational losses in 2015 and the nine months ended 30 September 2016 were caused by frauds and execution failures and a large portion of the operational losses had low material significance, under EUR 100,000 (96%) of all operational losses Group wide. In fact about 80% of the cases recorded in the nine months ended 30 September 2016 had a financial impact of less than EUR 5,000 each. The Bank continually monitors operational risks by means of, among other actions, advanced administrative and information systems and insurance coverage with respect to certain operational risks. However, it is not possible to guarantee that the monitoring and prevention of these risks will be fully effective. Any lack of success in the implementation of the Bank's risk management and control policies could have a material adverse effect on its business, financial condition, results of operations and prospects.

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

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

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

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

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

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

As part of a process aiming to refocus on core activities, defined as a priority in the Strategic Plan, the Bank agreed with the international insurance group Ageas to a partial recast of the strategic partnership agreements entered into in 2004, which included the sale of its 49% interest in the insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental—Companhia Portuguesa de Seguros, S.A. and in Médis—Companhia Portuguesa de Seguros de Saúde, S.A., for a base price of EUR 122.5 million, subject to a medium term performance adjustment. The net income of Millennium bcp Ageas was EUR 11.2 million in the six months ended 30 June 2016. Ageas and the Bank also agreed that the joint venture would upstream excess capital totalling EUR 290 million to its shareholders, which was carried out in 2014 in accordance with the proportion of the stakes held by BCP and Ageas.

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

In February 2009, the Bank carried out financial transactions relating to the strategic partnership agreements established with Sonangol (a company that held, as at 30 June 2016, 17.84% of the Bank's share capital and voting rights) and BPA, as a result of which the Bank reduced its stake in BMA to 52.7% through BMA's share capital increase of USD 105,752,496.80. In April 2012, the Bank reduced its stake in BMA to 50.1%, following BMA's share capital increase, which was fully subscribed to by Global Pactum—Gestão de Activos (main shareholder of BPA), in line with the partnership agreement entered into with Sonangol and BPA. Within the scope of this partnership, the Bank, Sonangol and BPA entered in May 2008 into a shareholders' agreement regarding BMA, which included, among others, clauses on corporate bodies and preferential rights in case of transfer of BMA's shares. On 8 October 2015, BMA and BPA announced their merger to create one of the largest privately owned banks in the country. This merger was completed on 22 April 2016, resulting in the creation of a significant institution in Angola (Banco Millennium Atlântico) with a market share of 11% in terms of credit and of 9% in deposits (source: Banco Nacional de Angola). This operation generated a positive impact on the phased in capital ratio of around 40 basis points. It is not possible to predict in advance the success of the merged bank, nor whether the current partnership will remain the same.

Transactions in the Bank's own portfolio involve risks.

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

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

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

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

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

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

As at 30 September 2016, the commercial gap in local currency observed in the main locations in which the Bank has operations, measured by the difference between on balance sheet customer funds and loans to customers, was the following: Bank Millennium in Poland: PLN 13.6 billion (EUR 3.1 billion, compared to PLN 12.1 billion and EUR 2.8 billion as at 31 December 2015) and Millennium bim in Mozambique: MZM 18.2 billion (EUR 208 million, compared to MZM 18.7 billion and EUR 0.4 million as at 31 December 2015). The Bank's loan portfolio also includes loans in foreign currency, where the losses are assumed by customers and recorded in the profit and loss account under impairment. The use of funding in foreign currency in some countries of Eastern Europe exposes some of the Bank's customers to exchange rate risk, affecting the financial condition of these entities and, consequently, the net income of the Bank. Although Bank Millennium stopped granting new foreign currency loans in Poland by the end of 2008, it still holds a considerable loan portfolio in foreign currency, mainly in Swiss francs (as at 30 September 2016, 37.3% of the total loan portfolio and 65% of the total mortgage loan book), and therefore the Bank's net income could be significantly affected by the need to undertake additional payments for impairment in the loan portfolio and by the high cost of zloty swaps. On 15 January 2015, the Swiss National Bank discontinued its minimum exchange rate which had been set at EUR/CHF 1.20 in September 2011.

Simultaneously, the Swiss National Bank lowered the interest rate on sight deposit account balances that exceed a given exemption threshold by 0.5% to −0.75%. As a consequence, on the next day the Swiss franc appreciated 15% to around EUR/CHF 1.04 and the main index on the Swiss stock exchange went down around 8.7%. The EUR/CHF exchange rate is now free float. Net income may also be adversely affected if Poland does not join the Eurozone in the medium term as is currently expected. Similarly, net income may be affected if institutional investors pool their assets in established, rather than emerging, markets. This risk is exacerbated in the context of greater political instability related to reform of the European institutional framework, which has already had repercussions on the Swiss franc exchange rate.

The Polish President announced a new plan for CHF-denominated mortgage loans in August 2016, according to which banks must return the cost of excessive foreign exchange spreads they charged their clients, potentially equalling several billion zloty. The decision to limit the scale of requirement was due primarily to concerns regarding the deteriorating situation of European financial institutions. If this proposal enters into force, it could have a material adverse effect on the Bank's, business, financial conditions, results of operations and prospects. See – *The Bank faces exposure to macroeconomic risks in its businesses in Europe (Poland) and Africa (Angola and Mozambique*).

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

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

The non-core business portfolio may generate additional impairment requirements.

In the scope of the Restructuring Plan, the Bank identified business portfolios in Portugal that it is expected to gradually divest/discontinue, not promoting new credit production. These portfolios are related to credit granted to customers, comprising loans to securities acquisition, highly leveraged secured lending in which LTV is no lower than 90%, the subsidised mortgages segment and credit related to construction that is almost exclusively focused on the Portuguese market, football clubs and real estate development. The Bank has since implemented changes to its organisational structure with a view to managing this segment in a segregated way, and has developed and adopted the applicable internal rules framework and management practices specific to the Non Core Business Portfolio.

As at 30 September 2016, such portfolios totalled EUR 9.8 billion of Exposure at Default ("**EAD**"), compared to EUR 10.8 billion as at 31 December 2015, and the Bank has committed to the goal of progressive reduction of these exposures. Their total should not exceed EUR 12 billion as at 31 December 2017. Notwithstanding the divestment of this loan portfolio which takes primarily into consideration the optimisation of the impact on capital through minimisation of the expected loss, the

Bank may have to register additional impairments related to the devaluation of the respective collaterals and to the increase of default.

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 may not be able to generate income to recover deferred taxes. Changes in the law or if a different interpretation prevails, or if the operations foreseen by the Bank do not take place, there may be adverse impacts on the capital ratio.

The Bank's DTAs (on a consolidated basis) as at 30 September 2016 corresponded to EUR 2,791 million, compared to EUR 2,562 million as at 31 December 2015, 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 899 million and related employee benefits amounting to EUR 789 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 taxes assets may be compensated with current taxes liabilities and when the deferred taxes relate to the same tax.

The recoverability of deferred tax assets related to the individual activity of the Bank, was revalued as at 30 September 2016, being supported by the projection of taxable income for the years 2016 to 2028.

The expectation of future taxable income in the individual activity of the Bank is supported primarily on the positive developments of:

(i) net interest income, reflecting the positive impact of the reimbursement of CoCos and sustained decline in the cost of long term deposits from customers and the perspectives of evolution of Euribor;

(ii) the reduction in operating costs, reflecting the effect of decreases in numbers of employees and branches; and

(iii) loans impairment charges.

In addition, the Bank considered the following assumptions in the analysis of the recoverability of deferred tax assets and its composition with respect to the deferred tax assets covered by Law 61/2014, of 21 August 2014, as at 30 September 2016:

- that the limits provided in Notice No. 3/95 of Banco de Portugal for the purposes of tax deductibility of credit impairment recorded in 2016 will be maintained, including the effect of the transition in the Bank's individual accounts from the accounting standards adjusted for international accounting standards as adopted by the European Union;

- the conclusion in 2016 of an additional step in the reorganisation of the Group's investments, which will include a set of transactions in financial investments (including, among others, the settlement of Bitalpart) and other assets held, which results in the deductibility for tax purposes of losses already recognised in the accounts; and

- the dividends received from subsidiaries in 2016, which will allow the deductibility of these realities for tax purposes.

According to the estimate of the Bank's taxable income for the year 2016, including the effect of the implementation of the above measures, the Bank foresees the maintenance at the end of the year of the deferred tax assets covered by the regime approved by Law 61/2014, of 26 August 2014, which are registered on 30 September 2016. Law 61/2014, of 26 August 2014, approved an optional adhesion regime, with the possibility of subsequent waiver, according to which, upon certain events (including individual annual net losses, as well as liquidation as a result of voluntary dissolution, insolvency decided by the court or withdrawal of the respective licence), the DTAs that have resulted from the non-deduction of expenses and negative asset variation with impairment losses in credits and with post-employment benefits or long-term employments, will be converted into tax credits. In this case, a special reserve corresponding to 110% of their amount should be created, which is intended to be incorporated into the share capital with the creation of the aforementioned special reserve implies the simultaneous issuance of rights of conversion into equity to be issued with reference to the market price of the shares and attributed to the State. The tax credits will be able to be offset against tax debts of the beneficiaries (or of an entity with head office in Portugal within the same prudential consolidation perimeter) or reimbursed by the Portuguese Republic. Due to this framework, the recovery of the DTAs covered by Law 61/2014's optional framework is not dependent on future profitability.

Law 23/2016, of 19 August, limited the scope of the regime, determining that tax assets originated in expenses or negative asset variations accounted for after 1 January 2016 are not eligible for the optional framework.

The framework set out in Law 61/2014, as amended by Law 23/2016, was further developed by (a) Ministerial Order ("Portaria") 259/2016, of 4 October 2016, on the control and use of the tax credit and (b) Ministerial Order ("Portaria") 293-A/2016, of 18 November 2016, concerning the conditions and proceedings for the acquisition by shareholders of the conversion rights attributed to the State, pursuant to which, among other aspects, such conversion rights will be able to be sold up to 10 years from the date of their creation, and the relevant bank has to deposit in the name of the State the amount of the price corresponding to all the conversion rights issued, within three months from the date of their creation, ahead and independently of their acquisition.

As disclosed in due course, pursuant to the general meeting held on 15 October 2014, the Bank adopted the optional framework approved by Law 61/2014 of 26 August 2014, described above. The CET 1 ratio, fully implemented as at 30 September 2016, corresponds to 9.7% and already incorporates the effects of the application of the new regime which entered into force on 1 January 2015.

The Bank's net result (on an individual basis) as at 30 September 2016 was negative EUR 295.41 million; there is no guarantee that the net result in the end of 2016 will be positive.

Among other factors that may affect the recoverability of the deferred tax assets and its composition in what concerns deferred tax assets which fall within the scope of Law No. 61/2014, of 21 August 2014, the interpretation of the tax law is relevant, as well as the performance of several operations in 2016. In this context, the Bank considered that the thresholds provided for in Notice 3/95 of the Bank of Portugal for purposes of tax deductibility of credit impairments occurred in 2016, including the effects of the transition in the individual accounts of the Bank from the adjusted accounting rules to the international accounting rules, as adopted by the EU, will be maintained. Regulatory Decree No. 5/2016, of 18 November 2016, which came into force the following day, confirmed that assumption. The Bank also considered that it expects to have a tax loss in 2016, also due to the impact at this level of reorganisation operations which will be performed in this financial year relating to holdings and other financial assets held, which impairment is already recognised in the accounts, and to the receipt of dividends from subsidiaries. In the 2015 and 2016 financial years, the Bank registered deferred tax assets regarding expenses and negative asset variations with post-employment or long term employment benefits and credit impairment losses accounted for up to 31 December 2014, which assets the Bank deems eligible for the purposes of the framework approved by Law 61/2014, of 26 August. A change in law, a different interpretation of the law or the non-performance of the abovementioned operations could have an adverse impact in 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 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 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. 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.

The Bank may engage in mergers, acquisitions, partnerships and/or disposals, which could have negative effects for the Bank in the medium to long term.

Although the Bank's Strategic Plan is focused on organic development and restructuring and, according to the Restructuring Plan approved in 2013, participation in mergers and acquisitions is limited during the period of the Restructuring Plan, there is no guarantee that the Bank will not review its options and participate in mergers, acquisitions and/or the sale of assets in Portugal or elsewhere should such opportunities arise and be compatible with the state aid restrictions. In accordance with the Restructuring Plan, the Bank has initiated an internal reorganisation process comprising the management of core businesses and, among other aspects, it led to the sale of the Bank's operation in Romania. In the event the Bank participates in mergers, acquisitions and/or disposals, there could be changes to its corporate strategy, organisation and structure, main business focus and resources, which could result in a deterioration of the Bank's financial condition and results of operations. Additionally, if the Bank were to engage in such transactions, 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, acquisitions and/or sales. The Bank may also have to bear additional personnel costs resulting from any restructurings associated with any such concentration and/or disposal transactions. Moreover, future mergers, acquisitions and/or sales could result in unexpected losses due to unforeseen liabilities or delays, which could have a material adverse effect on the Bank's business, financial condition, or results of operations.

RISKS ASSOCIATED WITH THE COVERED BONDS ISSUED UNDER THE PROGRAMME

Obligations under the Covered Bonds

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

Extended Maturity of the Covered Bonds

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

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

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

Dynamic Nature of the Cover Pool

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

Other Assets/Hedging Contracts

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

Hedging Contracts

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

Value of security over residential property

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

Amortisation of Mortgage Credits

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

No Due Diligence

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

Administrative co-operation in the field of taxation

Under EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest (or income deemed equivalent for these purposes) paid by a person within its jurisdiction to an individual resident in that other EU Member State. In this respect it should be noted that the Savings Directive, as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive co-operation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. Notwithstanding the repeal of the Savings Directive as of 1 January 2016, certain provisions will continue to apply for a transitional period.

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

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

Portugal has implemented Directive 2011/16/EU through Decree-Law No. 61/2013, of 10 May 2013. Also, Council Directive 2014/107/EU was implemented through Decree-Law No. 64/2016 of 11 October 2016.

U.S. Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (or "**FATCA**") impose a new reporting regime and, potentially, a 30% withholding tax with respect to: (i) certain payments from sources within the United States, (ii) "**foreign passthru payments**" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. While the Covered Bonds are in global form and held within Euroclear and Clearstream, Luxembourg (together, the "**ICSDs**") or cleared through Interbolsa, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs or Interbolsa. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an 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 adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Covered Bonds are discharged, in respect of Covered Bonds other than Book Entry Covered Bonds, once it has made payment to, or to the order of, the common depositary for the ICSDs (as bearer or registered holder of the Covered Bonds) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs or Interbolsa and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "IGA") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make. Prospective investors should refer to Taxation – *Foreign Account Tax Compliance Act*.

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

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

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

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

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

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

Credit ratings may not reflect all risks

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

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

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

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

Investors who purchase Covered Bonds in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Covered Bonds are subsequently required to be issued.

In relation to any issue of Bearer Covered Bonds which have denominations consisting of a minimum Specified Denomination and one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of such trading, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Bearer Covered Bond in respect of such holding (should Definitive Bearer Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to the minimum Specified Denomination.

If definitive Covered Bonds are issued, holders should be aware that definitive Covered Bonds which have a denomination which is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks relating to Fixed Rate Covered Bonds.

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

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 Issuer has the right to convert the interest rate on any Covered Bonds 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. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, 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. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate tends to be lower than then prevailing market rates.

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.

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 published consolidated balance sheet (page 153 of the document related to 2014 Annual Report and page 139 of the document related to 2015 Annual Report), income statement (page 152 of the document related to 2014 Annual Report and page 138 of the document related to 2015 Annual Report), cash flows statement (page 154 of the document related to 2014 Annual Report and page 140 of the document related to 2015 Annual Report), statement of changes in equity (page 155 of the document related to 2014 Annual Report and pages 141 to 142 of the document related to 2015 Annual Report), statement of comprehensive income (page 156 of the document related to 2014 Annual Report and page 142 of the document related to 2015 Annual Report), notes to the consolidated financial statements (pages 158 to 313 of the document related to 2014 Annual Report and pages 144 to 293 of the document related to 2015 Annual Report) and audit reports (pages 475 to 477 of the document related to 2014 Annual Report and pages 430 to 432 of the document related to 2015 Annual Report) of the Banco Comercial Português Group for the years ended on 31 December 2014 and 31 December 2015, all as included in the 2014 and 2015 Annual Reports of the BCP Group. The remainder of the 2014 and 2015 Annual Reports of the BCP Group is not incorporated by reference in this Base Prospectus;

(b) the published unaudited interim condensed consolidated financial statements, including the balance sheet (page 27), income statement (page 23), cash flows statement (page 28), statement of changes in equity (page 29), statement of comprehensive income (page 26), notes to the consolidated financial statements (pages 31 to 150) and limited review report (pages 151 to 152) of the Bank and its subsidiaries for the nine-month period ended 30 September 2016 included in the Interim Report & Accounts of the 3rd Quarter 2016. The remainder of the Interim Report & Accounts of the 3rd Quarter 2016 is not incorporated by reference in this Base Prospectus; and

(c) solely for the purposes of any issues of Covered Bonds which are expressed to be consolidated and form a single Series with a Tranche of Covered Bonds issued in earlier Base Prospectuses published by the Issuer, the terms and conditions of the Covered Bonds, on pages 40 to 63 (inclusive) of the Base Prospectus dated 5 June 2007, on pages 50 to 74 (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 of the Base Prospectus dated 29 June 2012, on pages 81 to 105 of the Base Prospectus dated 10 July 2013, on pages 107 to 139 of the Base Prospectus dated 14 August 2014 and on pages 106 to 138 of the Base Prospectus dated 23 October 2015 each prepared by the Issuer in connection with the Programme.

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

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

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

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered offices of the Issuer and from the specified offices of the Agent and of the Common Representative for the time being. Documents referred to in (a) to (b) above can be viewed electronically and free of charge at the Issuer's website at the following links http://ind.millenniumbcp.pt/en/Institucional/investidores/Pages/RelatorioContas.aspx and http://ind.millenniumbcp.pt/en/Institucional/investidores/Pages/RelatorioContas.aspx. Earlier Base Prospectuses published by the Issuer referred to in (c) above can be viewed electronically and free of charge at the following links:

(a) Base Prospectus dated 5 June 2007: http://www.rns-pdf.londonstockexchange.com/rns/0575z_-2007-6-26.pdf;

(b) Base Prospectus dated 4 August 2008: http://www.rns-pdf.londonstockexchange.com/rns/6254A_-2008-8-4.pdf;

(c) Base Prospectus dated 23 July 2009: http://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/permanentes/OfferingCircularFinal_2009_07_23.pdf;

(d) Base Prospectus dated 6 May 2010: http://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/permanentes/OfferingCircularFinal_2010_05_06.pdf;

(e) Base Prospectus dated 29 June 2012: http://tools.morningstar.co.uk/tsweu6nqxu/globaldocuments/document/documentHandler.ashx?DocumentId=40437185;

(f) Base Prospectus dated 10 July 2013: http://tools.morningstar.co.uk/tsweu6nqxu/globaldocuments/document/documentHandler.ashx?DocumentId=54239215;

(g) Base Prospectus dated 14 August 2014: http://www.ise.ie/debt_documents/Base%20Prospectus_74e198cb-27ca-49a8-9480-12aa8d61c21b.PDF?v=382015; and

(h) Base Prospectus dated 23 October 2015: http://www.ise.ie/debt_documents/Base%20Prospectus_6786916a-6f80-4725-9bde-a01d723f15d9.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, or endorsed on, 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 Irish Stock Exchange's regulated market during the period of 12 months after the date of approval of this Base Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding on all Covered Bonds previously or simultaneously issued under the Programme, does not exceed Euro 12,500,000,000 (subject to increase in accordance with the Programme Agreement (as defined in *Definitions*)) or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

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

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

FORM OF THE COVERED BONDS AND CLEARING SYSTEMS

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

The Covered Bonds will be held through a central securities depositary ("**CSD**") which can be either (i) a Portuguese domestic 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**") or (ii) an international CSD, which will be Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**").

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems 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 any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. 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 any Clearing System or for maintaining, supervising or reviewing any records relating to such interests.

Interbolsa, Euroclear and Clearstream, Luxembourg each hold securities for its participants and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective participants. Interbolsa, Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of domestically and internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships.

Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream, Luxembourg participants are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions and persons that directly or indirectly through other institutions clear through or maintain a custodial relationship with a participant of either system.

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.

Any reference herein to Interbolsa, Euroclear or Clearstream, Luxembourg shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

The Covered Bonds have not been and will not be registered under the Securities Act 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 (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.

Covered Bonds 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 held through Interbolsa.

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.

Covered Bonds held through Interbolsa shall only be tradable in one specified denomination.

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

Covered Bonds held through Interbolsa 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 held through Interbolsa

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 Covered Bonds held through Interbolsa. The Covered Bonds can be either registered *("nominativas*") (in which case 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) or bearer ("*ao portador*") (in which case Interbolsa cannot inform the Issuer of the identity of the holders of Covered Bonds), as specified in the applicable Final Terms.

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 and 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.

If the Covered Bonds are stated in the applicable Final Terms to be in book-entry form and registered with Interbolsa in its capacity as a securities settlement system, they 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 held through Interbolsa

Whilst the Covered Bonds are held through Interbolsa, 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 held through Interbolsa

Covered Bonds held through Interbolsa 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.

Covered Bonds held through Euroclear and/or Clearstream, Luxembourg

The Covered Bonds of each Series held through Euroclear and/or Clearstream, Luxembourg will be in bearer form, with or without interest coupons attached, or in registered form, without interest coupons attached. The Covered Bonds have not been and will not be registered under the Securities Act 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 (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.

Bearer Covered Bonds held through Euroclear and/or Clearstream, Luxembourg

Each Tranche of Bearer Covered Bonds will be issued in the form of either a temporary bearer global covered bond (a "**Temporary Bearer Global Covered Bond**") or a permanent bearer global covered bond (a "**Permanent Bearer Global Covered Bond**") as indicated in the applicable Final Terms, which, in either case, will be delivered, on or prior to the original issue date of such Tranche, to a common depositary for Euroclear and/or Clearstream, Luxembourg.

Whilst any Bearer Covered Bond is represented by a Temporary Bearer Global Covered Bond and held through Euroclear and/or Clearstream, Luxembourg, payment of principal, interest (if any) and any other amount payable in respect of such Covered Bond due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Covered Bond only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On or after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Covered Bond is issued, interests in such Temporary Bearer Global Covered Bond will be exchangeable (free of charge) as described therein either for (i) interests in a Permanent Bearer Global Covered Bond of the same Series or (ii) for Definitive Bearer Covered Bonds of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Definitive Bearer Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case, against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive Definitive Bearer Covered Bonds. The holder of a Temporary Bearer Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Covered Bond for an interest in a Permanent Bearer Global Covered Bond or for Definitive Bearer Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Covered Bond will be made, according to the applicable legal and regulatory requirement through Euroclear and/or Clearstream, Luxembourg against presentation or surrender, as the case may be, of the Permanent Bearer Global Covered Bond without any requirement for certification.

The applicable Final Terms will specify that a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive securities in bearer form with, where applicable, interest coupons and talons attached only upon the occurrence of an Exchange Event.

For these purposes, "**Exchange Event**" means in the case of the Covered Bonds that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to holders of Covered Bonds in accordance with Condition 11 (*Notices*) of the Terms and Conditions of the Covered Bonds, as the case may be, if an Exchange Event occurs. In the event of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (as the case may be) (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The exchange of a Permanent Bearer Global Covered Bonds for Definitive Bearer Covered Bonds upon notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Covered Bonds are issued with a minimum Specified Denomination such as EUR 100,000 (or its equivalent in any other currency) plus one or more higher integral multiples of another smaller amount such as EUR 1,000 (or its equivalent in any other currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Bearer Covered Bonds which is to be represented on issue by a Temporary Bearer Global Covered Bond exchangeable for definitive Covered Bonds.

The following legend will appear on all Permanent Bearer Global Covered Bonds and Definitive Bearer Covered Bonds which have an original maturity of more than one year and on all interest coupons relating to such Covered Bonds where TEFRA D is specified in the applicable Final Terms:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders of Covered Bonds, with certain exceptions, will not be entitled to deduct any loss on Covered Bonds or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Covered Bonds or interest coupons.

Covered Bonds in global form will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

Registered Covered Bonds held through Euroclear and/or Clearstream, Luxembourg

The Registered Covered Bonds may be represented by a global security in registered form (a "**Registered Global Covered Bond**"). Prior to the expiry of the Distribution Compliance Period applicable to each Tranche of Covered Bonds, beneficial interests in a Registered Global Covered Bond may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear and/or Clearstream, Luxembourg (as applicable) and such Registered Global Covered Bond will bear a legend regarding such restrictions on transfer.

In addition, Covered Bonds in definitive registered form may be privately placed to non-US persons outside the United States on a non-syndicated basis with professional investors only in reliance on

Regulation S. Any such issue of Covered Bonds will be evidenced by a single security registered in the name of the holder thereof.

Registered Global Covered Bonds will be deposited with a common depositary for, and registered in the name of a common nominee of Euroclear and Clearstream, Luxembourg. Persons holding beneficial interests in Registered Global Covered Bonds will be required, under the circumstances described below, to receive delivery of Definitive Registered Covered Bonds.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the relevant registration as the registered holder of the Registered Global Covered Bonds. None of the Issuer, any Paying Agent or the Registrar (as defined in *Terms and Conditions of the Covered Bonds*) will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Definitive Registered Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to the holders of the Covered Bond in accordance with Condition 11 (*Notices*) of the Terms and Conditions if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (as the case may be) (acting on the instructions of any holder of an interest in such Registered Global Covered Bond) may give notice to the relevant registration requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice.

Transfers of Covered Bonds Represented by Global Covered Bonds held through Euroclear and/or Clearstream, Luxembourg

Interests in a Global Covered Bond may, subject to compliance with all applicable restrictions and requirements, be transferred to a person who wishes to hold such interest in a Global Covered Bond. No beneficial owner of an interest in a Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

Transfers of any interests in Covered Bonds represented by a Global Covered Bond within Euroclear and Clearstream, Luxembourg (as applicable) will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Covered Bonds among participants and accountholders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Arrangers, the Common Representative or the Agent will have any responsibility for the performance of Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Covered Bonds issued in the NGN form

On 13 June 2006 the European Central Bank (the "**ECB**") announced that Covered Bonds in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the Euro (the "**Eurosystem**"), provided that certain other criteria are fulfilled.

At the same time, the ECB also announced that arrangements for Covered Bonds in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006.

If the Covered Bonds are stated in the applicable Final Terms to be issued in NGN form, they are intended to be eligible collateral for Eurosystem monetary policy and will be delivered on or prior to the original issue date of the Tranche to a common safekeeper for Euroclear and/or Clearstream, Luxembourg (the "**Common Safekeeper**"). Depositing the Covered Bonds with the Common Safekeeper 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. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

If the Covered Bond is a NGN, the Issuer shall procure that details of each payment in respect thereof are entered pro rata in the records of Euroclear and/or Clearstream, Luxembourg and, in the case of principal payments, the nominal amount of the Covered Bonds recorded in the records of Euroclear and/or Clearstream, Luxembourg will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

Where the Covered Bond is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Covered Bonds, as the case may be, in addition to the circumstances set out above are entered in the records of Euroclear and/or Clearstream, Luxembourg and upon any such entry being made, the nominal amount of the Covered Bonds represented by such Global Covered Bond shall be adjusted accordingly.

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:

Final Terms dated [ ]

Banco Comercial Português, S.A.

Issue of [ ]

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

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

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

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Covered Bonds (the "**Terms and Conditions**") set forth in the Base Prospectus dated 20 December 2016 [and the supplemental Base Prospectus dated [ ]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing during normal business hours at Banco Comercial Português, S.A., Praça Dom João 1, 28, 4000-295 Oporto, Portugal, physical copies may be obtained from the same address and electronic copies from the website of the Irish Stock Exchange (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 20 December 2016 [and the supplemental Base Prospectus dated [ ]]. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 20 December 2016 [and the supplemental Base Prospectus dated [ ]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 20 December 2016 [and the supplemental Prospectus dated [ ]]. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing during normal business hours at Banco Comercial Português, S.A., Praça Dom João 1, 28, 4000-295 Oporto, Portugal, physical copies may be obtained from the same address and electronic copies from the website of the Irish Stock Exchange (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/the date that is 40 days after the Issue Date/exchange of the Temporary Bearer Global Covered Bond for interest in the Permanent Bearer Global Covered Bond, as referred to below, which is expected to occur on or about [ ]] [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:		[ ] [and integral multiples of [ ] in excess of up to and including [ ]. Definitive Notes will not be issued in denominations in excess of [ ].]
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) Fixed Coupon Amount(s):	
	• To Maturity Date:	[Not Applicable] [[ ] per [ ] in nominal amount]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable] [[ ] per [ ] in nominal amount]
	(iv) Broken Amount:	
	• To Maturity Date:	[Not Applicable] [[ ] per [ ] in nominal amount payable on the Interest Payment Date falling [in/on] [ ]]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [ ] per [ ] in nominal amount Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]]

(v) 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)]

(vi) 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 [Not Applicable]
[Actual/Actual (ISDA)]

		Date:	[Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [30E/360] [30E/360 (ISDA)]
16.	Zero Coupon Covered Bonds Provisions:		[Applicable/Not Applicable]
	(i)	Accrual Yield:	[ ]% per annum
	(ii)	Reference Price:	[ ]

PROVISIONS RELATING TO REDEMPTION

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

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

21. Form of Covered Bonds:

	(a) Form:	[Temporary Bearer Global Covered Bond/Certificate exchangeable for a permanent Global Covered Bond/ Certificate which is exchangeable for Definitive Bearer Covered Bonds/Certificates on [ ] days' notice/at any time/in the limited circumstances specified in the permanent Global Covered Bond/Certificate] [Temporary Bearer Global Covered Bond/ Certificate exchangeable for Definitive Bearer Covered Bonds/ Certificates on [ ] days' notice] [Permanent Global Covered Bond/Certificate exchangeable for Definitive Bearer Covered Bonds/ Certificates on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Covered Bond/ Certificate] [Registered Covered Bonds] [Book Entry Covered Bonds *nominativas*] [Book Entry Covered Bonds *ao portador*]
	(b) New Global Note:	[Yes] [No]
22.	Additional Financial Centre(s):	[Not Applicable] [ ]
23.	Talons for future Coupons to be attached to Definitive Bearer Covered Bonds:	[Yes, as the Covered Bonds have more than 27 coupon payments, talons may be required if, on exchange into definitive form, work than 27 coupon payments are still to be made/No]

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

By: ______________________________

Duly authorised

PART B – OTHER INFORMATION

1. **Listing and Admission to trading**

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

2. **Ratings**

Ratings:	The following ratings reflect rating assigned to the Covered Bonds issued under the Programme generally: Baa1 by Moody's BBB- by Fitch A (low) by DBRS [The Covered Bonds to be issued [[have been]/[are expected to be]] rated [ ] by [ ].]

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

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

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

Indication of yield:	[Not Applicable] [ ]%

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

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

6. **Operational Information**

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the *Central de Valores Mobiliários*, Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, *société anonyme* and the relevant identification number(s) and addresses:	[ ] [Not Applicable]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]

7. **Distribution**

(i)	If syndicated, names of Managers:	[Not Applicable/[ ]]
(ii)	Date of [Subscription] Agreement:	[ ]
(iii)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable/[ ]]
(v)	U.S. Selling Restrictions:	[Reg. S Compliance Category] [TEFRA D] [TEFRA C] [TEFRA rules not applicable]

8. **Third Party Information**

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

PRICING SUPPLEMENT FOR EXEMPT COVERED BONDS

The form of Pricing Supplement that will be issued in respect of each Tranche of Exempt Covered Bonds (herein also referred to as the "**Covered Bonds**") whatever the denomination of such Covered Bonds, subject only to the deletion of non-applicable provisions, is set out below. The Central Bank has neither approved or reviewed information contained in this Pricing Supplement.

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

Pricing Supplement dated [ ]

Banco Comercial Português, S.A.

Issue of [*Aggregate Nominal Amount of Tranche*]

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

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

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

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement of the Exempt Covered Bonds described herein. This document must be read in conjunction with the Base Prospectus dated 20 December 2016 [and the supplemental Base Prospectus dated [*date*]] ([together] the Base Prospectus). Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Pricing Supplement and the Base Prospectus. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing during normal business hours at Banco Comercial Português, S.A., Praça Dom João 1, 28, 4000-295 Oporto, Portugal, physical copies may be obtained from the same address and electronic copies from the website of the Irish Stock Exchange (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 held through Interbolsa 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 Denominations:	[ ]
		(NB *Where Bearer Covered Bonds with multiple denominations above EUR [100,000] or equivalent are being issued the following language should be used:*
		"*EUR [100,000] and integral multiples of EUR [1,000] in excess thereof up to and including EUR [199,000]. No Covered Bonds in definitive form will be issued with a denomination above EUR [199,000]*")
		(*NB Book Entry Covered Bonds will only be tradable in one 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) Fixed Coupon Amount[(s)]:

- To Maturity Date: [[ ] per [ ] in nominal amount]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [[ ] per [ ] in nominal amount]

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

(iv) Broken Amount:

- To Maturity Date: [ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ] [Not Applicable]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ] [Not Applicable]

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

(v) 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.]

(vi) 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]/ [ ]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [ ] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	
	• To Maturity Date:	[Screen Rate Determination/ISDA Determination]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [Screen Rate Determination/ ISDA Determination] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
(v)	Party responsible (the "**Calculation Agent**") for calculating the Rate of Interest and Interest Amount (if not the Agent):	
	• To Maturity Date:	[Not Applicable] [ ]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [ ] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]

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

		Covered Bonds after the Maturity Date.]
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ]
(viii)	Margin(s):	
	• To Maturity Date:	[+/-] [ ]% per annum
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [+/-] [ ]% per annum] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
(ix)	Minimum Rate of Interest:	
	• To Maturity Date:	[ ]% per annum
	• From Maturity 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	[Not Applicable]/ Actual/Actual (ISDA) Actual/365 (Fixed)

	Extended Maturity Date:	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, for example, clearing systems (which require a minimum of five clearing system business days' notice for a call) and custodians, 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, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a call) and custodians, 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:		
	(a)	Form:	[*Bearer Covered Bonds:* [Temporary Bearer Global Covered Bond/Certificate exchangeable for a permanent Global Covered Bond/ Certificate which is exchangeable for Definitive Bearer Covered Bonds/Certificates on [ ] days' notice/at any time/in the limited circumstances specified in the permanent Global Covered Bond/Certificate] [Temporary Bearer Global Covered Bond/ Certificate exchangeable for Definitive Bearer Covered Bonds/ Certificates on [ ] days' notice] [Permanent Global Covered Bond/Certificate exchangeable for Definitive Bearer Covered Bonds/ Certificates on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Covered Bond/ Certificate]] [Registered Covered Bonds] [*Book Entry Covered Bonds:* [Book Entry Covered Bonds *nominativas*] [Book Entry Covered Bonds *ao portador*]]

		(Ensure that this is consistent with the wording in the "Form of the Covered Bonds" section in the Base Prospectus and the Covered Bonds themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 6 above includes language substantially to the following effect: *[EUR 100,000] and integral multiples of [EUR 1,000] in excess thereof up to and including [EUR 199,000]. No Covered Bonds in definitive form will be issued with a denomination above [EUR 199,000]*".) (*Furthermore, such Specified Denomination construction is not permitted in relation to any issue by a Temporary Bearer Global Note exchangeable for Definitive Bearer Notes*)
	(b) New Global Note:	[Yes] [No]
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*)
24.	Talons for future Coupons to be attached to Definitive Bearer Covered Bonds:	[Yes, as the Covered Bonds have more than 27 coupon payments, talons may be required if, on exchange into definitive form, work than 27 coupon payments are still to be made/No]

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: Baa1 by Moody's BBB- by Fitch A (low) by DBRS [The Covered Bonds to be issued [[have been]/[are expected to be]] rated *[insert details*] by *[insert the legal name of the relevant credit rating agency entity(ies*)].]

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

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

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

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

5. **Operational Information**

(i)	ISIN:	[ ]

(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the *Central de Valores Mobiliários,* Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, *société anonyme* and the relevant identification number(s):	[Not Applicable*/give name(s), address(es) and number(s)]*
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]

6. **Distribution**

(i)	If syndicated, names of Managers:	[Not Applicable/give *names]*
(ii)	Date of [Subscription] Agreement:	[ ]
(iii)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable*/give name*]
(v)	U.S. Selling Restrictions:	[Reg. S Compliance Category] [TEFRA D] [TEFRA C] [TEFRA rules not applicable]

7. **Third Party Information**

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

TERMS AND CONDITIONS OF THE COVERED BONDS

The following, save for the text in the footnotes, are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into, or endorsed upon, each Global Covered Bond (as defined below) and each Definitive Bearer Covered Bond (if applicable), in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such Definitive Bearer Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. 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 or endorsed upon, or attached to, 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).

Depending on the Clearing System through which the Covered Bonds are held (as specified in the applicable Final Terms), references herein to the Covered Bonds shall be references to the Covered Bonds of this Series and shall mean:

(i) whilst the Covered Bonds are held through Interbolsa, the book-entries corresponding to the units of the lowest Specified Denomination in the Specified Currency;

(ii) in relation to any Covered Bonds represented by a global Covered Bond (a "**Global Covered Bond**"), units of the lowest Specified Denomination in the Specified Currency;

(iii) any Global Covered Bond;

(iv) any definitive Covered Bonds in bearer form ("**Definitive Bearer Covered Bond**") issued in exchange for a Global Covered Bond in bearer form; and

(v) any definitive Covered Bond in registered form ("**Definitive Registered Covered Bond**"), whether or not in exchange for a Global Covered Bond in registered form.

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 23 July 2009 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, transfer agent, agent bank and/or registrar 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 or endorsed on this Covered Bond which complete information regarding these Terms and Conditions (the "**Conditions**") or, if this Covered Bond is a Covered Bond which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an "**Exempt Covered Bond**"), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Covered Bond. References to the applicable Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on 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.

Interest bearing Definitive Bearer Covered Bonds have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms, talons for further Coupons ("**Talon**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Covered Bonds and Global Covered Bonds do not have Coupons or Talons attached on issue.

Any reference to "**holders of Covered Bonds**" shall mean (in the case of Bearer Covered Bonds) the holders of such Covered Bonds and (in the case of Registered Covered Bonds and of Book Entry Covered Bonds) the persons in whose name the Covered Bonds are registered and shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below. Any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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 and the Registrar (such Paying Agents and the Registrar 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 the Irish Stock Exchange the applicable Final Terms will be published on the website of the Irish Stock Exchange (www.ise.ie). If this Covered Bond is an Exempt Covered Bond, the applicable Pricing Supplement will only be obtainable by a Covered Bonds holder holding one or more Covered Bond and such Covered Bonds holder must produce evidence satisfactory to the Issuer, the Trustee and the relevant Paying Agent as to its holding of such Covered Bonds and identity. The Covered Bonds holders and the Couponholders 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 and/or Coupons as applicable;

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

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

(e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to these Terms and Conditions;

(f) (for the purpose only of ascertaining the principal amount of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued under these Terms and Conditions;

(g) (if applicable) a Temporary Bearer Global Covered Bond to the extent that it has been duly exchanged for the relevant Permanent Global Covered Bond and a Permanent Global Covered Bond to the extent that it has been exchanged for the Definitive Bearer Covered Bond in each case under its provisions; and

(h) (if applicable) any Registered Global Covered Bond to the extent that it has been exchanged for Definitive Registered Covered Bonds and any Definitive Registered Covered Bond to the extent that it has been exchanged for an interest in a Registered Global Covered Bond.

1. FORM, DENOMINATION AND TITLE

The Covered Bonds will be issued in bearer form and will be initially represented by a Global Covered Bond, in registered form or in book entry form (*forma escritural*) as specified in the applicable Final Terms and, in the case of Definitive Bearer Covered Bonds, serially numbered, in the **Specified Currency** and the **Specified Denomination(s)**. Covered Bonds issued in book entry form can either be *nominativas* (in which case Interbolsa, at the Issuer's request, can ask the Affiliated Members of Interbolsa for information regarding the identity of the holders of Covered Bonds) or *ao portador* (in which case Interbolsa cannot inform the Issuer of the identity of the holders of Covered Bonds). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds or Book Entry Covered Bonds and vice versa.

The Covered Bonds held through Interbolsa 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.

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest or proven error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of Covered Bonds for all purposes (subject to Condition 2 (*Transfers of Covered Bonds*)) other than with respect to the payment of principal or interest on such nominal amount of Covered Bonds, for which purpose the bearer of the relevant Bearer Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

Interest-bearing Definitive Bearer Covered Bonds have (unless otherwise indicated in the applicable Final Terms) Coupons.

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 minimum 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 Bearer Covered Bonds and Coupons will pass by delivery and title to Registered Covered Bonds or Book Entry 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 bearer of any Bearer Covered Bond or Coupon and the registered holder of any Registered Covered Bond or Book Entry 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 but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

2. TRANSFERS OF COVERED BONDS

The transferability of the Covered Bonds is not restricted.

Covered Bonds held through Interbolsa 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.

Whilst the Covered Bonds are held through Euroclear and/or Clearstream, Luxembourg, interests in a Global Covered Bond may, subject to compliance with all applicable restrictions and requirements, be transferred to a person who wishes to hold such interest in a Global Covered Bond. No beneficial owner of an interest in a Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Transfers of any interests in Covered Bonds represented by a Global Covered Bond within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

Any reference herein to Interbolsa, Euroclear or Clearstream, Luxembourg shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms. 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, any interest thereon and any relative Coupons, if applicable, 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).

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, "**Fixed Interest Period**" means 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 interest is required to be calculated for a period other than a Fixed Interest Period, such interest 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 in accordance with this Condition 4.1:

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

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

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

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

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

(ii) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

(i) "**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a

Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

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

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

4.2 Interest on Floating Rate Covered Bonds

(A) Interest Payment Dates

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

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

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

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

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

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

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

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

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

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

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

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

(B) *Rate of Interest*

Floating Rate Covered Bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

(F) *Certificates to be final*

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

4.3 *Accrual of interest*

Subject as provided in Condition 4.4, interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless, upon due presentation, 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 or the Registrar, as the case may be, 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.

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, or, at the option of the payee, by a cheque in such Specified Currency drawn on, 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 or, at the option of the payee, by a euro cheque; 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 Clearing System 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 held through Interbolsa

Whilst the Covered Bonds are held through Interbolsa, 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 *Presentation of Definitive Bearer Covered Bonds and Coupons*

(A) Payments of principal in respect of Definitive Bearer Covered Bonds will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Covered Bonds, and payments of interest in respect of Definitive Bearer Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, 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)).

(B) Fixed Rate Covered Bonds in definitive bearer form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 12 years after the Relevant Date (as defined in Condition 8 (*Prescription*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)). Upon the date on which any Fixed Rate Covered Bond in definitive bearer form becomes due and repayable, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

(C) Upon the date on which any Floating Rate Covered Bond in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

(D) If the due date for redemption of any Definitive Bearer Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Covered Bond.

5.5 *Payments in respect of Bearer Global Covered Bonds held through Euroclear and/or Clearstream, Luxembourg*

Except if otherwise specified in the applicable Final Terms, payments of principal and interest (if any) in respect of Covered Bonds represented by any Global Covered Bond in bearer form held through Euroclear or Clearstream, Luxembourg (as the case may be) will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Covered Bond in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Covered Bond by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

5.6 *Payments in respect of Registered Covered Bonds held through Euroclear and/or Clearstream, Luxembourg*

(A) Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the Register) at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Covered Bonds held by a holder is less than EUR 250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, Designated Account means the account maintained by a holder with a Designated Bank and identified as such in the Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) 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) and (in the case of a payment in euro) any bank which processes payments in euro.

(B) Payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the Record Date) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption will be made in the same manner as payment of the principal amount of such Registered Covered Bond.

(C) Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

(D) None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

5.7 *Payment Day*

If the date for payment of any amount in respect of any Covered Bond or Coupon 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:

(A) the relevant place of presentation; or

(B) any Additional Financial Centre 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 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.

5.8 *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[6] 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, either (whilst the Covered Bonds are held through Interbolsa) the nominal amount of all outstanding Covered Bonds will be redeemed proportionally or (whilst the Covered Bonds are held through Euroclear and/or Clearstream, Luxembourg) the Covered Bonds to be redeemed will be selected individually in accordance with the rules of the relevant Clearing Systems not more than 15 days prior to the date fixed for redemption.

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

If Investor Put option is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 11 (*Notices*) not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms[7] 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 (in the case of Covered Bonds held through Interbolsa and in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar 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 or, as the case may be, the Registrar (a Put Notice) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Covered Bonds, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Covered Bonds so surrendered is to be redeemed, an address to which a new Registered Covered Bond in respect of the balance of such Registered Covered Bonds is to be sent subject to and in accordance with the provisions of Condition 2 (*Transfers of Covered Bonds*). If this Covered Bond is in definitive form, the Put Notice must be accompanied by this Covered Bond or evidence satisfactory to the Paying Agent concerned that this Covered Bond will, following delivery of the Put Notice, be held to its order or under its control. If this Covered Bond is represented by a Global Covered Bond

[6] When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of five clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.

[7] When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent).

or is in definitive form and held through Euroclear or Clearstream, Luxembourg, as the case may be, to exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg, as applicable (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Covered Bond represented by a Covered Bond, at the same time present or procure the presentation of the relevant Global Covered Bond to the Agent for notation accordingly. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. If the Covered Bonds are held through Interbolsa, 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 (provided that, in the case of Definitive Bearer Covered Bonds, all unmatured Coupons or Talons appertaining thereto are purchased therewith) 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 any Paying Agent and/or Registrar for cancellation.

6.5 *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled (together – if applicable – with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.4 (together with all unmatured Coupons and Talons cancelled therewith) shall be cancelled by Interbolsa or the Agent (as applicable) 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:

$$\text{“RP”} \times \left(1 + \text{AY}\right)_{\text{y}}$$

where:

"RP" means the Reference Price; and

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

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

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

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

6.7 Extension of Maturity up to Extended Maturity Date

(A) An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds unless the rating provided by the rating agencies appointed by the Issuer at the relevant time in respect of the Programme is adversely affected by such Extended Maturity Date provisions.

(B) If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the Issuer fails to redeem all of those Covered Bonds in full on the Maturity Date or within two Business Days thereafter, the maturity of the Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. The Issuer shall give to the holders of Covered Bonds (in accordance with Condition 11 (*Notices*)), the Agent and the other Paying Agents, notice of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds in full at least five Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.

(C) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 6.7 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Terms and Conditions.

(D) Any extension of the maturity of Covered Bonds under this Condition 6.7 shall be irrevocable. Where this Condition 6.7 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 6.7 shall not constitute an event of default for any purpose or give any holder of Covered Bonds any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms and Conditions.

(E) In the event of the extension of the maturity of Covered Bonds under this Condition 6.7, interest rates, interest periods and interest payment dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 4.4.

(F) If the Issuer redeems part and not all of the principal amount outstanding of Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.

(G) If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 6.7, subject to otherwise provided for in the applicable Final Terms, for so long as any of those Covered Bonds remains in issue, the Issuer shall not issue any further mortgage covered bonds, unless the proceeds of issue of such further mortgage covered securities are applied by the Issuer on issue in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

(H) This Condition 6.7 shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Covered Bonds in full on the Maturity Date (or within two Business Days thereafter).

7. TAXATION

7.1 *Payments free of taxes*

All payments of principal and interest in respect of the Covered Bonds (and Coupons, if applicable) 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 or the Registrar, as the case may be, 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, PAYING AGENTS AND REGISTRAR

(A) The names of the Agent, the Paying Agent and the initial Registrar (only applicable whilst the Covered Bonds are held through Euroclear and/or Clearstream, Luxembourg) 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 Paying 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 or the Registrar and/or appoint additional or other

Paying Agents or the Registrar and/or approve any change in the specified office through which any Paying Agent or the Registrar acts, provided that:

(i) there will at all times be an Agent and, in the case of Registered Covered Bonds held through Euroclear and/or Clearstream, Luxembourg, a Registrar;

(ii) the Issuer will, so long as any of the Covered Bonds is outstanding, maintain a Paying Agent (which may be the Agent) having a specified office in a city approved by the Common Representative in continental Europe;

(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; and

(iv) the Issuer will ensure that it maintains a Paying Agent in a member state of the EU that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to such Directive.

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, the Irish Stock Exchange), 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 applicable Portuguese law requirements.

While the Covered Bonds are deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to the holders of the Covered Bonds may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in addition, for so long as any Covered Bonds are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

12. MEETINGS OF HOLDERS OF COVERED BONDS

(A) The Portuguese Companies Code contains provisions for convening meetings of the holders of Covered Bonds to consider any matter attributed to them by law and in their common interest (which provisions are described and supplemented in the Common Representative Appointment Agreement), including the modification by Resolution of these Terms and Conditions or the provisions of the Common Representative Appointment Agreement.

(B) The quorum at any meeting convened to vote on: (i) a Resolution not regarding a Reserved Matter will be any person or persons holding or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding; or (ii) a Resolution regarding a Reserved Matter of the Covered Bonds, will be any person or persons holding or representing at least 50% of the Principal Amount Outstanding of the Covered Bonds then outstanding so held or represented or, at any adjourned meeting, any person being or representing whatever the Principal Amount Outstanding of the Covered Bonds then outstanding. Each Covered Bond grants its holder one vote.

(C) The majorities required to approve a Resolution at any meeting convened in accordance with the applicable rules shall be: (i) if in respect to a Resolution not regarding a Reserved Matter, the majority of the votes cast at the relevant meeting; (ii) if in respect to a Resolution regarding a Reserved Matter except for the one set out in (iii) below, at least 50% of the Principal Amount Outstanding of the Covered Bonds then outstanding or, at any adjourned meeting 2/3 of the votes cast at the relevant meeting; or (iii) if in respect to a Resolution regarding an increase in the obligations of the holders of Covered Bonds, all holders of the relevant Series of Covered Bonds.

For the purposes of these Terms and Conditions, a "**Reserved Matter**" means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 12.1(i)(C)(ii);

(D) A Resolution approved at any meeting of the holders of Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of Covered Bonds of such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

(E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default – Insolvency Event and Enforcement*) or to direct the Common Representative to take any enforcement action (each a "**Programme Resolution**") shall only be capable of being passed at a single meeting of the holders of Covered Bonds of all Series then outstanding.

(F) Any such meeting to consider a Programme Resolution may be convened by the Common Representative or, if it refuses to convene such a meeting, by the Chairman of the General Meeting of Shareholders of the Issuer; if both the Common

Representative and the Chairman of the General Meeting of Shareholders of the Issuer refuses to convene the meeting, then 5% of the holders of Covered Bonds of any Series may petition the court to order a meeting to be convened.

(G) A Programme Resolution passed at any meeting of the holders of Covered Bonds of all Series shall be binding on all holders of Covered Bonds of all Series, whether or not they are present at the meeting.

(H) In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any Series not denominated in euro shall be converted into euro at the relevant exchange rate at the date of the meeting.

13. INDEMNIFICATION OF THE COMMON REPRESENTATIVE CONTRACTING WITH THE ISSUER

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

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

14. REPLACEMENT OF COVERED BONDS, COUPONS AND TALONS

Should any Covered Bond, Coupon or Talon (if applicable) be lost, stolen, mutilated, defaced or destroyed, it may be replaced, in accordance with article 51 of the Portuguese Securities Code, at the specified office of the financial intermediary where such Covered Bond, Coupon or Talon (if applicable) is registered or deposited (as the case may be) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

15. OVERCOLLATERALISATION, VALUATION OF COVER POOL AND ISSUER COVENANTS

15.1 *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 15, 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 15.

15.2 *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 15 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.

16. 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.

17. 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.

18. 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*).

"**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.

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/ 2006, Instruction 13/2006, Regulation 7/2006 and Regulation 8/2006 and any relevant regulation that may be issued by the Bank of Portugal in the future.

"**Bearer Covered Bonds**" means any Covered Bonds in bearer form issued (whether or not in global form).

"**Book Entry Covered Bonds**" means any Covered Bonds in book entry form issued.

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

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

"**Coupons**" means the interest coupons related to the Definitive Bearer Covered Bonds and for the time being outstanding or, as the context may require, a specific number of such coupons.

"**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.

"**Couponholders**" means the persons who for the time being are holders of Coupons.

"**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 KPMG & Associados - SROC, SA, member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 9093, with registered office at Edifício Monumental, Av. Praia da Vitória 71 - A, 110, 1069-006 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.

"**Definitive Bearer Covered Bond**" means any definitive Covered Bond in bearer form issued only in exchange for a Global Covered Bond in bearer form held through Euroclear and/or Clearstream, Luxembourg.

"**Definitive Registered Covered Bond**" means any definitive Covered Bond in registered form issued whether or not in exchange for a Global Covered Bond in registered form held through Euroclear and/or Clearstream, Luxembourg.

"**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.

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

"**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

"**Global Covered Bond**" means any global covered bond (whether temporary or permanent, if applicable).

"**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.

"**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*).

"**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.

"**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 15, 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 15.

"**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.

"**Registered Covered Bond**" means any covered bond in registered form.

"**Registrar**" means a registrar appointed by the Issuer in respect of one or more Series of Covered Bonds.

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

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

"**Regulation 7/2006**" means the regulatory notice ("*Aviso*") No. 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued in accordance with the Covered Bonds Law.

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

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

"**Relevant Date**" means the date on which a payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or the Registrar, as the case may be, 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*).

"**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 12.1(i)(C)(ii).

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

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

"**Set of Agency Procedures**" means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 23 July 2009 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, transfer agent, agent bank and/or registrar appointed by the Issuer.

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

"**Talon**" and "**Talons**" means the talons for further Coupons attached to the Definitive Bearer Covered Bonds on issue.

"**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 or applicable to the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"**Treaty**" means the treaty establishing the European Communities, as amended by the Treaty on European Union.

"**Value**" means:

(a) in relation to a Mortgage Credit, (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; and (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register;

(b) in relation to any Other Assets:

    (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register;

    (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

CHARACTERISTICS OF THE COVER POOL

INTRODUCTION – CAPACITY TO ISSUE COVERED BONDS

In general, only duly licensed credit institutions allowed by law to grant mortgage loans, and having own funds not lower than EUR 7,500,000, may issue covered bonds. The Issuer complies with these requirements and is thus allowed to issue covered bonds under the Covered Bonds Law.

ISSUER REQUIRED TO MAINTAIN COVER POOL

The Issuer may issue Covered Bonds only if it maintains a related Cover Pool in compliance with the Covered Bonds Law. The Cover Pool contains mortgage credit assets, substitution assets and other eligible assets subject to the limitations provided for in the Covered Bonds Law. The Covered Bonds Law allows for the composition of the Cover Pool to be dynamic and does not require it to be static. Accordingly, the mortgage credit assets (and other permitted assets) to be comprised in the Cover Pool may change from time to time after the date hereof in order to ensure compliance with the requirements of the Covered Bonds Law and with the Bank of Portugal Regulations (as defined in *Definitions*).

To enable it to issue Covered Bonds, the Issuer has established and will maintain a segregated register (the "**Register**") in relation to the Cover Pool for the purposes of the Covered Bonds Law.

The Issuer plans to issue from time to time further Covered Bonds and will include in the relevant Cover Pool additional mortgage credit assets or substitution assets as security for those Covered Bonds in accordance with relevant provisions of the Covered Bonds Law, as further detailed below.

The Issuer is required, as soon as practicable after becoming aware that it has contravened the provisions of the Covered Bonds Law, to take all possible steps to prevent the contravention from continuing or being repeated.

ELIGIBILITY CRITERIA FOR ASSETS COMPRISED IN THE COVER POOL

Only mortgage credits or receivables which comply with the legal eligibility criteria described below may be included in the Cover Pool:

Mortgage Credits Eligibility Criteria

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

"Other Assets" Eligibility Criteria:

The following assets may also be included in the Cover Pool as Other Assets:

(a) deposits with the Bank of Portugal, in cash or securities eligible for credit transactions in the Eurosystem (which is the monetary authority of the euro area which comprises the European Central Bank and the national central banks of the Member States whose currency is the euro);

(b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating equal to or higher than the minimum rating given at any time by the Rating Agencies, provided that such minimum rating shall in any event be at least equal to "A-" or equivalent; and

(c) other assets meeting both the low risk and high liquidity requirements of the Bank of Portugal Regulations.

The aggregate value of the Other Assets may not exceed 20% of the aggregate value of mortgage assets and other assets allocated as collateral to all Covered Bonds issued by the Issuer.

At the date of this Base Prospectus, the Issuer intends to include in the Cover Pool mortgage credits which are located in Portugal and secured primarily on residential property for the purposes of the Covered Bonds Law. The Cover Pool may also include mortgage credit that has been granted under the subsidised credit regime, pursuant to Decree-Law No. 349/98 of 11 November 1998.

The Issuer does not intend at the date of this Base Prospectus to include either (i) Mortgage Credits which have their primary security over commercial property or (ii) Mortgage Credits in respect of which the associated Property is located for the purposes of the Covered Bonds Law outside Portugal without first notifying (in each case for so long as the Covered Bonds are rated by such rating agency) Moody's, Fitch and DBRS 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.

HEDGING CONTRACTS

The Covered Bonds Law allows the Cover Pool to include hedging contracts aimed exclusively at hedging risks, namely interest rate, exchange rate or liquidity risks. These hedging contracts will form part of the Cover Pool and may be taken into account in the assessment of the financial ratios and requirements of the Covered Bonds Law and described in this section.

Pursuant to the requirements of the Covered Bonds Law, any such hedging contract can only be entered into (i) in a regulated market of an EU Member State, or (ii) recognised market of an OECD country, or (iii) with a counterparty which is a credit institution with a rating of at least "A-" or equivalent. The Covered Bonds Law empowers the Bank of Portugal to develop, by regulatory notice ("*Aviso*"), the eligibility criteria for hedging contracts to form part of the Cover Pool.

Also pursuant to the Covered Bonds Law, the Register shall, in relation to each Hedging Contract, identify (i) the Covered Bonds to which the relevant Hedging Contract relates; (ii) the corresponding Cover Pool; (iii) the nominal value of the Hedging Contract; (iv) the Hedge Counterparty; and (v) the commencement date and the maturity date of such Hedging Contract.

If a particular Tranche of Covered Bonds is issued in a denomination other than the euro, the Issuer must enter into Hedging Contracts for the purpose of hedging any currency exchange risk.

Interest rate exposure of the Issuer relating to Mortgage Credits, as and when comprised in the Cover Pool, will be managed through Hedging Contracts. Interest rate swaps will be entered into with a Hedge Counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer. The Hedging Contracts will qualify as derivative financial instruments for the purposes of the Covered Bonds Law.

The terms of any Hedging Contracts to be entered into with a Hedge Counterparty, will include, among other termination events, provisions that provide that if the rating of any Hedge Counterparty short-term Issuer Default Rating (IDR) falls below "F1" by Fitch, and as a result of such downgrade the then current rating of the Covered Bonds is downgraded or placed under review for possible downgrade, or the rating of any Hedge Counterparty long-term IDR falls below "A" by Fitch, and as a result of such downgrade the then current rating of the Covered Bonds is downgraded or placed under review for possible downgrade, or if the rating of any Hedge Counterparty long-term unsecured, unsubordinated debt obligations falls below "A3" by Moody's (or ceases to be rated) at any time, the Hedge Counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Hedging Contract, subject to any applicable Rating Agencies' criteria regarding Hedge Counterparty exposures; (ii) arranging for its obligations under the Hedging Contracts to be transferred to an entity with ratings given pursuant to the criteria of the relevant rating agency; (iii) procuring another entity with ratings given pursuant to the criteria of the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (iv) taking such other action as it may agree with the relevant rating agency. A failure to take such steps will allow the Issuer to terminate the Hedging Contracts.

LOAN-TO-VALUE RESTRICTIONS

Pursuant to the Covered Bonds Law, the amount of any mortgage credit asset included in the Cover Pool may not exceed (i) the value of the corresponding Mortgage, and (ii) 80% of the value of the Property, if it is residential property, or 60% of the value of the Property, if it is commercial property. See *Valuation of Cover Pool* below.

WEIGHTED AVERAGE TERM TO MATURITY

The Covered Bonds Law sets out certain criteria, including matching weighted average term to maturity, which are required to be met by the Issuer in respect of its Cover Pool. In any case, the average maturity of the outstanding Covered Bonds may not exceed, at any time, the average maturity of the Mortgage Credits and Other Assets allocated to the relevant issuance.

OVERCOLLATERALISATION

Pursuant to the Covered Bonds Law, the nominal principal amount of any Covered Bonds outstanding may not exceed 95% of the aggregate nominal amount of the Cover Pool less any Covered Bonds acquired by the Issuer pursuant to the Covered Bonds Law and not cancelled. In addition, the aggregate amount of interest payable to the holders of Covered Bonds may not exceed, at any time, the amount of interest to be collected under the Cover Pool (including both the Mortgage Credits and the Other Assets) allocated to the Covered Bonds.

In compliance with the above legal requirements, Condition 15 (*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 15, 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 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*). See *Terms and Conditions of the Covered Bonds*.

For the purposes of the calculation by the Issuer and the Cover Pool Monitor of the level of overcollateralisation referred to above:

(a) Mortgage Credits shall be included at their outstanding principal amount, together with any accrued but unpaid interest;

(b) the Covered Bonds shall be accounted according to the nominal value of outstanding principal, together with accrued but unpaid interest;

(c) in relation to any Other Assets:

    (i) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

    (ii) securities eligible for Eurosystem credit transactions shall be accounted for by one value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

Also for the purpose of these calculations the Issuer and the Cover Pool Monitor shall use the exchange rates published by the European Central Bank as a reference.

In addition, the net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis point parallel shifts in the yield curve.

COMPLIANCE WITH FINANCIAL REQUIREMENTS

The Cover Pool Monitor must monitor the Issuer's compliance with the financial requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations described in this section. The Issuer must, as soon as practicable after becoming aware that it has failed to comply with any provisions of the Covered Bonds Law summarised herein (or when it is reasonable to expect that they will not be complied with), take all steps to comply with that provision, by undertaking one or more of the following procedures:

(a) allocating new mortgage credit assets, with or without substitution of those already allocated to the Covered Bonds; and/or

(b) allocating additional Other Assets; and/or

(c) acquiring Covered Bonds in the secondary market.

VALUATION OF COVER POOL

The Covered Bonds Law sets out certain requirements and criteria which are required to be met by the Issuer in respect of the valuation of Mortgage Credits comprised in the Cover Pool.

The Covered Bonds Law empowers the Bank of Portugal to specify, by regulatory notice ("*Aviso*"), requirements in relation to the valuation basis and methodology, time of valuation and any other matters that it considers relevant for determining the value of mortgage credit assets or Other Assets for the purposes of the Covered Bonds Law. The Covered Bonds Law also empowers the Bank of Portugal to specify, by regulatory notice, requirements in relation to the valuation basis and methodology, time of valuation and any other matter that it considers relevant for determining the value of substitution assets that are to be comprised in the Cover Pool. These requirements are set out in Regulation 6/2006 and Regulation 5/2006.

Valuation of Properties

General Overview

The value of each Property associated with a Mortgage Credit comprised in the Cover Pool corresponds to the commercial value of such Property, determined in accordance with prudent criteria and taking into consideration (i) the sustainable long term characteristics of such Property, (ii) the standard conditions of the local market, (iii) the current use of the relevant Property, and (iv) any alternative uses of the Property in question.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by the Issuer to each of the Properties related to Mortgage Credits comprised in the Cover Pool may not be higher than the market value of such Property. For these purposes, the "**market value**" of each Property shall correspond to the price by which the relevant Property can be purchased by a third party able to complete such purchase on the date of the valuation of the Property, assuming that (i) the Property is publicly put on sale, (ii) the market conditions allow for a regular transfer of such Property, and (iii) there is a normal period of time to, considering the nature of the Property in question, negotiate the purchase and sale of such Property.

Valuation by expert

Prior to the inclusion in the Cover Pool of the related Mortgage Credit, each Property must be valued by a real estate valuation expert. Such valuation shall be reviewed by a real estate valuation expert whenever (i) the information available to the Issuer indicates that there may have been a substantial decrease in the value of the Property or (ii) the value of the Property may have materially decreased in relation to general market prices.

A valuation made by a real estate valuation expert prior to the enactment of Regulation 5/2006 may, however, be used by the Issuer provided that:

(a) the valuations are carried out by a valuation expert who is independent from the credit analysis and credit decision process within the Group;

(b) the valuations are subject to a written report from the valuation expert that includes in a clear and accurate way elements that allow the understanding of the analysis and conclusions of the valuation expert;

(c) the Properties have been valued in light of the corresponding market value or the value of the mortgaged Property, as established by Regulation ("*Aviso*") 5/2006; and

(d) there has been no evidence that the relevant Property is over-valued at the time of allocation of the relevant Mortgage Credit to the issue of Covered Bonds.

The real estate valuation experts appointed from time to time by the Issuer to conduct the required valuation of Properties shall be independent and be adequately qualified and experienced for the performance of their functions. The Issuer may not appoint a real estate valuation expert with any potential conflicts of interest, notably where there is (i) any specific interest of the real estate valuation expert in the Property subject to the valuation, (ii) any relationship, commercial or personal, with the borrower of the Mortgage Credit related to the Property subject to valuation, or (iii) where the remuneration of the valuation expert is dependent on the valuation of the relevant Property.

The Issuer may appoint a valuation expert within the Group, provided such valuation expert is independent from the credit analysis and decision making process within the Group.

The selection of real estate valuation experts by the Issuer must ensure adequate diversification and rotation, and the Issuer shall maintain a permanent and updated list of selected valuation experts, setting out the criteria which have led to the respective selection, as well as the Properties valued by each valuation expert. This list shall be sent to the Bank of Portugal by the end of January in each year, indicating, if applicable, any changes made to such list from the list submitted the previous year.

Under Regulation 5/2006, the Bank of Portugal may, in relation to a given Property, require the Issuer to appoint another valuation expert, in particular when the value resulting from the previous valuation raises doubts as to its correctness.

Methods of valuation

The Issuer must ensure that each real estate valuation expert it appoints uses one of the following methods of valuation, which shall be chosen in light of the specific characteristics of the Property subject to valuation, as well as of the specific conditions of the local market:

(a) Cost method;

(b) Income method; or

(c) Comparison method.

Valuation report

Each real estate valuation expert appointed by the Issuer shall prepare a report in relation to the valuation of each Property, setting out, in a clear and detailed manner, all the elements relevant for the full understanding of the analysis and conclusions of such valuation, in particular:

(a) the identification of the relevant Property, with a detailed description of its characteristics;

(b) a description and basis of the method(s) of valuation, any parameters used and/or assumptions adopted, identifying the manner in which the volatility effects of the short term market or the market temporary conditions were taken into account;

(c) a description of possible qualifications to the analysis;

(d) the valuation of the Property, in terms of both the value of the mortgaged Property and of the market value of the Property;

(e) a statement of the valuation expert that he has effected the valuation according to the applicable requirements set out in the Covered Bonds Law and in the Bank of Portugal Regulations; and

(f) the date of the valuation and the identification and the signature of the valuation expert.

Subsequent valuations of Properties and subsequent update of the value of Properties

In respect of Mortgage Credits that exceed (i) 5% of the own funds of the Issuer or (ii) EUR 500,000, in the case of residential Properties, or EUR 1,000,000, in the case of commercial Properties, the valuation of the relevant Property shall be reviewed by a real estate valuation expert at least every three years.

The Issuer shall also perform any internal check of the value of each of the Properties once every three years, for residential Properties, and at least once a year for commercial Properties. The Issuer may be required to conduct Property valuations whenever there is relevant information that indicates that a substantial decrease of the Property value has taken place or that the Property value may have suffered a material decline in relation to standard market prices.

For the purpose of conducting an update of the valuation of the Properties, the Issuer may resort to recognised indices or statistical methods. In this case, the Issuer shall send the Bank of Portugal a report with the detailed description of such indices and statistical methods, as well as the grounds for their use, together with an opinion on the adequacy of such indices and statistical methods produced by a reputable independent valuation expert.

All subsequent updates of the value of the Properties shall be documented by the Issuer, setting out the description of the relevant criteria and the frequency of the review.

The Issuer shall provide the Cover Pool Monitor with all information necessary for the Cover Pool Monitor to supervise compliance by the Issuer with the requirements set forth in the Covered Bonds Law and in Regulation 5/2006 relating to the valuation of the Properties securing the Mortgage Credits comprised in the Cover Pool.

Valuation of Other Assets

Pursuant to Regulation 6/2006, the Other Assets shall be valued as follows:

(a) the deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

(b) the securities eligible for Eurosystem credit transactions shall be for by the value resulting from the rules regarding margin valuation laid down by the Eurosystem or, if lower, according to the nominal value of such securities, including accrued but unpaid interest.

Insurance

Pursuant to the Covered Bonds Law, if any property mortgaged as security for payment of interest and principal in relation to a mortgage credit asset comprised in the Cover Pool does not have an adequate insurance policy contracted by the relevant owner, the Issuer must obtain such insurance coverage adequate to the risks inherent to the relevant property. The Issuer must bear the costs of such insurance. In any case, the insurance policy attached to any property included in the Cover Pool must provide for a full coverage, allowing, in case of total loss, for such property to be rebuilt.

Any compensation due under any such insurance policies must be paid directly to the Issuer, up to the limit of the relevant Mortgage Credit.

COVER POOL SEGREGATED REGISTER AND SPECIAL CREDITOR PRIVILEGE

Autonomous pool of assets and segregated register

Pursuant to the Covered Bonds Law, the Cover Pool constitutes an autonomous pool of assets ("*património autónomo*"), not liable for any general indebtedness incurred by the Issuer until all amounts due to the holders of Covered Bonds and the Other Preferred Creditors are fully paid and discharged.

The Covered Bonds Law provides that the appropriate particulars of each asset comprised in the Cover Pool (including Mortgage Credits, Other Assets and Hedging Contracts) must be recorded in a segregated register within, and maintained by, the Issuer. Such register must record the following:

(i) the outstanding principal amount;

(ii) the applicable interest rate;

(iii) the applicable maturity;

(iv) the notary's office where the relevant mortgage was entered into, when applicable; and

(v) the reference regarding the definitive inscription of the mortgages in the corresponding real estate registry.

Pursuant to article 4.3 of the Covered Bonds Law, the Cover Pool is identified in the transaction documents by a code. The key to such code is deposited with the Bank of Portugal which has promulgated, by regulatory notice ("*Aviso*"), the conditions under which the holders of Covered Bonds may have access to the segregated register of the Cover Pool.

Special creditor privilege

Under the Covered Bonds Law, the holders of Covered Bonds enjoy a special creditor privilege over the Cover Pool (including the Mortgage Credits, the Other Assets and the Hedging Contracts) with preference over any other general creditor, in relation to the repayment of principal and payment of interest due under the Covered Bonds. Pursuant to the Covered Bonds Law, this special creditor privilege applies automatically for the benefit of the holders of Covered Bonds, the Common Representative and the Hedge Counterparties and is not subject to registration.

The mortgages created as security for the mortgage credit assets comprised in the Cover Pool shall prevail over all other real estate preferential claims.

DOCUMENTS AVAILABLE REGARDING THE COVER POOL

On a quarterly basis, the Issuer produces an investor report (the "**Investor Report**") containing key information regarding characteristics of the Cover Pool, outstanding Covered Bonds and Other Assets, as at the last business day of each calendar quarter. The Investor Report is produced and distributed by the end of the calendar month following each calendar quarter, and distributed to the Rating Agencies and Cover Pool Monitor, via electronic mail. The issuer makes the Investor Report available to investors by sending it to Bloomberg L.P.'s financial portal (http://www.bloomberg.com/), via electronic mail, as well as by publishing it in on the Issuer's corporate website (www.millenniumbcp.pt).

INSOLVENCY OF THE ISSUER

The Covered Bonds Law governs, to a certain extent, the impact on the Covered Bonds of a possible insolvency or winding-up of the Issuer, so as to ensure due protection to the holders of Covered Bonds. In the event of dissolution and winding-up (including on grounds of insolvency) of the Issuer, the Covered Bonds Law establishes that the Cover Pool shall be segregated from the insolvency estate of the Issuer and will not form part thereof until full payment of any amounts due to the holders of Covered Bonds. The amounts corresponding to payment of interest and repayment of principal of the Mortgage Credits and Other Assets will not form part of the insolvency estate of the Issuer.

The Cover Pool will, in such an event, be separated from the Issuer's insolvency estate so as to be autonomously managed until full payment of the amounts due to the holders of Covered Bonds and the Other Preferred Creditors. In this situation, pursuant to the Covered Bonds Law, the holders of Covered Bonds are entitled to adopt a resolution approving the immediate acceleration of the Covered Bonds by a majority of at least two thirds of the votes of the holders of Covered Bonds then outstanding, in which case the entity appointed to manage the Cover Pool shall provide for the liquidation thereof to the benefit of the holders of Covered Bonds.

If an Insolvency Event occurs in relation to the Issuer, the plan for the voluntary dissolution and winding-up of the Issuer, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Banking Law, shall identify a Substitute Credit Institution appointed to (i) manage the Cover Pool allocated to the outstanding Covered Bonds and (ii) ensure that the payments of any amounts due to the holders of such Covered Bonds are made. Such plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

In addition, if the authorisation of the Issuer to act as a credit institution in Portugal is revoked, the Bank of Portugal is required, simultaneously with the decision to revoke such authorisation, to appoint a Substitute Credit Institution to manage the Cover Pool allocated to the Covered Bonds outstanding and to ensure that payments due to the holders of such Covered Bonds are made.

The fees to be paid to the appointed Substitute Credit Institution shall be determined by the Bank of Portugal at the time of such appointment and shall be paid out of the Cover Pool.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall:

(i) immediately upon being appointed, prepare an opening balance sheet in relation to the Cover Pool, supplemented by the corresponding explanatory notes;

(ii) perform all acts and things necessary or desirable for the prudent management of the Cover Pool and respective guarantees in order to ensure the timely payment of all amounts due to holders of Covered Bonds including, without limitation:

    a. selling the Mortgage Credits comprised in the Cover Pool;

    b. ensuring the timely collection in respect of the Mortgage Credits comprised in the Cover Pool; and

    c. performing administrative services in connection with such Mortgage Credits;

(iii) maintain and keep updated a segregated register of the Cover Pool in accordance with the Covered Bonds Law; and

(iv) prepare an annual financial report in relation to the Cover Pool and the outstanding Covered Bonds, which report shall be the subject of an audit report produced by an independent auditor. The independent auditor shall be appointed as Cover Pool Monitor by the Substitute Credit Institution in accordance with Article 34 of the Covered Bonds Law.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the Cover Pool following an Insolvency Event of the Issuer shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under such Mortgage Credits.

COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS

Deutsche Trustee Company Limited, with registered office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, has been appointed by the Issuer as representative of the holders of the Covered Bonds pursuant to Article 14 of the Covered Bonds Law and in accordance with the Terms and Conditions and the terms of the Common Representative Appointment Agreement.

The Issuer has appointed the Common Representative to represent the holders of Covered Bonds. According to the Covered Bonds Law and to the relevant provisions of the Portuguese Companies Code, the Common Representative may be entitled to perform all the necessary acts and actions in order to ensure protection of the holders of Covered Bonds, namely: (a) to represent the holders of Covered Bonds in respect of all matters arising from the issuance of the Covered Bonds and to enforce on their behalf their legal or contractual rights; (b) to enforce any decision taken by the general meetings of the holders of Covered Bonds, in particular those where the acceleration of the Covered Bonds may be decided; (c) to represent the holders of Covered Bonds in any judicial proceedings, including judicial proceedings against the Issuer and, in particular, in the context of any winding-up, dissolution or insolvency commenced by or against the Issuer; (d) to collect and examine all the relevant documentation in respect of the Issuer which is provided to its shareholders; and (e) to provide the holders of Covered Bonds with all relevant information regarding the issuance of the Covered Bonds it may become aware of by virtue of its role as Common Representative under the Common Representative Appointment Agreement.

The holders of the Covered Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions and the Common Representative Appointment Agreement, remove the Common Representative and appoint a new common representative.

COVER POOL MONITOR

APPOINTMENT OF A COVER POOL MONITOR

The Covered Bonds Law requires that the Board of Directors of the Issuer appoints a qualified person or entity to be the monitor of the Cover Pool (the "**Cover Pool Monitor**") who shall be responsible, for the benefit of the holders of Covered Bonds, for monitoring the compliance by the Issuer of the requirements contained in the Covered Bonds Law and the Bank of Portugal Regulations.

Pursuant to the Covered Bonds Law, the Cover Pool Monitor must be an independent auditor registered with the CMVM. For these purposes, an independent auditor must be an auditor which is not related with or associated to any group of specific interests within the issuing entity and is not in a position that hinders its ability to make independent analysis and decisions. In particular, such independent auditor shall not (i) hold 2% or more of the share capital of the Issuer, either directly or on behalf of a third party; or (ii) have been re-elected for more than two terms either consecutive or not.

The Issuer is responsible for paying any remuneration or other money payable to the Cover Pool Monitor in connection with the Cover Pool Monitor's responsibilities in respect of the Issuer and the holders of Covered Bonds.

ROLE OF THE COVER POOL MONITOR

Pursuant to the Cover Pool Monitor Agreement, dated 4 August 2008 as amended and restated on 29 June 2012, the Issuer appointed KPMG & Associados - SROC, SA, as Cover Pool Monitor. KPMG & Associados - SROC, SA. is registered with the CMVM under registration number 20161489.

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 15 (*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 15 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*).

Pursuant to the Covered Bonds Law and the Bank of Portugal Regulations, the Cover Pool Monitor is entitled to be provided with all information required to monitor compliance by the Issuer with the requirements relating to outstanding Covered Bonds and the Cover Pool.

In the performance of its duties, the Cover Pool Monitor must produce an annual report with an assessment of the Issuer's compliance with the requirements established in the Covered Bonds Law and in the Bank of Portugal Regulations, in particular those requirements relating to the level of collateralisation, the loan-to-value ratios limitations and the valuation of assets comprised in the

Cover Pool. The Cover Pool Monitor must also prepare opinions certifying the statements of the management body of the Issuer, relating to information and documentation filed with the Bank of Portugal.

The Cover Pool Monitor must notify the Issuer, as soon as reasonably practicable, after becoming aware that the Issuer has contravened any of the provisions of the Covered Bonds Law and/or that any of the requirements of the Cover Pool are not being complied with. If the situation remains unremedied within 10 business days after such notification, the Cover Pool Monitor will notify the Arrangers and the relevant Dealers of the contravention or non-compliance. For the purposes of this notification, the Cover Pool Monitor will develop quarterly procedures to be defined with the Issuer.

The Covered Bonds Law empowers the Bank of Portugal to promulgate, by regulatory notice ("*Aviso*"), requirements applicable to the content and disclosure of any reports of the Cover Pool Monitor.

REMUNERATION AND TERMINATION OF THE APPOINTMENT OF THE COVER POOL MONITOR

In accordance with the Cover Pool Monitor Agreement, the Cover Pool Monitor shall be remunerated by the Issuer for its services as Cover Pool Monitor at a rate as may from time to time be agreed between the Issuer and the Cover Pool Monitor.

The Issuer may at any time terminate the appointment of the Cover Pool Monitor and appoint a new entity to act in such capacity. Any such termination shall not become effective until a new cover pool monitor is appointed in accordance with the terms of the Cover Pool Monitor Agreement. Additionally, the Cover Pool Monitor may retire at any time upon giving not less than three calendar months' notice in writing to the Issuer. Such retirement shall not become effective until the appointment of a new cover pool monitor.

DESCRIPTION OF THE BUSINESS OF THE GROUP

A. Description of the Business of the Group

Overview

Millennium bcp Group (the "**Group**") is one of the largest privately owned banking groups (and the second largest overall) in Portugal by distribution network, total assets, loans to customers (gross, excluding off balance sheet securitisations) and customer funds, as at 30 June 2016 (based on data from the Bank of Portugal). The Group offers a wide range of banking products and related financial services, both in Portugal and internationally, namely demand accounts, instruments of payment, savings and investment products, mortgage loans, consumer credit, commercial banking, leasing, factoring, insurance, private banking and asset management, among others, and its customers are served on a segmented basis. Internationally, the Group has significant operations in Poland, Angola (on 22 April 2016, BMA merged with BPA and has a result the Group deconsolidated the Angola operation which is now consolidated under the equity method) and Mozambique. In addition, the Bank has a presence in Switzerland, the Cayman Islands and Macao.

In accordance with International Financial Reporting Standards ("**IFRS**"), the Group had, at 30 September 2016, total assets in the amount of EUR 73,042 million and total customer funds (including customer deposits, debt securities, asset management and capitalisation insurance) in the sum of EUR 63,354 million. Loans to customers (gross) amounted to EUR 52,610 million. According to the interpretation of the CRD IV/CRR, the CET 1 phased-in ratio pro forma reached 12.2% and the CET 1 fully-implemented ratio pro forma reached 9.5%, as at 30 September 2016.[8] Based on the latest available data from the Bank of Portugal, the Group accounted for 18% of loans to customers (gross) and 17.3% of deposits in the Portuguese banking sector on 30 June 2016.

In addition, on 30 September 2016, the Bank was the twelfth largest company listed on Euronext Lisbon in terms of market capitalisation (EUR 910 million).

The Bank is registered with the Commercial Registry Office of Oporto under the sole commercial registration and tax identification number 501 525 882 and its registered offices are located at Praça Dom João I, 28, 4000–295 Oporto, with telephone number +351 211 134 001.

The Bank operates notably under the Portuguese Companies Code and the Banking Law.

Bank History

BCP was incorporated on 17 June 1985 as a limited liability company ("*sociedade anónima*") organised under the laws of Portugal following the deregulation of the Portuguese banking industry. BCP was founded by a group of over 200 shareholders and a team of experienced banking professionals who sought to capitalise on the opportunity to form an independent financial institution that would serve the then underdeveloped Portuguese financial market more effectively than state-owned banks.

While the Bank's development was initially characterised by organic growth, a series of strategic acquisitions helped solidify its position in the Portuguese market and increase its offering of financial products and services. In March 1995, BCP acquired control of Banco Português do Atlântico, S.A. ("**Atlântico**"), which was then the largest private bank in Portugal. This was followed by a joint takeover bid for the whole share capital of Atlântico, launched together with Companhia de Seguros Império ("**Império**"), a Portuguese insurance company. In June 2000, Atlântico was merged into

[8] Calculated on the basis of Regulation No. 3/95 of the Bank of Portugal and Law No. 61/2014, of 26 August 2014.

BCP. In 2000, BCP also acquired Império, along with Banco Mello and Banco Pinto & Sotto Mayor. In 2004, with a view to strengthening its focus on the core business of distribution of financial products and optimising capital consumption, BCP sold insurers Império Bonança, Seguro Directo, Impergesto and Servicomercial to the Caixa Geral de Depósitos group. BCP also entered into agreements with Fortis (currently Ageas) for the sale of a controlling stake and management control of insurers Ocidental - Companhia Portuguesa de Seguros, S.A., Ocidental – Companhia Portuguesa de Seguros de Vida, S.A. and Médis - Companhia Portuguesa de Seguros de Saúde, S.A., as well as the pension fund manager PensõesGere – Sociedade Gestora de Fundos de Pensões, S.A. Consistent with the Bank's strategy on re-focusing its core business and maintaining capital discipline, between 2005 and 2007, the Bank sold Interbanco S.A., Credilar and sold or reduced its holdings in Friends Provident, Banca Intesa, Powszechny Zaklád Ubezpieczén, ONI, Banco Sabadell and Energias de Portugal.

The Bank has historically 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 operated in Poland since 1998, originally through a joint venture with the Polish financial group Big Bank Gdánski ("**BBG**") and afterwards with a 65.5% shareholding in Bank Millennium S.A., which was acquired by BCP in 2006. The Bank launched its Greek operations in 2000 and its Romanian operations in 2007. 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 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 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 Canada, France and Luxembourg), while retaining commercial protocols to facilitate remittances from Portuguese emigrants in those markets.

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 addition, as part of its continued strategic refocus, in 2010, the Bank completed the divestment of assets classified as non-core through the sale of Millennium bank in Turkey (in which the Bank had retained a 5% stake), the divestment of which has now been completed, and Millennium bcp bank in the United States. In 2010, the Bank transformed its Macao off-shore branch into an on-shore branch. In September 2011, the Bank signed a partnership agreement with BPA for the incorporation of a bank in Brazil. The partnership sought to furnish access to the Brazilian market, namely in the trade finance and corporate finance areas, which reflects the Bank's new strategic agenda of refocusing in affinity markets.

In 2010, in response to the worsening of the economic and sovereign crisis, the Bank carried out an adjustment to its strategic agenda based on three priority lines: (i) "Increasing Trust", in particular through strengthening customer relations, achieving higher capital ratios through the reduction of risk weighted assets, maintaining control of the commercial gap and improving net income; (ii) "Preparing the path out of the economic and financial crisis", particularly through the repricing of loans, growth of customer funds, improvement of collateral in credit operations, significant increase of eligible assets with central banks and the launch of an innovative bank based on the ActivoBank platform; and (iii) "Focus and Sustainability", through organisational streamlining, cost control, effective charge of commissions for provided services and focus on the international portfolio.

On 28 February 2012, the General Meeting of Shareholders approved amendments to the Articles of Association of the Bank, thereby adopting management restructuring through 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. An International Strategic Board was also created for the purpose of ensuring the development of the international expansion strategy of the Bank, and entrusted with the analysis and assessment of this strategy, as well as supervision over its development and implementation.

The Bank completed the Recapitalisation Plan approved by the General Meeting of Shareholders on 25 June 2012, which took place in two phases: (i) public investment, consisting of hybrid instruments qualifying as Core Tier 1 capital, in the amount of EUR 3,000 million, concluded at the end of June, and (ii) private investment, consisting of a rights issue, in the amount of EUR 500 million, at the price of EUR 0.04 per ordinary share, which was completed in early October 2012. The Bank thus fulfilled the regulatory requirements established by the EBA and delivered its Core Tier 1 ratio of 9.7% in June 2012 and 9.8% in December 2012. Adjusted for the sovereign debt buffer of zero as at 31 December 2012, the Core Tier 1 ratio as at 31 December 2012 was 11.4%, according to the EBA and 12.4% in December 2012 according to the criteria of the Bank of Portugal. As at 31 December 2013, the Core Tier 1 ratio, according to the EBA criteria, was 10.8% and, adjusted for the sovereign debt buffer of zero as at 31 December 2013, the ratio was 12.8%. As at 31 March 2014, the Core Tier 1 ratio, according to the EBA criteria, was 11% and adjusted for the sovereign debt buffer of zero as at 31 December 2013, the ratio was 12.9%. As a result of the Recapitalisation Plan implemented by the Bank, and the terms provided by law, on 3 December 2012, the Portuguese government appointed two non-executive members to the Board of Directors to hold office during the term of the public investment, aimed at strengthening the Bank's own funds.

In December 2012, the Bank prepared and presented to the Portuguese government a Restructuring Plan, required by national law and by the applicable European rules on matters of State aid. The Restructuring Plan was formally submitted by the Portuguese government to the European Commission, in observance of the maximum period of six months after the approval of the Bank's Recapitalisation Plan as provided by the Decision 8840-B/2012 of the Minister of State and Finance, of 28 June 2012, and published in the Official Gazette of Portugal Series on 3 July 2012.

In July 2013, the Bank was informed that an agreement between Portuguese authorities and the European Commission had been reached regarding BCP's Restructuring Plan, entailing an improvement of the profitability of the Bank in Portugal through continued cost reduction. On 2 September 2013, the DG Comp announced its formal decision in connection with its agreement with the Portuguese authorities concerning the Bank's Restructuring Plan. Pursuant to the decision, the Bank's Restructuring Plan was found in compliance with the European Union's rules relating to State aid, demonstrating the Bank's viability without continued State support.

The approved Restructuring Plan aimed at strengthening the Bank's strategy by focusing on its core activities and is designed to emphasise: (i) reinforcement of funding to the economy in full compliance with the regulatory capital levels requirements; (ii) the strategic focus of activity by separating assets deemed core and non-core (securities-backed lending, highly leveraged loans, subsidised mortgage loans and loans to certain segments associated with construction, football clubs and real estate development), aiming to reduce non-core assets gradually; (iii) deleveraging of the balance sheet, with divestment of non-core assets and achievement of a LTD (loans-to-deposits) ratio of 120% from 2015 onward; (iv) improving operational efficiency, achieving a ROE minimum of 10% and a cost-to-income maximum of 50%, both from 2016 onwards; (v) implementation of a new approach in the asset management business by adopting an open-architecture distribution model, allowing for a wider range of customers' investment options; and (vi) continuation of the process of adjustment of the Bank's structure in the domestic market, in particular by optimising the number of branches and other areas of business support, highlighting the continuity of staff policies that adjust the staff to the demand for banking services. In particular, the agreement implies a reduction of about 25% of staff-related costs from December 2012 to December 2015 (an important part of this effort has already materialised in 2012 and 2013).

In addition, the Restructuring Plan underlines the significance of the strategic operations in Angola and Mozambique, which are important contributors to the strategy to support the business community and the net income of the Bank. Bank Millennium in Poland is considered a core operation, thus there is no commitment to sell unless the outstanding amount of GSIs by December 2016 exceeds EUR 700 million.

On the international front, the Restructuring Plan envisages the sale of BCP's operations in Romania in the medium term.

On 22 April 2013, BCP and Piraeus Bank SA entered into definitive agreements in connection with: (i) the sale of the entire share capital of Millennium Bank in Greece, and (ii) BCP's investment in the forthcoming capital increase of Piraeus Bank SA. The sale of the entire share capital of Millennium Bank in Greece to Piraeus Bank SA, pursuant to the general conditions as announced on 22 April 2013, was completed on 19 June 2013.

As anticipated, the exit from the Greek market took place on 30 October 2013 when the completion of BCP's disposal of its entire stake in Piraeus Bank SA was announced. Proceeds from the sale amounted to EUR 494 million, thereby appreciating in relation to the acquisition price of EUR 94 million. The transaction significantly reduced the balance sheet risk, with a very positive effect on the Bank's Core Tier 1 capital, improving it by close to 40 basis points compared with 30 September 2013.

In December 2013, the Bank announced it had signed a memorandum of understanding with the labour unions to implement a process of salary adjustments for a temporary period, which is expected to allow BCP to achieve the agreed targets with the DG Comp and the Portuguese State to reduce staff costs. The implementation of this agreement will be in force from July 2014 onward.

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 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.

On 27 May 2014, BCP announced that it repaid, on that date, EUR 400 million of CET 1 capital instruments ("**CoCos**") subscribed by the Portuguese State, after having received the authorisation from the Bank of Portugal, based on the regulator's analysis of the evolution of BCP's capital ratios.

On 24 June 2014, BCP announced that the Board of Directors of Millennium bcp had resolved, with the favourable prior opinion of the Audit Committee, to increase the share capital of the Bank by approximately EUR 2,250 million, through an offering of subscription rights to subscribe for 34,487,542,355 new ordinary shares, without nominal value, to existing holders of the Bank's ordinary shares, and other investors who acquire subscription rights (the "**Rights Offering**").

The subscription price was set at EUR 0.065 per share at a ratio of seven new ordinary shares for four ordinary shares held. The subscription price represented a discount of approximately 34% to the theoretical ex-rights price based on the closing price of Millennium bcp shares on Euronext Lisbon on 24 June 2014.

Each holder of the Bank's ordinary shares received one subscription right for each ordinary share it owns.

On 22 July 2014, the Bank announced the results of the share capital increase: 34,082,211,308 ordinary shares were subscribed to pursuant to the exercise of subscription rights, representing about 98.8% of the total number of ordinary shares to be issued pursuant to the Rights Offering. The remaining 405,331,047 ordinary shares were available to satisfy oversubscription orders. Oversubscription orders totalled 9,243,741,767 ordinary shares, which exceeded about 21.8 times the amount available. The total demand registered in this capital increase accounted for approximately 125.6% of the amount of the Rights Offering.

The transaction represented an important step in order to allow the total reimbursement of EUR 2,250 million of CoCos to the Portuguese State (of which EUR 400 million occurred in May and EUR 1,850 million to be authorised by the Bank of Portugal in the third quarter of 2014).

On 30 July 2014, the Bank announced the assignment of the agreement with OTP Bank regarding the sale of the entire share capital of Banca Millennium (Romania) ("**BMR**"). The transaction was subject to customary conditions, in particular to obtaining regulatory approvals.

The aggregate consideration for the sale of the share capital of BMR was agreed at EUR 39 million. On the date of closing of the sale transaction, OTP Bank will ensure full reimbursement to BCP of the intragroup funding currently provided by BCP to BMR, amounting to approximately EUR 150 million.

On 7 August 2014, the Bank announced that it intended to repay EUR 1,850 million of CoCos subscribed by the Portuguese State, after having received the authorisation from the Bank of Portugal, based on the regulator's analysis of the evolution of BCP's capital ratios and as announced during the capital increase process.

With such repayment, the Bank is ahead of the originally defined calendar for repayment of CoCos, allowing savings of more than EUR 300 million for net income.

On 7 October 2014, the Bank announced that it had signed on that date an agreement with Corretaje e Información Monetária y de Divisas, S.A. ("**CIMD Group**") for the sale of the entire share capital of Millennium bcp Asset Management – Sociedade Gestora de Fundos de Investimento, S.A. ("**MGA**"). The agreed price for the sale of the share capital of MGA was EUR 15.75 million.

This transaction marked another step by the Bank, ahead of the deadline, to comply with the agreement signed by the DG Comp and the Portuguese Authorities concerning the Bank's restructuring plan, in line with its strategic plan.

The Bank will continue to distribute the investment funds managed by MGA. BCP is the custodian for these funds.

On 8 January 2015, the Bank announced that it had completed, on that date, the sale of BMR to OTP Bank. In accordance with the general conditions announced, the Bank received from OTP Bank, on that date, EUR 39 million as consideration for the sale. OTP Bank also ensured full reimbursement to the Bank of the intragroup funding provided by the latter to BMR, amounting to approximately EUR 150 million.

The sale of BMR brought forward yet another important measure on which BCP had committed with the DG Comp pursuant to its restructuring plan.

On 24 February 2015, the Bank announced that it was evaluating several scenarios to enhance the value of ActivoBank and that such process was in its initial phase. In accordance with the announcement made by the Bank on the referred date, it was not possible, at that stage, to affirm if the process would result in any transaction.

Following the announcement, on 25 March 2015, of the launch of an accelerated placement to institutional investors of 186,979,631 ordinary shares of Bank Millennium constituting 15.41% of the Bank Millennium's existing share capital, the Bank announced, on 26 March 2015, the pricing of such accelerated placement, at a price of PLN6.65 per ordinary share. Gross proceeds raised by the Bank from the Placement are expected to be approximately PLN 1.24 billion (EUR 304 million), resulting in an increase in the Group CET 1 ratio versus end-2014 figures of 0.46% under fully-implemented rules and of 0.64% according to phased-in criteria. After the completion of the Placement, BCP continues to hold a majority shareholding in Bank Millennium, corresponding to 50.1% of the Company's share capital.

On 17 April 2015, the Bank announced a public exchange offer (the "**Offer**"), submitted to the resolution of the Bank's General Meeting of Shareholders, which, according to the excepted acceptance, is estimated to reinforce CET 1 ratios by approximately 0.70% when compared to December 2014. The Offer prevents future hits to capital, as eligibility for capital purposes of the securities being targeted by the Offer will cease over the coming years reflecting the CRD IV/CRR.

On 18 May 2015, the Bank announced the completion of the sale of MGA to CIMD Group. In accordance with the terms previously announced, the CIMD Group acquired the whole share capital of MGA.

On 11 June 2015, the Bank announced the results of the share capital increase with a partial and voluntary public tender offer for the acquisition of securities, highlighting notably the following: (i) securities in a global nominal amount of EUR 481,208,950 were contributed in this share capital increase, representing around 75.71% of the total amount available for exchange; (ii) as a consequence of the subscriptions made, 4,844,313,860 ordinary, nominative and book-entry shares with no par value were issued, at the issue price of EUR 0.0834 per share, which corresponds a total amount of the share capital increase of EUR 387,545,108.8; and (iii) with the conclusion of the Offer, the Bank reached pro forma CET 1 ratio in March 2015, after the share capital increase, of 12.7% on a phased-in basis[9].

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.

On 30 July 2016, the Bank informed that it had received a letter from Fosun Industrial Holdings Limited ("**Fosun**"), containing a firm proposal for an investment in the share capital of BCP on the terms and conditions set forth in a Proposal Guidelines of Agreement. It also informed that Fosun proposed to subscribe to a private placement reserved solely to Fosun, to be resolved by BCP's board pursuant to the approval granted by BCP's shareholders in the general assembly held on 21 April 2016, through which, at current levels, Fosun would hold a shareholding of around 16.7% of the total share capital of BCP (the "**Reserved Capital Increase**"). Fosun also considered increasing its stake through secondary market acquisitions or, in the context of future capital increases of BCP, with an aim of potentially increasing Fosun's shareholding to 20%-30% of BCP.

9 Calculated on the basis of Regulation No. 3/95 of the Bank of Portugal and Law No. 61/2014, of 26 August 2014, relating to deferred tax assets and the net results of the first quarter of 2015.

Pursuant to the proposal by Fosun, the execution of the Reserved Capital Increase was made subject to the satisfaction or waiver of a number of conditions precedent, including: (i) approval of the acquisition of a qualified holding by Fosun by the banking supervision authorities and completion of meetings and/or discussions with the EC; (ii) clarification by the relevant authorities as to no need for a special contribution to and no immediate accounting recognition of potential future contributions to the Resolution Fund; (iii) implementation and registration of the reverse share split process as approved by BCP's shareholders in the general assembly held on 21 April 2016; (iv) the subscription price for the Reserved Capital Increase not exceeding EUR 0.02 (adjusted for the reverse share split); (v) approval by the Board of Directors of a proposal to be submitted to the General Meeting of Shareholders in order to increase the limit on voting rights prescribed by Article 26 of the Bank's Articles of Association to 30%; (vi) approval by the Board of Directors of the co optation of two new members appointed by Fosun to the Board of Directors; and (vii) the absence of any material adverse change situations affecting BCP or the Reserved Capital Increase.

On 27 September 2016, the Board of Directors of BCP acknowledged the substantial progress in the negotiations with Fosun, including on the fulfilment of several of the abovementioned conditions precedent, and resolved to mandate the Executive Committee to proceed with, and to complete with exclusivity, the negotiations with Fosun.

On 24 October 2016, BCP concluded a reverse share split or regrouping of the Bank's share capital of 1:75, with every 75 shares being regrouped into one share. Immediately prior to the share split BCP had 59,039,023,275 shares and BCP's share price in the Euronext Lisbon regulated market was EUR 0.0179; immediately after the reverse share split BCP had 787,186,977 shares and BCP's share price in the Euronext Lisbon regulated market was EUR 1.35. The historical share information presented in "Market Data" has been adjusted for the reverse share split as if the split had occurred on 1 January 2013. The historical share information presented elsewhere in this Prospectus has not been adjusted and treats the reverse share split as occurring on 24 October 2016, the day on which it occurred.

On 20 November 2016, BCP announced the approval by its Board of Directors of the result of negotiations with Fosun as well as the increase of BCP's share capital, through a private placement, as follows:

A. Memorandum of Understanding and Subscription Agreement with Fosun

On 18 November 2016, BCP and Fosun have entered into a Memorandum of Understanding setting out the terms of Fosun's investment in the share capital of BCP ("**MoU**"), pursuant to which Chiado, affiliate of Fosun, agreed to invest in BCP through a private placement of 157,437,395 new shares (the "**Reserved Capital Increase**").

Observing the corporate governance procedures applicable to BCP, and for the current mandate ending in 2017, the MoU provides for the cooptation of: (i) two board members, whose appointment as additional members of the Executive Committee will also be proposed, with one of them to be appointed to the role of an additional Vice-President of the Executive Committee; and (ii) subject to Chiado holding at least 23% of the share capital of BCP, three non-executive directors, with one of them to be appointed to the role of Vice-Chairman of the Board of Directors and one proposed as a member of Committee for Nominations and Remunerations.

In light of the synergies and business development opportunities, the MoU foresees subsequent discussions for, on an arms' length basis, and without a commitment on the results, establishing long-term insurance distribution agreements outside of Portugal.

To effect the above, Fosun and Chiado also agreed to a lock-up in respect of the sale of shares subscribed by it under the Reserved Capital Increase for a period of three years from the date of subscription.

Fosun has reaffirmed in the MoU its strong interest to subsequently raise its shareholding in BCP to around 30% of its share capital through primary or secondary market transactions, once the increase of the voting cap to 30% of the share capital is approved.

B. Reserved Capital Increase

In accordance with the resolution of the General Meeting of Shareholders of 21 April 2016 to suppress the pre-emptive right of the shareholders, the Board of Directors of BCP has approved a resolution for the increase of BCP's share capital, from € 4,094,235,361.88 to € 4,268,817,689.20, by way of a private placement of 157,437,395 new shares offered for subscription by Chiado at a subscription price of €1.1089 per new share.

The abovementioned share capital increase by way of private placement has already been subscribed for by Chiado, and its registry has been requested to the competent Commercial Registry Office on 18 November 2016 and, as such, the current share capital of BCP is now of €4,268,817,689.20, represented by 944,624,372 ordinary, book-entry shares without nominal value.

The new ordinary shares, which admission to trading on Mercado Regulamentado Euronext Lisbon will be requested, will entitle their holders to the same rights as those of existing shares.

B. Business Overview

Nature of Operations and Principal Activities

The Group is engaged in a wide variety of banking and related financial services activities, in Portugal and internationally. The Bank operates in foreign markets, being present in the following markets: Poland, Switzerland, Mozambique and Angola (through its associated company Banco Millennium Atlântico). In Portugal, the Bank's operations are primarily in retail banking, but it also offers a complete range of additional financial services (in accordance with article 3 of the articles of association of the Bank, which provides that "the purpose of the Bank is to engage in banking activities with such latitude as may be permitted by law"). The Bank also engages in a number of international activities and partnerships.

The Bank's banking products and services include demand accounts, instruments of payment, savings and investments, mortgage loans, consumer credit, commercial banking, leasing, factoring, insurance, private banking and asset management, among others. The Bank's domestic retail banking activities are conducted mainly through its marketing and distribution network in Portugal, which follows a segmented approach to the Portuguese retail banking market and serves the diverse banking needs of specific groups of customers. Back office operations for the distribution network are integrated in order to explore economies of scale.

The Bank has subsidiaries that offer additional financial services, including investment banking, asset management and insurance. These subsidiaries generally distribute their products through the Bank's distribution networks. The Bank's retail banking and related financial services activities, together with its international operations and partnerships, are described in greater detail below.

Strategy

In September 2012, BCP presented a new Strategic Plan, comprising three phases, to be implemented by 2017 (Strategic Plan).

The Strategic Plan was updated in September 2013, following the approval of BCP's Restructuring Plan by the EC, and in June 2014, in the context of the capital increase operation, the targets of the Strategic Plan were further updated.The three phases of the Strategic Plan are the following:

Phase 1 (2012 to 2013): Define the foundations for sustainable future development

- During the first phase of the Strategic Plan, the key priority consisted in reinforcing the balance sheet by reducing the dependence of funding on the wholesale market and increasing regulatory capital ratios.

Phase 2 (2014 to 2015): Creating conditions for growth and profitability

- During the second phase of the Strategic Plan, the focus is on the recovery of profitability of the Bank's domestic operations, combined with the continued development of the international subsidiaries in Poland, Mozambique and Angola. The improvement in domestic profitability is expected to be mainly driven by: (i) the increase in net interest income by reducing the cost of deposits and changing the credit mix, with a focus on products with better margins; (ii) the continued focus on the optimisation of operating costs by reducing the number of employees and eliminating administrative overlapping, and (iii) the adoption of rigorous credit risk limits thus reducing the need for provisions.

Phase 3 (2016 to 2017): Sustained growth

- During the third phase, management will focus on achieving a sustained growth of net income, benefiting from the successful implementation of the first two phases of the Strategic Plan, a better balance between the contributions of the domestic and international operations towards profitability and the conclusion of the winding down/divestment process of the Bank's non-core portfolio.

For the 2016-2018 triennial, the Bank defined a new set of strategic priorities for the operation in Portugal aiming to build a sustainable bank adapted to the new needs of the market and of its customers ("**Strategic Agenda**"). To this end, the Bank defined 9 pillars which include various initiatives to be developed. Over 100 employees are involved with the execution of the initiatives identified in the 2016-2018 Strategic Agenda.

In relation to BCP's business model, six transformation fronts were launched:

1. To redefine the retail distribution model, exploiting the potential of new technologies, namely in the digital area (internet banking and mobile banking, among others).

2. To relaunch the affluent individuals segment, by adjusting the service model and taking up a position of leadership.

3. To consolidate the position of leadership in providing support to micro businesses and small enterprises.

4. To adjust the business model of the growth oriented corporate segment, in order to be the reference bank in providing support to the Portuguese economy.

5. To transform the credit recovery business through an integrated strategy of reduction of the Non Core Business Portfolio, which may include the divestment of assets and the optimisation of the recovery operating model.

6. To build on the operating model of the Bank, by simplifying and automating processes, with a view to optimising the levels of service provided to the customers.

In order to transform the Bank into a healthier organisation and to increase involvement with its stakeholders, there are three organisation wide work fronts underway:

1. Definition of the level of risk to be adopted in each business area with the implementation of the Risk Appetite framework.

2. Promotion of a business sharing culture between business areas and geographies.

3. Launch of a cultural transformation programme of the organisation with a focus on the development of human resources, the improvement of its satisfaction and the consolidation of a set of values that guide the action of the Bank.

During Phase 3, management has been focusing on the renewal of the branch network, innovation and communication. The new initiatives developed within the scope of the 2016–2018 Strategic Agenda are already visible externally. Over 30% of the Mass Market and 46% of the Prestige Segment Branches had been renewed as at 30 June 2016. 26 branches have a new layout, providing a seamless digital experience for customers. Moreover, the digital platforms were improved with new functionalities, including online loan processes, opening of online accounts and a new mobile application for business customers, allowing them to manage projects funded with European funds.

Business Model

Part of the "back office" operations are provided by Millennium bcp Prestação de Serviços A.C.E. (formerly Servibanca), which plans, monitors and controls the costs and levels of services of the Group activities and provides various operational and technologic services and represents its members before third parties, particularly in areas of IT, operations, management and procurement.

On 28 February 2012, a General Meeting of Shareholders of the Bank was held, which approved the alteration and restructuring of the articles of association of the company, which was consolidated in the adoption of a one-tier management and supervision model, composed of a Board of Directors (that includes an Executive Committee), an Audit Committee and a Statutory Auditor.

Following the General Meeting of Shareholders held on 28 February 2012, 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 22 March 2016, there were 17 Commissions and four 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:

1. Commission for Legal Affairs: This Commission is composed of six permanent members. In addition to two Directors with specific areas of responsibility, Miguel Maya and José Jacinto Iglésias Soares, this Commission is composed of the Heads of the Tax Advisory Department, Legal Affairs and Litigation Department and Logistics & Procurement Department, and the Company Secretary (which acts as secretary).

This Commission is entrusted with the analysis of the suitability of the legal function relative to the objectives of the Bank and the Group, promoting the effective coordination of the same, developing the awareness of the employees in general regarding legal affairs and encouraging the control and optimisation of internal and external legal means.

2. Commission for Costs and Investments: This Commission is composed of seven permanent members and upon invitation, Heads of other areas whenever the Commission appraises issues that involve them directly. In addition to three Directors with specific areas of responsibility, Miguel Maya, Miguel Bragança and José Jacinto Iglésias Soares, this Commission is composed of the Heads of the Logistics & Procurement Department, which acts as secretary, Management Information Department, Operations Department and Information Technology Department.

This Commission is entrusted with the regular follow-up of the operational evolution and optimisation of the negotiations and/or purchase of goods and services and authorisation of costs.

One Sub-Commission operates under the Costs and Investments Commission, the Costs and Investments Sub-Commission.

The **Costs and Investments Sub-Commission** is responsible for the regular follow-up of the operational evolution and optimisation of the negotiations and/or purchase of goods and services and authorisation of costs and payments.

The Heads of the Logistics & Procurement (which acts as secretary), Information Technology, Management Information and Operations compose this Sub-Commission.

3. Companies Commission: This Commission is composed of 16 permanent members, and the heads of other areas also participate by invitation when justified by the topic under discussion. In addition to the Directors with specific areas of responsibility, Nuno Amado, Miguel Maya, Miguel Bragança, José Miguel Pessanha and Conceição Lucas, this Commission is composed of the Heads of the Rating, Large Corporate, Investment Banking, Corporate, Companies Banking (North, Centre and South), Management Information, Companies Marketing Department (which acts as secretary), Real Estate Business Department, Specialised Recovery Department, Specialised Monitoring Department and International Strategic Research.

This Commission ensures the assessment, preparation and planning of the following-up and development of the Bank's business in the small-and medium-sized enterprise ("**SME**"), Corporate and Large Corporates and Investment Banking segments.

4. Commission for Human Resources: This Commission is composed of five permanent members, and the Heads of other areas also participate by invitation when justified by the topic under discussion. In addition to the three Directors with specific areas of responsibility, Nuno Amado, Miguel Bragança and José Jacinto Iglésias Soares, the Head of the Legal Affairs and Litigation Division and the Head of Human Resources Department, which acts as secretary, are also members of this Commission.

The primary mission of this Commission is the definition, decision and monitoring of the Bank's Human Resources policies to support the operational and business efficiency.

This Commission is entrusted with the definition of the strategy and approval of the Bank's human resource policies, namely monitoring the top 10 key performance indicators of people management, hiring and internal mobility, intelligent rightsizing; compensation, benefits and programmes related to the recognition and involvement of employees, and talent management through the approval of mechanisms and timing of performance assessment, promotions, rotation and development plans, expatriation and acceleration of specific competences, as well as communication of human resources, aimed at reinforcing the culture, expectations, strategic alignment and mobilisation of employees, and also branding and value proposal and the external image of human resources.

5. Retail Commission: This Commission is composed of 15 permanent members and the Heads of other areas who participate in meetings when justified by the topic under discussion. In addition to the Directors with the specific areas of responsibility, Nuno Amado, Miguel Maya, Miguel Bragança, José Miguel Pessanha and Rui Manuel Teixeira, this Commission is composed of the Heads of the Direct Banking Department, Communication Department, Management Information Department, Retail Marketing Department (which acts as secretary), Quality and Network Support Department, Retail Recovery Department, Residents Aboard Department, Retail Departments (North, Centre North, Centre South and South), Operation Department, Segment Department and Credit Department.

The main mission of this Commission is management and following-up of the Retail business (Individuals and Business) to ensure the provision of a value proposal and distribution model that allows the Bank to comply with its priorities in terms of profitability, customer's satisfaction, growth and risk. Two Sub-Commissions operate under the Retail Commission, the Customer Experience Sub-Commission and the Investment Products Sub-Commission.

5.1 The **Customer Experience Sub-Commission** is responsible for monitoring the evolution of the Quality and Claims Indicators and defining priorities and guidelines for the areas managing customer satisfaction and service quality.

Rui Manuel Teixeira and José Jacinto Iglésias Soares, members of the Executive Commission, Quality and Network Support, Segment Management Department, Retail Divisions, Retail Marketing (which acts as Secretary), Communication, Operations, Private Banking Marketing, Segments Management Direct Banking are part of this Sub-Commission, as well as, by invitation, other areas that are directly involved in the issues appraised.

5.2 The **Investment Products Sub-Commission** is responsible for approving and/or monitoring: (a) investment processes/investment policies/benchmarks/guidelines and the performance of products managed and sold by the Bank; (b) basic product range of private banking advisory services, model portfolios and products to be sold through different networks; and (c) high level scenario of market evolution for each group of assets and relevant geographic area.

Miguel Bragança and Rui Manuel Teixeira, members of the Executive Commission, Retail Marketing (which acts as Secretary), Private Banking Marketing, Private Banking, Wealth Management Unit, Treasury and Markets, Direct Banking are part of this Sub-Commission, as well as, by invitation other areas that are directly involved in the issues appraised.

6. Non-Core Business Commission: This Commission is composed of 11 permanent members. In addition to the Directors with the specific areas of responsibility, Miguel Maya, Miguel Bragança and José Miguel Pessanha, this Commission is composed of, as permanent members, the Risk Officer and the Heads of the Credit Division, the Specialised Recovery Division, the Real-Estate Business Division, the Research, Planning and ALM Division, the Management Information Division, the Specialised Monitoring Division and the Head of the Non-Core Business Monitoring Area of the Risk Office, which acts as secretary.

The main mission of this Commission is the definition of the strategies and control of the process of the sale of the assets included in the Bank's non-core business portfolio.

This Commission is entrusted with analysis, monitoring and planning of the activity to be developed in the various non-core business segments and definition of the major business strategic lines to adopt; following-up the development of the most significant operations and making all the decisions regarding non-core business management, except for credit decisions, and also the evolution of the non-core business to determine if it complies with the defined objectives and with the restructuring plan.

7. Compliance Office Commission: This Commission is composed of permanent members as described:

Members of the Executive Committee (EC)	Coordination Manager/Other members
Compliance Commission of the Bank	
• José Iglésias Soares • José Miguel Pessanha • Director responsible for the business, corporate or banking area, responsible for the issue under appraisal by the Commission	• Group Head of Compliance (Secretary) • Individual in charge of the Compliance Office Area that is managing the issue under debate • Head of the Division in charge of the issue under debate • By invitation, other areas that are directly involved in the issues appraised
Compliance Commission of the subsidiary company/branch	
In the Bank: • Director responsible for the Compliance Office • Director responsible for the international subsidiary company/branch In each international subsidiary company: • Director responsible for the Compliance Office	In the Bank: • Group Head of Compliance • Individual in charge of the Compliance Office Area that is managing the issue under debate In each international subsidiary company: • Head of the Local Compliance Office • By invitation, other areas that are directly involved in the issues appraised

The main mission of this Commission is following-up the activities carried out by the Bank and/or subsidiary companies/branches of the Group in each jurisdiction, coordinating and managing, on a regular basis, the policies and duties of the Bank and/or of subsidiary companies/Branches of the Group in what concerns the obedience to all legal and compliance rulings, the alignment with the Group strategies and the definition of priorities.

One Sub-Commission operates under the Compliance Commission, the AML Sub-Commission.

The AML Sub-Commission is responsible for appraise and resolve on the proposals on communications addressed to judicial and/or supervision authorities on operations or entities suspicious of carrying out money laundering, terrorism financing or market abuse activities, ensuring the respective documentary and procedural recording, as well as appraise the individual AML risk classification proposals.

José Jacinto Iglésias Soares and José Miguel Pessanha, members of the Executive Commission, the Group Head of Compliance, Anti-Money Laundering Officer (acting as secretary of the Commission), Heads of the Compliance Areas, are part of this Sub-Commission, as well as, whenever necessary, Team Coordinators and Experts and, by invitation, other employees.

8. Pension Fund Monitoring Commission: The mission of this Commission is the monitoring of the pension fund's financial management. This Commission issues opinions on amendments to the pension plans, having been created under the terms of article 53 of Decree-Law No. 12/2006, of 20 January 2006, as amended by Decree-Law No. 180/2007, of 9 May 2007.

This Commission is composed of two permanent members of the Executive Commission, José Jacinto Iglésias Soares and José Miguel Pessanha, and may also include other members of the Executive Commission, depending on the matters scheduled for discussion, the Risk Officer, the General-Manager of Ocidental – Sociedade Gestora de Fundos de Pensões, S.A. ("**Ocidental SGFP**") (pension fund's holding company), the Head of the Human Resources Department, which also performs secretarial duties for this Commission. The Bank invited the Workers Committee to send a representative to this Commission. This Commission also includes three representatives of the banking industry Unions.

9. Capital Assets and Liabilities Management Commission (CALCO): The main duties of this Commission are the monitoring and management of market risks associated to assets and liabilities, the planning and making capital allocation proposal and definition of suitable policies for liquidity and market risk management for the Group as a whole. A minimum of three members of the Executive Commission are part of this Commission, as well as the Heads of the Companies and Corporate Department, Large Corporate Department, Research, Planning and Assets and Liabilities Management Department, which acts as secretary, Management Information Department, Marketing Areas, Risk Officer, Treasury and Markets & International, Investment Banking and Business Development by invitation.

10. Credit Commission: This Commission, which has the composition and competences stipulated in the Service Order on Credit Granting, Monitoring and Recovery, deliberates on the granting of loans and advances to customers (integrated or not in economic groups), whenever this involves an increase of exposure above EUR 10 million, or for situations where the Bank's exposure is above EUR 50 million and for proposals of renewal or review of credit lines and ceilings which are within the aforesaid amounts. This Commission also issues an advisory opinion on the credit proposals made by entities operating abroad and part of the Group.

The Credit Commission is composed of a minimum of three members of the Executive Commission, as well as the Heads of the Proponent Area, the Head of the Specialised Monitoring, the Heads of the Credit Department, Specialised Recovery Department, Retail Recovery Department, Legal and Litigation Advisory Division, Rating Department and the Risk Officer of the Group. This Commission also includes, according to the specific operations to be assessed and/or their nature, the Coordinating Directors of the Commercial Areas, Investment Banking Department, Specialised Monitoring Department and Real Estate Business Department, Level 3 Credit Directors, members of the Credit Commission of the subsidiary companies operating abroad and the Compliance Officer.

This Commission is supported by secretarial services administered by the Company Secretary.

11. Risk Commission: The main duty of this Commission is the definition of the Group's risk management global framework and follow-up of the risk levels for the different types of risk.

This Commission is responsible for monitoring global risk levels (credit, market, liquidity and operating risk levels), ensuring that these are compatible with the objectives, the available financial resources and strategies approved for the development of the Group's activity. This Commission also verifies if the management of risks complies with the applicable legislation/regulations.

A minimum of three members of the Executive Commission the Compliance Officer, the Risk Officer, which acts as secretary, the Heads of the Audit Department, Credit Department, Research, Planning and Assets and Liabilities Management Department, Rating Department and Treasury and Markets Department are part of this Commission.

12. Pensions Funds Risk Monitoring Commission: This Commission is responsible for monitoring the performance and risk of the Group's Pension Funds (Defined Benefit Fund and Supplementary Fund) and establishment of appropriate investment policies and hedging strategies. Nuno Amado, Chairman of the Executive Commission, Miguel Bragança, Vice-Chairman of the Executive Commission and José Miguel Pessanha, member of the Executive Commission, the Heads of the Research, Planning and Assets and Liabilities Management Department, Human Resources Department and the Risk Officer, who administers the secretarial services, are part of this Commission, as well as, by invitation, a representative of F&C Asset Management plc, the CEO of Millenniumbcp Ageas and the CEO of Ocidental SGFP.

13. Credit at Risk Commission: This Commission is responsible for following-up the evolution of credit exposure and of the contracting process, as well as the quality of the portfolio and key performance and risk indicators, counterparty risk, risk of concentration of the largest exposures concentration risk and the evolution of impairment and the main processes that are the object of a separate assessment. This Commission also analyses the performance of the recovery processes and supervises the divestment of the real estate portfolio.

Miguel Maya and Miguel Bragança, Vice-Chairmen of the Executive Commission and José Miguel Pessanha, member of the Executive Commission, as well as the Risk Officer, who administers the secretarial services, the Heads of the Credit Department, Recovery Areas, Management Information Department, Real Estate Business Department, Rating Department and Legal and Litigation Advisory Division are also members of this Commission.

14. Security Commission: The main duties of this Commission are integrated management of the Group's security policies and following-up the main security risks and of the initiatives to be developed in this particular area.

This Commission is composed of 12 permanent members. In addition to three Directors with specific areas of responsibility, José Jacinto Iglésias Soares, José Miguel Pessanha, Miguel Maya or Rui Manuel Teixeira, this Commission is composed of the Heads of the Compliance Office Department (which acts as secretary), Risk Office Department, Information Technology Department, Audit Department, Logistics & Procurement Department, Quality and Network Support Department, Direct Banking Department, IT Security Department and Security and Business Continuity Department, and, by invitation, other areas that are directly involved in the issues appraised.

15. Moving Forward Commission: The main duties of this Commission are to monitor and ensure that the 2016-2018 Strategic Agenda is executed, in Portugal, as approved by the Board of Directors, to ensure that the metrics for the Strategic Agenda in Portugal are met within the deadline set forth and that the entire organisation is aware of and in line with the project.

This Commission is composed of 18 permanent members. In addition to all the members of the Executive Commission, this Commission is composed of Dulce Mota – Project Head/Commission Secretary; Pedro Beija – Responsible for the "Redefinition of the distribution model supported by digital transformation"; Rosa Santa Bárbara – Responsible for the "Redefinition of the distribution model supported by digital transformation" and for "Relaunching the affluent segment"; Albino Andrade – Responsible for "Relaunching the affluent segment" and for "Strengthening leadership in the business segment"; Nuno Alves – Responsible for the "Adjustment of the companies model to support growth"; Américo Carola – Responsible for the "Optimisation of the credit recovery areas"; António Bandeira – Responsible for "Redesigning and Simplifying the Operating Model"; Miguel Sampayo – Responsible for the "Risk Appetite Framework"; José Pulido Valente – Responsible for the "Cross Networking Programme – networks, countries and areas"; Teresa Nascimento – Responsible for the "Cultural transformation programme" and António Pinto Júnior – Project Officer for "Retail Front Office", and, by invitation, other areas that are directly involved in the issues appraised.

16. Speedway Commission: The main duty of this Commission is monitoring the management and transformation of the Bank's processes aiming to enhance their efficiency and effectiveness and to reduce their exposure to operational risks.

This Commission is composed of two permanent members of the Executive Commission, José Jacinto Iglésias Soares and José Miguel Pessanha, and may also include other members of the Executive Commission, depending on the projects or processes under appraisal. In addition, it is composed by Coordination Manager Operations (Secretary), IT and Technology, Moving Forward Project and all the other areas (Marketing, Networks, Channels, Central Services, Sponsors Moving Forward Project, etc) and the respective Process Owners, when appraising processes that concern them, as well as by invitation, Audit, Logistics & Procurement, Legal Affairs and Litigations, Compliance and Risk Office.

17. Internal Control and Operational Risk Monitoring Commission: The main duties of this Commission are to define the operational risk management framework ensuring its application within the Group's operations; to monitor the risk exposures and the status of the implementation and efficiency of the measures adopted to strengthen internal control.

This Commission is composed of eight permanent members. In addition to three Directors with specific areas of responsibility, José Miguel Pessanha, José Jacinto Iglésias Soares, and Miguel Maya, this Commission is composed of the Coordination Manager of Audit Division, IT Division, Operations Division, Compliance Office and Risk Office (Secretary), and also Macro-Process Owners (participation by invitation for the presentation of specific issues on the processes).

Other Financial Services in Portugal

Mortgage Lending

The Bank entered the mortgage lending business in 1992, when it launched, in association with Cariplo – Cassa di Risparmio delle Provincie Lombarda S.p.A. (now a part of the Italian financial group Banca Intesa), an autonomous mortgage bank, Banco de Investimento Imobiliário, S.A. ("**BII**"). BII was 69.9% owned by the Group, with the remaining 30.1% being owned by Banca Intesa. BII previously distributed its mortgage products through the Bank's marketing and distribution networks, as well as through its own retail outlets. On 21 September 2005, the Bank reached an agreement with Banca Intesa for the unwinding of the joint venture arrangements in relation to BII. In October 2005, the Bank acquired 30.1% of the capital of BII owned by Banca Intesa, becoming the sole shareholder of BII. Currently, BII is running a book of outstanding mortgage credit originating from mid-2007, which will progressively be reduced over time. The Bank runs the Portuguese mortgage business directly.

Online Banking

ActivoBank is a leading internet bank in Portugal. Launched in 2010, ActivoBank offers a streamlined and convenient service with an emphasis on emerging distribution and communication channels (e.g. internet banking, mobile banking). ActivoBank targets younger, technologically savvy customers who prefer simple, modern banking products and services.

ActivoBank's main goal is to maintain a strong focus on its online presence through its website and social media. The pillar of ActivoBank's client relationship is based on online channels, despite also having 14 physical branches. 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.

On 24 February 2015, the Bank announced that it was evaluating several scenarios to enhance the value of ActivoBank and that such process was in its initial phase. In accordance with the announcement made by the Bank on the referred date, it was not possible, at that stage, to affirm if the process would result in any transaction.

On 23 March 2016, BCP informed that, following the process of evaluation of strategic scenarios to enhance the value of ActivoBank, it had been decided to select Cabot Square Capital LLP, a financial services specialist private equity firm with approximately €1 billion in funds under management. The Bank also informed that, at that date, no final decision had been made in relation to the sale of Activobank.

On 3 June 2016, BCP informed that it had completed the evaluation of several scenarios to enhance the value of ActivoBank, a leading online bank in Portugal. The Bank also informed having decided to keep ActivoBank in the BCP Group, given its ability to generate value, especially in the context of the expected evolution of BCP's banking business.

Insurance

The Bank has an interest in insurance activities through Millenniumbcp Ageas, a joint venture with Ageas for bancassurance business in Portugal. On 26 May 2014, as part of a process aiming to refocus on core activities defined as a priority in its Strategic Plan, the Bank announced that it had agreed with the international insurance group Ageas a partial recast of the strategic partnership agreements entered into in 2004, which included the sale of its 49% interest in the (at that time jointly owned) insurance companies that operate exclusively in the non-life insurance business, i.e. Ocidental – Companhia Portuguesa de Seguros, S.A. and Médis – Companhia Portuguesa de Seguros de Saúde, S.A. Currently, the Group holds 49% of Millenniumbcp Ageas' share capital in the life insurance business, while the remaining 51% is held by Ageas.

On 28 July 2014, the Bank announced about the qualifying holding of Ageas and Ocidental Vida that was a result of Ageas and Ocidental Vida having subscribed, respectively, 280,490,558 and 408,855,693 ordinary shares in the rights issue launched by the Bank on 27 June 2014, pursuant to the subscription rights attributed to them considering their participation in BCP prior to the rights issue of 156,623,179 shares in case of Ageas and of 233,631,825 shares in case of Ocidental Vida. Following the settlement of the rights issue on 23 July 2014 and allotment of the oversubscription on 24 July, the number of shares held by Ageas increased to 437,113,737 and the number of shares held by Ocidental Vida increased to 652,087,518, thus the Ageas Group increased its participation to 1,089,201,255 shares that correspond to 2.01% of the issued share capital and of voting rights of the Bank.

On 16 June 2015, the Bank announced to have received a notification from Ageas Group informing that its holding in the share capital of the Bank had fallen below the 2% threshold of qualifying holding. The dilution of the former qualifying holding was a result of the Bank's exchange offer of some of its subordinated debt and preference shares for ordinary shares, causing the issuance of 4,844,313,860 new shares, which increased the total outstanding ordinary shares in BCP to 59,039,023,275. At that date, the Ageas Group's holding was 1.84%.

Foreign Business

BCP has concentrated on those businesses with strong growth prospects in foreign markets with a close historical connection to Portugal or that have large communities of residents with a Portuguese heritage (such as Angola and Mozambique), as well as in markets to which the Bank's successful business model in Portugal can be effectively exported and tailored to suit local markets, in particular in Poland.

Poland

In Poland, the Bank operates through Bank Millennium, S.A. ("**Bank Millennium**"), and focuses its offerings on individuals and small-and medium-sized companies. Bank Millennium is a full service national bank which, jointly with its subsidiaries, offers a complete range of financial products and services, including deposit-taking, savings and investment products, short-, medium- and long-term lending (including mortgage lending and consumer credit), debit and credit cards, fund transfers and other payment methods, mutual funds, insurance, leasing, treasury services and money market transactions.

In 1998, the Bank entered into a partnership agreement with the Polish financial group, BBG, pursuant to which the Bank launched a retail operation with BBG in the Polish market under the "Millennium" brand.

The Bank now owns 50.1% of Bank Millennium.

During 2015, Bank Millennium began to implement its strategic plan for 2015-2017, announced in February 2015. The main medium-term objectives defined for 2017 are the following:

- Number of active Retail Customers at 1.6 million;
- Increase of market share in Retail customer funds to more than 6%;
- Increase of market share in loans to companies to 4%;
- ROE in the interval of 13%-14%;
- Cost-to-income in the interval of 45-47%; and
- Loans to deposits ratio at less than 100%.

The main initiatives, for the purposes of implementing the Bank 's new strategic plan, aim to improve results by focusing on both the income and costs items in the Retail and Companies segments and are based on four pillars: (i) Acceleration of the acquisition of Retail Customers through the traditional and digital channels, while at the time maintaining the focus on products with a higher margin (consumer credit and investment products) in order to maintain the profitability of the segment; (ii) Maximise customer value and increase the efficiency in customer retention through advanced analytical methods; (iii) Maintain the momentum in the companies segment, by maintaining profitability, reducing the cost of risk and reinforcing the Bank's positioning in specialised financing; and (iv) Maintenance of an operational excellence and rigorous cost control, through a simplified digital operational model, preparing the IT platform for the future.

The implementation of the Group's strategy in 2015 coincided with an unfavourable external environment, with emphasis on the strong appreciation of the Swiss franc, the further cut in Polish interest rates, the regulatory limits in commissions related with cards, the increase of the mandatory contribution and of the extraordinary payment towards the deposit guarantee fund and the creation of a new fund to support those borrowers with mortgage loans that are going through a difficult financial situation. In spite of these constraints, Bank Millennium managed to achieve significant financial results.

As at 30 September 2016, Bank Millennium had EUR 15,544 million in total assets, EUR 14,208 million in customer funds, and EUR 11,063 million in loans to customers (gross), and was operating with 381 branches and had 5,839 employees. Bank Millennium's net income in the nine months ended at 30 September 2016 was EUR 130.3 million, compared to EUR 112.8 million for the nine months ended at 30 September 2015.

As at 31 December 2015, Bank Millennium had EUR 15,534 million in total assets, EUR 14,047 million in customer funds, and EUR 11,218 million in loans to customers (gross), and was operating 411 branches and had 5,911 employees. Bank Millennium's net income in the year ended at 31 December 2015 was EUR 130.7million.

Mozambique

The Bank has had banking operations in Mozambique since 1995. Banco Internacional de Moçambique ("**Millennium bim**") is Mozambique's largest bank. In 2015, Millennium bim maintained its strategy focused on strengthening its value proposition, namely in the automatic channels, where new financial services were offered which meet the needs of the different customer segments.

Innovation and investment in primarily technological initiatives were present once again in 2015. In addition to enabling the provision of a larger and better offer to its customers, the strategy followed was also reflected in the improvement of operating efficiency, through a more controlled and efficient workflow. Millennium bim implemented various improvements in the mobile banking platform which has progressively offered an increasingly more complete and simple service to use for the customers. In particular, in the last quarter, Millennium IZI introduced a new transaction through which customers can transfer money to any mobile telephone number. This transaction allows the beneficiaries of these transfers, even those not having a prior account at Millennium bim or at any other credit institution, to easily create their Electronic Currency Account, the IZI Account.

At the end of the year, the Bank established an exclusive partnership with Correios de Moçambique (national postal service) to, supplementing the distribution of postal services, provide banking products and services at its branches, aimed at boosting the increased participation of the population in the banking system and consequent financial inclusion.

As at 30 September 2016, Millennium bim had EUR 1,675 million in total assets, EUR 1,172 million in customer funds, and EUR 964 million in loans to customers (gross), and was operating 173 branches and had 2,536 employees. Millennium bim's net income in the nine months ended at 30 September 2016 was EUR 51.8 million compared to EUR 42.5 million for the nine months ended at 30 September 2015.

As at 31 December 2015, Millennium bim had EUR 2,355 million in total assets, EUR 1,744 million in customer funds, and EUR 1,378 million in loans to customers (gross), and was operating 169 branches and had 2,505 employees. Net income of Millennium bim reached EUR 84.2 million in 2015.

Angola

Banco Millennium Angola, SA ("BMA") was incorporated on 3 April 2006, as a result of the transformation of the BCP branch in Angola into a bank incorporated under the laws of the Republic of Angola.

As at 31 December 2015, BMA had EUR 2,344 million in total assets, EUR 1,692 million in customer funds and EUR 996 million in loans to customers (gross), and was operating 90 branches and had 1,225 employees. BMA ended 2015 with a net income of EUR 75.7 million.

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.

Macao

Millennium bcp's presence in Macao goes back to 1993, initially through an off shore license. In 2010, Millennium bcp began operating its first fully licensed (on shore) branch in Macao. This branch is directed at providing services to the Bank's network through support to individual and company customers, broadening the base of local customers and expanding the activity around the China-Macao-Portuguese speaking countries platform.

Among the various initiatives adopted to accomplish that strategy are the following: (i) support to Portuguese enterprises in domiciliation of activities in Macao for business in Southern China, with the branch acting as a support base; (ii) expansion of the trade finance operations to support Portuguese enterprises in exports to and/or imports from China; (iii) support to Chinese customers in their application to obtain "golden visa" through the BCP Network; and (iv) launch of an internet banking solution aimed at expanding the services provided to its customers, especially non-residents.

Throughout 2015 the branch focused primarily on the provision of services to the Bank's networks through support to companies and individual customers, the attraction of Chinese customers for the "Golden Visa", the extension of the local customer base and the expansion of the activity surrounding the China-Macao-Portuguese speaking countries platform.

As at 30 September 2016, loans to customers and customer deposits amounted to EUR 544 million and EUR 863 million, respectively. Net income amounted to EUR 14.5 million.

In 2015, customer funds stood at EUR 1,024 million and gross loans reached EUR 613 million. During the year, net income was EUR 23.1 million (decrease of 2.9% in local currency; increase of 8.4% in EUR), which resulted from the release of provisions for general risks and by the recognition of deferred income relating to early repayments of loans.

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.

The decision of the National Bank of Switzerland to discontinue its exchange rate against the euro had a negative impact, in 2015, on assets under management and on the results of the Bank in both Swiss francs (−27.2%) and EUR (−16.9%), since income decreased when reported in Swiss francs and increased only slightly in EUR (−11.4% and +1.1%, respectively) and costs fell 3.3% in Swiss francs and increased by 10.4% in EUR.

In 2015, operating results fell 28% in Swiss francs and 17.8% in EUR, as a result of lower transaction activity and a further decrease in net interest income related to lower interest rates and credit volumes.

As at 30 September 2016, total assets amounted to EUR 565 million, total customer funds amounted to EUR 2,912 million and loans to customers (gross) stood at EUR 249 million, operating with one branch and 70 employees. Net income of Millennium Banque Privée reached EUR 4 million in the first nine months of 2016.

At the end of 2015 Millennium Banque Privée recorded EUR 525 million in total assets, EUR 207 million in loans to customers (gross) and EUR 2,639 million in total customer funds, operating with one branch and 71 employees. For the year ended 31 December 2015, Millennium Banque Privée in Switzerland recorded a net income of EUR 6 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 the Bank of Portugal.

As at 30 September 2016, total assets amounted to EUR 726 million, total customer funds amounted to EUR 421 million and loans to customers (gross) stood at EUR 42 million. Millennium bcp Bank & Trust reported a net income of EUR 2.5 million in the first nine months of 2016.

At the end of 2015 Millennium bcp Bank & Trust recorded EUR 802 million of total assets, EUR 45 million of loans to customers (gross) and total customer funds of EUR 491 million, operating with 12 employees. In 2015, the Bank had a net income of EUR 4.9 million.

Other

The Bank also has ten representative offices (one in the United Kingdom, one in Germany, three in Switzerland, two in Brazil, one in Venezuela, one in China in Canton and one in South Africa), and five commercial protocols (Canada, United States, Spain, France and Luxembourg) and one commercial promoter (Australia).

International Partnerships

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

Banco Sabadell

In March 2000, the Group announced the terms of a strategic partnership agreement with Banco Sabadell of Spain, seeking the development of joint initiatives in finance-related fields of mutual interest. In the first half of 2005, an agreement was reached to reinforce the offer of products and services common to the Bank and Banco Sabadell, notably in corporate loans and in innovating services for individuals. As a result of the agreement, the Bank's clients can use the retail and corporate networks of Banco Sabadell in Spain and vice versa for Banco Sabadell's clients in Portugal. The Bank sold its 2.75% shareholding in Banco Sabadell to the Pension Fund. On 31 December 2014, Banco Sabadell held 5.53% of the share capital of the Bank.

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

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

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

On 13 December 2016, following the communication released on 12 December 2016, the Bank informed that it had received a communication from Banco Sabadell with the information of the successful conclusion of the private placement by means of an accelerated bookbuilding process addressed exclusively to qualified and institutional investors of 38,577,892 ordinary, nominative and book-entry shares, without par value, representing 4.08% of the total share capital and voting rights of the Bank directly or indirectly held by it. The price per share sold in the offering was EUR 1.15, amounting to EUR 44,364,575.80 for the aggregate number of shares sold, which does not have any significant impact on Banco Sabadell's income statement and balance sheet (with gross losses amounting to approximately EUR 8.3 million).

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

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

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

Ageas

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

Significant Developments in 2015

On 8 January 2015, the Bank announced that it had completed, on that date, the sale of BMR to OTP Bank. In accordance with the general conditions announced, the Bank received from OTP Bank, on that date, EUR 39 million as consideration for the sale. OTP Bank also ensured full reimbursement to the Bank of the intragroup funding provided by the latter to BMR, amounting to approximately EUR 150 million.

The sale of BMR brought forward yet another important measure on which BCP had committed with the DG Comp pursuant to its restructuring plan.

On 24 February 2015, the Bank announced that it was evaluating several scenarios to enhance the value of ActivoBank and that the process was in its initial phase. In accordance with the announcement made by the Bank on the referred date, it was not possible, at that stage, to affirm if the process would result in any transaction.

On 3 March 2015, the Bank announced that it had received a letter from Santoro Finance – Prestação de Serviços, S.A. stating that Santoro intended to "promote to the Boards of Directors of Banco BPI and of Millennium bcp the analysis of a merger transaction between both entities".

According to the Bank's announcement, as long as there was interest from Banco BPI, BCP's Executive Committee was available to analyse such a transaction, in compliance with applicable regulations. The Bank also announced that the above should not be construed as a guarantee that the process would result in any transaction or that any decision regarding this matter had been taken.

On 13 March 2015, the Bank announced that it had received a letter from ALLPAR GmbH, communicating the cancellation of the shareholders' agreement previously entered into by such company and Interoceânico – Capital, SGPS, S.A. The voting rights corresponding to the stakes in the share capital of the Bank held by each of these entities were therefore no longer reciprocally attributable.

Following the announcement, on 25 March 2015, of the launch of an accelerated placement to institutional investors of 186,979,631 ordinary shares of Bank Millennium constituting 15.41% of the Bank Millennium's existing share capital, the Bank announced, on 26 March 2015, the pricing of such accelerated placement, at a price of PLN 6.65 per ordinary share. Gross proceeds raised by the Bank from the Placement are expected to be approximately PLN 1.24 billion (EUR 304 million), resulting in an increase in the Group CET 1 ratio versus end-2014 figures of 0.46% under fully implemented rules and of 0.64% according to phased-in criteria. After the completion of the Placement, BCP continues to hold a majority shareholding in Bank Millennium, corresponding to 50.1% of the Company's share capital.

On 17 April 2015, the Bank announced a public exchange offer ("**Offer**"), submitted to the resolution of the Bank's General Meeting of Shareholders, which, according to the excepted acceptance, is estimated to reinforce CET 1 ratios by approximately 0.70% when compared to December 2014. The Offer prevents future hits to capital, as eligibility for capital purposes of the securities being targeted by the Offer will cease over the coming years reflecting the CRD IV/CRR.

On 11 May 2015, the Bank announced about the resolutions of the General Meeting of Shareholders, where 46.63% of the share capital were represented:

Item One – Approval of the individual and consolidated annual reports, balance sheet and financial statements for 2014;

Item Two – Approval of the appropriation of the net losses on the individual balance sheet for "Retained Earnings";

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 statement on the remuneration policy of the Members of the Management and Supervision Bodies;

Item Five – Approval of the policy for the selection and evaluation of the adequacy of the Members of the Management and Supervision Bodies;

Item Six – Approval of the co-optation of a non-executive member of the Board of Directors to exercise functions in the triennial 2012/2014;

Item Seven – Approval of the election of the members of the Board of Directors and of the Audit Committee to exercise functions in the triennial 2015/2017;

Item Eight – Approval of the election of the members of the International Strategic Board to exercise functions in the triennial 2015/2017;

Item Nine – Approval of the election of the members of the Remuneration and Welfare Board to exercise functions in the triennial 2015/2017, and of their remuneration;

Item Ten – Approval of the appointment of a firm of independent statutory auditors, to, pursuant to article 28 of the Companies Code, make a report on the contributions in kind to be made within the scope of the subscription of shares to be issued by new contributions in kind object of Item Eleven of the Agenda of the general meeting;

Item Eleven – Approval of the launching of a public offer for the exchange of subordinated securities and consequent increase of the share capital by contributions in kind up to EUR 428,000,000.00, made through the issue of up to 5,350,000,000 new shares without nominal value, under which:

(a) the new contributions will be composed of securities issued by the Bank and by the subsidiary company BCP Finance Company Ltd with the ISIN PTBCPMOM0002, PTBCLWXE0003, PTBCPZOE0023, PTBIPNOM0062, PTBCTCOM0026, XS0194093844 and XS0231958520, and

(b) these new shares will be issued with an issue price per share corresponding to 93% of the weighted average per volumes of the BCP share price in the regulated market Euronext Lisbon, in the five trading days immediately before the exchange public offer is launched, and, without prejudice to the minimum amount required by law, the issue price of up to EUR 0.08 per share corresponding to the issue value and the remaining amount corresponding to the premium, and on the consequent alteration of the articles of association (article 4.1); and

Item Twelve – Approval of the acquisition and sale of own shares or bonds.

On 18 May 2015, the Bank announced the completion of the sale of MGA to CIMD Group. In accordance with the terms previously announced, the CIMD Group acquired the whole share capital of MGA.

On 11 June 2015, the Bank announced the results of the share capital increase with a partial and voluntary public tender offer for the acquisition of securities, highlighting notably the following: (i) securities in a global nominal amount of EUR 481,208,950 were contributed in this share capital increase, representing around 75.71% of the total amount available for exchange; (ii) as a consequence of the subscriptions made, 4,844,313,860 ordinary, nominative and book-entry shares with no par value were issued, at the issue price of EUR 0.0834 per share, which corresponds a total amount of the share capital increase of EUR 387,545,108.8; and (iii) with the conclusion of the Offer, the Bank reached pro forma CET 1 ratio in March 2015, after the share capital increase of 12.7% on a phased-in basis[10].

On 29 September 2015, the Bank announced that DBRS removed the potential systemic support uplift for a group of European banks, in which BCP was included. That resulted in the removal of the previous one notch uplift from BCP's Intrinsic Assessment ("**IA**") for potential systemic support. BCP's IA has been maintained at "BB (high)", whereas the long-term senior unsecured and deposits ratings were downgraded from "BBB (low)" to "BB (high)", with "stable" trend. The short-term senior unsecured and deposits ratings were also downgraded from "R-2" to "R-3". The dated subordinated debt rating was confirmed at "BB".

[10] Calculated on the basis of Regulation No. 3/95 of the Bank of Portugal and Law No. 61/2014, of 26 August 2014, relating to deferred tax assets and the net results of the first quarter of 2015.

The systemic support was under review since 20 May 2015, following developments in European regulation and legislation, which, according to DBRS, have resulted in a lower likelihood of systemic support.

The maintenance of the IA at "BB (high)" reflected DBRS's view that BCP's fundamentals have now stabilised, supported in part by the improved economic environment in the Group's domestic operating environment. The "stable" trend reflects the improvement in the Group's capitalisation, supported by gradually improving core profitability.

On 8 October 2015, the Bank announced that it signed, on that date, a memorandum of understanding with the main shareholder of BPA (i.e. Global Pactum – Gestão de Ativos, S.A.) to merge BMA with BPA, resulting in the second-largest Angolan private sector bank in terms of loans to the economy, with a market share of approximately 10% by business volume.

The Bank also announced that joining the complementary capacities of BMA and BPA generates opportunities for growth and maximises the ability to create value in Angola, making it possible to maintain the contribution from activities in the country at levels in line with the Bank's ambitions and allowing returns on invested capital around 20%, compensating for the slowing-down of the Angolan economy compared to the Bank's initial plans.

The agreement defined mechanisms that ensure effective control and management of risks, in accordance with best practices, in particular, by attributing to the board of directors' members named by the Bank responsibility for the Risk Office and for Credit. The memorandum of understanding states that the new entity will have a board of directors with 15 members, of which five will be named by the Bank, as well as an executive committee with seven members, two of which to be named by the Bank. The Bank will also name one of the vice-chairmen of the board of directors, who will preside over the Risk Committee or the Audit Committee, as well as one of the vice-chairmen of the executive committee.

The valuation of the stakes of the two merged banks will be calculated based on their respective book values, subject to due diligence by an independent auditor. The Bank is expected to hold a stake of around 20% in the merged entity, with any eventual adjustment to the Bank's stake to be valued at a multiple of 1.6 times the book value.

This operation would generate a positive impact, estimated at 0.37%, for the Bank's CET 1 capital ratio, on a phased-in basis. The completion of this transaction is subject to approval by BMA and BPA shareholders, as well by regulatory and supervisory entities.

Recent Developments in 2016

On 24 February 2016, the Bank informed on the results of a tender offer for purchasing back notes, limited to a maximum aggregate purchase amount of EUR 300 million, with EUR 378,509,996.96 in amortised principal amount outstanding of notes validly tendered for purchase, of which Millennium bcp has decided to accept for purchase EUR 85,326,455.52.

On 21 April 2016, the Bank concluded with 44.76% of the share capital represented, the Annual General Meeting of Shareholders, with the following resolutions:

Item One – Approval of the individual and consolidated annual reports, balance sheet and financial statements for 2015;

Item Two – Approval of the proposal for the application of year-end results;

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 statement on the remuneration policy of the Members of the Management and Supervision Bodies;

Item Five – Election of the External Auditor for the triennial 2016/2018;

Item Six – Election of the Single Auditor and his/her alternate for the triennial 2016/2018;

Item Seven – Approval of the acquisition and sale of own shares or bonds;

Item Eight – Approval of the: (i) renewal of the authorisation granted by paragraph 1 of Article 5 of the Bank's Articles Association, and (ii) suppression of the preference rights of shareholders in one or more share capital increases the Board of Directors may decide to carry out;

Item Nine – Approval on the alteration of the articles of association by adding a new no. 5 to Article 4; and

Item Ten – Approval of the regrouping, without decreasing the share capital, of the shares representing the share capital of the Bank.

On 25 April 2016, following the announcement made by the Bank on 8 October 2015, the Bank informed that the public deed for the merger of Banco Millennium Angola, S.A. with Banco Privado Atlântico, S.A. had been executed.

On 3 June 2016, the Bank informed that it had completed the evaluation of several scenarios to enhance the value of ActivoBank, a leading online bank in Portugal, and it had decided to keep ActivoBank in the Group, given its ability to generate value, especially in the context of the expected evolution of BCP's banking business.

On 30 July 2016, the Bank informed that it had received a letter from Fosun, containing a firm proposal for an investment in the share capital of BCP on the terms and conditions set forth in a Proposal Guidelines of Agreement. It also informed that Fosun proposed to subscribe to a private placement reserved solely to Fosun, to be resolved by BCP's board pursuant to the approval granted by BCP's shareholders in the general assembly held on 21 April 2016, through which, at current levels, Fosun would hold a shareholding of around 16.7% of the total share capital of BCP (the "**Reserved Capital Increase**"). Fosun also considered increasing its stake through secondary market acquisitions or in the context of future capital increases of BCP, with an aim of potentially increasing Fosun's shareholding to 20%-30% of BCP.

On 14 September 2016, the Bank informed that its Board of Directors had analysed, in a meeting held on that day, a recommendation from BCP's Executive Committee concerning the investment proposal received from Fosun on 30 July 2016. The Board of Directors of BCP welcomed the interest shown by Fosun and discussed main highlights of the likely terms of the investment. The Board of Directors has also requested the Executive Committee to expand negotiations with Fosun and, as soon as matters related to the conditions precedent listed in BCP's announcement dated 30 July 2016 were clarified, to call for the immediate convening of another meeting of the Board of Directors, in any case to be held before the end of the current month.

On 27 September 2016, the Bank informed that in a meeting convened that day, and taking into consideration (i) the resolution of the general meeting of shareholders of 21 April 2016, then announced to the market, which resolved on the regrouping, without decrease of the share capital, of the shares representing the Bank's share capital, subject to the condition of, and producing its effects with, the entering into force of a legislative amendment and (ii) the publication, on 26 September 2016, of Decree-Law no. 63-A/2016 of 23 September, which entered into force in the day immediately after its publication, its Board of Directors resolved:

(a) To confirm, in the terms provided for in the abovementioned resolution of the general meeting of shareholders, that the legal framework of Decree-Law no. 63-A/2016, of 23 September, is in accordance with the company's corporate interest;

(b) To subsequently declare the production of effects, on this date of 27 September 2016, of the resolution of the general meeting of shareholders of 21 April 2016, which resolved on the regrouping, without decrease of the share capital, of the shares representing the Bank's share capital, by applying a regrouping quotient of 1:75, every 75 (seventy five) shares prior to regrouping corresponding to 1 (one) share after the regrouping, this regrouping being applicable to all the shares, in the same proportion, with a rounding down to the nearest whole number of shares;

(c) To set, according to the referred resolution, the date of the production of effects of the regrouping on 24 October 2016, the shareholders being allowed to, until 21 October 2016, and also in accordance with the provisions of the resolution, proceed to the composition of their groups of shares, inter alia by means of the purchase and sale of the shares in order to obtain a total number of shares that is a multiple of 75, with a view to the regrouping, a guarantee in the amount corresponding to the maximum amount of the consideration to be attributed, being until such date, granted, or the same amount being deposited;

(d) To declare, under the terms of the abovementioned resolution of the general meeting of shareholders and of the provision of articles 23-E, no. 3 and 188 of the Portuguese Securities Code, that the amount of the consideration in cash to be received by the shareholders for the shares that do not allow the attribution of a whole number of shares is € 0,0257 per share, this amount corresponding to the weighted average price of the shares representing the Bank's share capital in the regulated market Euronext Lisbon in the six months period immediately prior to the date of the present resolution and its respective announcement published today;

(e) To delegate in any two Directors that are members of the Executive Committee the performance of all execution and ancillary actions of the present resolution.

On 28 September 2016, the Bank informed that its Board of Directors decided to mandate the Executive Committee to proceed with, and to complete with exclusivity, the negotiations with Fosun, and to present the results thereon for approval on a coming meeting of the Board of Directors.

On 12 October 2016, BCP announced that it had proceed with a reverse stock split, without decrease of the share capital, of the shares representing the Bank's share capital, by applying a regrouping ratio of 1:75, every 75 (seventy-five) shares prior to the reverse split corresponding to 1 (one) share thereafter, which is applicable to all the shares, in the same proportion. Trading of the shares on the stock exchange would not be interrupted during this process. The current shares with ISIN PTBCP0AM0007 would be traded until the end of trading on October 21, and on October 24 trading would begin with the new ISIN PTBCP0AM0015, this being the effective date of the reverse stock split. The regrouping of BCP shares would be processed automatically by the respective financial intermediaries, without the need for shareholders to take any action to promote the proceedings for the regrouping of shares. Shareholders who wish might, until October 21 (inclusive), adjust the composition of their groups of shares, through the purchase or sale of shares in order to obtain a total number of shares that was a multiple of 75, with a view to the regrouping.

In accordance with the relevant legislation and as resolved by the Issuer:

(a) If the regrouping process did not result in the allocation of a whole number of new shares with ISIN PTBCP0AM0015, and given that fractional shares could not be delivered, the number of new shares to be delivered would be rounded down to the nearest whole number, and the holder of the respective fractional shares would be entitled to receive the cash consideration of €0.0257 per BCP share with ISIN PTBCP0AM0007 that was not subject to regrouping;

(b) The Issuer would promote the sale, on behalf of the holders, of the shares corresponding to the sum of the fractional shares resulting from the regrouping process that were not delivered, and the respective holders would receive the abovementioned cash consideration. In compliance with the provisions of article 23.º-E, no. 8 of the Portuguese Securities Code added by means of the Decree-Law 63-A/2016 that approved the share regrouping regime, the costs inherent in this transmission should be borne by the Issuer. Thus, the accounts of all holders should be credited by the net amount of consideration for their respective fractional shares: (number of shares with ISIN PTBCP0AM0007 not subject to regrouping x €0.0257).

The abovementioned procedures did not depend solely on BCP but also on the financial intermediaries that act as custodians of the shares. However, it was BCP's expectation that the majority of the holders of BCP shares would have received the abovementioned compensation by November 8, 2016.

On 9 November 2016, BCP concluded, with 34.7% of the share capital represented, the General Meeting of Shareholders, with the following resolutions:

Item One – Approval of the maintenance of the voting restrictions foreseen in articles 26 and 25 of the articles of association;

Item Three – Approval of changes to the articles of association by altering the article 2 (1), article 11 (1), article 17 (3), article 21 (1), article 22 (1), article 31 (6), article 33, article 35 (2), article 37 (1) and suppression of article 51 (and therefore of Chapter XI – "Transitory Proviso");

Item Four – Approval of the increase of the number of members of the Board of Directors.

Before the beginning of the discussion of item two, which has been postponed to the end of the meeting, the Board of Directors' proposal recommending the suspension of the meeting, to be resumed on 21 November 2016, at 14.30 hours was approved. On 21 November 2016, in the 2nd session of the General Meeting of Shareholders of 9 November 2016, with 34.7% of the share capital represented, the shareholders present and represented approved the Board of Directors' new proposal for the suspension of the meeting, to be resumed on 19 December 2016, at 11.00.

On 20 November 2016, BCP announced the approval by its Board of Directors of the result of negotiations with Fosun Industrial Holdings Limited ("**Fosun**") as well as the increase of BCP's share capital, through a private placement, as follows:

1 Memorandum of Understanding and Subscription Agreement with Fosun

On 18 November 2016, BCP and Fosun have entered into a Memorandum of Understanding setting out the terms of Fosun's investment in the share capital of BCP ("**MoU**"), pursuant to which Chiado (Luxembourg) S.à r.l. ("**Chiado**"), affiliate of Fosun, agreed to invest in BCP through a private placement of 157,437,395 new shares (the "**Reserved Capital Increase**").

Observing the corporate governance procedures applicable to BCP, and for the current mandate ending in 2017, the MoU provides for the cooptation of: (i) two board members, whose appointment as additional members of the Executive Committee will also be proposed, with one of them to be appointed to the role of an additional Vice-President of the Executive Committee; and (ii) subject to Chiado holding at least 23% of the share capital of BCP, three non-executive directors, with one of them to be appointed to the role of Vice-Chairman of the Board of Directors and one proposed as a member of Committee for Nominations and Remunerations.

In light of the synergies and business development opportunities, the MoU foresees subsequent discussions for, on an arms' length basis, and without a commitment on the results, establishing long-term insurance distribution agreements outside of Portugal.

To effect the above, Fosun and Chiado also agreed to a lock-up in respect of the sale of shares subscribed by it under the Reserved Capital Increase for a period of three years from the date of subscription.

Fosun has reaffirmed in the MoU its strong interest to subsequently raise its shareholding in BCP to around 30% of its share capital through primary or secondary market transactions, once the increase of the voting cap to 30% of the share capital is approved.

2 Reserved Capital Increase

In accordance with the resolution of the General Meeting of Shareholders of 21 April 2016 to suppress the pre-emptive right of the shareholders, the Board of Directors of BCP has approved a resolution for the increase of BCP's share capital, from € 4,094,235,361.88 to € 4,268,817,689.20, by way of a private placement of 157,437,395 new shares offered for subscription by Chiado at a subscription price of €1.1089 per new share.

The abovementioned share capital increase by way of private placement has already been subscribed for by Chiado, and its registry has been requested to the competent Commercial Registry Office on 18 November 2016 and, as such, the current share capital of BCP is now of €4,268,817,689.20, represented by 944,624,372 ordinary, book-entry shares without nominal value. The new ordinary shares, which admission to trading on Mercado Regulamentado Euronext Lisbon will be requested, will entitle their holders to the same rights as those of existing shares." On 19 December 2016, the General Meeting of Shareholders of 9 November 2016 that had been resumed was concluded and, with 33.5% of the share capital represented, approved item 2 regarding the change of voting limitations set forth in article 26(1) of the articles of association from 20% to 30%.

On 19 December 2016, the Bank informed that following the resignation of Mr. Bernardo de Sá Braamcamp Sobral Sottomayor, announced on February 29, 2016, the State appointed Mr. André Palma Mira David Nunes, as a non-executive member of the Board of Directors, to be its representative in the Bank’s corporate bodies. Mr. André Palma Mira David Nunes will also be a member of the Commission for Risk Assessment and the Commission for Nominations and Remunerations.

C. Principal Markets and Competition

The Portuguese banking market has become well-developed, including both strong domestic and foreign competitors. These competitors follow a multi-product, multi-channel and multi-client segmented approach, offering a broad range of services from retail products to investment banking coupled with sophisticated payment capability. Foreign banks are present in the Portuguese market, particularly in areas such as corporate banking, asset management, private banking and brokerage services, though some groups offer universal banking services and offer traditional retail banking as well.

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 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. The Bank of 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. National competition authorities and the European Commission have parallel competencies for enforcing European antitrust laws in close co-operation, and the European Commission imposes restrictions on aggressive commercial practices on recipients of State aid, such as the Bank.

Technological progress, liberalisation, globalisation and the European integration process have resulted in increased financial intermediation through the years. Following the liberalisation process that began in the 1980s with the reprivatisation of banks, the second half of the 1990s was characterised by reforms preparing for participation in the euro that took place in early 2000s, fostering strong movements of internationalisation and financial integration. Financial assets as a percentage of GDP roughly doubled in the period 1995-2012 to around 500% of GDP, with non-bank financial institutions recording slight gains in market share (Source: Bank of Portugal).

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: Bank of 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 Portuguese banks have rationalised their operating structures.

As at the end of 2015, 377 credit institutions, financial companies and payment institutions were registered in Portugal, of which 176 were banks (including two institutions in liquidation) (Source: Bank of Portugal). Financial institutions with head offices in the European Economic Area providing cross-border services amounted to nearly 808 (Source: Bank of Portugal). Common indicators do not indicate levels of concentration significantly divergent from those of the Eurozone. For instance, as of 2014, the total asset share of the five largest credit institutions represented 69% for Portugal, which is above Germany's 32% but below Greece with 94%, Estonia with 90% and the Netherlands with 85% (for the euro area and EU27 is 47%) (Source: European Central Bank).

In Portugal, the Bank competes primarily with the four other major Portuguese banking groups: Caixa Geral de Depósitos, Novo Banco, Banco Santander Totta and Banco BPI. 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 the Bank of Portugal, as at 30 June 2016, BCP had a market share of 18% of loans to customers (gross) and 17.3% of deposits in its domestic market.

The following table shows the development of the percentage of the Bank's market share in Portugal in terms of loans to customers as at 30 June 2016 and as at 31 December 2015 and 2014:

	As at 30 June 2016	*As at 31 December*	
		2015	*2014*
Loans to customers	18.0%	18.1%	18.9%

Sources: BCP, the Bank of Portugal.

The following table shows the number and geographic location of the Bank's branches as at 30 June 2016 and as at 31 December 2015 and 2014:

	As at 30 June	As at 31 December	
	2016	*2015*	*2014*
Portugal	646	671	695
Bank Millennium in Poland	392	411	423
Millennium bim in Mozambique	170	169	166
Banco Millennium Angola	0	90	88
Banca Millennium in Romania	0	0	0
Millennium Banque Privée in Switzerland	1	1	1
Total in the International activity	563	671	678
	1,209	1,342	1,373

The following table illustrates the competitive environment in Portugal for the two years ended 31 December 2015 and 2014:

	As at 31 December	
	2015	*2014*
Number of banks[(1)]	28	32
Number of branches	4,763	5,413
Population (thousands)...	10,375	10,401
Inhabitants per branch	2,178	1,921
Branches per bank	170	169

Sources: Portuguese Banking Association and Portugal's National Statistics Institute.

(1) Banks associated with the Portuguese Banking Association.

The Bank is also subject to strong competition in the international markets in which it operates.

The banking sector in Poland is characterised by a relatively low concentration sustaining strong competitive pressure. However, significant opportunities have led to increased competition in recent years, driven by privatisation and consolidation initiatives. In addition, in Poland, EU integration has created strong incentives for the cross-border provision of financial services and for cross-border mergers, which have resulted in significantly increased competition from foreign banks. As at September 2016, Bank Millennium's market share in Poland, according to the Bank's estimates derived from data published by the National Bank of Poland, was 4.5% of loans to customers (gross) and 5.1% of deposits.

In Mozambique, Millennium bim is the market leader with a market share of 28.8% of loans to customers and 28.2% of deposits in September 2016, according to the Bank of Mozambique. Currently, 19 banks operate in Mozambique and management expects increasing competition from foreign banks, particularly those based in South Africa and Portugal (Source: Bank of Mozambique).

Banco Millennium Angola merged with Banco Privado Atlântico, resulting in the second-largest private sector bank in terms of loans to the economy, with a market share of approximately 10% by business volume: market share above 11% in terms of loans and above 9% in terms of deposits (Source: Bank of Angola).

Third party information

Information sourced from the Bank of Portugal, Portuguese Banking Association ("*Associação Portuguesa de Bancos*"), the 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 each Issuer is aware and is able to ascertain from information published by such entities, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Where information from third parties is referenced in this Base Prospectus, the source of the information is identified alongside each statement.

D. Trends Information

During the nine month period ending on 30 September 2016, the Portuguese banks continued to develop their activities within a particularly difficult context. The Portuguese economy continues to show moderate growth and the banks are operating within a context of very low interest rates, which exercise pressure on the financial margin. Moreover, the Portuguese Banks have a significant number of non productive assets in their balance sheets.

The 2016 and 2017 projections for the Portuguese economy of Banco de Portugal were both downgraded to 1.3% in 2016 and 1.6% in 2017. The GDP projection for 2018 is 1.5%. It is expected that, between 2016 and 2018, the contribution provided by net exports to GDP growth will increase in importance. Certain risks may compromise the increase of GDP in Portugal. Firstly, the deceleration of global economic activities may condition the Portuguese economy's external demand; in particular, it may condition demand from relevant commercial partners such as Angola or Brazil. Brexit also contributes to the increase in the risk of an economic deceleration in Portugal. Domestic demand may also be conditioned by the need for additional budgetary measures, since Portugal did not comply with the budgetary targets in 2015, within a context where the high levels of debt of the private sector may hinder investment, notwithstanding the potentially positive effects of the accommodative monetary policy practiced by the ECB.

On 29 April, DBRS maintained the credit rating attributed to the Portuguese Republic. The eligibility of the Portuguese Public debt for the ECB's extended programme for the purchase of assets depends on this credit rating. In October 2016, DBRS maintained the Republic of Portugal's long term foreign and local currency issuer ratings at BBB (low) with a stable outlook. DBRS noted the possibility of a downgrade if there was a weakening in the political commitment to sustainable economic policies or deterioration in public debt dynamics.

According to Banco de Portugal, the funding operations of Portuguese banks with the ECB decreased to EUR 23.5 billion in October 2016. This is consistent with the general trend in place since the second half of 2013. These figures show an improvement in the liquidity position of domestic banks, which has benefited from a resilient performance from deposits, namely from individuals (2.4% increase by the end of September 2016, compared to the same period of last year). Moreover, the deleveraging of the Portuguese financial sector continues and the total credit to individuals and companies decreased by 1.7% and 2.5%, respectively, in September 2016, compared to same period in 2015. The loan to deposit ratio of the Portuguese banking sector stood at 103% at the end of the first half of 2016, compared to 128% at the end of 2012 and 162% at the end of 2009.

The credit granted by BCP continues to decrease, within a context of deleveraging of the non financial economic sectors, resulting in a lower search for credit. At the same time, deposits also continued to decrease since the bank let go of some large institutional deposits that required high remuneration, complying with a policy for the preservation of the financial margin. As the commercial gap closes, BCP has also been reducing its funding from the ECB. In 2016, it is expected that the aforementioned trends, including the decrease in the credit/deposit ratio and the dependency on funding from the ECB, will continue.

The maintenance of very low money market interest rates contributes to the decrease in the spread on term deposits of the Portuguese banks. This trend persists in 2016, more than offsetting the lower spreads in credit. By the end of September 2016, the rates of the new term deposits reached values of approximately 29 basis points. The portfolio's average rate is expected to converge to these levels over the course of the following year.

The price effect on the financial margin is expected to continue to be positive overall, reflecting the improvement of the client interests margin (differential between the credit global rate and the global rate at which the banks remunerate the deposits). Nevertheless, the continued reduction in the credit granted (volume effect) will probably continue to condition the financial margin.

The profitability of the Portuguese banks continues to be significantly conditioned by (i) reduced GDP growth, (ii) low inflation rates, (iii) interest rates at historically low levels for a time period much longer than was initially expected, (iv) credit contraction, reflecting the deleveraging process of the non financial private sector, which is slower within the current context of low interest rates, (v) recognition of significant amounts of impairments, and (vi) a limited reduction of operating costs in the whole system. The low profitability levels continue to limit the capacity to generate capital internally.

The Bank has a relevant exposure to Poland where risks related to legal changes exist, including the plan for banks to return the cost of excessive foreign exchange spreads they charged their clients such as loans denominated in CHF and the introduction of the new banking tax in February 2016, which could have an impact on the Bank's financial condition. Furthermore, the Bank faces risks relating to the economic environment of certain African countries, namely Angola and Mozambique, whose economic activity is decelerating and who have also been facing a significant depreciation of their currency since the beginning of 2016.

The expected improvement in core income[11] as well as the continuation of the restructuring and reduction of costs should play a positive role and contribute to the improvement of the 2016 results, although conditioned by the economic context.

There is increasing focus on management of the stock of problematic assets and respective hedging levels. Measures should be adopted to foster the reduction of the stock of problematic assets, along with other preventive measures, to be applied within the scope of prudential supervision and targeted at new NPLs so as to foster a more pro active management of NPLs. Measures should also be adopted to remove restrictions in the legal, judicial and tax systems. The share capital increases recently announced by Banco Popular Español and by Popolare may indicate an intention to anticipate the provisioning for problematic assets and increase hedging by impairment. Antonio Costa, the Prime Minister of Portugal supports a systemic solution or so called "bad bank" solution to ease the

[11] **Core income –** net interest income plus net fees and commission income.

pressure brought on the Portuguese banking system from non performing loans as well as other non productive assets, including property.

It is not yet possible to determine the potential impact that the resolution of BES may have on BCP, as an institution participating in the Resolution Fund created by Decree Law No. 31 A/2012, of 10 February 2012. In 2015, the periodical contributions paid by the Bank to the Resolution Fund corresponded to about 20% of the total periodical contributions paid by the banking sector. The Resolution Fund owns in full Novo Banco's equity, valued at EUR 4.9 billion as at 31 December (of which EUR 3.9 billion from a loan granted by the State, EUR 700 million from a loan granted by a group of credit institutions, including the Bank, that are members of the Resolution Fund, and the remaining from the mobilisation of resources available to the Resolution Fund).

The financial resources of the Resolution Fund may come from (i) contributions, initial and periodical, made by the participating institutions, (ii) from the proceeds of the contributions of the banking sector set forth by Law No. 55 A/2010, of 31 December 2010 and (iii) from the investment of resources. It may also be funded by extraordinary contributions made by participant institutions or by loans or guarantees provided by the State.

Accordingly, the eventual impact of the Novo Banco resolution on BCP shall depend on external factors for which BCP is not responsible, including the value for which Novo Banco is sold and the type or types for hedging the eventual financial needs of the Resolution Fund. Additionally, following a clarification of the Banco de Portugal, the possible contributions of the Resolution Fund participating banks will only be recorded when they are due and payable and the contribution to the resolution fund should be recognized as a cost only in the year that it is due and the payment occurs. Banco de Portugal further clarified that it is not foreseeable that the Resolution Fund will propose the creation of a special contribution to finance the resolution applied to Novo Banco. According to Banco de Portugal, the possibility for a special contribution would appear, therefore, remote.

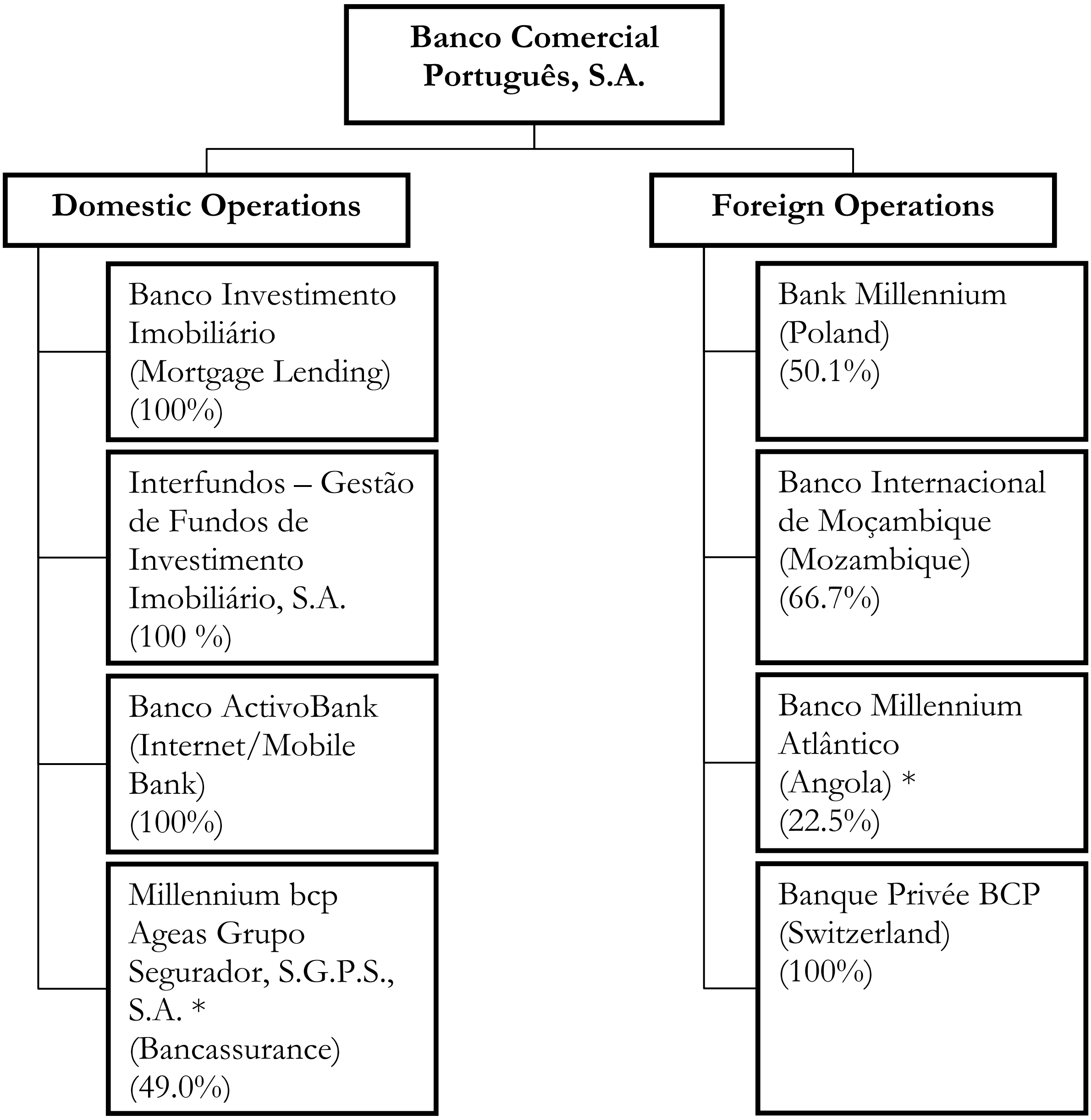
On 20 December 2015, the Portuguese government and Banco de Portugal resolved to sell the activity of BANIF and of the main portion of its assets and liabilities to Banco Santander Totta, under a resolution measure. This resolution measure, according to Banco de Portugal's press release on 20 December 2015, involves state aid of around EUR 2,255 million to cover future contingencies, of which EUR 489 million will be provided by the Resolution Fund and EUR 1,766 million directly by the State.

The BRRD foresees a joint resolution regime in the EU enabling authorities to cope with the insolvency of bank institutions. The shareholders and creditors will have to internalise an important part of the costs associated with the insolvency of a bank, minimizing taxpayers' costs. To prevent bank institutions from structuring their liabilities in a way which may compromise the efficiency of the bail in or of other resolution tools, and to avoid the contagion risk or a bank run, the BRRD establishes that the institutions must comply with a MREL. This MREL, which became effective during 2016, involves a transition period and should have implications on the issuance of debt by banking institutions. It also implies the introduction of alterations in the liability structure through the issuance of new senior debt with some subordination structure or by strengthening the Tier 2. The issuance of AT1 instruments can only be considered after the total reimbursement of the GSIs and will require a framework still under discussion.

E. Organisational Structure

The Bank and the Group

The following diagram summarises the organisational structure of the principal subsidiaries of the Group as at 30 June 2016:



* Consolidated by the equity method.

In addition, the Bank's subsidiary, Millennium bcp-Prestação de Serviços ACE represents its associates regarding third parties, namely in the areas of IT, operational, administrative and procurement. The Bank is, directly or indirectly, the ultimate holding company of all the companies in the Group and is not dependent upon other entities within the Group. However, being the ultimate holding company of the Group, the activities developed by the other members of the Group have an impact on the Bank.

Ownership and Control

The Bank is not aware of any shareholder or group of connected shareholders who directly or indirectly control the Bank.

Significant Subsidiaries

The following is a list of the main subsidiaries of the Bank as of 30 June 2016:

Subsidiary companies	Head Office	Activity	% held by the Group	% held by the Bank
Banco de Investimento Imobiliário, S.A.	Lisbon	Banking	100	100
Banco ActivoBank, S.A.	Lisbon	Banking	100	–
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	–
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	93.7	83.2
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Oeiras	Holding company	49	–

General information

So far as the Bank is aware, there are no arrangements in place, the operation of which may result in a change of control of the Bank.

The Bank has made no material investments since the date of the last published financial statements and the Bank has not made relevant firm commitments on future investments.

There have been no recent events particular to the Bank, which are to a material extent relevant to the evaluation of the Bank's solvency.

F. Share Capital

The authorised, issued and fully paid up share capital of the Bank is EUR 4,268,817,689.20 divided into 944,624,372 shares with no nominal value. The shares are ordinary, issued in a dematerialised book-entry form (*escriturais*) and *nominativas*, and are integrated in a centralised system recognised under the Portuguese Securities Code (Central de Valores Mobiliários) managed by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A., with its registered office at Avenida da Boavista, 3433, 4100-138 Oporto.

G. Legislation regulating the activity of the Bank

The Bank is governed by 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 (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*), 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 the Bank of Portugal, to the supervision of the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) as an issuer and a financial intermediary and to the supervision of the Portuguese Insurance and Pension Funds Supervisory Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF)*) as the tied insurance intermediary.

H. Management, Audit Committee and Statutory Auditor

On 28 February 2012, the Bank adopted a one-tiered corporate governance model, with one Board of Directors within which there is an Executive Committee, an Audit Committee, a Remunerations and Welfare Board and a Board for International Strategy, plus a Statutory Auditor.

Board of Directors

According to the Articles of Association of the Bank, the Board of Directors is composed of a minimum of 17 and a maximum of 25 members, elected by the General Meeting of Shareholders.

20 members of the Board of Directors of the Bank were elected at the General Meeting of Shareholders held on 28 February 2012, for the 2012/2014 term of office. On 4 December 2012, due to the Bank's recapitalisation operation, the State appointed Mr. Bernardo de Sá Braamcamp Sobral Sottomayor and Mr. José Rodrigues de Jesus as its representatives in the Board of Directors of the Bank during the period of the State aid for strengthening own funds. Two members of the Board of Directors presented their resignation from their positions and the General Meeting of Shareholders of 30 May 2014 resolved to reduce the number of members of the Board of Directors from 22 to 20, with deferred and conditional effect, i.e. producing effects on 31 December 2014 if, until that date a co-optation or a replacement by other has not taken place. The reduction will be from 22 to 21 members if only one of the co-optations mentioned above occurs during that period.

On 15 October 2014, the Board of Directors co-opted Raquel Rute da Costa David Vunge as non-executive member of the Board of Directors to replace and fulfil the term of office of Mr. César Paxi Manuel João Pedro, who renounced to it. The co-optation was ratified at the General Meeting of Shareholders held on 11 May 2015.

The General Meeting of Shareholders held on 11 May 2015 approved the election of the Board of Directors for the 2015/2017 term of office, including the Audit Committee.

Mr. Bernardo de Sá Braamcamp Sobral Sottomayor presented its resignation as member of the Bank's Board of Directors, which was approved by the Minister of State and Finance on 26 February 2016.

Following the resignation of Mr. Bernardo de Sá Braamcamp Sobral Sottomayor, on 16 December 2016, the State appointed Mr. André Palma Mira David Nunes, as a non-executive member of the Bank's Board of Directors, to be its representative in the Bank's corporate bodies.

Currently, the Board of Directors has the following members:

Chairman:	António Vítor Martins Monteiro
Vice-Chairmen:	Carlos José da Silva Nuno Manuel da Silva Amado
Members:	Álvaro Roque de Pinho Bissaia Barreto André Magalhães Luiz Gomes André Palma Mira David Nunes (Member appointed by the Portuguese government for the duration of the State aid to increase own funds) António Henriques de Pinho Cardão António Luís Guerra Nunes Mexia Cidália Maria Mota Lopes Jaime de Macedo Santos Bastos

João Bernardo Bastos Mendes Resende
João Manuel de Matos Loureiro
José Jacinto Iglésias Soares
José Miguel Bensliman Schorcht da Silva Pessanha
José Rodrigues de Jesus (Member appointed by the Portuguese government for the duration of the State aid to increase own funds)
Maria da Conceição Mota Soares de Oliveira Callé Lucas
Miguel de Campos Pereira de Bragança
Miguel Maya Dias Pinheiro
Raquel Rute da Costa David Vunge
Rui Manuel da Silva Teixeira

Positions held outside the Group by the Members of the Board of Directors that are relevant to the Group:

Name	**Position**	**Company**
António Vítor Martins Monteiro	Member of the Board of Directors	Banco Sabadell in representation of BCP, S.A.
	Non-executive member of the Board of Directors	SOCO International, Plc
Carlos José da Silva	Chairman of the Board of Directors	Banco Millennium Atlântico, S.A.
	Chairman of the Board of Directors	Banco Privado Atlântico Europa, S.A.
	Chairman of the Board of Directors	Atlântico Europa, SGPS, S.A.
	Chairman of the Board of Directors	Angola Management School
Nuno Manuel da Silva Amado	Vice-Chairman	APB-Associação Portuguesa de Bancos (in representation of BCP)
	Member of the Supervisory Board	EDP-Energias de Portugal, S.A.
	Member	Institut Internacional D'Études Bancaires
	Member of the Board of Auditors	Fundação Bial
	Chairman of the Advisory Council	Centro Hospitalar do Oeste
	Member of the General Board	Universidade de Lisboa
	Effective member of the Plenary	Interdisciplinary Specialised Committee for Birthrate (CEPIN) and of the Specialised Standing Committee for Regional Development and Land Planning (CDROT) of the Conselho Económico e Social (CES)
Álvaro Roque de Pinho	Chairman of the Board of	Tejo Energia – Produção e

Name	Position	Company
Bissaia Barreto	Directors	Distribuição de Energia Eléctrica, S.A.
	Non-executive director	Nutrinveste – Soc. Gestora de Participações Sociais, S.A.
	Chairman of the Board of the General Meeting of Shareholders	Prime Drinks, S.A.
André Magalhães Luís Gomes	Lawyer	Sociedade de Advogados Luiz Gomes & Associados
	Member of the Board of Directors	Modern and Contemporary Art Foundation – Berardo Collection
	Member of the Board of Directors	Bacalhôa – Vinhos de Portugal, S.A.
	Chairman of the Board of the General Meeting of Shareholders	FGA Capital – Instituição Financeira de Crédito, S.A.
	Chairman of the Board of the General Meeting of Shareholders	FGA Distribuidora Portugal, S.A.
	Chairman of the Board of the General Meeting of Shareholders	Fiat Group Automobiles Portugal, S.A.
	Chairman of the Board of the General Meeting of Shareholders	Rentipar Financeira, SGPS – S.A.
	Chairman of the Board of the General Meeting of Shareholders	Quinta do Carmo – Sociedade Agrícola S.A.
	Chairman of the Board of the General Meeting of Shareholders	Explorer Investments, Sociedade Capital de Risco S.A.
	Chairman of the Board of the General Meeting of Shareholders	Explorer Investments, SGPS S.A.
	Chairman of the Board of the General Meeting of Shareholders	Atena Equity Partners – Soc. de Capital de Risco S.A.
	Chairman of the Board of the General Meeting of Shareholders	Charon – Prestação de Serviços de Segurança e Vigilância, S.A.
	Chairman of the Board of the General Meeting of Shareholders	Açoreana – Companhia de Seguros
	Chairman of the Board of the General Meeting of Shareholders	Optime Investments, Soc. Capital de Risco, S.A.
	Chairman of the Board of the General Meeting of Shareholders	Ferrado NaComporta, S.A.

Name	Position	Company
André Palma Mira David Nunes (1)	Partner	Raven Capital
António Henriques de Pinho Cardão	Economist	
	Non-executive member of the Board of Directors and Member of the Audit Committee	Cimpor – Cimentos de Portugal, SGPS, S.A.
	Chairman of the Board of Auditors	Vila Galé, Soc. De Empreendimentos Turísticos, S.A.
	Vice-Chairman of the Executive Management	Associação Missão Crescimento
	Chairman of the Audit Board	Associação Por Uma Democracia de Qualidade
António Luís Guerra Nunes Mexia	Chief Executive Officer (CEO)	EDP – Energias de Portugal, S.A.
	Chairman of the Board of Directors	EDP Renováveis, S.A.
	Member of the Board of Directors	EDP – Energias do Brasil, S.A.
	Chairman of the Board of Directors	Union of the Electricity Industry – Eurelectric AISBL (association)
	Chairman of the Board of Directors	Fundação EDP
Jaime de Macedo Santos Bastos	Statutory Auditor	Several companies
	Managing Partner	Chartered Accountants Company Kreston & Associados, SROC, Lda.
João Bernardo Bastos Mendes Resende	Member of the Advisory Board	Banco Sabadell – Urquijo Banca Privada
João Manuel de Matos Loureiro	Professor	School of Economics of the University of Porto ("**FEP**") and Porto Business School
	Head of the Post Graduate Degree	Company Management of Porto Business School
	Chairman of the Representative Board	FEP
José Jacinto Iglésias Soares	Non-executive Director	SIBS, SGPS, S.A. and of SIBS Forward Payment Solutions, S.A.
	Member of the Remunerations Committee	Unicre – Instituição Financeira de Crédito, S.A. (in representation of BCP)
	Member of the General Board,	AEM-Associação de Empresas

Name	Position	Company
	in representation of Banco Comercial Português, S.A.	Emitentes de Valores Mobiliários Cotadas no Mercado
	Alternate Member of the Plenary and of the Specialised Standing Committee	Social and Economic Policy of CES – Conselho Económico e Social
	Member of the General Board	IPCG – Instituto Português de Corporate Governance, representing Banco Comercial Português, S.A.
José Rodrigues de Jesus [1]	Single Auditor	Arlindo Soares de Pinho, Lda. Arsopi – Indústrias Metalúrgicas Arlindo S. Pinho, S.A. Arsopi – Holding, Sociedade Gestora de Participações Sociais, S.A. Calfor – Indústrias Metálicas, S.A. DIMO – Desenvolvimento Imobiliário e Construção, S.A. Divinvest – Promoção Imobiliária, S.A. Edemi Gardens – Promoção Imobiliária, S.A. Camilo dos Santos Mota, S.A. Oliveira Dias, S.A. IMOAGUEDA, SGPS, S.A.
	Member of the Audit Board	Mota-Engil, SGPS., S.A. Germen – Moagem de Cereais, S.A. Labesfal – Laboratórios Almiro, S.A.
	Chairman of the Board of Auditors	AGEAS Portugal – Companhia de Seguros de Vida, S.A. AGEAS Portugal – Companhia de Seguros, S.A.
Maria da Conceição Mota Soares de Oliveira Callé Lucas	Member of the Board of Directors	Banco Millennium Atlântico, S.A.
Miguel de Campos Pereira de Bragança	Manager	Quinta das Almoinhas Velhas-Imobiliária Lda.
	Member of the Board	Fundação da Casa de Bragança
Miguel Maya Dias Pinheiro	Member of the Senior Board	Alumni Clube ISCTE
	Vice-Chairman of the Board of Directors	Banco Millennium Atlântico, S.A.
Raquel Rute da Costa David Vunge	Member of the Board of Directors	Galp Energia, SGPS, S.A.

Name	Position	Company
	Member of the Board of Directors	Banco Caixa Geral de Angola, S.A.
Rui Manuel da Silva Teixeira	Member of the Board of Directors	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.
	Chairman of the General Meeting	Associação Porto Business School

(1) Director appointed by the State for the period of enforcement of the public investment to strengthen own funds.

To the best of the Issuer's knowledge, no member 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, Piso 2, 2744-002 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 11 May 2015, composed of seven 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:	Nuno Manuel da Silva Amado
First Vice-Chairman:	Miguel Maya Dias Pinheiro
Second Vice-Chairman:	Miguel de Campos Pereira de Bragança
Members:	José Jacinto Iglésias Soares José Miguel Bensliman Schorcht da Silva Pessanha Maria da Conceição Mota Soares de Oliveira Callé Lucas 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:

Chairman:	João Manuel de Matos Loureiro
Members:	Jaime de Macedo Santos Bastos Cidália Maria Mota Lopes José Rodrigues de Jesus (Member appointed by the Portuguese government for the duration of the State aid to increase own funds)

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 where 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 by Carlos Luís Oliveira de Melo Loureiro, ROC No. 572, were elected at the General Meeting of Shareholders held on 21 April 2016, for the triennial 2016/2018, by a majority of 99.1233% and 94.9982% of the votes cast, respectively.

The term of office of the Statutory Auditor and External Auditor began on 5 May 2016, after the first quarter's financial statements were presented to the Board of Directors.

Deloitte & Associados SROC, S.A. has issued a limited review report of the interim condensed consolidated financial statements as at and for the six months ended 30 June 2016 and a limited review report of the interim condensed consolidated financial statements as at and for the nine-months ended 30 September 2016. Deloitte & Associados SROC, S.A. has not performed any audit of the consolidated financial statements of the Bank.

The former External Auditor and Statutory Auditor of the Bank was as at the date of this Base Prospectus, KPMG & Associados, SROC, S.A. (SROC No. 189), member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), effectively represented by its partner Ana Cristina Soares Valente Dourado, ROC No. 1011, and alternatively by Jean-Èric Gaign, ROC No. 1013.

KPMG & Associados, SROC, S.A.'s term of office ended on 2 May 2016, when the first quarter's financial statements were presented to the Board of Directors, having been replaced in its functions by another auditor on 5 May 2016.

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 on the third quarter of 2016

On 26 June 2013, the European Parliament and Council approved CRD IV/CRR that established new and more demanding capital requirements for credit institutions, with effects from 1 January 2014 onwards.

These stricter requirements result from more narrowly defined capital and risk weighted assets, together with the establishment of minimum ratios, including a capital conservation buffer, of 7% for CET 1, 8.5% for Tier 1 and 10.5% for Total Capital. The CRD IV/CRR also stipulates a transitional period (phased-in) in which institutions may accommodate the new requirements, both in terms of own funds and compliance with minimum capital ratios.

According to the Bank's interpretation of CRD IV/CRR as at the date of this Base Prospectus, CET 1 phased-in estimated ratio reached 12.2% as at 30 September 2016 compared to 12.3% posted as at 30 June 2016 (13.3% as at 31 December 2015).

The performance of the phased-in CET 1 ratio in the third quarter of 2016 mainly reflects the unfavourable effects of the net income recorded in this period and the negative foreign exchange differences, mainly of the metical, which were offset by the reduction of capital requirements, mostly for market risk. The fully implemented CET 1 ratio was also affected by the exclusion of the transitional adjustments, namely the impact of the devaluation of sovereign debt held for sale.

The Bank's credit risk models are continuously monitored and supervised by the supervisory authorities, with whom the Bank maintains a regular dialogue on the matter. The Bank is currently making changes to the set of models used in the scope of the internal ratings methodology ("IRB**"**) for calculating capital requirements. These amendments reflect the most recent recommendations received in the framework of this dialogue and following regular inspections by the SSM, in particular as regards the LGD models for defaulted exposures, to be phased in by the end of the first semester of 2017, and corporate, in this case to be implemented in 2016. In the case of recent recommendations, it is not possible to anticipate the respective implications with the reliability desirable, and may imply a reduction in capital ratios.

SOLVENCY (CRD IV/CRR)

	Euro million	
	30 Sep. 16	*30-Jun-16*
	Phased-in	
Own funds		
Common equity tier 1 (CET 1)	4,669	4,719
Tier 1	4,669	4,719
Total Capital	**5,052**	**5,133**
Risk weighted assets	**38,287**	**38,415**
Solvency ratios		
CET 1	12.2%	12.3%
Tier I	12.2%	12.3%
Total Capital	13.2%	13.4%
	Fully implemented	
CET 1	9.5%	9.7%

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(*) Considers the new DTAs regime for capital purposes (in accordance with IAS) and includes the cumulative net income recorded in each period. March 2016 CET 1 ratio without the cumulative net income stood at 12.7%.

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 2015[12].

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[13] 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 2015, the economic activity, measured by real GDP growth rate, grew 2.4%[14] in accumulated terms and is expected to continue its recovery trend in 2016 supported by the domestic consumption.

In spite of recent improvements, the economic and financial context remains challenging for Portugal. Lower public spending, a higher tax burden, stringent regulations and still tight financing conditions are expected to continue to affect the mortgage markets. Business volumes, which have fallen significantly during the crisis, as demand collapsed and home supply adjusted downwards, continue to decrease, albeit at a slower pace. Notwithstanding, house prices are moving up.[15]

Mortgage markets are prone to remain weak. The fundamental drive towards a more export oriented economy means fewer resources being devoted to traditional non-tradable sectors, such as housing. At the same time, market conditions and regulations remain challenging for long term credit operations. The undeveloped rental market is slowly starting to gain importance after the reforms implemented during the PAEF, ending a string of years in which the demand and supply for own housing purposes was a key feature of EMU integration dynamics.

1. **Long-term developments**

The Portuguese economy has recorded a decent performance over the past 26 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).

[12] Eurostat, September 2015
[13] Statement by the EC, ECB and IMF on the Twelfth Review Mission to Portugal, 2 May 2014
[14] Portugal's National Statistics Institute, September 2016
[15] Portugal's National Statistics Institute, September 2016

During the first two phases, from the high levels of unemployment, inflation and public deficit recorded in the mid-1980s, Portugal managed to comply with the Maastricht criteria only ten years later. The country's unemployment rate declined from 9% to 4%; inflation dropped from close to 30% in 1985 to 2% in the late 1990s. Over those years, real GDP growth averaged 3.5% per year. The three-month Lisbon interbank offer rate moved from 10% in 1993 to about 3% by the end of the decade.

The ongoing deregulation and liberalisation of the banking and financial markets led to growing competition among market participants. Demand for residential property was strong. The growth rate of credit granted to households rose quickly for most of the 1990s, topping 38% year-on-year in 1998.

After 2000, the Portuguese economy convergence process stalled. The loss of the exchange rate instrument, greater emphasis on productivity gains and flexible markets and increasing competition all resulted in the Portuguese economy facing great difficulties in the global marketplace. At a domestic level, households' build-up of debt, uncertainty and fiscal policy constraints led to a downward adjustment of spending patterns. In sharp contrast with the 90s' performance, real GDP growth averaged only 0.9% from 2000 to 2009 (comparing with 1.7% for the Eurozone average)[16].

Despite a more adverse economic climate and the end of public subsidies for housing loans after 2002, housing loans continued to grow for most of the decade. More sophisticated scoring systems, judicious allocation of capital, strong home-ownership ratio and financial innovation contributed to easing households' financial burden and contain credit risks. Credit delinquency remained rather low throughout the period.

However, the degree of indebtedness across certain sectors of the economy, including households, continued to increase steadily. These circumstances put the Portuguese economy in a rather vulnerable position for what was to happen in 2007/2008 as the subprime meltdown morphed into a full-blown global financial crisis. This event severely restricted the access of Portuguese issuers to funding and unravelled a recession which, together with the eruption of the European sovereign debt crisis in 2010, provoked a jump in mortgage credit delinquency that greatly damaged the housing market. New mortgage lending collapsed, foreclosures spiked and house prices fell.

2. Current situation

(a) The economy

The intensification of the European sovereign crisis put the Portuguese debt-driven growth model to an end. Back in April 2011, the Portuguese government negotiated the PAEF with the IMF, the ECB and the EC envisioning a total of EUR 78 billion of institutional funding through 2014, conditional on Portugal achieving several goals in terms of consolidation of public finances, implementation of structural reforms and support to the financial system.

Since 2011, economic activity had been constrained as a result of reductions in public and private expenditure, more restrictive funding conditions and increased unemployment. Economic activity, as measured by real GDP, contracted by 1.8% in 2011, by 4% in 2012 and by 1.1% in 2013[17]. After three years of contraction, the Portuguese economy returned to growth in 2014 (0.9%)[18], driven by domestic demand, mainly private consumption. During 2015, the recovery consolidated further, as GDP recorded a year-on-year growth rate of 1.6%[19].

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[16] Portugal's National Statistics Institute and Bank of Portugal, September 2016
[17] Portugal's National Statistics Institute, September 2016
[18] Portugal's National Statistics Institute, June 2015
[19] Portugal's National Statistics Institute, June 2015

The unemployment rate, which has increased from 7.8% in 2008 to a crisis-peak of 17.5% in March 2013, has since dropped to 10.8% at the end of the second quarter of 2016[20], in line with the economy's recovery. The public deficit, which was 11.2% in 2010, decreased to 3.2% in 2015 (excluding BANIF's resolution process, worth about 1.4% of GDP, and other one-off transactions)[21]. Although it is slightly above the EDP target, it represents an important effort of fiscal consolidation. This result was largely driven by an increase in revenues, following a growth in economic activity, efforts to enforce tax compliance and measures to control expenditure. The consolidated value of the gross debt of the public administration in 2015 decreased to 129% of GDP, compared with 130.2%[22] for the previous year. The restructuring of balance sheets in both the public and private sectors and growth in exports helped to reduce the external imbalance, leading to significant improvements in current and capital account balances, which have been recording a surplus since 2012.[23]

In spite of recent improvements, the economic context remains challenging for Portugal. A significant degree of uncertainty persists regarding the ability of Portuguese issuers to obtain funding from abroad. External risks relate, in particular, to uncertainty resulting from the sovereign debt crisis in the Eurozone, despite the measures that have been implemented by European authorities during the last years, fears regarding the integrity of the EU, amid negotiations for the United Kingdom's exit from the EU, and the risks of a global economic slowdown in a context of greater volatility in international financial markets. These aspects, combined with internal risks related to the process of reducing private and public sector debt and implementing further structural reforms, the pressure of a high tax burden on the real disposable income of families and companies and the possibility of political turbulence associated with the governmental solution reached after the October 2015 parliamentary elections, which did not give a parliamentary absolute majority to any of the parties, represent a challenging economic environment. Despite the prospect that the GDP growth of 1.5% recorded in 2015 will be followed by an annual growth rate of 1.5% in 2016 and 1.7% in 2017[24], this growth is unlikely to increase the disposable income and domestic demand in a material way or drastically reduce the still elevated levels of unemployment. In addition, the possibility of economic performance below expectations cannot be excluded in view of the deceleration of GDP growth during the first half of 2016, on the back of a negative contribution of net external demand to GDP growth, due to an increase in imports, and investment retraction.

(b) The housing market

The changing landscape of the credit markets reinforced prior market trends within the housing segment. Demand for new housing loans remains at low levels. Residential permits issued and new dwellings completed, which had been declining since 2002, contributing to some rebalancing of the residential property market, have started to recover gradually, and house prices are rising, albeit moderately. Credit delinquencies are rising as unemployment remains at high levels, though somewhat mitigated by the considerably lower instalments arising from historical low Euribor rates, the main indexer in Portuguese housing loans. The banking industry together with the authorities have been devising ways to lessen the impact on households of the current adverse economic conditions by redesigning loans conditions on targeted customers and legislative actions have been implemented with a view to promote the restructuring of debts arising from housing loans.

The demand for homes is expected to remain sluggish as credit and economic conditions remain challenging. Despite confidence readings in the housing market had recovered from the historical low levels reached in July 2012[25], in line with the improvement in households' confidence indicators, lower disposable income, the still high levels of households' indebtedness and the economic

[20] Portugal's National Statistics Institute, September 2016
[21] Portugal's National Statistics Institute, September 2016
[22] Bank of Portugal, September 2016
[23] Bank of Portugal, September 2016
[24] European Commission Forecasts, Spring 2016
[25] Portugal's National Statistics Institute, June 2015

adjustment process towards the tradable sector should somewhat continue to constrain the recovery of the housing market. The transition to a new equilibrium means a reallocation of demand towards cheaper housing, be it by changing location or moving into the rental market. Even though lending conditions remain tight for property developers, the pressure to sell accumulated idle stock is likely to constrain the evolution of house prices.

Over the years measures to prop up the rental market have been mostly ineffective and hence global penetration rate is low. Part of it stems from negative incentives, like lengthy legal decisions to evict tenants and the associated complexity for revision of rents. Nevertheless, this seems to be changing, mainly due to the recently introduced piece of legislation featuring, among others aspects, a balanced degree of rent liberalization.

Though the residential mortgage market credit delinquency ranks below other credit segments, the still uncertain economic conditions are constraining nonperforming loans to move downwards. There are policy initiatives as well as actions of self-regulation related to measures for restructuring debts arising from housing loans. Although some banks had already unilaterally adopted several measures to such effect, some of those were implemented by law for the entire Portuguese banking system, creating exception regimes for targeted financially weak groups of customers. These measures, alongside the exceptionally low reference interest rates, will hopefully help keeping non-performing loans at manageable levels, offsetting, albeit partially, lower social contributions and higher unemployment.

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 available, fixed-rate lending or capped-rate alternatives have not been in demand, due to uncompetitive immediate monthly instalments. 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 current crisis this feature eased the debt servicing burden. Debt service capacity will continue to benefit from an overall environment of low interest rates and responsible lending policies.

The ratio of mortgages outstanding per nominal GDP has consistently moved upwards, from slightly less than 20% at the end of 1995 to about 54% by the end of 2015[26]. The mortgage business share in total lending to private individuals has grown over the years, standing slightly above 80% of total, at around EUR 100 billion (excluding securitised loans)[27]. Most of it is concentrated in the metropolitan areas of Lisbon and Oporto. The six largest banking groups in Portugal originate most of the residential property loans.

Portuguese households rank among the most indebted of the EU, as household loans amounted to almost 130% of households' disposable income in 2009, though levelling off since then[28]. However, taking into account the asset side, and according to Bank of Portugal's estimates, households' global financial situation is not as perilous as it might have seemed, as financial wealth is roughly three times higher than households' total financial debt that is, excluding real estate assets.

The residential mortgage legal framework has changed over the years, from a highly regulated market with few institutions qualified to grant mortgage loans, to a more liberal setting. Subsidised mortgage schemes were discontinued (2002) and the terms of the loan were liberalised (2005). In 2007 a cap on prepayment penalties, conditional on the type of interest rate indexer (variable or fixed), as well as specific rounding procedures for the interest rate charged were introduced. Lenders have to disclose a full set of the loan conditions when publicising product offers. This set of rules enhances both

[26] Bank of Portugal, September 2016
[27] Bank of Portugal, September 2016
[28] Bank of Portugal, September 2016

competition and transparency in the marketplace. As part of the adjustment programme a new wave of liberalisation of housing markets is being implemented, particularly aiming at the rental market. Though it could have some positive bearing in mortgage market dynamics over time, the austerity posture, the adverse finance conditions and the new greater stringent capital requirements seem to be the dominant features for now.

B. The Residential Mortgage business of the Bank

In 1992, the Bank established, in association with Cariplo, an autonomous residential mortgage bank – Banco de Investimento Imobiliário S.A. ("**BII**"). Until December 2000, all residential mortgage loan business generated by Bank's branch network and by BII's own branches was booked at and administered by BII. In December 2000, all residential mortgage loans granted by BII to clients of the Group were separated from BII's portfolio and migrated into the Bank's. Since then, the Bank has granted mortgage loans to its clients directly.

Origination

The Bank's residential mortgages are originated at branch level as a result of direct contact by borrowers. Until 2011, applications could also be submitted by real estate agents (which would nevertheless require customers to go to a branch to deliver the required information).

Underwriting

The Bank's residential mortgage loan applications data and prospective borrowers' and guarantors' details are introduced at branch level through an electronic front-end system application linked to an automatic decision-making support process and an electronic underwriting and pricing workflow.

Appropriate behaviour or application probability of default ("**PD**") models (according to customer segment and risk portfolio) are embedded in the automatic decision-making support process and generate a credit risk rating assigned to the customer. As a general rule, PD models are calibrated annually. PD models performance is monitored by independent teams at Models Monitoring and Validation Cabinet (*Gabinete de Acompanhamento e Validação de Modelos*). Although rarely used, a rating override facility may be performed at the Rating Division (*Direção de Rating*).

Income checking is based on income tax statements or salary slips. Additional layers of risk assessment are considered in credit underwriting: filters (Bank of Portugal's Credit Bureau information, negative risk filters, product specifications, financial and real estate criteria), minimum down payment, loan-to-value ratio, risk assessment using PD models and Debt Service to Income ratio or assessment of financial available capacity using customers' financial information at the Bank.

Information available at the Bank of Portugal's credit bureau is checked automatically.

Electronic workflow where credit applications are automatically processed will define, according to the automatic decision-making support message and underwriting empowerment rules (defined per credit regulations), whether the underwriting decision will be made by credit officers at the branch or at the Credit Division (*Direção de Crédito*) and which commercial level will be establishing the pricing conditions.

The branch credit committee is empowered to underwrite by automated models according to predefined rules and constraints, if no filters apply, and taking also into account the customer's probability of default and additional underwriting criteria.

If the branch credit committee is not empowered to underwrite the credit risk, the loan application can be forwarded electronically to the Credit Division.

At the Credit Division, additional enquiries may be made, notably on borrowers' and guarantors' (if any) delinquency records at the Bank, information on total borrowings and credit in arrears or in default at the Bank of Portugal's credit bureau, bank accounts information on the Bank's Customer Information System, bank account statements at other banks and additional information collected by the branch officers (e.g. other assets owned by the client).

Underwriting decisions are sent electronically to the branch and, in the case of an "accept" decision, a real estate appraisal is automatically requested from a randomly selected independent appraiser. The Credit Division's agreed period of response is 48 hours.

The issue of a formal letter of approval, loan agreement contract and loan disbursement occurs only after confirmation of all data provided by the Contracting Area (*Direção de Operações – Departamento Operacional de Crédito*).

Insurance Cover

Life and property insurance coverage is required, although the former is waived in some exceptional cases. While life insurance covers the amount of the loan, property insurance covers the replacement cost of a reconstruction of the property.

Mortgage Products

Under the laws of the Portuguese Republic, since 2 November 2002 the maturity of new residential mortgage loans is freely agreed among the parties. The maturity of mortgage loans originated in the Group cannot exceed 40 years. Shorter maturity loans are common, with the most recent ones having an average maturity of approximately 34 years. The vast majority of residential mortgage loans pay interest on a floating rate basis indexed to three-month EURIBOR, with a spread depending on the LTV ratio and customer risk grade. Most loans, once fully drawn up, must be repaid in instalments, with payments of interest and principal being made by direct debit, usually on a monthly basis, although different amortisation profiles or interest-only payment periods may be agreed with the borrowers. Since 2013, the mortgage loan amount cannot exceed 90% of the purchase price in the property contract.

Arrears Procedures

In the retail business area, delinquencies persisting for less than 45 days are dealt with directly at branch level (this may be extended to 90 days if the customer only has overdrafts in his current account). Branch officials receive a daily report on arrears, on which they are expected to take appropriate action depending on their relationship with the borrower. Seven days after the first day of arrears the bank initiates a remote communication plan with the borrowers, using SMS, CAT and the Internet and all branches receive lists of these customers in their working lines (in the IT tool they use daily) in order to contact each of them. More recently, the bank has invested on increasing its effectiveness with the remote communication collecting procedures, using statistic decision models in order to define the load, channel and periodicity of those remote collecting attempts.

Once 45 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.

This operating model has been tested during 2014, and was fully implemented in February 2015.

USE OF PROCEEDS

The net proceeds resulting from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.

THE COVERED BONDS LAW

FRAMEWORK

The Covered Bonds Law introduced a framework for the issuance of asset covered debt securities into Portuguese law.

The Covered Bonds Law has been supplemented by secondary legislation issued by the Bank of Portugal (the "**Bank of Portugal Regulations**"), which comprises both regulations ("*Aviso*s") and instructions ("*Instruções"*). The Bank of Portugal Regulations address matters such as the segregation of cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties.

ISSUERS OF COVERED BONDS

Mortgage covered bonds ("*obrigações hipotecárias*") may be issued by credit institutions (the "**Institutions**") legally authorised to grant credit guaranteed by mortgages over property and having own funds amounting to no less than EUR 7,500,000. Institutions can either be universal credit institutions ("**Credit Institutions**") or special credit institutions incorporated under the Covered Bonds Law specialising in the issuance of covered bonds (the "**Mortgage Credit Institutions**").

If the issuer of covered bonds is a Credit Institution, there are no restrictions to its banking activities and it may issue covered bonds directly, maintaining the underlying cover pool on its balance sheet.

If the issuer of covered bonds is a Mortgage Credit Institution, its authorised banking activity is restricted to granting, acquiring and selling (i) credits guaranteed by mortgages and (ii) credits to, or guaranteed by, the central public administration, regional or local authorities of any EU Member State. Mortgage Credit Institutions may thus issue covered bonds backed by credits originated by itself or otherwise acquired from third party originators.

In the event of insolvency, winding-up and dissolution of an Institution, the cover pool over which the holders of covered bonds have a special creditor privilege will be segregated from the insolvent estate of such Institution and will form an autonomous pool of assets managed in favour and to the benefit of the holders of covered bonds and other preferred creditors as specified in the Covered Bonds Law. In this respect, the Covered Bonds Law establishes a special regime which prevails over general Portuguese insolvency regulations.

If the cover assets are insufficient to meet interest and principal payments due on the covered bonds of the insolvent Institution, the holders of covered bonds will also rank *pari passu* with unsecured creditors of the Institution in relation to the remaining assets of the insolvent Institution.

COVER ASSETS

The following assets are eligible to collateralise issues of covered bonds made by an Institution in accordance with the Covered Bonds Law:

- Pecuniary credit receivables secured by a Mortgage and/or any Additional Security which are not yet matured, and which are neither subject to conditions nor encumbered, judicially seized or apprehended, and

  (a) which are secured by first ranking mortgages over residential or commercial real estate located in an EU Member State; or

(b) are secured by a junior mortgage but where all Mortgage Credits ranking senior thereto are held by the Issuer and also allocated to the relevant cover pool; or

(c) are secured by (i) a personal guarantee granted by a credit institution, or (ii) an appropriate insurance policy, in any case together with a mortgage counter guarantee evidencing paragraph (a) or (b) above.

- Other assets (up to 20% of the aggregate cover pool), such as:

  (a) deposits with the Bank of Portugal in cash or securities eligible for credit transactions in the Eurosystem;

  (b) current or term account deposits with credit institutions (which are not in a control or group relationship with the Issuer) having a rating of at least "A-" or equivalent; and

  (c) other assets complying simultaneously with the requisites of low risk and high and high liquidity as defined by the Bank of Portugal.

The geographical scope of eligible assets is restricted to credits guaranteed by mortgages on property located in the EU.

Hedging contracts may also be included in the cover pool for hedging purposes, namely to hedge interest rate, exchange rate and liquidity risks. The Bank of Portugal Regulations contain certain rules governing the limits and conditions for the use of these hedging contracts.

The cover pool is of a dynamic nature. Accordingly, the Institution may be required, or may otherwise decide, to include new assets in such cover pool or substitute assets in case the existing ones no longer comply with the applicable financial and prudential requirements.

Furthermore, an Institution is required by the Covered Bonds Law to maintain a register of all the assets comprised in the cover pool, including hedging contracts.

VALUATION AND LTV CRITERIA

Institutions are required to conduct valuations of mortgage properties and periodic updates of such valuations in accordance with the rules defined by the Bank of Portugal (in particular, pursuant to Regulation 5/2006, which establishes rules on the methods and frequency of the valuations of assets and derivatives).

The maximum Loan to Value for residential mortgages is 80% and 60% for commercial mortgages loans.

The value of each property securing a mortgage credit comprised in a cover pool corresponds to the commercial value of such property, determined in accordance with criteria of prudence and taking into consideration (i) the sustainable long term characteristics of such property, (ii) the standard conditions of the local market, (iii) the current use of the relevant property, and (iv) any alternative uses of each such property.

Pursuant to the requirements of Regulation 5/2006, the commercial value awarded by an issuer of covered bonds to each of the properties securing mortgage credits comprised in a cover pool may not be higher than the market value of the relevant properties. For these purposes, the market value of each property corresponds to the price by which such property can be purchased by a third party purchaser on the date of the valuation of such property, assuming that (i) the property is publicly put on sale, (ii) the market conditions allow for a regular transfer of the property and (iii) there is a normal period of time to negotiate the corresponding purchase and sale, considering the nature of the property.

Regulation 5/2006 contains detailed provisions regarding valuation of properties securing mortgage credits included in a cover pool (including subsequent valuations), the methods and frequency for such valuations, the appointment, remuneration and role of the real estate valuation experts and transitional provisions concerning valuations made prior to the enactment of the Bank of Portugal Regulations.

ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS

The Covered Bonds Law and the Bank of Portugal Regulations establish asset and liabilities matching requirements namely, the global nominal value of the outstanding covered bonds cannot exceed 95% of the global value of the mortgage credits and other assets at any time comprised in the relevant cover pool.

- The average maturity of outstanding mortgage covered bonds cannot exceed the average maturity of the mortgage credits and substitution assets allocated to the relevant issue of covered bonds.

- The total amount of interest to be paid by an Institution under any covered bonds shall not exceed, at any time, the amount of interest to be collected from the mortgage credits and other assets comprised in the corresponding cover pool – this means, therefore, that under the Covered Bonds Law cash flows from the cover pool must at all times be sufficient to meet all scheduled payments due to the holders of covered bonds.

- The net present value of the liabilities arising from issues of covered bonds pursuant to the Covered Bonds Law cannot exceed the net present value of the cover pool allocated to such covered bonds, including any hedging contracts also comprised in the cover pool. This ratio must also be met for 200 basis points parallel shifts in the yield curve.

For the purposes of the calculation of the level of overcollateralisation, as well as of the remaining financial and prudential requirements, Institutions are required to use the following criteria:

(i) the mortgage credits shall be accounted for the nominal value of their outstanding principal, including any accrued but unpaid interest;

(ii) the covered bonds shall be accounted according to the nominal value of outstanding principal, including accrued but unpaid interest; and

(iii) in relation to any other assets:

  (a) deposits shall be accounted for according to their amount together with any accrued but unpaid interest; and

  (b) securities eligible for Eurosystem credit transactions shall be accounted for under margin valuation rules laid down by the Eurosystem or, if lower, according to their nominal value, including accrued but unpaid interests.

If the relevant covered bonds are denominated in any currency other than euro, the Institution must use the exchange rates published by the ECB as a reference.

The Covered Bonds Law also contains rules regarding the management of the cover pool allocated to one or more issues of covered bonds, allowing the Institution, *inter alia*, to assign new mortgage credits to the cover pool. The Institution may also enter into irrevocable credit facilities for the provision of liquidity in connection with the liabilities arising under the covered bonds. The credit facility counterparty must have a minimum credit rating of "A-" or equivalent.

An Institution is entitled to enter into derivatives contracts to hedge interest, exchange rate and liquidity risks. These derivatives contracts are also included in the cover pool and the derivative counterparties (who also benefit from the special creditor privilege) have to be rated "A-" or above. If a particular issue of covered bonds is denominated in a currency other than the currency of the Cover

Pool, the Institution must enter into adequate hedging contracts for the purpose of hedging the relevant currency exchange risk.

If the limits and requirements established in the Covered Bonds Law are exceeded, the issuer is required to remedy the situation immediately by (i) allocating new mortgage credits, (ii) purchasing outstanding covered bonds in the secondary market and/or (iii) allocating other eligible assets.

Mortgage credits that become delinquent after being allocated to the cover pool may still remain in such cover pool provided that the delinquency period is not equal to or higher than 90 days, in which case such mortgage credits must be removed from the cover pool by the Institution and, if necessary to comply with the prudential requirements established in the Covered Bonds Law and the Bank of Portugal Regulations, substituted by new mortgage credits.

Mortgage credits underlying covered bonds may only be sold or pledged if the Institution allocates new mortgage credits to the covered bonds sufficient to maintain compliance with the financial and prudential requirements set forth in the Covered Bonds Law.

Instruction 13/2006 contains rules to be followed in respect of notices to the Bank of Portugal regarding the issue of covered bonds under the Covered Bonds Law. Prior to a first issuance of covered bonds, and on each subsequent issuance, an Institution is required to provide the Bank of Portugal with certain documentation and information, including a chart showing the detailed composition of the autonomous pool of assets allocated to the covered bonds. On a monthly basis, the Institution is required to provide the Bank of Portugal with information on the number and amount of covered bonds outstanding and on any new issues of covered bonds and any redemptions occurred.

COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

Also, a common representative of the holders of the covered bonds must be appointed by the Board of Directors of the Institution in order to represent the interests of the holders of covered bonds.

The Bank of Portugal and the CMVM carry out banking and capital markets supervision respectively.

SEGREGATION OF COVER ASSETS AND INSOLVENCY REMOTENESS

Asset segregation

The assets and hedging contracts allocated by the Institution to the issues of covered bonds will remain and be registered in separate accounts of the Institution. The register will be maintained in codified form and the code key will be deposited with the Bank of Portugal. This information will be deposited with the Bank of Portugal in the form of a code key. If the holders of covered bonds decide to accelerate the relevant covered bonds pursuant to article 4 paragraph 5 of the Covered Bonds Law, the common representative of such holders shall request the Bank of Portugal to disclose the information associated with such code key.

The assets included in the register maintained by the Institution will form a segregate estate over which the holders of the covered bonds will have a special creditor privilege ("*privilégio creditório*"), in particular in the case of winding-up and dissolution of the Institution.

In the event of insolvency of the Institution, the assets allocated to one or more issues of covered bonds will be segregated from the corresponding insolvent estate and will be managed autonomously by a third party until full payment of the amounts due to the holders of covered bonds. In any case, and even if the Institution is declared insolvent, the Covered Bonds Law determines that timely payments of interest and reimbursements under the covered bonds shall continue to be carried out.

In the case of voluntary dissolution of an Institution, the plan for such dissolution and winding-up, which shall be submitted to the Bank of Portugal pursuant to Article 35-A of the Banking Law, shall identify a Substitute Credit Institution appointed to (i) manage the relevant cover pool allocated to the covered bonds outstanding, and (ii) ensure that the payments of any amounts due to the holders of such covered bonds are made. Such project shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulation 8/2006, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following insolvency of the Institution shall: (i) immediately upon being appointed, prepare an opening balance sheet in relation to the cover pool, supplemented by the corresponding explanatory notes; (ii) perform all acts and things necessary or convenient for the prudent management of the cover pool, including, without limitation, selling the mortgage credits comprised in the cover pool; ensuring the timely collection in respect of the mortgage assets comprised in the cover pool; and performing all other acts and administrative services in connection with such mortgage assets and related mortgages and additional security; (iii) maintain and keep updated a segregated register of the cover pool in accordance with the Covered Bonds Law; and (iv) prepare an annual financial report in relation to the cover pool and the outstanding covered bonds, which report shall be the subject of an auditing report produced by an independent auditor who shall be appointed as cover pool monitor by the Substitute Credit Institution.

Furthermore, any Substitute Credit Institution appointed by the Bank of Portugal to service the cover pool following the insolvency of an Institution shall perform all acts and things necessary or convenient for maintaining the relationship with the borrowers under the mortgage credits comprised in the relevant cover pool.

Preferential status for covered bonds holders

Pursuant to the Covered Bonds Law, holders of covered bonds benefit from a special creditor privilege over the assets assigned to the issue, with precedence over any other creditors, for the purpose of redemption of principal and receipt of interest corresponding to the relevant covered bonds.

The mortgages that serve as collateral for the entitlements of the holders of covered bonds prevail over any real estate preferential claims. If the assets comprised in the cover pool are not enough to pay interest and principal under the covered bonds, the holders of covered bonds will then rank *pari passu* with unsecured creditors of the relevant Institution.

The hedging contracts entered into by the Institution also form part of the cover pool and thus the relevant counterparties will also benefit from the special creditor privilege over such cover pool.

Accordingly, these counterparties will have similar rights to those of the holders of the covered bonds and, consequently, their contracts are not expected to be called in case of insolvency of the Institution.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of all Series of Covered Bonds then outstanding may decide, by a 2/3 majority vote, to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant covered bonds in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such Covered Bonds.

TAXATION

Portugal

The following is a general summary of the Issuer's understanding of current law and practice in Portugal as in effect on the date of this Base Prospectus in relation to certain current relevant aspects to Portuguese taxation of the Covered Bonds and is subject to changes in such laws, including changes that could have a retroactive effect. Potentially applicable transitional rules have not been considered. The following summary is intended as a general guide only and is not exhaustive. It is not intended to be, nor should it be considered to be, legal or tax advice to any holder of Covered Bonds. It neither takes into account nor discusses investors' individual circumstances or the tax laws of any country other than Portugal, and it relates only to the position of persons who are absolute beneficial owners of the Covered Bonds. Prospective investors are advised to consult their own tax advisers as to the Portuguese or other tax consequences of the purchase, ownership and disposal of Covered Bonds. Tax consequences may differ according to the provisions of different double taxation treaties, as well as according to a prospective investor's particular circumstances.

The reference to "interest", "other investment income" and "capital gains" in the paragraphs below means "interest", "other investment income" and "capital gains" as understood in Portuguese tax law. The statements below do not take any account of any different definitions of "interest", "other investment income" or "capital gains" which may prevail under any other law or which may be created by the Terms and Conditions of the Covered Bonds or any related documentation.

Economic benefits derived from interest, amortisation, reimbursement premiums and other instances of remuneration arising from the Covered Bonds are designated as investment income for Portuguese tax purposes. In the case of zero coupon Covered Bonds, the difference between the redemption value and the subscription cost is regarded as investment income and is taxed accordingly.

Gains obtained with the repayment of Covered Bonds or of any other debt securities are qualified as capital gains for Portuguese tax purposes.

1. Covered Bonds not held through a centralised control system

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

Interest and other types of investment income obtained on Covered Bonds by a Portuguese resident individual is subject to withholding tax at 28%, which, if such income is not earned as business or professional income, is the final tax on that income unless the individual elects to include it in his/ her taxable income subject to tax at progressive rates of up to 53%, to which a surtax of up to 3.5% is to be added. In this case, the tax withheld is deemed a payment on account of the final tax due.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35%, unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

In the case of zero coupon Covered Bonds, the difference between the redemption value and the subscription cost is regarded as investment income and is taxed accordingly.

Gains obtained on the disposal or the refund of the Covered Bonds by an individual resident in Portugal for tax purposes are subject to Portuguese capital gains taxation on the positive difference between such gains and gains on other securities and losses in securities. Tax applies at 28%, which is the final tax on that income, unless the individual elects to include it in his/her taxable income, subject to tax at progressive rates of up to 53%, to which a surtax of up to 3.5% is to be added.

Stamp tax at 10% applies to the acquisition through gift or inheritance of Covered Bonds by an individual who is domiciled in Portugal. An exemption applies to transfers in favour of the spouse (or person living together as spouse), descendants and parents/grandparents.

Interest or other investment income derived from the Covered Bonds and capital gains realised with the transfer of the Covered Bonds by legal persons resident for tax purposes in Portugal and by non-resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable profits and are subject to corporate tax at 21% or 17% on the first EUR 15,000 in the case of small and medium-sized enterprises and may be subject to a municipal surcharge ("*derrama municipal*") of up to 1.5%. A state surcharge ("*derrama estadual*") also applies at 3% on taxable profits in excess of EUR 1,500,000 up to EUR 7,500,000, at 5% on taxable profits in excess of EUR 7,500,000 up to EUR 35,000,000 and at 7% 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 corporate tax rate is 21% in the case of entities not carrying on an activity of a commercial, industrial or agricultural nature.

Financial institutions, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds, collective investment undertakings and some exempt entities, among other entities, are not subject to withholding tax.

The acquisition of Covered Bonds through gift or inheritance by a Portuguese resident legal person or a non-resident acting through a Portuguese permanent establishment is subject to corporate income tax at 21% or 17% on the first EUR 15,000 in the case of small and medium-sized enterprises and may be subject to a municipal surcharge ("*derrama municipal*") of up to 1.5%. A state surcharge ("*derrama estadual*") also applies at 3% on taxable profits in excess of EUR 1,500,000 up to EUR 7,500,000, at 5% on taxable profits in excess of EUR 7,500,000 up to EUR 35,000,000 and at 7% on taxable profits in excess of EUR 35,000,000. The corporate tax rate is 21% in the case of entities not carrying on an activity of a commercial, industrial or agricultural nature.

There is neither wealth nor estate tax in Portugal.

Non-resident holders without a Portuguese permanent establishment

Interest and other types of investment income obtained by non-resident holders without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at 28% (individuals) or 25% (legal persons), which is the final tax on that income. The rate is 35% in the case of individuals or legal persons domiciled in a country, territory or region included in the "tax havens" list approved by Ministerial Order No. 150/2004 of 13 February 2004, as amended from time to time (hereafter "**Ministerial Order No. 150/2004**").

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more accountholders acting on behalf of undisclosed entities is subject to a final withholding tax at 35%, unless the beneficial owner of the income is disclosed, in which case the general rules will apply.

Under the tax treaties entered into by Portugal, the withholding tax rate may be reduced to 15, 12, 10 or 5%, depending on the applicable treaty and provided that the relevant formalities (including certification of residence by the tax authorities of the beneficial owners of the interest and other investment income) are met.

The reduction may apply at source or through the refund of the excess tax. The forms currently applicable for these purposes were approved by Order ("*Despacho*") No. 4743-A/2008 (2nd series), as rectified on 29 February 2008, published in the Portuguese official gazette, 2nd series, No. 43, of 29 February 2008 of the Portuguese Minister of State and Finance and may be available for viewing at www.portaldasfinancas.gov.pt.

Interest paid to an associated company of the Bank is exempt from withholding tax.

From the later date onwards, no withholding tax applies.

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 Community; and

(ii) Which holds a minimum direct holding of 25% in capital of the Bank, or is directly held by the Bank in at least 25% or which is directly held in at least 25% by a company which holds at least 25% of the capital of the Bank; and

(iii) Provided that the holding has been maintained for an uninterrupted period of at least two years. If the minimum holding period is met after the date the withholding tax becomes due, a refund may be obtained.

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

Capital gains obtained on the disposal or the refund of the Covered Bonds by an individual non-resident in Portugal for tax purposes are subject to Portuguese capital gains taxation on the positive difference between such gains and gains on other securities and losses in securities. Tax applies at 28%. An exemption applies to non-resident individuals, unless they are resident in a country, territory or region included in Ministerial Order No. 150/2004.

Under the tax treaties entered into by Portugal, such gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis. Accrued interest qualifies as interest for tax purposes.

Gains obtained on the disposal or the refund of Covered Bonds by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the holder is (a) more than 25% directly or indirectly, held by Portuguese resident entities or (b) if the holder is resident in a country, territory or region subject to a clearly more favourable tax regime included in Ministerial Order No. 150/2004. Accrued interest qualifies as interest for tax purposes.

If the exemption does not apply, the gains will be subject to tax at 25%. Under the tax treaties entered into by Portugal, such gains are 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 of 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), other centralised systems and:

(i) the beneficial owners have no residence, head office, effective management or permanent establishment in the Portuguese territory to which the income is attributable; and

(ii) the beneficial owners are central banks and government agencies international organisations recognised by the Portuguese state, residents in a country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force or other non-resident entities which are not domiciled in a country, territory or region subject to a clearly more favourable tax regime included in Ministerial Order No. 150/2004.

The special regime approved by Decree-Law No. 193/2005 sets out the detailed rules and procedures to be followed on the proof of non-residence by the holders of Covered Bonds to which it applies.

Under these rules, the direct register entity is to obtain and keep proof, in the form described below, that the beneficial owner is a non-resident entity that is entitled to the exemption. As a general rule, the proof of non-residence by the holders of Covered Bonds should be provided to, and received by, the direct register entities prior to the relevant date for payment of any interest, or the redemption date (for zero coupon Covered Bonds), and in the case of domestically cleared Covered Bonds, prior to the transfer of Covered Bonds, as the case may be.

The following is a general description of the rules and procedures on the proof required for the exemption to apply at source, as they stand on the date of this Base Prospectus.

(a) Domestically Cleared Covered Bonds

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

(i) If a holder of Covered Bonds is a central bank, a public law entity or agency or an international organisation recognised by the Portuguese state, a declaration of tax residence issued by the holder of Covered Bonds, duly signed and authenticated or proof pursuant to paragraph (iv) below;

(ii) If the beneficial owner of Covered Bonds is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty and is subject to a special supervision regime or administrative registration, certification shall be made by means of the following: (A) its tax identification; or (B) a certificate issued by the entity responsible for such supervision or registration confirming the legal existence of the holder of Covered Bonds and its domicile; or (C) proof of no residence, pursuant to the terms of paragraph (iv) below;

(iii) If the beneficial owner of Covered Bonds is either an investment fund or other type of collective investment undertaking domiciled in any OECD country or jurisdiction with which Portugal has entered into a double tax treaty or a tax information exchange agreement in force, certification shall be provided by means of any of the following documents: (A) declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence and the law of incorporation; or (B) proof of non-residence pursuant to the terms of paragraph (iv) below;

(iv) In any other case, confirmation must be made by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities; or (B) a document issued by the relevant Portuguese consulate certifying residence abroad; or (C) a document specifically issued by an official entity of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country certifying the residence; for these purposes, an identification document such as a passport or an identity card or document by means of which it is only indirectly possible to assume the relevant tax residence (such as a work or permanent residency permit) is not acceptable.

There are rules on the authenticity and validity of the documents mentioned in paragraph (iv) above, in particular that the holder of Covered Bonds must provide an original or a certified copy of the residence certificate or equivalent document. This document must be issued up to until 3 months after the date on which the withholding tax would have been applied and will be valid for a 3-year period starting on the date such document is issued. The holder of Covered Bonds must inform the register entity immediately of any change that may preclude the tax exemption from applying. In the other cases, proof of non-residence is required only once, the beneficial owner having to inform the register entity of any changes that impact the entitlement to the exemption.

(b) Internationally Cleared Covered Bonds

If the Covered Bonds are registered in an account with an international clearing system, prior to the relevant date for payment of any interest of 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 special regime approved by Decree-Law No. 193/2005.

The refund claim is to be submitted to the direct register entity of the Covered Bonds within 6 months from the date the withholding took place.

The refund of withholding tax in other circumstances or after the above 6 months period is to be claimed to the Portuguese tax authorities within 2 years from the end of the year in which tax was withheld. The refund is to be made within 3 months after which interest is due.

The forms currently applicable for the above purposes were approved by Order ("*Despacho*") No. 2937/2014 of the Portuguese Secretary of State for Tax Affairs, published in the Portuguese official gazette, 2nd series, No. 37, of 21 February 2014 and may be available for viewing and downloading at www.portaldasfinanças.gov.pt.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be foreign financial institutions for these purposes. A number of jurisdictions (including Portugal) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. The United States has reached a Model 1 intergovernmental agreement with Portugal, signed on 6 August 2015 and ratified by Portugal on 5 August 2016 which is already in force. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA with respect to payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on Covered Bonds, such withholding would not apply prior to 1 January 2019 and Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Covered Bonds as described under *Terms and Conditions of the Covered Bonds – Further Issues* that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Portugal has implemented, through Law 82-B/2014, of 31 December 2014 and Decree-Law 64/2016, of 11 October 2016, the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the "**Financial Reporting Regime**") in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese tax authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America. Ministerial Order 302-A/2016, of 2 December 2016, has approved the relevant forms to use to comply with such reporting obligations.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in Covered Bonds.

The Issuer is not obliged to gross up any amounts which may be withheld or deducted pursuant to FATCA.

The proposed financial transactions tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate. Joint statements by participating Member States indicated an intention to implement the FTT by 1 January 2016, which did not take place.

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

Administrative co-operation in the field of taxation

Under EU Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**Savings Directive**"), EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest (or income deemed equivalent for these purposes) paid by a person within its jurisdiction to an individual resident in that other EU Member State. In this respect it should be noted that the Savings Directive, as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive co-operation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information regarding bank accounts, including custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers 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.

Notwithstanding the repeal of the Savings Directive as of 1 January 2016, certain provisions will continue to apply for a transitional period. As to the new regime, Portugal has implemented Directive 2011/16/EU through Decree-Law No. 61/2013, of 10 May 2013. Also, Council Directive 2014/107/EU was implemented through Decree-Law No. 64/2016 of 11 October 2016.

SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS AND SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement dated 14 August 2014, 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, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act. 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. In addition, the Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. The applicable Final Terms (or, in the case of Exempt Covered Bonds, the applicable Pricing Supplement) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has agreed (and each further Dealer named in a Final Terms will be required to agree) that it will not offer or sell Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of which such Covered Bonds are part, as determined and certified to the Agent by such Dealer (in the case of a non-syndicated issue) or the relevant Lead Dealer (in the case of a syndicated issue) within the United States or to, or for the account or benefit of, U.S. persons, 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.

In addition, 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.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor, as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in paragraphs (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Covered Bonds**" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Covered Bonds in, from or otherwise involving, the United Kingdom.

Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree-Law No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999 as amended from time to time (Regulation No. 11971); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under paragraph (i) or (ii) above must 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 Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree-Law No. 385 of 1 September 1993, as amended (the "**Banking Act**");

(B) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or offer of securities in the Republic of Italy; and

(C) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or 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. 486/991, of 13 November 1999 as amended unless the requirements and provisions applicable to the public offerings in Portugal are met and the registration or approval by the Portuguese Securities Market Commission ("*Comissão do Mercado de Valores Mobiliários*" ("**CMVM**")) is obtained or a recognition procedure is made with the CMVM. In addition, each Dealer has represented and agreed, an each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer of securities pursuant to the Portuguese Securities Code, 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, the Prospectus Regulation implementing the Prospectus Directive, and any applicable CMVM regulations and all relevant Portuguese securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Covered Bonds by it in Portugal or to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be including the publication of a base prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

General

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will, to the best of its knowledge, comply with all relevant securities laws, regulations and directives in each jurisdiction, in particular **Australia**, **South Africa** and **Canada**, in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefor.

Secondary Market Arrangements

The Issuer may enter into agreements with Dealers or other persons in relation to a Tranche or Series of Covered Bonds whereby such Dealers may agree to provide liquidity in those Covered Bonds through bid and offer rate arrangements. The relevant Dealers or relevant persons in such agreements may agree to quote bid and offer prices for the relevant Covered Bonds at such rates and in such sizes as are specified in the relevant agreement and the provision of such quotes may be subject to other conditions as set out in the relevant agreement. Not all issues of Covered Bonds under the Programme will benefit from such agreements.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 7 May 2007, in accordance with the provisions of the Covered Bonds Law. The updates of the Programme were duly authorised by resolutions of the Board of Directors of the Issuer dated 17 July 2008, 21 July 2009, 19 April 2010 and by resolutions of the Executive Committee of the Issuer dated 19 June 2012, 10 July 2013, 5 August 2014, 20 October 2015 and 13 December 2016 in accordance with the provisions of the Covered Bonds Law.

Listing

Application has been made to list the Covered Bonds on the Irish Stock Exchange's Official List and to admit the Covered Bonds to trading on the Irish Stock Exchange's regulated market.

Clearing systems

The Covered Bonds have been accepted for clearance through either Interbolsa or Euroclear and/or Clearstream, Luxembourg, as specified in the applicable Final Terms. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by either Interbolsa or Euroclear and Clearstream, Luxembourg (as applicable) will be specified in the relevant Final Terms (or Pricing Supplement, in the case of Exempt Covered Bonds). If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms (or Pricing Supplement).

Yield

In relation to any Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price, using the formula set out below. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

$$P = \frac{C}{r}\left(1 - \left(1 + r\right) - n + A\left(1 + r\right) - n\right)$$

where:

"P" is the Issue Price of the Covered Bonds;

"C" is the annualised amount of interest payable;

"A" is the principal amount of Covered Bonds due on redemption;

"n" is time to maturity in years; and

"r" is the annualised yield.

Significant or material change

There has been no significant change in the financial or trading position of the Group since 30 September 2016. There has been no material adverse change in the prospects of the Issuer since the date of the last audited accounts, 31 December 2015.

Litigation

1. On 27 December 2007, the Bank was notified by Banco de Portugal of administrative proceeding No. 24/07/CO, with respect, in accordance with the accusation of which the Bank was notified on 12 December 2008, to six alleged breaches of accounting rules and three alleged provisions of false or incomplete information to Banco de Portugal, and timely submitted its defence. On 12 May 2010, the Bank was notified of the decision by the Board of Directors of Banco de Portugal, applying to the Bank a single fine of EUR 5 million, for all the mentioned alleged infractions, in addition to fines against certain other non-acquitted individuals. The Bank appealed this decision to Tribunal de Pequena Instância Criminal de Lisboa.

   Following several intermediate decisions and appeals (namely, an intermediate decision that considered expired two alleged administrative offences concerning breach of accounting rules), by a ruling of Lisbon's Court of Appeal, of 9 June 2015, BCP's appeal was granted partial approval and, consequently, some of the charges concerning the alleged provision of false information to Banco de Portugal were considered expired and BCP was considered acquitted on the remaining charges concerning the same alleged administrative offence (which were not considered expired). Furthermore, BCP was also acquitted from two alleged administrative offences concerning breach of accounting rules. Lisbon's Court of Appeal maintained BCP's conviction on the account of two other administrative offences concerning breach of accounting rules. Thereafter, Lisbon's Court of Appeal reduced the fine in which BCP had been convicted (EUR 4,000,000) to EUR 750,000. The Bank and one of the defendants (individual) appealed this judgment to the Constitutional Court but these appeals were denied. The judgment of the Lisbon Court of Appeal has become definitive and final.

2. In July 2009, the Bank was notified of the accusation brought about by the Public Prosecutor in a criminal process against five former members of the Board of Directors of the Bank, related mainly to the abovementioned facts, and to present in this process a request for an indemnity.

   Considering this notification, and although considering as reproduced the contents of the defence presented in the abovementioned administrative proceedings, the Bank decided, in order to avoid any risk of a future allegation of loss of the right to an indemnity that may occur if no recourse is presented in this process, to present legal documentation claiming: (i) the recognition of its right, in a later period namely following the final identification of the facts, to present a separate process in civil courts requesting an indemnity and (ii) additionally and cautiously, if the right to the request of a separate indemnity process in civil courts is not recognised, a civil indemnity according to the facts and terms mentioned in the accusation, if they are proven.

   On 19 July 2011 the Bank was notified of the decision of the 8ª Vara Criminal de Lisboa (Lisbon criminal court section) that recognised that the Bank could present an eventual request for civil indemnity separately. One of the Defendants appealed this decision to the Court of Appeals, which was admitted by the first instance court but has a merely devolutive effect, being passed to the higher court only with the eventual appeal of the first instance Court's sentence.

Through a sentence issued on 2 May 2014, three of the four defendants were sentenced to suspended prison sentences (to 2 years) and to the payment of fines amounting to EUR 300,000 and EUR 600,000, disqualification for the exercise of banking functions and publication of the sentence in a widely-read newspaper.

By ruling of Lisbon's Court of Appeal of 25 February 2015, the sentence issued by the Lisbon criminal court section was confirmed.

3. In December 2013, the company Sociedade de Renova ção Urbana Campo Pequeno, S.A., in which the Bank holds a 10% stake as a result of a conversion of credits, has filed an action for EUR 75,735,026.50 against the Bank in order to obtain (i) the acknowledgement that a loan agreement entered into by such company and the Bank on 29 May 2005 constitutes a shareholders loan instead of a pure bank loan; (ii) the reimbursement of the loaned amount to be made according to the existent shareholders agreement; (iii) the nullification of several mortgages established in favour of the defendant between 1999 and 2005 and (iv) the statement of non-existence of a debt related represented by a promissory note (held by the company) acting as security. The Bank believes that, having in consideration the facts argued by the plaintiff, the suit shall be deemed unfounded.

   One of the plaintiff's creditors has filed an insolvency requirement regarding the plaintiff, having the Bank claimed credits in the amount of EUR 82,253,962.77, which has caused the suspension of the abovementioned action.

4. In 2012, the Portuguese Competition Authority initiated an administrative proceeding relating to competition restrictive practices. During the investigations, on 6 March 2013, several searches were conducted in the Bank's premises, as well as to at least eight other credit institutions, where documentation was seized in order to investigate allegations of exchange of privileged commercial information among Portuguese banks.

   The Portuguese Competition Authority has declared the administrative proceeding to stay under judicial secrecy, once it considered that the interests dealt with in the investigation, as well as the parties' rights, would not be compatible with the publicity of the process. On 2 June 2015, the Bank was notified of the Portuguese Competition Authority's notice of illegality in connection with the administrative offence no. 2012/9, by which the Bank is accused of participating in an information exchange between banks of the system related to prices already approved and housing and consumer credit operations already granted or approved. In light of the accusations, the Bank will file a response to the note of illegality, to which may follow a judicial appeal. Note that the notification of a note of illegality does not constitute a final decision in relation to the accusations. If the Portuguese Competition Authority issues a conviction decision, the Bank may be convicted according to the terms foreseen in the law to pay a fine with a maximum limit of 10% of its annual consolidated turnover with reference to the year preceding the decision. However, judicial appeal against such decision is possible. In October 2016, the Lisbon Court of Appeals overruled an earlier decision by the Competition, Regulation and Supervision Court to suspend the Competition Authority's investigation.

   In November 2016, the Competition Authority stated that it had reopened its investigation.

5. On 20 October 2014, the Bank became aware of a class action brought against Millennium Bank by a group of borrowers represented by the Municipal Consumer Ombudsman in Olsztyn. As other polish banks in a similar situation, Millennium Bank was in the meantime notified of such class action, which seeks to assess the institution's "illicit" enrichment giving certain clauses contained in the mortgage loan agreements denominated in Swiss francs. In the referred class action, clients have questioned a set of those agreement's 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 3 December 2015, Bank Millennium Poland received notice of a class action lawsuit lodged by a group of 454 borrowers represented by the Municipal Consumer Ombudsman in Olsztyn pertaining to low down payment insurance used with CHF-indexed mortgage loans. The plaintiffs demand the payment of the amount of PLN 3.5 million (EUR 79 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. The Bank will appeal this decision.

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;

(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 defense and counterclaim, reinforcing the demand for payment of the debt. The Claimants filed their statements of defense regarding the counterclaim filed by the Bank and the Bank replied to those statements on July 2016.

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 either of the Issuers 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.

Deloitte was appointed as the Bank's Statutory Auditor ("Revisor Oficial de Contas") on 21 April 2016, with effect as from 5 May 2016. The appointment of Deloitte was made at the General Meeting of Shareholders held on 21 April 2016, for the 2016/2018 term, by a majority of votes cast.

Deloitte has issued a limited review report of the interim condensed consolidated financial statements as at and for the six months ended 30 June 2016 and a limited review report of the interim condensed consolidated financial statements as at and for the nine months ended 30 September 2016.

A limited review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing ("ISA").

Deloitte has not performed any audit of the consolidated financial statements of the Bank, which is expected to be conducted with reference to 31 December 2016.

The former auditor was as at the date of this Base Prospectus. KPMG & Associados, SROC, S.A. (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), with registered office at Edifício Monumental, Av. Praia da Vitória, 71 - A, 11°, 1069-006 Lisbon. KPMG & Associados, SROC, S.A.'s term of office ended on 2 May 2016, when the 1st quarter's financial statements were presented to the Board of Directors, having been replaced in its functions by another auditor on 5 May 2016.

The consolidated financial statements of the Group for the financial years ended 31 December 2014 and 31 December 2015 were prepared in accordance with IFRS. The financial statements of the Group were audited for each of the two years ended 31 December 2014 and 31 December 2015 by KPMG & Associados, SROC, S.A.

Documents available for inspection

For the period of 12 months following the date of this Base Prospectus, physical copies of the following documents will, when published, be available for inspection at and may be obtained free of charge from the registered offices of the Issuer and from the specified offices of the Common Representative and the Paying Agents for the time being:

(a) the constitutional documents (including the Articles of Association in English) of the Issuer;

(b) the audited consolidated financial statements of the Issuer and the auditor's report contained in the Issuer's Annual Report in respect of the financial years ended 31 December 2014 and 31 December 2015 in English;

(c) the most recently published audited annual consolidated financial statements of the Issuer and the most recently published unaudited interim consolidated financial statements (if any) of the Issuer (together with an English translation thereof);

(d) the Set of Agency Procedures dated 23 July 2009;

(e) the Common Representative Appointment Agreement dated 4 August 2008 and the First Supplemental Common Representative Appointment Agreement dated 23 October 2015;

(f) this Base Prospectus;

(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; and

(h) in the case of an issue of Covered Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

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.

Electronic copy of this Base Prospectus

Electronic copies of this Base Prospectus (and any supplements thereto) are or will be available from the official websites of the Irish Stock Exchange (www.ise.ie) and the Central Bank (www.centralbank.ie/regulation/securities-markets/prospectus/pages/approvedprospectus.aspx).

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Covered Bonds issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer or its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purposes of this paragraph, the term "**affiliates**" includes parent companies.

DEFINITIONS

In this Base Prospectus, the following defined terms have the meanings set out below:

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

"**Additional Security**" means any other encumbrances or guarantees the benefit of which is vested in the Issuer as security for the repayment of a Mortgage Credit.

"**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.

"**Arranger**" means Barclays Bank PLC and any other entity appointed as an arranger for the Programme and references in this Base Prospectus to the Arranger shall be references to the relevant Arranger.

"**Bank of Portugal Regulations**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, namely Regulation 5/2006, Regulation 6/2006, Instruction 13/2006, Regulation 7/2006 and Regulation 8/2006 and any applicable regulations which may be issued in the future.

"**Banking Law**" means Decree-Law No. 298/92, of 31 December 1992, as amended.

"**Base Prospectus**" means this base prospectus dated 23 October 2015 prepared in connection with the Programme.

"**BCP**" means Banco Comercial Português, S.A.

"**Bearer Covered Bonds**" means any Covered Bonds issued in bearer form (whether or not in global form).

"**Book Entry Covered Bonds**" means any Covered Bonds issued in book entry form.

"**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.

"**Capital Requirements Directive**" comprises Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast).

"**Central de Valores Mobiliários**" means the Portuguese Centralised System of Registration of Securities.

"**Clearing Systems**" means Interbolsa, and/or Euroclear, and/or Clearstream, Luxembourg and/or, in relation to any Series of Covered Bonds, any other clearing system depositary as specified in the relevant Final Terms, and each a "Clearing System".

"**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 4 August 2008 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.

"**Coupons**" means the interest coupons related to the Definitive Bearer Covered Bonds and for the time being outstanding or, as the context may require, a specific number of such coupons.

"**Couponholders**" means the persons who for the time being are holders of the Coupons.

"**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 KPMG & Associados - SROC, SA, member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 20161489, with registered office at Edifício Monumental, Av. Praia da Vitória 71 - A, 11°, 1069-006 Lisbon.

"**Cover Pool Monitor Agreement**" means the agreement dated 4 August 2008 as amended and restated entered into between the Issuer and the Cover Pool Monitor.

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

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

"**CRD IV/CRR**" means the Directive 2013/36/EU and Regulation EU 575/2013.

"**CSD**" means a central securities depositary.

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

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

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

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

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

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

(e) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis set out in Condition 4.2(D)(i)(i)(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)(i)(i)(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)(i)(i)(vii).

"**DBRS**" means DBRS Ratings Limited.

"**Dealers**" means Banco Comercial Português S.A., Banco Santander Totta, S.A., Barclays Bank PLC, BNP Paribas, 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 Bank plc, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, Natixis, Nomura International plc, Société Générale, The Royal Bank of Scotland plc (trading as NatWest Markets), UBS Limited and UniCredit Bank AG.

"**Definitive Bearer Covered Bond**" means any definitive Covered Bond in bearer form issued only in exchange for a Global Covered Bond in bearer form held through Euroclear and/or Clearstream, Luxembourg.

"**Definitive Registered Covered Bond**" means any definitive Covered Bond in registered form issued whether or not in exchange for a Global Covered Bond in registered form held through Euroclear and/or Clearstream, Luxembourg.

"**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, in respect of Covered Bonds held through Euroclear and Clearstream, Luxembourg, the period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds, as certified by the relevant Dealer(s) (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue) and as determined by the Agent under the Set of Agency Procedures.

"**ECB**" means the European Central Bank.

"**EEA**" means the European Economic Area.

"**EU**" means the European Union.

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

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

"**Eurosystem**" means the central banking system for the Euro.

"**Exchange Date**" means the date which is 40 days after a Temporary Bearer Global Covered Bond is issued.

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

"**Fitch**' means Fitch Ratings Limited.

"**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

"**GBP**", "**£**"or "**pounds sterling**" means pounds sterling, the lawful currency of the United Kingdom.

"**Global Covered Bond**" means any global covered bond (whether temporary or permanent, if applicable).

"**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.

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

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

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

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

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

"**ISDA**" means the International Swaps and Derivatives Association Inc.

"**Issue Date**" means the date so specified in the applicable Final Terms being, in respect of any Covered Bond, the date of issue and purchase of such Covered Bond pursuant to and in accordance with the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s).

"**Issuer**" means Banco Comercial Português, S.A.

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

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

"**MiFID II**" means the Directive 2014/65/UE of the European Parliament and of the Council, of 15 May 2014.

"**MiFIR**" means the Regulation 600/2014 of the European Parliament and of the Council, of 15 May 2014.

"**Moody's**" means Moody's Investors Service Ltd.

"**Moody's España**" means Moody's Investors Service España, S.A.

"**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.

"**NGN**" means any Bearer Covered Bond to be issued in new global note form.

"**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.

"**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 15 (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 15 (Overcollateralisation, Valuation of Cover Pool and Issuer Covenants).

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

"**Permanent Bearer Global Covered Bond**" means any Covered Bond issued in the form of a permanent bearer global covered bond.

"**Portuguese Companies Code**" means the commercial companies code approved by Decree-Law No. 262/86, of 2 September 1986 (as amended from time to time).

"**Portuguese Securities Code**" means Decree-Law No. 486/99, of 13 November 1999 (as amended from time to time).

"**Principal Amount Outstanding**" means, in respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

"**Programme**" means the Euro 12,500,000,000 covered bonds programme established on 5 June 2007 and updated on 4 August 2008, on 23 July 2009, on 6 May 2010, on 29 June 2012, on 10 July 2013, on 14 August 2014 and on 23 October 2015 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

"**Programme Agreement**" means the agreement dated 14 August 2014 entered into between the Issuer and the Dealers.

"**Programme Documents**" means the Base Prospectus, the Programme Agreement, the Set of Agency Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme.

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

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

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

(a) the amount determined as the commercial value or the market value (as applicable) of such Property in accordance with the most recent independent valuation of such Property, at the time or after the relevant Mortgage Credit was originated, in accordance with Regulation 5/2006; and

(b) the amount determined by resorting to the use of adequate and recognised indices or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulation 5/2006.

"**Prospectus Directive**" means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (as amended, including by Directive 2010/73/EU), and includes, where the context so requires, any relevant implementing measure in a relevant Member State of European Economic Area.

"**Prospectus Regulation**" means Commission Regulation (EC) No. 809/2004 as amended from time to time.

"**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, Moody's España, 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.

"**Registered Covered Bond**" means any definitive Covered Bond in registered form.

"**Registrar**" means a registrar appointed by the Issuer in respect of one or more Series of Covered Bonds.

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

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

"**Regulation 7/2006**" means the regulatory notice ("*Aviso*") No. 7/2006 issued by the Bank of Portugal and published on 11 October 2006, relating to the weighting coefficient applicable to the ownership of covered bonds issued in accordance with the Covered Bonds Law.

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

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

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

"**Relevant Member State**" means a Member State of the European Economic Area which has implemented the Prospectus Directive.

"**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 12.1(i)(C)(ii) of the Terms and Conditions.

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

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

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

"**Set of Agency Procedures**" means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 23 July 2009 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, transfer agent, agent bank and/or registrar appointed by the Issuer.

"**Stabilisation Manager**" means the Dealer or Dealers (if any) named as the stabilisation manager(s) for a particular Tranche of Covered Bonds.

"**Standard & Poor's**" means Standard & Poor's Credit Market Services Europe Limited Branch en España.

"**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 Irish Stock Exchange 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.

"**Talon**" and "**Talons**" means the talons for further Coupons attached to the Definitive Bearer Covered Bonds on issue.

"**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.

"**Temporary Bearer Global Covered Bond**" means any Covered Bond issued in the form of a temporary bearer global covered bond.

"**Terms and Conditions**" means in relation to the Covered Bonds, the terms and conditions to be endorsed on the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"**Tranche**" means Covered Bonds which are identical in all respects (including as to listing).

"**Treaty**" means the treaty establishing the European Communities, as amended by the Treaty on European Union.

"**U.S.$**", "**USD**" or "**U.S. dollars**" means United States dollars, the lawful currency of the United States of America.

"**Value**" means:

(a) in relation to a Mortgage Credit:

  (i) for the purpose of the Overcollateralisation Percentage, an amount equal to the book value of such Mortgage Credit entered on the Register, together with any matured and accrued interest; or

  (ii) for the purpose of Loan to Value calculation, an amount equal to the book value of such Mortgage Credit entered on the Register; and

(b) in relation to any Other Assets:

  (i) the aggregate amount of any deposits together with any matured and accrued interest, as entered on the Register; or

  (ii) the value resulting from the rules regarding valuation of margins defined by the Eurosystem for securities eligible for Eurosystem credit transactions or, if lower, the nominal value of such securities, including matured and accrued interests.

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