



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 as a brand name Millennium bcp. 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 document comprises a base prospectus (the "Base Prospectus") in respect of all Covered Bonds other than Exempt Covered Bonds (as defined below) for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments introduced by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "Prospectus Directive"). Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for Covered Bonds issued under the Programme during the period of twelve months from the date of this Base Prospectus to be admitted to the Official List and to the London Stock Exchange for such Covered Bonds to be admitted to trading on the London Stock Exchange's regulated market. References in this Base Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The Programme provides that admission of the Covered Bonds to trading on the Euronext Lisbon's regulated market may also be sought, as may be agreed between the Issuer and the relevant Dealer and as specified in the applicable Final Terms. Each of the London Stock Exchange's regulated market and the Euronext Lisbon's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive"). 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 (as implemented in the relevant Member State(s)). 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 UKLA has neither approved or review such information.

In the case of Exempt Covered Bonds, notice of 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
BNP PARIBAS
Commerzbank
Deutsche Bank
J.P. Morgan
Natixis

Société Générale Corporate &
Investment Banking

BofA Merrill Lynch
Crédit Agricole CIB
DZ BANK AG
Millennium Investment Banking
Nomura
The Royal Bank of Scotland

UniCredit Bank

Barclays
Citigroup
Credit Suisse
HSBC
Morgan Stanley
Santander Global
Banking & Markets
UBS Investment Bank

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, “B1” and “NP” by Moody’s Investors Service España, S.A. (“**Moody’s España**”), “B+” and “B” by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”), “BB+” and “B” by Fitch Ratings Limited (“**Fitch**”) and “BBB (low)” and “R-2 (mid)” by DBRS, Inc. (“**DBRS**”).

Covered Bonds issued under the Programme are expected on issue to be rated Ba1 by Moody’s Investors Service Limited (“**Moody’s**”) BBB (minus) 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 & Poors and Fitch 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 (the “**CRA Regulation**”).

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

DBRS, Inc. is not established in the European Union but the ratings it has assigned to the Bank are endorsed by DBRS Ratings Limited for use in the European Union. DBRS Ratings Limited is a rating agency established in the European Union and registered 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 Financial Conduct Authority 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 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 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 which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, 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:

- have 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;
- have 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;

- have 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;
- understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (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 (see *Subscription and Sale 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.

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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 “**Stabilising Manager(s)**”) (or persons acting on behalf of any Stabilising 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, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake any stabilisation action. 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 be ended 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 Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising 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” shall be deemed to include a reference to “applicable Pricing Supplement” 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 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:	<p>Up to Euro 12,500,000,000 (or its equivalent in other currencies, all calculated as described under <i>General Description of the Programme</i>) 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.</p> <p>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.</p>
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, 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 (“ <i>Ordem dos Revisores Oficiais de Contas</i> ”), registered with the CMVM (<i>Comissão do Mercado de</i>

Valores Mobiliários) with registration number 9093, with registered office at Edificio 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, <i>inter alia</i> , those set out under <i>Risk Factors</i> 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, <i>inter alia</i> , the untested nature of the Covered Bonds Law, the dynamics of the legal and regulatory requirements, the fact that the Covered Bonds may not be suitable investments for all investors 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 <i>Subscription and Sale and Secondary Market Arrangements</i> .
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 <i>Subscription and Sale and Secondary Market Arrangements</i>).
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:	<p>Covered Bonds issued under the Programme are expected on issue to be rated Ba1 by Moody’s, BBB (minus) by Fitch and A (low) by DBRS.</p> <p>Each of Moody’s and Fitch 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 (the “CRA Regulation”).</p> <p>DBRS, Inc. is not established in the European Union but the ratings it has assigned are endorsed by DBRS Ratings Limited for use in the European Union. DBRS Ratings Limited is a rating agency established in the European Union and registered in accordance with the CRA Regulation.</p> <p>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.</p>

Listing and Admission to Trading:	Application has been made for Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the London Stock Exchange. Admission of Covered Bonds to trading on the regulated market of Euronext Lisbon may also be sought. 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. Exempt Covered Bonds may also be listed on such further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer(s) or may be issued on an unlisted basis.
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 <i>Subscription and Sale and Secondary Market Arrangements</i> .
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 <i>Subscription and Sale and Secondary Market Arrangements</i> .
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 <i>pari passu</i> among themselves. The Covered Bonds will be mortgage covered bonds issued by the Issuer in accordance with the Covered Bonds Law and, accordingly, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law, and will rank <i>pari passu</i> with all other obligations of the Issuer under mortgage covered bonds issued or to be issued by the Issuer pursuant to the Covered Bonds Law. See <i>Characteristics of the Cover Pool</i> .
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 <i>Terms and Conditions of the Covered Bonds</i> . A Pricing Supplement will be prepared in respect of each Tranche of Exempt Covered Bonds and may replace, modify or supplement the Terms and Conditions of the Covered Bonds.
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 <i>Form of the Covered Bonds and Clearing Systems</i> .
Form of the Covered Bonds:	The Covered Bonds held through Interbolsa will be in book-entry form (<i>forma escritural</i>) and can be either <i>nominativas</i> (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 <i>ao portador</i> (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 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 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 depository 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 2 years or in excess of 50 years. See also <i>Extended Maturity Date</i> .
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 <i>Terms and Conditions of the Covered Bonds</i> .
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: <ul style="list-style-type: none">• 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 Interest 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;
- (b) Fixed Interest 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 €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) or, in any case only if higher than €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 Credit Institutions General Regime 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 – 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 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

1 Risk factors relating to the economic and financial crisis of the Portuguese Republic

The Bank is highly sensitive to the evolution of the Portuguese economy, which is undergoing a process of far reaching reforms that might allow for some instability.

The evolution of the Portuguese economy has a great impact on the Group's business, its financial situation and net income. In the current context, particular emphasis should be placed on the constraints arising from the ongoing implementation of the Economic and Financial Assistance Program for Portugal (the "PAEF" or the "Program"), the systemic effects of the European sovereign debt crisis, the agreed institutional commitments relative to the government of the Economic and Monetary Union, amid, naturally, the evolution of the global economic and financial environment.

The financial and economic crisis which has been affecting the world economy since mid-2007 drew the growth model that had characterised the Portuguese economy since its adhesion to the single currency to a close. Over the period between 1999 and 2011, the annual average growth rate of Gross Domestic Product ("GDP") was 1.0% in real terms (Source: Portugal's National Statistics Institute – "INE") and total net external debt, as measured by the international investment position, reached 117% of GDP by the end of 2012 (Source: Bank of Portugal, April 2013). In view of the sovereign debt crisis in the euro zone and high levels of budget deficit and public debt, the concerns of international investors regarding the sustainability of public finances has substantially aggravated the funding conditions of private and public Portuguese issuers in international markets, though the situation has improved markedly during the first half of 2013.

Economic activity has been on a downward path since 2011 as a result of the containment of public and private expenditure, the more restrictive funding conditions and increased unemployment. Economic activity, measured by real GDP, contracted 1.6% in 2011 and 3.2% in 2012, after a temporary acceleration in 2010 (Source: INE, March 2013), accompanied by a significant increase in the annual average unemployment rate from 10.5% in 2010 to 16.9% at the end of 2012 (Source: INE, February 2013). In 2012, the public deficit rose to 6.4% of GDP (Source: Eurostat, April 2013), a reading that stood above the Program target of 5.0% of GDP (Source: Fifth Review of the Memorandum of Understanding, October 2012) only due to the statistical treatment given by Eurostat to specific operations, without which the fiscal deficit would have been compliant with the agreed target of 4.9% (according to the Statement by the EC, ECB and IMF on the Seventh Review Mission of Portugal, EC, 15 March 2013). The consolidated value of the gross debt of Public Administration in 2012 increased to 123.6% of GDP, compared with 108.3% for the previous year (Source: Eurostat, April 2013). The restructuring of the balance sheets of the public sector and private economic provided for a reduction of the external imbalance, with significant improvements in the current and capital account balances, which recorded a surplus in 2012, for the first time in decades (Source: Bank of Portugal, April 2013).

The economic context is particularly challenging for Portugal. The persistence of important uncertainties regarding the course of European sovereign debt markets, the difficulty of achieving funding from abroad under regular conditions, the process of reduction of private and public sector debt, the implementation of structural reforms in the labour product and services markets, and the pressure of higher tax burden on the real disposable income of families and companies, represent a very adverse context for economic activity, where a GDP contraction of 2.3% is forecasted for 2013 followed by very mild growth in 2014 (Source: European

Commission, May 2013). Weaker economic performance cannot be excluded in view of the high level of uncertainty surrounding the success and enforcement of the structural adjustment and risk of continuing and significant slowdown of external demand.

Consequently, the economic activity in the main countries receiving Portuguese exports is extremely important to the evolution of the Portuguese economy and achievement of the objectives of the PAEF. The existence of a more unfavourable external context, in particular in the main trading partners of Portugal, which increases the risk of recession in the European Union (the “EU”), might exacerbate the economic and financial crisis currently being experienced in Portugal. In spite of the good performance shown by Portuguese exports over the last few years at various levels - resilience, market shares, market diversification and higher technological incorporation - a less favourable contribution from abroad towards the growth of the Portuguese economy cannot be excluded over the coming years, in view of certain constraints, derived, among other factors, from the excessive levels of debt that are also present in most European economies, the lower effectiveness of the transmission of monetary policy in a context of interest rates close to zero, and the persistence of a climate of uncertainty and speculation inhibiting the creation of value, which would have resulted from a full exercise of economic integration. The efforts and gains derived from the diversification of exports to markets outside the European Community, namely to countries in Africa and Latin America, may become less profitable if, among other adverse factors, competition intensifies, or protectionist policies rises.

The adverse macroeconomic conditions in Portugal have significantly affected, and will continue to affect, the behaviour and financial position of the Bank’s customers and, therefore, the demand and supply of the products and services offered by the Bank. In particular, constrained growth of loans is expected for the forthcoming years, hindering the creation of revenue supporting net interest income. Unemployment, reduction of business profitability and increased insolvency of companies and/or households has and will continue to negatively influence the customers’ capacity to repay loans and, consequently, might increase non performing loans, which stand already at historically high levels, reflecting a deterioration of the quality of the Bank’s assets. The impact of Greece’s, or any other Eurozone country’s potential departure from the Eurozone may also have unpredictable consequences and would likely severely and negatively affect the Portuguese banking system and the Bank through, among other things, increased pressure on regular funding from customer deposits. If customers decide to reallocate their savings towards other countries that are perceived to be fundamentally more stable than Portugal that may place additional pressure on financing costs of Portuguese banks and may adversely affect the net interest margin and results of the Bank. Any other significant deterioration of global economic conditions, including the credit profile of other countries of the EU, or the solvency of Portuguese or international banks, or changes in the euro zone, may lead to concerns relating to the capacity of the Portuguese Republic to meet its funding needs. This possible deterioration could:

- have a direct impact on the value of the Bank’s portfolio of public debt bonds (as at 31 March 2013, the Bank’s investments reached approximately Euro 5.886 billion in Portuguese public debt bonds and Euro 0.031 billion in Greek public debt bonds, representing approximately 64% of its portfolio of public debt bonds. Any permanent reduction of the value of public debt bonds would be reflected in the Bank’s equity position;
- strongly affect the Bank’s capacity to increase and/or generate capital and observe the regulatory minimum capital requirements;
- strongly limit the Bank’s capacity to obtain liquidity; and
- negatively affect the Bank’s capital positions, net operating income and financial condition.

The PAEF covers an important portion of the funding needs of the Portuguese Republic for the period 2011-2014 but assumes the adoption of structural reforms, does not satisfy the funding needs of the private sector and is subject to significant risks.

On 5 May 2011, the Portuguese Government, with the support of the main political parties, announced that it had reached a memorandum of understanding with the International Monetary Fund (“IMF”) and European Union in relation to an economic and financial assistance program (the PAEF or Program). The PAEF includes important financial assistance to Portugal, in the amount of up to 78 Euro billion for the period between 2011 and 2014. This assistance is distributed between the Euro 26 billion provided by the IMF, under the “Extended Fund Facility”, with a variable interest rate indexed to the Special Drawing Rights, and the remaining Euro 52 billion financed by the European Union and respective financial stabilisation mechanisms. The Program was approved by the European Commission on 10 May 2011 and by the Ministers of Finance of the countries of

the European Union on 16 May 2011. The availability of the entirety of the financing is conditional on Portugal's compliance with a series of budgetary targets and structural measures, the pursuit of which is monitored on a quarterly basis by the European Union and IMF during the term of the Program. By the end of March 2013, the level of compliance with the scheduled targets had enabled Portugal to receive Euro 63 billion of external assistance (Source: Portuguese Treasury and Debt Management Agency, April 2013).

The objectives of the Program focus on the permanent reduction of the funding needs of the Portuguese economy, through a path of sustained growth and a context of financial stability, so as to enable the return to regular funding in international financial markets. The Program is based on three fundamental pillars, as follows:

- (a) **Structural reforms:** the reforms seek to increase the competitiveness of the Portuguese economy and its potential growth through legal, regulatory and procedural changes in terms of the labour, goods and services markets, real estate lease market and legal system. Although acting on constraints and distortions of a structural nature in the Portuguese economy, the degree of success of the reforms is uncertain and will only materialize over the long term, depending on the interaction of a multiplicity of endogenous and exogenous factors, where their immediate impact might be adverse, due to the change of regime it implies thus affecting the scenario in which the Bank's business is developed;
- (b) **Budgetary consolidation:** the Portuguese Government has undertaken to implement a series of measures to reduce expenditure and increase revenue with the goal of progressively driving the public deficit to a sustained value below 3.0% of GDP by 2015. Furthermore, the Program seeks to reduce the ratio of public debt to GDP in a sustained manner, maintain budgetary consolidation so as to achieve budgetary equilibrium in the medium term, with greater support from lower expenditure, and strengthen competitiveness through the recomposition of the tax burden with a neutral effect on revenue. The consolidation path has implied, over the first years of implementation of the Program, a significant increase in the tax burden on companies and families, and heavy restrictions on public expenditure, current and investment, acting as a strongly restrictive factor on economic activity, company profitability and the financial conditions of families, which are all important variables in the definition and evolution of the banking business. Moreover, it cannot be excluded that additional budgetary consolidation measures might be necessary, namely derived from the adverse macroeconomic conditions, social expenditure and assumption of contingent liabilities, such as costs arising from renegotiation of public-private partnerships or reclassification of public companies, with repercussions on private and public expenditure and an uncertain effect on public order. The implementation of these measures may elicit considerable resistance from unions and citizens, which might undercut the capacity of the Government to maintain the reformist stance in the future.
- (c) **Financial stabilisation:** the Program establishes a deleveraging process together with the strengthening of banks' solvency (loans-to-deposits indicative ratio of 120% and Core Tier 1 ratio of 10%), and improvement of the mechanisms for early intervention and resolution of institutions which show significant imbalances and represent systemic risk. These goals directly constrain the Bank's activity in the lending and allocation of the available funds, demand capacity to raise stable funding and impact on the net interest income.

If Portugal fails to implement the structural reforms, in particular the reform of the public administration and to cut public expense, it risks failing to achieve the targets for the public deficit included in the PAEF and entering in a situation of unsustainable public debt dynamics, which would in turn result in the need of a new financial aid to Portugal and its financial institutions. In such scenario, the ratings of the Portuguese Republic (and, as an extension, the ratings of the Portuguese Banks) would be further downgraded, market access for funding would be constrained (or at least funding costs would raise), which would probability cause a high degree of economic uncertainty and could materially and adversely affect the Bank's financial condition, its results and prospects. Also, in the scenario of a new financial aid, additional austerity measures may be implemented, which could result in the decrease of disposable income of individuals, increase in unemployment rates and companies failures leading to the increase in delinquency in the economy, which could affect materially and adversely the Bank's results and financial condition.

The PAEF foresees a gradual return to markets for financing the public debt and of the financial institutions, but this may not occur in the foreseen period

During its implementation period, the PAEF foresees institutional funding for a wide range of public funding needs and foresees exceptional funding cases and recapitalisation mechanisms for the financial institutions.

However, the PAEF assumes the continued participation of Portugal in the short-term debt market and the return of private and public entities to the markets in the second half of 2013.

By the end of 2012 and beginning of 2013, a Portuguese bank carried out two issuances of senior debt at 3 and 5 years in an aggregated amount of 750 and 500 million euros, respectively, and another Portuguese bank issued bonds amounting to 750 million euros. Although the prospects for 2013 appear to be optimistic, since, earlier this year, the long-term Portuguese public debt interest rates remain steadily high in the secondary market, the Portuguese economy and the domestic financial system remain vulnerable and dependent on the potential effects that may result from decisions taken at an institutional level regarding the sovereign crisis problem that the Eurozone periphery area is facing or, in the opposite direction, by the volatility in the financial markets due to the absence of such decisions.

If the macroeconomic conditions do not improve in Portugal in the medium term or if the structural reforms necessary to tackle the European sovereign debt crisis are not, or are not properly, approved or implemented, PAEF forecasts regarding Portugal's return to the markets may not materialise and a new financial aid to Portugal and to its financial institutions might be necessary. In such a scenario, funding is likely to be offered in onerous conditions or may not be available at all, which would probably cause a high degree of economic uncertainty and could materially and adversely affect the Bank's financial condition, its results and prospects.

The PAEF constitutes an important focus point for the evolution of the expectations of economic agents, with direct repercussion on economic activity, market behaviour and business conditions faced by the Bank.

During the implementation of the Program, tensions related to Portuguese public finances or the negative effect of contagion of events abroad may reverse the progress attained since mid-2012 in what concerns the liquidity and profitability of the financial system in Portugal, resulting, namely, in the reduction of the market value of Portuguese sovereign bonds; liquidity restrictions in the Portuguese banking system and persistent dependence on institutional external funding; increased competition for the customer deposits, thereby raising their respective cost; limitation of loan concession to customers; and deterioration of the quality of the loan portfolio.

The successful implementation of the Program does not guarantee, in itself, that the Portuguese economy will evolve to a standard of sustained and robust growth which will enable easing the financial constraints of the country and boost the conditions for foreign direct investment; it will not provide immunity from negative impacts from abroad related to the evolution of worldwide economic conditions, including the credit profile of other countries of the European Union, the credit-worthiness of business partners, financial or otherwise, or repercussions from changes to the European institutional framework, which might contribute to the persistence or increase of investor fears regarding Portugal's capacity to honour its financial commitments.

In contrast, any failure to comply with the objectives and performance criteria that were agreed in the Program might justify the cancellation of the external financial assistance, and, consequently hinder the country's ability to meet its financial commitments, leading to a possible credit event of sovereign debt, which would have very negative repercussions, both immediate and in the long term, on the economic activity and, in particular, on the financial system and the Bank.

The funding capacity of the Portuguese economy and of public and private entities and respective conditions constitute an uncertainty factor over the medium term and may negatively affect the evolution of economic activity and financial conditions of the Bank's customers and, consequently, have repercussions on the development of the business, profitability and solvency of the Bank.

The PAEF foresees the institutional funding for a significant portion of the public financing needs over the Program's duration period and institutes exceptional financing and recapitalisation mechanisms for financial institutions.

However, the Program indicates, as important assumptions, autonomy in the refunding of short term public debt and the gradual return to markets by both private and public entities. Furthermore, the perception of the risk is not exclusive of financial markets, but is also implicit in the various contractual conditions and commercial practices observed in normal relations between resident and non-resident companies.

Consequently, and notwithstanding the financial assistance framework, the evolution of overall financial conditions, in particular those practised in markets of the euro zone, are not irrelevant for the Portuguese

economy: they exercise a direct influence on the cost of short term debt and indirectly through the evolution of the expectations of economic agents relating to the success of the PAEF, with repercussions on the development of the business climate.

Hence, the Portuguese economy and its financial system are vulnerable to the effects arising from the settlements adopted at an institutional level in relation to the problem of the euro sovereign crisis or, in the other hand, to the volatility in the financial markets arising from the absence of such agreements.

The persistence of challenging financing conditions, or the possibility of renewed deterioration, increases the degree of difficulty of the current economic and financial adjustment process, hindering the evolution of the banking business and, consequently, the profitability and solvency of national financial institutions generally, and of the Bank in particular.

Alterations in the Portuguese Government or in its policy may negatively influence the Bank's activities.

Since the last parliamentary elections held in June 2011, a parliamentary majority is supporting a coalition Government. The economic policy that the coalition Government is implementing intends, first and foremost, to put into action the measures foreseen in the PAEF. An aggravation in the economic environment or in the social tensions may lead to the replacement of the Government or to the review of the policies that are currently being adopted. Hence, changes may be introduced in the economic policy, including a more challenging relation with the external authorities, a fact that may influence the Bank's activities and its strategic orientation and negatively affect its financial situation, results and future prospects.

The EC regulatory and supervision framework may condition the economic conjuncture and adversely influence the Bank's operational activity.

The Treaty on Stability, Coordination and Governance entered into force on 1 January 2013 in the Economic and Monetary Union. This treaty intends to reinforce budget discipline by means of the introduction of a "balanced budget rule" and an automated mechanism for the adoption of correction measures. Specifically, this treaty establishes that the structural budget deficit of each country should not exceed 0.5% of the GDP at market prices in order to comply with the "balanced budgetary rule". Moreover, the budget balances of the Member States must comply with the specific medium-term objectives defined by the Stability and Growth Pact that are monitored every year within the context of the European Semester. In case the Member State does not observe the defined objectives, an automated correction mechanism will be activated. Both the "balanced budgetary rule" and the automated correction mechanisms must be transposed into the domestic legislation of each Member State, preferably at a Constitution level, until 1 January 2014 (European Council, December 2012). Likewise, the debt criteria foreseen in the Stability and Growth Pact are assuming a greater relevance and, accordingly, it is requested to the Member States that have a debt exceeding 60% of the GDP (the reference-value of the European Union in terms of debt) to adopt corrective actions to reduce their debts at a pre-defined pace (having as standard reference a reduction at an average rate of one- twentieth per year), even if their deficits are below 3% of GDP (the reference value for the European Union). In spite of the fact that these measures are not relevant in the short-term given the current size of the Portuguese public debt, they will probably limit for a long period of time the capacity of the Government to stimulate the economic growth through public expenditure or by lowering taxes. Any limitation to the growth of the Portuguese economy will adversely affect the Bank's activities and its financial situation, its income or operations and its future prospects.

In this respect, the solution adopted jointly by the European authorities and the Government of Cyprus to the recapitalisation of some Cypriot banks involving the bail-in of depositors holding deposits above Euro 100,000 created some concerns among the European public opinion about the security of bank deposits in general. This issue is enmeshed in considerable uncertainty due to the hesitations in the implementation of the European Banking Union, which is aimed at setting up a unified banking supervisory mechanism, a single deposit insurance scheme, and a single banking resolution mechanism. In the sense that the full implementation of the banking union might entail a greater involvement of hitherto presumed completely safe creditors – e.g. senior debt holders and depositors – in the orderly resolution of insolvent credit institutions, some European banks, including the Bank, might find it harder to fund themselves, both in the wholesale and the deposits' markets.

The Portuguese Republic may be subject to rating reviews by the rating agencies, with implications on the funding of the economy and on the Bank's activity.

Since the start of the international financial crisis in mid-2007, the rating agencies Standard & Poor's, Moody's, Fitch and DBRS have significantly downgraded the long term rating of the Portuguese Republic, essentially

reflecting the uncertainties related to the low competitiveness of the Portuguese economy abroad, the external funding difficulties and the sustainability of the public debt dynamics. The outlook of the rating agencies for the Portuguese Republic is dependent on the continued successful implementation of the measures included in the PAEF as well as on the gradual recovery of economic activity. In this context, there might be a new downgrade of the rating of the Portuguese Republic in the future, e.g. in the case of drastic deterioration of the public finance situation arising from weaker performance of the economy, caused by political and social instability and/or by the recessionary impact of the austerity measures adopted internally or induced by the contagion effect as a consequence of the slowdown of the activity of Portugal's main trading partners, in particular Spain, or if these measures are perceived as insufficient or as a result of the lack of success of the process of deepening structural reforms, simplification of State administration and streamlining of the justice system. Under these circumstances, the credit risk for the Republic will tend to increase, with negative collateral effects on the credit risk for Portuguese banks and, consequently on their profit levels. The effect of the downgrading of the rating of the Republic on the funding of Portuguese banks is mitigated since the ECB has relaxed the rules relative to eligible assets for discount operations. However, in all cases, a cut in the rating of the Republic would tend to lead to increased haircuts and a reduction of the pool of eligible assets for discount at the ECB, in particular with respect to securitisation and mortgage bonds. Hence, the inability of rapid recovery in view of the current context and compliance to the targets defined under the PAEF, added to the deepening of the recessive climate and continued difficulties in access to external funding might have an extremely negative impact on the risk of the Portuguese Republic and, consequently, on the risk premium of Portuguese banks, their funding costs, the value of the portfolio of eligible collateral at the ECB, funding capacity and net income of the Bank.

2 Risk factors relating the sovereign debt in Europe

The sovereign debt crisis of the euro zone constitutes a potential source of turbulence for the markets and evolution of economic activity, in general, with impact in the Bank's activity.

The financial crisis of 2007/2008 exacerbated the budgetary imbalances of various European countries due to the need for additional government intervention to support economic activity and stabilise the financial systems. The response to the crisis has assumed a transversal dimension affecting several areas - relations and cooperation between member states, reformulation of supervisory mechanisms, common fiscal measures, regulation of the financial system, mechanisms of emergency financial support to member states, and adoption of exceptional mechanisms concerning monetary policy. In a certain way, these reforms constitute a profound review of the operating regime of the Monetary Union, whose solutions have not always been consensual or given rise to the intended outcomes.

Accordingly, in spite of the recent agreements signed with the European Union and the Economic and Monetary Union, in particular, the intergovernmental agreement on fiscal stability, the revised plan of financial assistance to Greece, the greater flexibility given to some countries in meeting the fiscal targets and the additional use of unconventional monetary policy measures, uncertainties still remain as to the resolution of the sovereign debt crisis and the stability of the Euro. Should any or all these risks materialize, the consequences for the underlying economic and financial environment faced by the Portuguese economy could be extremely adverse as it would entail severe pressure on the conditions and financing costs of Portuguese banks, particularly regarding deposits, as well as asset depreciation, with marked impact on the net interest margin and the results of the Bank, credit impairments and mark-to-market valuation of financial assets.

The Bank is exposed to Portuguese, Greek, Irish, Italian and Spanish sovereign debt.

The Bank is exposed to Portuguese, Greek, Irish, Italian and Spanish sovereign debt. The Bank's exposure to the debt of these countries results from the public debt securities issued by these countries held in its portfolio of financial assets held-to-maturity, in the trading portfolio and in the portfolio of assets available for sale. The trading portfolio and portfolios of assets available-for-sale are measured at fair value. The changes in fair value are stated against fair value reserves until they are sold or when there are signs of impairment. When selling available-for-sale assets, the cumulative gains or losses previously accounted as reserves are recognised through the income statement. Potential depreciations in the value of the trading portfolio and in the portfolio of assets available for sale of sovereign debt of the Group may have negative repercussions in its financial situation and operating revenues. On 31 March 2013, the Group's exposure to sovereign debt amounted to EUR 5.9 billion of Portuguese sovereign debt, EUR 31 million of Greek sovereign debt, EUR 203 million of Irish sovereign debt, EUR 50 million of Italian sovereign debt and EUR 43 million of Spanish sovereign debt, from which

EUR 558 million were accounted in the portfolio of financial assets held for trading and EUR 8,692 million in the portfolio of financial assets available for sale and of financial assets held-to-maturity.

Governments may not be willing, or able, to reimburse the capital or pay the interests on the respective maturity dates. In case of default, the use of legal mechanisms may be limited. The political conditions, especially the availability of the public entities to comply with the duties emerging from the debt service are particularly important. The capacity of a sovereign issuer to timely comply with the debt service will also be significantly influenced by the respective balance of payments, its export performance, its access to international credit facilities and investments, fluctuations of interest rates and the extent of its foreign reserves. Additionally, a default of any Eurozone member could create or further increase the negative sentiment in relation to other Eurozone members.

In 2011, the Bank recognised an impairment charge of EUR 533 million relating to its holdings of Greek Government Bonds (“GGBs”) amounting to approximately 77% of its nominal holdings in Greek sovereign debt as of 31 December 2011. The provision for impairments was set taking into consideration the provisos in the *Private Sector Involvement* (“PSI”) involving Greece and other private investors. Pursuant to the PSI, the Greek government offered holders of GGBs the opportunity to exchange their holdings in certain GGBs for new GGBs with a face value of 31.5% of the par amount of the exchanged GGBs and for notes issued by the European Financial Stability Facility with a face value of 15% of the exchanged GGBs. The Bank agreed to participate in the PSI, the settlement of which occurred on 21 March 2012. Since then, the Bank is in a process of selling the remaining portion of its GGBs. In addition, in accordance with the European Banking Authority’s (“EBA”) recommendations for the creation of a capital “buffer” in connection with sovereign debt, for the purpose of calculating its Core Tier 1 capital, the Bank has assumed that its Core Tier 1 capital will be reduced by approximately EUR 848 million relating to further impairment of the sovereign debt held by the Bank, excluding Greece. See *“In spite of risk mitigation actions, the Bank is still exposed to Greece.”*

There can be no assurance that further write-downs on the Bank’s holdings on Greek government bonds or another sovereign debt will not be required. Additional deductions of capital losses on public debt from the Bank’s own funds would have a negative impact on the Bank’s capital ratios, creating greater difficulties in complying with the additional and temporary requirements established by the supervisory entities. It will also negatively influence the Bank’s financial condition, results of operations and future prospects.

The Group’s business and income have been, and will continue to be, negatively affected by the political uncertainty that surrounds the European sovereign debt crisis.

The ongoing banking and financial crisis exacerbated the budgetary imbalances of various European countries due to the need for additional government intervention to support economic activity and to stabilise financial systems which in turn, together with other factors, led to the current sovereign debt crisis. The increase in the public debt of certain EU Member States and the decreased creditworthiness of those same Member States has further limited their financing capabilities on the international capital markets. This, in turn, has affected EU Member States at a number of levels, including cooperation between EU Member States, reformulation of supervisory mechanisms, harmonised fiscal policies, regulation of the financial system, and mechanisms of emergency financial support to member states and adoption of exceptional mechanisms concerning monetary policy. The significant political and institutional changes occurring in the European Union have created substantial uncertainty in the financial markets and have failed to resolve the sovereign debt crisis. Furthermore, the elections that will take place in September 2013 in Germany may imply the introduction of significant changes in their current policies. Political and regulatory uncertainty in the European Union and in Portugal has resulted in a significant deterioration of confidence and, as a consequence, of macroeconomic performance. For the Group, this has resulted in, among other things, reduced lending and increased funding costs, all of which have had and will likely continue to have, an adverse effect on the Bank’s financial condition, results of operations and prospects.

3 Risks Relating to Volatility in the Global Financial Markets

A further material decline in global capital markets could adversely affect the activity, results and value of strategic investments of the Bank, as well as the value of assets included in the portfolio of the Group Pension Fund.

Investment returns are an important part of the Bank’s overall profitability, particularly in relation to its asset management business carried out by Millennium bcp Gestão de Activos - Sociedade Gestora de Fundos de

Investimento, S.A., to the life insurance business carried out by the Millenniumbcp Ageas joint venture and to the Bank's investment banking business.

The uncertainty regarding the current international financial crisis will continue to negatively impact the capital markets and maintain or aggravate the already high risk aversion reflected in the significant volatility of equity market prices, which may materially and adversely affect the Bank's life insurance business, investment banking and asset management operations, results of its financial operations and other income and the value of financial holdings and securities portfolios.

In particular, any further decline in global capital markets would likely have an adverse effect on 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 charged on each of them, with a negative impact on the Bank's business, financial condition and results of operations. As a minority shareholder of Millenniumbcp Ageas, there is a risk of the Bank being called up to inject capital into this company if the solvency ratio of the company falls below a certain predefined level which, due to certain products of Millenniumbcp Ageas, could occur if such products do not meet a minimum level of return. Furthermore, the recurrent and prolonged fluctuation of stock 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, which could negatively influence the placement of the Group's investment products, including some categories of life insurance. Therefore, a decline in the capital markets in general could adversely affect the Bank's financial condition, results of operations and prospects.

On 31 March 2013, the equity portfolio of the Group, including the investments in associated companies totalled EUR 621.8 million, equal to 0.7% of the Group's total assets. Any depreciation in the value of the Group's equity investments could adversely impact its financial condition and results. A decline in equity and debt market prices would also have an impact on the quality of the assets due to the lower value of loans collateralised with financial assets, leading to the reduction in coverage ratios (on 31 March 2013, 5.5% of the loan portfolio's collateral consisted of financial assets).

The value of the assets that are part of the Bank's Pension Fund also depend on the future evolution of the capital markets. A sharp decline in capital markets could cause the value of the assets in the portfolio to become insufficient to cover the liabilities assumed by the Pension Fund, thus negatively affecting its capital ratios and results.

The depreciation of the value of financial collateral, the risk premium associated with operations in different markets and yields of pension funds might also negatively affect the Bank's results and solvency ratios. The uncertainty surrounding access to capital markets as a source of funding for the Bank may hinder the Bank's deleveraging process, further maintaining an excessive dependence on funding from the ECB.

Besides Portugal, the European Union, the ECB and the IMF are involved in aid programmes for other European countries affected by the macroeconomic instability and by the high public debt levels (Greece and Ireland), in addition to the financial assistance to Spanish banks. The Bank may not foresee the degree of success of the financial assistance programmes or its effects in the single currency, in the European Union or in the Bank's business related with cash flow operations and in its financial situation. The uncertainties derived from the implementation of the programmes, as well as the markets' reaction thereto, have and will continue to have an adverse material effect on the Bank's business, its financial condition and results of operations.

Increased market risk and uncertainty will exert pressure on the Bank to seek alternative funding sources, to accelerate its capital and liquidity plan and to add to its pool of collateral eligible for funding at the ECB, although there can be no assurance that it will be successful in its efforts to do so.

The recent volatility in the financial markets, especially in the inter-banking and debt markets led to the Bank's dependence on the ECB for funding.

Notwithstanding the recent issues of medium term debt by the Portuguese Republic and Portuguese financial institutions, there are still no guarantees whatsoever that the Bank may return to the markets or that the related funding costs will have acceptable terms. If this situation persists it may damage the deleverage effort and conduct to an excessive dependence on the ECB for obtaining funds.

The ECB has been one of the funding sources used by the majority of the Portuguese banks during the financial crisis and the European sovereign debt crisis. On 31 March 2013, the Bank had EUR 10.2 billion (net

use) of loans outstanding with the ECB, corresponding to 11.9% of the Bank's liabilities. By the end of March 2013, the Bank had a total of EUR 22.6 billion of assets eligible for discount in the ECB, of which EUR 12.3 billion are available. The pool of eligible assets could be eroded as a result of price devaluations, increase in haircuts following credit downgrades or even the loss of eligibility of certain assets, namely 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 credit claims. The reduction of the pool of eligible assets and the increased difficulty in managing eligible assets to compensate for such loss of eligibility will have a negative impact in terms of liquidity, requiring the Bank to find alternative funding sources, which could have a negative impact on the Bank's business, financial condition and results of operations.

The objective of the Bank is to reduce this funding dependency on ECB in the short-medium term. The Bank is implementing various measures to diversify its funding sources, having also accelerated its deleveraging process, and aims to increase customer funds and reduce the granting of loans to customers, which could represent a risk of increased cost of deposits (as at 31 March 2013, customer deposits accounted for 66% of the funding structure). If this process is not accompanied simultaneously by the re-pricing of loans, this could negatively affect the net interest income and overall results of the Bank. If regulators require a quicker reduction of exposure to the ECB or if there are restrictions to access ECB funding, the Bank might be forced to accelerate 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 and results.

Although the Bank considers its liquidity risk management and mitigation policies to be adequate, the continuation of the current market conditions and the high levels of sovereign debt risk will likely negatively impact the Bank's liquidity position, both through funding difficulties and as a result of the reduction of the pool of assets eligible for discount at the ECB, in addition to the funding costs of the activity and its capacity to increase its loan and asset portfolio, with negative impact on the Group's financial condition, credit quality and net operating income. These circumstances could be further aggravated by persistent volatility in the financial sector and capital markets, or by difficulties of one or more financial institutions, or their default, which could lead to significant liquidity problems in the market in general, losses and defaults by other institutions. Furthermore, it is not possible to predict which structural and/or regulatory changes might arise from current market circumstances or if such changes could have a negative impact on the Bank. If current market conditions continue to deteriorate, especially for an extended period of time, this could lead to a reduction of 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.

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

Market turmoil and the economic recession, especially in Portugal, Greece and in other European countries, could have a material adverse effect on the liquidity, the activity and/or the financial conditions of the Group customers which could in turn further impair the Group's loan portfolio. The ratio of overdue loans and doubtful loans over 90 days to gross loans increased (from 9.7%, on 31 March 2012 to 12.1%, on 31 March 2013, with provisions coverage of 54%, on 31 March 2013).

Due to continuing market turmoil, economic recession and increasing unemployment coupled with declining consumer spending, the value of assets collateralising the Group's secured loans could decline significantly as a result of a general decline in market prices or as a result of a decline in value of asset class underlying the collateral, which could result in an impairment of the value of the Group's loan assets. Loan volume to businesses and individuals is expected to remain depressed in Portugal, due 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.

The Group's customers' levels of savings and credit demand are dependent on consumer confidence, employment trends, the state of the economies in countries in which the Group 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 Group's fee and commission income. Any of the conditions described above could have a material adverse effect on the Group's business, financial condition or results of operations.

4 Risks Relating to the Bank's Business

Reductions of 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.

On 4 December 2012, the rating agency Moody's reviewed the rating of three Portuguese Banks, downgrading the long-term rating of BCP in one notch to "B1", with Negative Outlook. On 14 February 2012, the rating agency Standard & Poor's reviewed the long-term rating of the Bank to "B+" with "Negative Outlook" and confirmed the short-term rating in "B". On 11 July 2012, following the analysis made on the implications of the recapitalisation measures adopted by the Portuguese banks, the rating agency Standard & Poor's announced that it would maintain the principal ratings of BCP. On 24 May 2012, the rating agency DBRS placed the ratings of Banco Comercial Português under review with negative implications, following a similar action made for the Portuguese Republic. On 5 December, following the confirmation, on 30 November, of the long-term rating of the Portuguese Republic, the rating agency DBRS reaffirmed the ratings of four Portuguese banks, maintaining the long-term rating of BCP in "BBB (low)", with a negative outlook. On 18 June 2012, the rating agency Fitch Ratings reviewed downwards the Viability Rating of Banco Comercial Português from "b" to "cc". The long and short term ratings stayed in "BB+/"B", with a Negative outlook. On 17 July 2012, the rating agency Fitch announced that it reviewed upwards the following ratings of BCP - Viability Rating from "cc" to "b", Subordinated Debt (Lower Tier 2) from "C" to "B-" and Preferential Shares from "C" to "CC" so as to translate the improvements introduced in the capital base and the perspective that the Bank is better positioned to face the recessive situation that Portugal is currently experiencing.

The credit ratings represent an important component of the bank's liquidity profile. The changes of BCP's credit ratings reflect, apart from the changes of the rating of the Portuguese Republic, a series of factors intrinsic to BCP. In terms of capital and despite the fact that the agencies recognise that the solvency levels of BCP are better due to the recapitalisation made by the Portuguese State and by the shareholders in June and September 2012, respectively, the concern remains on whether the adverse conditions of the Portuguese economy will condition the Bank's profitability and its ability to generate income, endangering the preservation of capital. The rating agencies also took under consideration the following additional risk factors: (i) the deterioration of the quality of the loan portfolio to be an additional risk factor, essentially related to its 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 and (iv) the high dependency on wholesale funding and funding from the ECB, as well as the need to reduce the ratio of net loans/deposits so as to reach a ratio of 120% by 2014. Since there is still some uncertainty on whether the Portuguese Republic will be able to, on a regular basis, access the wholesale funding market, potential downgrades of the Bank's credit ratings may contribute, for example, to the erosion of the collateral eligible for funding by the ECB, as well as more restrictive access to funding, with increasing costs. Under such circumstances, the Bank may need to accelerate its deleveraging process and reduce its activities, with a negative effect on its financial condition, results of operations and prospects.

Moreover, the Bank's capacity to successfully compete in the deposit market depends on various factors, including the Bank's operating results and credit ratings attributed to it by recognised rating agencies. Any downgrade in the Bank's credit rating could affect the Bank's ability to raise funding and could have a material adverse effect on its business, financial conditions and results of operations.

The Bank is exposed to credit risk and further deterioration of asset quality.

The Bank is exposed to the credit risk of its customers and counterparties, including risks arising from the high concentration of individual exposures of its loan portfolio. The 20 largest individual loan exposures represented, as of 31 March 2013, 10.7% of the total loan portfolio, which, together with the high credit exposure to the real estate and civil construction sectors, contributed to the rise of the Bank's exposure to credit risk. This problem is common to most of the main Portuguese banks, in view of the small size of the Portuguese market, and has been noted by the rating agencies as a fundamental challenge facing the Portuguese banking system. The 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 degree of 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 short, medium- or long-term.

Exposure to credit risk could derive from trading activities, loan concession, acceptance of deposits, clearing and settlement, as well as other activities and relationships. These relationships include relationships with

customers, brokers and dealers, commercial banks, investment banks and borrowing companies. Most of these relationships expose the Bank to credit risk in the event of default by the counterparty or customer. Furthermore, should there be any reduction in the value of assets given to guarantee loans that have been granted, or in the case that they are 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, might affect the Bank's capacity to meet its payment obligations. Some risk diversification and management strategies used by the Bank also involve transactions which include the provision of financial services by the relevant counterparties. The insolvency of any of these counterparties might result in an imbalance in the Bank's risk diversification and management strategies, which may have a material and adverse effect on the Bank's financial condition, results of operations and prospects.

The persistence of the current 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 risks arising from changes in credit quality and the repayment of loans and other amounts owed by customers and counterparties are inherent in a broad spectrum of the Bank's business activity. Adverse changes in the credit quality of customers and counterparties of the Bank, a generalised deterioration of the Portuguese and global economy, or the growing systemic risk of financial systems, could affect the recovery and value of the Bank's assets and require an increased provision for bad debt and other provisions, which would adversely affect the Bank's financial condition and results of operations.

The Bank's consolidated loan portfolio, as of 31 March 2013, reached EUR 66.5 billion, of which 6.8% related to overdue loans by more than 90 days, representing an increase of 1.8 percentage points compared to the same period in 2012. The prolonged persistence of the adverse economic and financial circumstances at a worldwide, European and national level increases the risk of deterioration of the quality of the consolidated loan portfolio and might lead to increased impairment losses and deterioration of the solvency ratio through reduction of its own funds and/or increase in the Bank's risk weighted assets (RWA). Non-performing loans, calculated in accordance with Instruction no. 23/2011 of Banco de Portugal, which includes loans overdue more than 90 days and doubtful debts, accounted for 8.8% of total loans and advances to customers as of 31 March 2013, compared with 6.8% of total loans and advances to customers as of 31 March 2012. Loan impairment (net of recoveries) increased to EUR 188.4 million as of March 2013, compared with EUR 152.3 million as of March 2012. Cost of risk, measured by the proportion of loan impairment charges (net of recoveries) versus loans to customers (gross) stood at 122 basis points as of 31 March 2013, compared with 91 basis points as of March 2012. The coverage of loans overdue more than 90 days stood at 96% as of 31 March 2013, compared with 100% as of 31 March 2012. The persistence, or deepening, of the crisis, sluggish economic growth, increased unemployment, or a sharp increase in risk premiums required would lead to increased loan impairment levels and, consequently, to the reduction of the Bank's net income. In addition, the level of provisions and other reserves might 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 and results of operations.

The Bank faces strong competition in its main areas of activity.

Since 1996, the Bank has witnessed a significant expansion of retail financial services in the Portuguese banking market, resulting in the sustained development of the mortgage market, consumer credit, investment funds, unit linked products and a broader use of credit cards. By the end of the 90's, the Portuguese banking system went through a consolidation process due to the need to attain scale economies and operational synergies. More recently, the majority of the Portuguese banks rationalized their operational structures aiming at cutting costs and improving efficiency. 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 techniques which has enabled banks to assess the needs of their customers with greater accuracy and efficiency. Foreign banks, as well, have entered the Portuguese market, especially in areas such as corporate banking, asset management, private banking and investment banking services. These factors have led to an increase in competition. Furthermore, many Portuguese banks are dedicated to enhancing their revenue through an increase in their market shares and cross-selling strategies, as well as focus on their core business, and engagement in more aggressive commercial strategies. A possible intensification of the integration of European financial services may contribute to increased competition, particularly in the areas of asset management, investment banking and online banking and brokerage services.

These levels of competition, in Portugal and in other countries where the Bank operates, or its intensification, entail business and strategic risks. These risks might lead to a reduction in the Bank's market share for some products and business segments and lower spreads. Moreover, such a situation could also lead to a reduction in net interest income, fees and other income of the Bank, any of which could have a material adverse effect on the Bank's financial condition, results of operations and prospects.

In addition to its exposure to the Portuguese economy, the Bank faces exposure to macroeconomic risks in its businesses in Europe (Poland and Romania) and Africa (Angola and Mozambique).

The Bank faces exposure to macroeconomic risks in its businesses in Poland, Romania, Mozambique and Angola and, if the risks mentioned above in respect of each country materialise in the future, this may have an adverse impact on the business, financial condition and results of operations of the Bank.

In the three months ended 31 March 2013, the Group's net income attributable to international operations was EUR 38.4 million, compared to a total net loss of EUR 152.0 million for the Group as a whole. For the same period, net income in Poland was EUR 28.7 million, of which EUR 18.8 million was attributable to the Group, net losses in Romania were EUR 2.1 million, net income in Angola was EUR 6.5 million, of which EUR 3.3 million was attributable to the Group and EUR 20.3 million in Mozambique, of which EUR 13.5 million was attributable to the Group.

Up to 2009, the economies of Poland and Romania showed strong GDP growth rates, arising from their respective processes of European integration, benefiting, in particular, from high foreign investment inflows and from the opportunities deriving from the use of European funds. The worldwide financial crisis, however, created an unavoidable destabilizing effect on the economic and financial structures of these two economies. Poland withstood the impact of the global crisis quite resiliently, never experiencing annually negative GDP growth. Romania, on the other hand, suffered an acute recession in 2009-2010, a circumstance that led this country to apply for a multilateral financial assistance program sponsored by the European Union and the IMF that was originally negotiated in 2009 and renewed in 2011.

In 2012, the real GDP growth rate in Poland decelerated from 4.5 to 1.9% (Source: European Commission, May 2013). Such lacklustre performance was the result of all-round weakness: tepid private consumption growth, fiscal austerity and a bleaker external environment. The near-term outlook points to subdued growth on the assumption that the above-mentioned factors are likely to linger on. Official forecasts indicate a GDP annual average growth of 1.7% for the two-year period 2013-2014 (Source: European Commission, May 2013). Amongst these risk factors, the following stand out: the external context, with the sequential downward review of the growth of the European Union, main trading partner of Poland, being able to constrain activity through exports and to negatively affect confidence levels of households and businesses; the foreign exchange rate evolution, in particular in case of renewed instability in financial markets with unfavourable impact on the Polish zloty/Swiss franc exchange rate, where the greater exposure to foreign currency is concentrated, with indirect repercussions on the financial conditions of customers and directly through the Bank's results from financial operations; and budgetary policy, in view of the need to bring the public deficit below the 3% threshold as soon as possible (stood at 3.9% in 2012) (Source: European Commission, May 2013), in a context that is likely to be characterised by a low growth environment. Therefore, in the medium term, a more adverse context may develop in terms of turnover, asset quality and higher tax costs on banking activity.

In 2012, GDP in Romania expanded in real terms by a meagre 0.7% (Source: European Commission, May 2013), affected by the adverse impact of extreme climate conditions on agricultural output and by a weak external environment. For 2013, the growth rate of the Romanian economy is expected to rebound to 1.6% (Source: European Commission, May 2013) on the back of stronger investment. The following constitute some relevant risks to the scenario of recovery in the medium term: the recomposition of the balance sheet of families and reduction of debt levels; contagion effects derived from the sovereign debt crisis in Europe, enhanced by the instability and institutional uncertainty; the sustainability of short term financial flows of the Romanian economy; the persistence of tight financing conditions; and the commitment of the authorities to the pursuit of the agreed budgetary targets and measures.

Angola and Mozambique have been particularly noteworthy due to their strong and sustained growth over the past few years and adoption of economic policies targeting the reduction of inflation, sustainability of economic activity, and diversification of productive potential. In Mozambique, GDP is expected to have

¹ See "The European Commission or a domestic court may order the repayment of a State aid provided to the Bank if they consider such aid illegal and/or not compatible with the Treaty on the Functioning of the European Union ("TFEU)".

recorded a real annual average growth rate of 7.5% in 2012 (Source: International Monetary Fund, April 2013), largely determined by the acceleration of the mining industry output, especially in what concerns coal. Real GDP should have expanded by 6.8% in Angola during 2012 (Source: International Monetary Fund, April 2013) essentially benefiting from the strong expansion in oil production, though the non-oil sector also grew at a robust pace on the back of consistent public investment. In their current state of development, these countries still show a non-negligible dependence of economic growth on a relatively limited group of sectors, associated with natural resources such as oil (Angola) and aluminium and coal (Mozambique), which are vulnerable to specific shocks in these markets and, consequently, upholds the persistence and dimension of policies of incentives to sectorial diversification and social nature. The climate of optimism, abundant liquidity and expansion of geographical coverage and offering of banking products and services that has prevailed over the recent years, in a context of the early development of financial systems, models and control mechanisms, may have implications for the level of asset quality of the customer base, with consequences for the level of solvency and perceived safety of the banking system. The incomplete provisioning of better terms of social conditions, albeit a notable improvement in recent years, represents a factor which might lead to social instability, namely when drawing close to important political events, in detriment of the development of regular banking activity, which might have an adverse effect on the Bank's business activity, financial condition or results.

In February 2009, Banco Comercial Português, S.A. carried out financial transactions relating to the strategic partnership agreements established with Sonangol - Sociedade Nacional de Combustíveis de Angola, Empresa Pública ("Sonangol") and Banco Privado Atlântico, S.A. ("BPA"), having carried out a share capital increase of Banco Millennium Angola ("BMA") in the amount of USD 105,752,496.80, and reduced its stake in BMA to 52.7%. In April 2012, the Bank reduced its stake in BMA to 50.1%, following the increase in BMA share capital, which was fully subscribed by Global Pactum - Gestão de Activos (main shareholder of BPA), in line with the partnership agreement entered into with Sonangol and BPA. Following this partnership agreement, BMA accelerated its business plan, through investment in the expansion of its network of branches (76 branches as at 31 March 2013; target of 100 branches) and has created over 1,000 jobs up to the end of March 2013 (932 employees as at 31 March 2013). It is not possible to predict in advance the success of the Group's expansion in Angola.

In spite of the risk mitigation actions, the Bank is still exposed to Greece

Following the 22 April 2013 announcement, the Bank completed on 19 June 2013 the sale of the entire share capital of Millennium Bank (Greece) to Piraeus Bank, in accordance with the general conditions previously announced. Prior to the completion of the acquisition, BCP has recapitalised Millennium Bank (Greece) in the total amount of 413 million euros, which is covered by the 427 million euros provision created for potential losses at Millennium Bank (Greece). The Bank subscribed for Piraeus Bank ordinary shares in the amount of 400 million euros in the capitalization process of Piraeus Bank. The Bank and Piraeus Bank entered into a contract whereby Piraeus Bank undertakes to support BCP in the phased disposal of shares held in its share capital, subject to the assumption by the BCP to certain limitations, including a lock-up period and some temporary restrictions on the exercise of voting and disposal during the conditioning period of HFSE. The impacts of the sale will be recognized in the financial statements of the 2nd quarter. With the conclusion of the sale, BCP completes successfully its strategy of risk mitigation concerning Greece.

As a result of the investment transaction, BCP is the holder of a stake of approximately 4.6% in Piraeus Bank's share capital, to be booked as an available for sale financial asset. Available for sale financial assets are initially accounted at the investment value (value of acquisition), and subsequently measures at fair value. Changes to fair value are accounted for against fair value reserves until the asset is sold or an impairment loss exists. On disposal of the available for sale financial asset, accumulated gains or losses recognized as fair value reserves are booked under net gains / losses from available for sale financial assets. Dividends are booked in the income statement when the right to receive them arises.

The participation in Piraeus Bank's capital increase exposes the Issuer to market risk, arising from Piraeus Bank's shares price volatility and Greece's strained operating conditions, and partially offsets the reduction in risk-weighted assets achieved through the sale of the entire share capital of Millennium Bank (Greece).

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

The Bank is highly exposed to the Portuguese real estate market, both directly through 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 (foreclosed assets in Portugal represented 1.7% of total assets of the Bank as at 31 March 2013, and direct exposure to the real estate sector, composed of loans granted to construction companies, real estate activities and mortgage loans, represented 56.4% of the consolidated loan portfolio as at 31 March 2013). 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 held directly, and increased exposure in 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.

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

The Bank's main source of funding is its deposits base (66% of the Bank's funding as at 31 March 2013).

However, over the last few years the persistence of interest rates at historically low levels has resulted in the Bank investing deposits into instruments with higher potential yield. The Bank's other funding sources include money market instruments, medium- and long-term bonds, covered bonds, commercial paper, medium-term structured products and the securitisation of a portion of its loan portfolio. Over the last few years, the Bank has strengthened its own funds through capital increases (the most recent share capital increase amounting to EUR 500 million was completed in October 2012), and, in June 2012, the subscription by the Portuguese Republic of Core Tier 1 Capital Instruments, in the amount of EUR 3.0 billion.

The Group has sought to mitigate liquidity risk, since 2007, having adopted various measures which mitigated the impact of the unfavourable market circumstances on its liquidity position—namely, by reducing the deficit, strengthening the attraction of deposits, selling non-strategic assets, increasing highly liquid assets and increasing the maturity of institutional funding, mainly due to the maturity increase of ECB exposure and to the issue of the Core Tier 1 Capital Instruments. The weight of the wholesale funding (with a maturity greater than one year) increased from 86.2% as of 31 December 2012 to 88.2% as at March 2013, as a result of using the LTRO of the ECB and redemption of EUR 1 billion of medium and long term debt. Inability of the Bank to obtain sufficient funds because of difficulties in the financial markets, in order to meet its liabilities with customers and other investors, would negatively affect its financial condition and its results of operations.

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

National and international regulators, including the IMF, the ECB and the EBA, have conducted stress tests in the banking sector. Additional stress tests might reveal new capital requirements to a bank in particular or to the Portuguese banking system in general, and may lead to the approval of increased regulation in the financial sector. In particular, the stress tests might force the Bank to obtain additional capital and may also result in the Bank being unable to repay the Core Tier 1 Capital Instruments on the schedule contemplated in its Recapitalisation Plan or pursuant to applicable regulations. Consequently, additional stress tests could adversely affect the Group's funding cost, and adversely impact its operations and financial condition. Furthermore, reduced confidence in the banking system following the disclosure of the results of stress tests relating to a bank or the Portuguese banking system as a whole, or even the widespread perception that these tests might not have been sufficiently strict in the past, may also negatively affect the Bank's financial condition, results of operations and prospects. European banks' stress tests are currently expected to occur only in 2014. This delay is related with the implementation of a new scheme European Banking Supervision during the 2nd half of 2013, which represents a first pillar of the Banking Union. Uncertainty continues regarding the revaluation of the EBA Public Debt buffer, which affects the Core Tier 1 ratio of the Bank.

The Bank's interest rate risk is at historically high levels, making it vulnerable to fluctuations in interest rates, which may negatively affect net interest income and lead to other adverse consequences.

Interest rates are highly sensitive to many factors beyond the Bank's control, including rulings or policy changes of the monetary authorities and 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. On 2 May 2013, the ECB announced its decision to reduce the interest rate applicable to the main refunding operations of the Eurosystem to historic minimum (0.5%). A movement in the opposite direction by the ECB (increased interest rates in the Eurozone) could increase the costs associated with debt service in Portugal and aggravate the country's general financial condition if interest rate increases do not correspond to the needs of the

Portuguese economy. An increase in interest rates could reduce demand for loans and the Bank's capacity to grant loans to customers, and could also contribute to increased loan default. Additionally, a decrease in interest rates may negatively affect the Bank through, among others things, the lower average interest rate of its mortgage loan portfolio, lower net interest income from deposits, reduced demand for deposits and increased competition. As a result of these factors, changes or volatility in interest rates may materially and adversely affect the Bank's financial condition, results of operations and prospects.

The Bank may not be able to preserve its customer base.

The Bank's 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, and of cross-selling its products and services through the distribution network in Portugal under the single brand "Millennium bcp". Moreover, the Bank seeks to maintain long term financial relations with its customers through the sale of anchor products and services, namely mortgage loans, salary accounts, standing transfers, credit cards and saving products and *bancassurance* products. Nevertheless, high levels of competition in Portugal and in other countries where the Bank operates, and an increased emphasis in cost reduction may result in the Bank's inability to maintain high loyalty levels of the Bank's customer base, to provide competitive products and services, or maintain high customer service standards, each of which may negatively affect the Bank's business, financial condition and results of operations.

In addition, as of 31 March 2013, approximately 5.7% of the Bank's total customer base in Portugal also held ordinary shares in the Bank. If the price of the Bank's ordinary shares were to decline, this could lead to shareholder dissatisfaction and, to the extent that such shareholders are also customers of the Group, this could result in broader customer dissatisfaction, which could have a material adverse effect on the Bank's business, financial condition and results of operations.

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

Reputational risk is inherent to the Group'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 or the fraudulent sale of financial products, or even from the way that the Group conducts, or is perceived to conduct, its business. Negative publicity and negative public opinion could adversely affect the Group's ability to maintain and attract customers, in particular, institutional and retail depositors, whose loss could adversely affect the Group's business, financial condition and future prospects, for example, as a result of a run on deposits and the disappearance of funding sources.

The Bank has a limited number of customers who are classified as politically exposed persons pursuant to the applicable legislation. Although the Group exercises increasingly stricter scrutiny of transactions with politically exposed persons in order to ensure compliance with applicable laws, the bank services provided to these individuals expose the Bank to reputational risks, notwithstanding the Bank's compliance with applicable laws.

Risks relating to standardised contracts and forms

The Group maintains contractual relationships with a large number of clients. In all of the Group's business areas and departments, 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 standardisation implies that for subjects that need clarification, contain drafting errors or require individual terms and conditions, the use of standard contracts and forms poses a significant risk due to the large number of contracts entered into under these conditions. In light of recent amendments to the applicable legal frameworks as a result of new laws and judicial decisions, and the growing influence of European legislation on national laws, it is possible that not all the general terms and conditions, standard contracts and forms used by the Group comply with all the applicable legal requirements at all times. If there are drafting errors, interpretive issues, or if the individual contractual terms or the contracts are invalid in their entirety or in part, a large number of client relationships may be affected negatively, which may result in claims for compensation or other legal consequences that may have an adverse effect on the financial condition and operating results of the Group.

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

The Group is exposed to the risk of labour disputes and other industrial action. Approximately 86% of the Group's employees in Portugal and 76% of all its employees were members of labour unions as of 31 December 2012, and the Group could 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 Group's activity, result in increased salaries and benefits granted to employees or otherwise have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank may have to bear additional costs, especially with respect to staff costs, related to the implementation of the Strategic Plan for 2012-2017.

The Bank announced on September 2012, a Strategic Plan based on three main stages for the next 5 years: (i) Capital and liquidity increase, underway since 2010; (ii) Creation of growth and profitability conditions, to be executed in 2013-2015 and (iii) Promotion of a sustainable growth, to be pursued in 2016 and 2017. The first stage, completed in December 2012, mainly aimed to reach comfortable capital levels, together with an improvement in the liquidity and an increase of the level of provisions. For this purpose, the Bank undertook an expressive deleveraging effort in 2012, with loans to customers falling EUR 4,600 million and balance sheet customer funds rising EUR 2,700 million, enabling the commercial gap to be reduced by EUR 7,300 million in 2012. In turn, the (gross) balance sheet loans-to-deposits ratio decreased from 168% in December 2009 to 129% in December 2012. The Core Tier 1 ratios went from 6.4% in December 2009 to 12.5% in December 2012, including the effect of the EUR 3,000 million issue of hybrid instruments and a EUR 500 million share capital increase.

Also as part of the measures to implement these priorities, the Bank intends to gradually reduce the number of employees in Portugal or other countries. In 2012, the Bank announced a process of mutual terminations of employment contracts in Portugal, including the possibility of voluntary accession, with a goal of 600 employees. This number was surpassed as a result of the early retirement processes, in accordance with applicable law. These measures to reduce staff costs have an initial cost associated with the payment of compensations that amounted to EUR 69 million in 2012. In turn, the reduction of 977 employees is expected to allow savings with staff-related costs in the next few years. Although staff reductions in the past have taken place without very significant social, legal or reputational damage, the Bank cannot guarantee that these measures relative to the reorganisation of its activities will not result in disputes or disturbance to the Bank's operations with a potential adverse impact on its financial condition and results, just as it cannot possibly guarantee that there will be no more procedures of the same type in the future.

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

The Bank's ability to successfully implement its strategy depends on its capacity to recruit and maintain the most qualified and competent members for its governing bodies and for employment positions in Portugal and other countries. Restrictions to the compensation of members of management and supervisory bodies provided for in the Ministerial Order (*Portaria*) no. 150-A/2012, of 17 May 2012, which includes restrictions on the level of compensation of the members of management and supervisory bodies, to be restricted 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 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 strategy, which could have a negative effect on the Bank's business, financial condition and results of operations.

The Bank is exposed to the risk of changes in its management.

Although the current members of Board of Directors, including the members of its Executive Committee, were elected for the term of office of 2012-2014 at the general meeting of shareholders held on 28 February 2012, which approved the amendment and restructuring of the articles of association (*estatutos*), comprising the adoption of a one-tier management and supervisory model and following Decision 15463-A/2012, of the Ministry for State and Finance, within the Bank's Recapitalisation Plan, the composition of the Board of Directors of the Bank and/or its Executive Committee might change due to decisions made by the shareholders

or by the Board of Directors or due to other circumstances. As noted above, the restrictions to the compensation of the members of the Bank's management and supervisory bodies provided for in Ministerial Order (*Portaria*) no. 150-A/2012 could hinder the ability of the Bank to maintain and/or to attract members with the desired profile and qualifications, and the Bank could face difficulties in replacing any directors who leave, which could negatively affect its financial condition, results of operations and prospects. Furthermore, changes may also be decided by the Board of Directors and executive management of the Bank's subsidiaries in other countries where the Group has operations which, while not necessarily implying changes in the strategy pursued by such operations, might negatively affect the Bank's financial condition, results of operations and prospects.

The level of coverage of pension fund liabilities of the Bank could turn out to be insufficient, which would lead to actuarial losses for the year, which are recognised against reserves for the year when they occur.

The Group 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 (ACT). The Group's liabilities are essentially covered by the Pension Fund of Banco Comercial Português, which is managed by PensõesGere - Sociedade Gestora de Fundos de Pensões, S.A.

Following the Portuguese Government's decision laid down in Decree-Law no. 127/2011, of 31 December 2011, the Portuguese Government signed a three-party agreement with the Portuguese Banking Association, the banks and the unions for the partial transfer of the liabilities with the payments of retirement pensions and the pension fund assets from the pension funds of the banks to the National Social Security. The Government undertook these measures in order to reduce the Portuguese banking system's exposure to the risks of defined benefit plans and to release those assets held by pension funds to the Portuguese Republic, in part, to meet the Government's fiscal targets under the PAEF.

Decree-Law no. 127/2011 established that the liabilities assumed by Social Security would exclusively comprise pensions already in payment as at 31 December 2011 at constant values (0% update) (as set out in the collective labour regulation instruments (IRCT) in force in the banking sector). The discount rate used to value the pension fund's liabilities was 4%. Liabilities in connection with increases in the pensions being transferred, in accordance with the applicable collective labour regulation instruments, the supplementary benefits to pensions to be undertaken by Social Security and contributions to the Bank's Social Health Assistance Service (SAMS) for retirement and survivors' pensions, death grants and deferred survivors' pensions remain the responsibility of the institutions, with funding being insured through their respective pension funds.

The impacts of the transfer of the liabilities included:

- A negative impact of EUR 1.0 billion before taxes in the Bank's equity as of 31 December 2011, associated with the liabilities in respect to the change to the accounting policy related to the recognition of the actuarial gains and losses associated to liabilities with pensions transferred to Social Security and EUR 117 million related with the cost of the transfer of the liabilities related with pensions to Social Security in net results. The transaction implied a negative impact of 74 basis points to the regulatory capital as of 31 December 2011, which was recognised in June 2012, as a result of a decision made by the Banco de Portugal.
- A reduction to the Bank's liabilities with pensions of 53%, as of 31 December 2011, which means that the Bank's vulnerabilities associated with the market risk inherent to the Pension Fund were also reduced. This risk has penalised the Bank significantly in the recent past, especially considering the adverse economic and financial environment. The Bank has sustained accumulated actuarial losses of EUR 1.7 billion up to 2011, and 2009 was the only year where no actuarial losses occurred.

The value of transferred liabilities was determined based on actuarial assumptions that are different from those used by the Group, namely with respect to the discount rate (4%) and the mortality table (TV 88/90 for women and TV 73/77 aggravated by one year for men). These assumptions were determined under the assumption of a liquidation of liabilities (exit value) since this involves a definitive and irreversible transfer of these liabilities. This implies differences when compared with the assumptions used in the determination of the liabilities reflected in the financial statements prepared in accordance with the requirements of IAS 19 - Employee Benefits. On 31 December 2011, the total value of the transferred liabilities reached EUR 2,747 million. The financial settlement of 55% of the operation, a value of EUR 1,510 million, took place before 31 December 2011, and the remaining value (EUR 1,244 million) was transferred by the end of June 2012.

The liabilities related to retirement pensions had been totally funded at levels above the minimum limits defined by Banco de Portugal, presenting a coverage level of 119% at the end of 2012. As of 31 December 2012, the liabilities related to the pension and other employee benefits reached EUR 2,293 million, compared with EUR 2,452 million recorded as of 31 December 2011.

The partial transfer of liabilities in respect of pensions to Social Security that took place in late 2011, although it reduced some risks as it reduced the Bank's future obligations, has had significant adverse impacts in the short term, particularly in terms of liquidity, to the extent that the Bank had to provide the Pension Fund with sufficient liquidity to meet the conditions for transfer of the aforementioned liabilities.

In 2012, the Pension Fund recorded a 1.6% rate of return. The settlement of the transferred liabilities was carried out in cash. Accordingly, the remaining assets in the Pension Fund corresponding to non-transferred liabilities present a composition which is substantially different from that recorded as of 31 December 2011, and might be considered as higher risk and therefore, depending on the development of the financial markets, which could result in actuarial losses.

IAS 19 permits the use of alternative criteria for the accounting treatment of actuarial gains and losses. Previously, the Group had adopted the corridor method, where unrecognised actuarial gains and losses which exceeded 10% of the greater value between the present value of the defined benefit obligations and the fair value of the Pension Fund's assets were recognised against the year's profit or loss according to the estimated remaining working life of active employees.

Considering that IAS 19 – Employee Benefits enables the use of the method of direct recognition in equity of actuarial gains and losses, the Group decided in 2011 to change its accounting policy and now recognises the actuarial gains and losses for the year against reserves. According to IAS 8, this change of accounting policy is presented for comparative effect as of 1 January 2010, whereby the entirety of the deferred actuarial gains and losses was recognised in shareholders' equity on that date. Hence, as of 31 December 2011, inclusively, the Group no longer has deferred actuarial losses in the balance sheet.

For prudential purposes, Banco de Portugal authorised the maintenance of the corridor for the liabilities not transferred to Social Security as well as the amortisation method defined previously for deferred adjustments related to the pension fund (extended corridor), with the exception of those arising from actuarial deviations recorded in 2008, of the value corresponding to the liabilities transferred to Social Security. As at 31 December 2012, the value of the corridor was EUR 243 million.

In 2012 the Bank altered the actuarial premises for the pension fund, and the discount rate is of 4.5% (5.5% in 2011), the salary growth rate 1% until 2016 and 1.75% after 2017 (2% in 2011) and the growth rate of the pensions 0% until 2016 and 0.75% after 2017 (1.0% in 2011). The actuarial differences recorded in 2012, including financial, non-financial and those resulting from changes to the premises, attained EUR 164 million (EUR 155 million of which were recognised in the first half of 2012).

Actuarial differences in 2012 had a negative impact, after taxes and corridor variation, of 25 basis points to the Group's Core Tier 1 (without significance in the second half of 2012). Yet, if in addition one takes into consideration the negative effects of the transfer of liabilities with pensions to the Social Security General Regime (that were neutralised on 31 December 2011) and of the amortisation of the deferred impacts allowed by Banco de Portugal, the impact increases to 133 basis points.

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, lower value of the fund, this would result in the statement of actuarial losses for the year. The losses are recognised against reserves for the year when they occur.

In the future, the Bank cannot guarantee that changes will not take place in the actuarial assumptions relating to the pension and other employee benefits. Any such changes in the assumptions could lead to increased actuarial losses having a potential adverse impact on the financial condition of the Bank.

The Bank's ability to achieve certain targets is dependent upon the accuracy of a series of 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 certain of the Bank's targets will depend on the accuracy of a series of 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 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, the Bank's ability to successfully implement its Funding and Capital Plan, the successful implementation of economic reforms in Portugal, the Bank's ability to access financing on the capital markets, the adequacy of the Bank's current provisions against non-performing loans, the quality of the Bank's assets, the Bank's ability to reduce costs, the Bank's ability to deleverage, assumptions included in the Bank's financial models, the financial condition of the Bank's customers, reductions in the Bank's credit rating, 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 in 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 is exposed to market risk, which may translate into the risk of devaluating the investment holdings or affect its trading results activities.

The Bank is exposed to market risk. This is the risk of a decline in the value of the Bank's investment holdings or its trading results as a consequence of changes in market factors, specifically in the risk of fluctuations in its shares price, interest rate risk, foreign exchange rate risk and risk of changes in the price of commodities. 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 affect 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 Group 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 developed by Risk Metrics (1996). It is calculated using a 10 business day time horizon and a unilateral statistical confidence interval of 99%. During 2012, the average VaR for the trading portfolio stood at EUR 4.8 million.

The interest rate risk originated by transactions involving the non-trading book is assessed through a risk sensitivity analysis, carried out every month for all operations included in the Group's consolidated balance sheet. The reported analysis as at 31 December 2012 indicates that interest rate risk sensitivity of the balance sheet, calculated as the difference between the present value of the interest rate mismatch after discounting cash flows at the market interest rate and discounting those same cash flows after taking into account parallel shifts in the market interest rate by + 100 basis points, is approximately + EUR 16 million for the currency in which the Group has the most significant position, the euro.

The trading portfolio and portfolio of assets available for sale (shares) was EUR 100.6 million as at 31 December 2012, compared to EUR 137.9 million as at 31 December 2011. Any depreciation in the value of the Group's trading portfolio, portfolio of assets available for sale and other variable yield securities could have negative repercussions on its financial condition and results.

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 relative to market risk could have a negative impact on the Bank's financial condition, results of operations and prospects.

The Group is exposed to insurance risks, where the value of insurance claims may exceed the amount of reserves held against those claims.

The Bank is exposed to insurance risks (mainly through its holding of 49% of Millenniumbcp Ageas' share capital). Insurance risk is the risk to earnings due to mismatches between expected and actual claims. Depending on the insurance product, this risk is influenced by macroeconomic changes, changes in customer behaviour, changes in public health, pandemics and catastrophic events such as earthquakes, industrial

disasters, riots or terrorism. Failure to control insurance risks could result in material adverse effects on BCP's financial condition, results of operations and prospects.

Further, the EU is developing a new solvency framework for insurance companies, referred to as "Solvency II".

The new approach will be based on the concept of three pillars—minimum capital requirements, supervisory review of firms' assessment of risk, and enhanced disclosure requirements—and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. The EC is continuing to develop the detailed rules that will complement the high-level principles of the Directive, referred to as "implementing measures". There is significant uncertainty regarding the final outcome of this process. As a result there is a risk that the effect of the measures finally adopted could be adverse for Millenniumbcp Ageas, including potentially a significant increase in capital required to support its business and that Millenniumbcp Ageas may be placed at a competitive disadvantage to other European and non-European financial services groups.

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

The Bank operates in a highly regulated industry and is subject to claims of non-compliance and lawsuits by government agencies, regulatory agencies and other parties. Compliance reviews or other proceedings that are unfavourable to the Bank may result in sanctions, limitations on its business opportunities, reduction of its growth potential or may materially and adversely affect its ability to fulfil certain contractual obligations.

The Bank is also subject to rules and regulations related to money laundering and terrorism financing. Compliance with anti-money laundering and anti-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 and anti-terrorist 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 rules applicable to money laundering and terrorism financing as extended to the whole Group and applied to its workers in all circumstances. A possible violation, or even any suspicion of a violation of these rules, may have serious legal and financial consequences, which could have a material and adverse effect on the Bank's 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.

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, including the Recapitalisation Plan. It is not possible to guarantee in advance that the Group will manage to implement its strategic agenda due to general constraints, such as (i) the further deterioration of market conditions; (ii) increased competition or the actions taken by its main competitors; (iii) specific constraining factors associated with possible delays or inadequacies in the implementation of its strategic programme, or in the efficacy and degree of implementation of the measures to resume growth and leadership in the retail banking segment and attract greater value in the Companies, Corporate and Large Corporate segments; (iv) the maintenance of the drive to reduce costs and optimise discipline in 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, its financial condition, results of operations and prospects may be adversely affected.

The Bank is subject to 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, omissions and delays in the provision of services and implementation of requirements for risk management. The Bank

continually monitors these 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 adversely affect its 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.

In the scope of the implementation of a new organisational and strategic coordination model, the Bank was divided into four business areas and two service areas (Banking Services and Corporate Areas). The Banking Services area is composed of sub-units whose functions include: credit analysis, credit recovery, processing of operations, development and exploration of computer and telecommunications systems, physical and logistical security, administrative and property management, purchasing and other units for the support of the activity of the business areas. The operations developed by the Group, in Portugal and internationally, have an infrastructure of information systems which is externalised, but also common and integrated, promoting higher overall efficiency. The Bank's operations depend heavily on their respective computer processing, especially following the centralisation of the information systems. The computer processing involves record-keeping, financial reporting and other systems, including systems for monitoring points of sale and internal accounting systems. Regarding the security of the information systems, the Bank has continued to pursue a strategy aligned with good international practices, such as the principal information security standard ISO 17799/27001 (currently named ISO 27002). It is not possible to guarantee potential investors complete identification and timely correction of all problems related to the informational technology systems, or systemic 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 materially and adversely affect the Bank's financial condition, results of operations and prospects.

The Bank's financial models incorporate assumptions, judgments and estimates that may change over time or may not be accurate.

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 Group's defined benefit obligations and provisioning) as well as the Bank's risk exposure. These financial models generally require the Bank to make assumptions, judgments 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 and deficiencies. Such assumptions, judgments 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 financial condition, results of operations and prospects.

In particular, recent market volatility and illiquidity has challenged the factual bases of certain underlying assumptions and has made it difficult to value certain 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 an adverse effect on the Bank's 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 activities of the Group are carried out in partnership with other entities that are not under the control of the Group, including Millenniumbcp Ageas. Therefore, the Group 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, action or breach of such agreements may negatively and materially affect the Bank's reputation, financial condition, results of operations and prospects.

In February 2009, Banco Comercial Português, S.A. carried out financial transactions relating to the strategic partnership agreements established with Sonangol and BPA, having carried out a share capital increase of BMA

in the amount of USD 105,752,496.80, and reduced its stake in BMA to 52.7%. In April 2012, the Bank reduced its stake in BMA to 50.1%, following the increase in BMA share capital, which was fully subscribed by Global Pactum—Gestão de Activos (main shareholder of BPA), in line with the partnership agreement entered into with Sonangol and BPA. Following this partnership agreement, BMA accelerated its business plan, through investment in the expansion of its network of branches (78 branches and 1,079 employees as at 31 December 2012). It is not possible to predict in advance the success of the Group's development in Angola.

Transactions in the Bank's own portfolio involve risks.

The Bank carries out various proprietary activities, including the placement of deposits denominated in Euros 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 spot 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. Moreover, the Bank relies on a vast range of 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 which could materially and adversely affect its 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 transactions to cover risk (hedging) 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. Moreover, the way that gains or losses arising from certain ineffective hedges are recognised may result in additional volatility in its reported earnings. If any of its hedging instruments or strategies is inefficient, the Bank could incur losses which could have a material adverse effect on its financial condition, results of operations and prospects.

Terrorist attacks or a "pandemic" could have disruptive effects on business volumes and debtor performance, adversely affecting the Bank's income, credit quality and, consequently, the overall financial condition of the Bank.

Although the probability, time, place and degree of disturbance of an event of this nature are very difficult to assess, a terrorist attack or a pandemic in any country in which the Group conducts business or elsewhere could cause significant disruptions to economic activity, increase economic uncertainty and reduce economic confidence. The occurrence of either of these events could adversely affect the Bank's financial condition, results of operations and prospects.

The Bank may face difficulties in implementing its international strategy.

The Group has operations in international markets, which are exposed to risks arising from any adverse developments at a political, governmental and economic level. The Bank maintains operations in markets integrated in the European Union which have not yet joined the euro, namely Poland and Romania.

Some of the Group's international operations are also directly or indirectly exposed to exchange rate risk, which could adversely affect the Group's results. Any devaluation of these currencies vis-a-vis the euro could have a negative impact on the Group's business activity, financial condition and results. In additions, any devaluation of these currencies could have a negative impact on the Group's consolidated results. In the case of Romania, the impact would be in the opposite direction since the operation has not yet reached its break-even point.

Moreover, the Bank's loan portfolio includes loans in foreign currency, where the losses are assumed by the 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 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 at the end of 2008, it still holds a considerable loan portfolio in foreign currency, 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 the high cost of zloty swaps. Net income may also be adversely affected if Poland does not join the Eurozone in the medium term as is currently expected, or in the event of reallocation of the portfolios of institutional investors in favour of "safe haven" assets to the detriment of assets in emerging markets, in particular in the context of greater political instability related to reform of the European institutional framework, which have had repercussions on the Swiss franc exchange rate, a currency which combines a significant part of the exchange rate risk to which the Bank's customers are exposed.

The deterioration of the macroeconomic environment in most of the Group's international operations may adversely affect the Bank's ability to implement its strategy for its international operations. These difficulties could have a significant impact on the opening of new branches, attraction of new customers and turnover and, as a result, materially and adversely affect the Bank's financial condition, results of operations and prospects.

The Bank might be exposed to non-identified risks or to an unexpected level of risks, notwithstanding the risk management policies 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 to, 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 historically. These methods might also be ineffective in protecting against losses caused by technical errors, if the implemented testing and control systems are not efficient 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 adversely affect the Bank's financial condition and results.

5 Risks Relating to the Recapitalisation Plan of the Bank

The Bank issued hybrid instruments subscribed by the State that are remunerated at a high and growing cost and it does not have investments being paid at rates equal or higher to those and able of ensuring this payment. Therefore, there is the risk that the Bank may not be able to ensure the payment of the interests and repayment of the issue, a fact that would imply the conversion of those instruments into shares and might render the State the majority shareholder of the Bank.

The Bank issued hybrid instruments subscribed by the State ("Core Tier 1 Capital Instruments"), that are remunerated at a high and growing cost (8.5% during the first year, with increases of 25 basis points per year in the 2nd and 3rd years and 50 basis points in the 4th and 5th years). Investments of the Bank are not remunerated at rates equal to, or higher than, the cost of borrowing from the State and able, by themselves, of ensuring payment of capital and interest under the instruments.

In spite of the Board of Directors' strong commitment to the objectives and targets set forth in the Recapitalisation Plan in order to be able to rapidly repay the public investment, the Bank may not be able to avoid the dilution that may result from the occurrence of a circumstance that may determine the conversion of the Core Tier 1 Capital Instruments into ordinary or special shares, including, among other aspects better detailed in the Terms and Conditions of the issue, the non-payment in full in the end of the term legally established for the public funding; if the bank cancels or suspends, totally or partially, the payment of interests or any other circumstance that proves to be a materially relevant non-compliance with the Recapitalisation Plan, as stated by the State after an opinion issued by Banco de Portugal, or other circumstances that the Bank is unable to control, including decisions made by Banco de Portugal on its 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.

When the payment (full or partial) of the remuneration of the Core Tier 1 Capital Instruments in cash determines the non-compliance or, in the opinion of Banco de Portugal, may endanger the compliance with the own funds minimum requirements, in particular the Core Tier 1 own funds requirements, such payment may, by choice of the Bank, be replaced, insofar as necessary, by the payment in kind by means of the delivery to the State of new ordinary shares of the Bank. As mentioned above, in case the Bank cancels or suspends, totally or partially, the payment of interests, such act may be considered a materially relevant non-compliance with the Recapitalisation Plan and, if declined as such by the State, shall imply the mandatory conversion of the Core Tier 1 Capital Instruments into special shares.

A potential conversion of the Core Tier 1 Capital Instruments held by the State 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 foreseen in the respective terms and conditions of the issue attached to the Decision no. 8840-B/2012 of the Ministry of State and Finance of 28 June 2012, published in the Supplement of the Official Gazette, 2nd series of 3 July 2012, as amended, approving the public investment foreseen in the Recapitalisation Plan, the “Decision”) represents a considerable risk of dilution of the stakes of the shareholders and could mean that the State would be able to exercise a significant control over the Bank’s operations, becoming a majority shareholder. Both situations could negatively affect the price of the BCP Shares.

The restructuring plan of the Bank that is currently being appraised by the European Commission, the conditions and obligations of which the Bank will have to observe to ensure the compatibility of the aid with the Treaty on the Functioning of the European Union (“TFEU”)¹, may condition the strategic and operational flexibility of the Group and have an adverse effect on its activity, its competitive position and its results. Furthermore, the European Commission may impose obligations and conditions that are more penalising than the ones proposed in the Recapitalisation Plan and in the Decision.

In accordance with Portuguese law, namely article 2(6) of Ordinance 150-A/2012 and the decision of the Commission dated 30 May 2012 in the State aid process SA.34055 (2011/N) – Portugal, the Bank, to ensure that its recapitalization process is compatible with the rules of the TFEU, submitted to the member of the Government in charge for the finance area, a restructuring plan with the antecedence that enabled the remittance of the same to the competent European Authorities in the six months following the approval of the Decision. The restructuring plan is currently being appraised by the European Commission.

The final version of the restructuring plan to be approved may contain an additional package of measures apart from those that are already provided for in the Recapitalisation Plan, in the decision of the European Commission that authorises the general regime for recapitalisation of credit institutions in Portugal and in the Decision. The above-mentioned restructuring plan will have to: (i) show the long-term viability of the Bank without additional State aid, (ii) ensure the contribution of the Bank and its shareholders to support the necessary efforts to recapitalise and restructure the Bank; and (iii) establish measures to prevent any potential competition distortions resulting from the public aid that the Bank received from the Portuguese Republic.

Apart from the measures imposed within the scope of the Recapitalisation Plan, the Bank has contemplated in the restructuring plan currently under assessment by the European Commission the feasibility and/or possibility of implementing other measures to reach these objectives in line with the discussions held meanwhile with the European Commission. Such measures, if possible, proposed or imposed would, in general, be applicable during the period of time the State aid is in effect and could consist in additional restrictions in the policy for the distribution of dividends to the holders of ordinary shares and the repurchase of the same and in the discretionary or deferred payments relating to hybrid instruments and subordinated debt; changes to the remunerations policy; additional reduction of the cost structure in Portugal; definition of even more strict limits to the assumption of risks, namely in what concerns market risk and the granting of credit to related entities; additional reduction of the balance sheet in Portugal, contributing to adequate the offer and demand for banking services; additional limits to the purchase of holdings; sale of assets; limits to the granting of new credit in Portugal; restrictions in the price policy concerning new credits and deposits in Portugal and additional reduction of the commercial gap.

Currently there is no certainty as to the sense, contents and reach of the final decision of the European Commission regarding the restructuring plan.

1. See “The European Commission or a domestic court may order the repayment of a state aid provided to the Bank if they consider such aid illegal and/or not compatible with the Treaty on the functioning of the European Union (“TFEU”)”.

In spite of the discussions currently underway with the European Commission, the uncertainty remains on the extension of the restructuring that the Bank will have to carry out and on the exact contents of the restructuring plan, in case it is approved by the European Commission. The decision on the measures to include in the restructuring plan pertains to the European Commission, that may refuse or approve the restructuring plan and /or demand the adoption of different additional measures or alternatives versus the ones previously indicated, including measures with a behaviour and/or structural nature, which may include the sale of assets (including assets deemed by the Bank as strategic assets) or an even more profound deleveraging. Moreover, the conditions imposed by the European Commission in the decision approving the recapitalisation general regime may be applied even after approval of the Bank's restructuring plan. The adoption or imposition of all or a portion of these conditions and obligations may affect the operational and strategic flexibility of the Group and may have a substantially adverse effect in the financial situation, in the operating revenues and in the future prospects of the Bank.

Furthermore, the Bank may also have to face other costs related with its restructuring plan, including costs deriving from the closing of branches or headcount reduction. Any costs supported by the Bank due to the implementation of its restructuring plan may significantly and adversely affect its financial situation, results of operations and prospects.

The Recapitalisation Plan may not be sufficient to meet the Bank's future regulatory capital requirements and the Bank may engage in further liability management transactions and/or sales of assets.

Continued deterioration in the economic and financial markets in Europe and internationally, further downgrades in the Bank's credit ratings or a change in the Bank's regulatory capital requirements could result in the Bank not holding sufficient reserves to meet its regulatory capital requirements, as described under "Risks Relating to Volatility in the Global Financial Markets.". In that event, the Bank may offer additional ordinary shares or other financial investments to meet its regulatory capital requirements. Such offerings may be in the form of an offering of pre-emptive rights to the Bank's current shareholders, or the Bank may decide to engage in other liability management transactions in which the Bank would offer the holders of other classes of securities issued by the Bank or its affiliates the opportunity to exchange or otherwise convert such other securities into the Bank's shares, including its ordinary shares. In addition, the Bank may seek other alternatives to reinforce own funds and may consider the sale of assets, which could impact negatively its profitability.

Although this is not foreseen and not intended or expected to occur, it cannot be fully excluded that in accordance with the rules governing the recapitalisation of Portuguese banks, the Bank may be forced to resort to additional funding from governmental entities in exchange for the issuance of additional ordinary or special shares (of the same or different kind of the Special Shares) and may result in the ability of such governmental entities to exert significant control over the operations of the Bank, namely because this could, in certain cases, result in the conversion of all or any Core Tier 1 Capital Instrument held by the Portuguese Republic into shares.

Any additional issuance of ordinary shares and/or special shares by the Bank or the public perception that any such issuance may occur, could have an adverse effect on the market price of the Bank's ordinary shares. In addition, any further issuance of additional ordinary shares and/or special shares (of the same or different kind as the Special Shares) would dilute existing holders of ordinary shares to the extent such existing holders do not, or are unable to, exercise pre-emptive rights or such pre-emptive rights are limited or cancelled.

The European Commission or a domestic court may order the repayment of a State aid provided to the Bank if they consider such aid illegal and/or not compatible with the Treaty on the Functioning of the European Union ("TFEU").

The Bank benefited from aid given by the Portuguese State in the form of recapitalisation, under the general regime for the recapitalisation of credit institutions in Portugal, pursuant to Law 63-A/2008 of 23 November, Ordinance 150-A/2012 of 17 May and in subsequent legislation. In its Decision dated 30 May 2012 (relating to State aid case SA.34055 (2011/N) – Portugal²), the European Commission considered that this public aid is indeed State aid within the meaning of article 107 of the TFEU and found them compatible with the Treaty provided that a number of conditions.

With regard to the Recapitalisation Plan, some of the conditions imposed by the EC are partially recited below:

- (“a) a remuneration for Hybrid Securities shall be, as a minimum, 8.5% for the first year of the investment of the State and shall be increased, thereafter, through annual step-ups in order to

reach an average of 9% throughout the five year period of legal maturity of such hybrid instruments;

- (b) a dividend ban on the Beneficiaries, unless previously authorised by the European Commission, except for the adequate remuneration of the State;
- (c) a ban on buying back hybrid instruments and subordinated debt;
- (d) a ban on coupon and interest payments on hybrid instruments and subordinated debt, where there is no legal obligation to proceed with such payment;
- (e) a ban on aggressive commercial strategies;
- (f) a ban on the acquisition of equity stakes in other companies, unless previously authorised by the European Commission”.

These conditions will continue to be applied after the approval of the restructuring plan of the Bank and, in that extent, may affect the strategic and operational flexibility of the Group and may have an adverse effect on its financial condition, results of operations and prospects.

In 2012, BCP prepared and presented to the Government a restructuring plan as required by Portuguese law and by European Union rules on State aid, which was formally submitted by the State to the European Commission complying with the maximum term of six months after the approval of the Decision.

The European Commission may approve or refuse to approve the Bank’s restructuring plan and /or impose alternative or additional measures as a condition for the approval of the State aid. If, in spite of the favourable opinion of Banco de Portugal relating to the Bank’s viability, as mentioned in the Decision, the European Commission would consider that the Bank’s viability could not be restored in the long term without additional State aid, the already mentioned additional or alternative measures could mean the orderly winding-up of the Bank. The compliance by the Bank with the restructuring plan to be approved by the European Commission and with the conditions established in the decisions mentioned above, made by the European Commission, in the extent that the same are applicable after the approval of that plan, are decisive factors so that the European Commission definitely authorises the State aid granted to the Bank. Compliance with such measures may constrain the strategic and operational flexibility of the Group and may have a material adverse effect on its financial condition, results of operations and prospects.

If the State and/or the Bank do not comply with the conditions established in past or future decisions of the European Commission relating to State aid granted or to be granted to the Bank, if the European Commission considers that these decisions were made based on incorrect information, if a national court decides that State aid has been granted in violation of the obligation laid down in Article 108 TFEU requiring the relevant State to notify the European Commission prior to the State aid implementation, or if the European Commission considers that State aid granted is incompatible with the TFEU, the European Commission and/or a national court, as the case may be, may order the State to recover the amount corresponding to the aid made available to the Bank. The European Commission can also order the Bank to return the aid if it deems that the Bank (including in what concerns any aspect related with the subscription of the Core Tier 1 Capital Instruments or with the contract denominated “*Underwriting Agreement*”, established with the State on 29 June 2012) benefited from any State aid that has not been previously authorised by the European Commission, if it considers that such aid is not compatible with the TFEU.

A potential obligation to repay the aid granted to the Bank would have a material adverse effect on its financial condition, operating revenues and prospects and would demand, among other aspects, a reimbursement of the Core Tier 1 capital Instruments held by the State in anticipation of what is foreseen in the Recapitalisation Plan and the repurchase or redemption of the public funds in shares that may have been carried out in the meantime, if any, which repurchases may present further legal complications under Portuguese corporate law.

The Bank’s bonds guaranteed by the Portuguese Republic may entitle the Portuguese Republic to exercise certain management rights and to acquire Special Shares.

The Bank carried out four issues of non-subordinated bonds guaranteed by the Portuguese Republic under the provisions of Law number 60-A/2008, of 20 October 2008 and Ministerial Order (*Portaria*) no. 1219-A/2008, of 23 October 2008, as amended, in the total value of EUR 6 billion. Pursuant to the Portuguese legislation, in

2 Extended by decision dated 17 December 2012 (SA.35747).

the event of the calling on the guarantees, the Portuguese Republic is entitled, amongst others, to appoint members of the Board of Directors, decide on the adoption of principles of good corporate governance and on the remuneration policy of the members of the management body, and/or convert any claim against the Bank resulting from the payment of guarantees into share capital of the Bank, including, in particular, into Special Shares.

In order to ensure compliance with the legal provisions referred to above, the general meeting of shareholders resolved, in relation to each issuance of bonds backed by the Portuguese Republic, that the Board of Directors is authorised to resolve on the issuance of shares with exclusion of pre-emptive rights of shareholders for conversion of any credit of the Portuguese Republic arising from the calling on the guarantees provided by the Portuguese Republic. In the event the guarantee is called, any payment of interest or dividends by the Bank will be subject to the prior approval of the Portuguese Republic (except in compliance with legal obligations) and any increase of capital resulting from an exchange of the loan into share capital will result in a dilution of existing shareholders. In addition, the issuance and the distribution of new shares may affect, in an adverse way, the share price of BCP shares and increase its volatility.

6 Legal and Regulatory Risks

The Bank's activity may be affected by potential changes in the regulatory framework of the banking activity, including, among other factors, in what concerns capital and liquidity requirements.

The Group conducts its business in accordance with the applicable regulations and is subject to the related regulatory risks, including the effects of amendments to laws, regulations and policies in Portugal and in other countries where the Group operates. As a result of the current environment and recent market events, the Portuguese and international regulatory entities, including the European Union, have considered significant changes to the Bank's regulatory framework, particularly in relation to capital adequacy and the scope of Bank operations. As a result, the Bank may face increased regulation which may materially and adversely affect the Bank's operations.

Capital Requirements

The implementation of a more demanding and restrictive regulatory framework, with additional restrictions on financial institutions, in particular with respect to capital ratios, indebtedness, liquidity and disclosure requirements, even if beneficial to the financial system and of a preventive and temporary nature, will imply additional costs for banks.

Compliance with new regulations might increase the regulatory capital requirements and costs of the Bank, result in increased disclosure, restrictions on certain types of transactions, limitations on the Bank's strategy, and limitations or modification of the rates or fees charged by the Bank for certain loans and products. Any of the above might reduce the yield of the Bank's investments, assets or holdings. As a consequence, this could have a material adverse effect on the Bank's financial condition, results of operations and prospects.

As part of the PAEF signed with the Troika, Portugal agreed that, while the Program is in force, Banco de Portugal will demand to all the banking groups it supervises, to reach a ratio Core Tier 1 of 10% until the end of 2012 and that level should be kept thereafter. This requirement was formally approved by Banco de Portugal in its Notice 3/2011. In addition to these requirements, on 8 December 2011, the EBA recommended that European Union central banks temporarily increase capital requirements in connection with bank exposure to sovereign debt. For Portugal, this represented a substantial increase in capital strengthening requirements (reaching a total of EUR 6,950 million, of which EUR 3,700 million refer to the sovereign debt buffer). This recommendation was endorsed by Banco de Portugal, which, in line with the guidelines issued by the EBA, established in Notice no. 5/2012 that these additional requirements should be complied with by 30 June 2012.

It is currently unclear how long Portuguese banks will be required to comply with the EBA recommendations, and there can be no guarantee that temporary capital requirements are not maintained or will not be further increased in the future. Further increases in the Bank's capital adequacy requirements may result in the Bank needing additional capital in order to comply with the more demanding capital ratios, thereby lowering the profitability of such capital. Additional requirements may also lead to the Bank being unable to repay the Core Tier 1 Capital Instruments on the schedule contemplated in its Recapitalisation Plan or in applicable law. Any of the above events could have a material adverse effect on the Bank's financial condition, results of operations and prospects.

The enhanced supervision by Banco de Portugal as a result of the PAEF agreed with the Troika could increase costs and potentially force the Group to sell some of its non-core assets under distressed conditions. As a consequence, the Bank might be confronted with the need to further increase its capital base or further restrict its policy of profit distribution past the requirements already included in the Recapitalisation Plan. Moreover, the Bank could be faced with additional constraints concerning the management of its assets and liabilities in the context of the commitments undertaken under the Recapitalisation Plan, and the obligations set out in the Decision and also in the respective annexes or those of the restructuring plan that is being appraised by the European Commission.

The Core Tier 1 ratio of the Bank stood in 12.4% (IRB approach) (calculated in accordance with the rules of Banco de Portugal) on 31 December 2012. However, it is not possible to guarantee that Core Tier 1 ratio will remain above the minimum values established by Banco de Portugal in Notices no. 3/2011 and no. 5/2012 referred to above thereafter, and, if the Bank's Core Tier 1 ratio falls below such minimum value, the Bank may need to adopt additional measures such as acceleration of the deleveraging process, the reduction of RWAs, the sale of non-core assets and other measures, with the objective of strengthening the Core Tier 1 ratio. And as a result, increased capital requirements could have a material adverse effect on the Bank's financial condition, results of operations and prospects.

Basel III

On 12 September 2010, the Basel Committee on Banking Supervision 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 I capital will gradually increase from 3.5% of risk weighted assets 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. Further changes include: (i) a progressive increase of the common equity ratio from 3.5% to 4.5% by 2015; (ii) a progressive increase of the Tier I ratio from 4.5% to 6% by 2015; (iii) an additional requirement of a capital conservation "buffer" of 2.5% on common equity, with phased implementation from 2016 to 2019 and restrictions on bank capacity to pay dividends or make other payments, to be defined, if the capital is below the common equity ratio and capital conservation ratio; (iv) 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; and (v) the leverage ratio will be tested for a non-adjusted ratio of 3% risk. Furthermore, the Basel III framework also contains stricter requirements relative to the quality of the capital that may be considered Common Equity Tier I capital and for the calculation of risk weighted assets. Full implementation of Basel III is expected to occur by the beginning of 2019. It is expected that the main impacts of Basel III on consolidated capital ratios will be related to deferred tax assets, expected loss impairment provisions, the pension fund corridor, minority holdings in consolidated subsidiaries, significant holdings in non-consolidated financial institutions, and in the increased capital requirements for market and counterparty risks.

On 13 January 2011, the Basel Committee issued "Minimum requirements to ensure loss absorbency at the point of non-viability", which suggests some specific rules for internationally active banks, such as the Bank. The rules require that all additional Tier 1 and Tier 2 instruments issued by internationally active banks must include, with certain exceptions, a provision in their terms and conditions requiring that they should be written-off when particular circumstances occur. If these rules were to be implemented in Portugal, the Bank would be subject to them. If the proposal were to be implemented in its current wording, this could increase the cost of the additional Tier 1 and Tier 2 instruments issued by the Group in the future.

In addition to the rules regarding capital requirements, Basel III recommendations also provide for the setting of short and long-term liquidity ratios and funding ratios referred to as "Liquidity Coverage Ratio" and "Net Stable Funding Ratio", respectively. The Liquidity Coverage Ratio, for which implementation is recommended to be carried out in 60% in 2015 with an annual increase of 10% until it reaches 100% in 2019, concerns the sufficiency of high quality liquid assets to meet short-term liquidity needs in high stress scenarios, where the value of these assets may not be less than 100% (from 2019 onwards) of net outflows of cash flow for the 30 days following the relevant stress date. Moreover, the Basel Committee extended, in the beginning of 2013 the definition of high quality net assets, including debt of companies rated "A+" up to "BBB-", shares and high quality mortgage-backed securities. A haircut is applied to these assets and its weight on the "Liquidity Coverage Ratio," is limited to the class of asset. The Net Stable Funding Ratio, for which implementation is

recommended to be carried out in 2018, seeks to establish a minimum amount of stable funding based on the liquidity features of assets of the relevant institution and its activities during the period of one year.

The profitability of financial assets is generally inversely correlated with its liquidity. To that extent, compliance with these ratios by the Bank may lead to the need to strengthen or create a portfolio of highly liquid but low profitable assets and/or an increase of funding costs, since the method for calculating these ratios favours long-term over short-term funding.

In addition to these requirements, institutions identified as systemically relevant at a worldwide level might be subject to even more demanding and restrictive requirements. While the Bank does not anticipate that Portuguese banks will be classified as systemically relevant at a global level, there are, however, proposals that this principle should also be applied at a national level. If this occurs, the Bank's classification as systemically relevant for Portugal could result in additional costs for the Bank.

Significant uncertainty remains concerning the final requirements and implementation of Basel III. If these measures are implemented as currently proposed, it is expected that this will have a significant impact on the capital and on the management of the assets and liabilities of the Group, which would likely have an adverse effect on the Group's financial condition, results of operations and prospects.

Increased capital requirements for certain payments on deposits

Banco de Portugal (Notice no. 7/2011 and Instruction no. 28/2011) has set additional capital requirements applicable to situations where the interest on deposits exceeds a specified limit based off of Euribor. Although this measure contributes to counteract the trend of increased deposit rates and pressure on net interest income in the context of limited funding and instability in international financial markets, the ability to attract stable long term financial resources might have an additional impact on yields and, consequently, on capital.

New credit institution restructuring rules

The international financial crisis and its effects on the banking sector has led to the adoption of legal mechanisms and intervention powers of supervisors in credit institutions where such institution's financial situation begins to show signs of deterioration, so as to enable the swift adoption of measures aimed at preventing the risk of contagion to other institutions. These proposals identified the need to entrust supervisors with a series of preventative intervention powers under a harmonised system in the EU.

In this context, Decree-Law no. 31-A/2012, of 10 February 2012, which amended various rules of the General Framework of Credit Institutions and Financial Companies (the "Banking Law"), replaced the credit institution restructuring system, approving a new system characterised by three different intervention phases (corrective intervention, provisional administration and resolution), applicable according to the severity of the risk or degree of non-compliance by an institution of relevant regulation, as well as the scale of the respective consequences on the interests of the depositors or on the stability of the financial system. Banco de Portugal will be responsible for the choice of the method of intervention and adoption of specific measures.

The new regime requires the preparation of recovery and resolution plans (living wills) to be submitted periodically to Banco de Portugal, who will be responsible for approving them or requesting their modification, to ensure planning in the event of the need for the recovery or resolution of a credit institution, also enabling Banco de Portugal to detect and remove constraints to the application of resolution measures.

The provisional administration phase will correspond to situations that may place the financial balance or solvency of the institution at serious risk, or constitute a threat to the stability of the financial system. In this stage, Banco de Portugal will have the possibility of suspending the management body of a credit institution and appointing all its members.

In the extreme case of a credit institution being at serious risk of failure or of non-compliance with its regulatory requirements, such as its minimum capital adequacy requirements and where it is not foreseeable that the credit institution will survive or manage to return to being compliant within a reasonable period, supervisory authorities may apply certain measures of last resort, including the total or partial disposal of the business of such credit institution or the transfer of assets, liabilities, off-balance sheet items or assets under management to a transition bank.

The application of this type of measures will naturally depend on their necessity to prevent systemic contagion or possible negative impacts on the financial stability plan, with a view to minimising costs for the public

treasury or safeguarding the trust of the depositors. Pursuant to the preamble of the abovementioned Decree-Law, *“its application should seek to assure that the shareholders of the credit institution, as well as its creditors, are the first to assume its losses, in accordance with the respective hierarchy and under conditions of equality within each category of creditors”*.

As is already the case in other countries, a resolution fund has been created for the purpose of providing financial support for the application of any resolution measure that might be adopted by Banco de Portugal, which foresees the participation of credit institutions based in Portugal, branches of credit institutions based in States not belonging to the European Union, relevant companies for the management of payment systems subject to supervision by Banco de Portugal as well as certain types of investment companies.

Decree-Law no. 31-A/2012, of 10 February 2012, also reviewed the special winding-up system of institutions subject to supervision by Banco de Portugal, including, in particular, the constitution of credit privileges applicable to loans backed by deposits covered by deposit guarantee funds, as well as loans certified by the Deposit Guarantee Fund, Crédito Agrícola Mútuo Guarantee Fund or Resolution Fund, arising from any financial support that these institutions might provide under the application of resolution measures, within the framework of the legal limits applicable to each one of them.

Although these measures contribute to the flexibility of regulators to intervene in the case of difficulties experienced by credit institutions aimed at increasing efficiency and reducing systemic risk in the restructuring and resolution process, its effective implementation may result in increased expenses (related, in particular, to possible contributions to the resolution fund) or, particularly in the case of effective implementation of the system, losses which negatively impact the Bank’s financial condition, results of operations and prospects.

The Bank is subject to the increase in obligations and effects resulting from the new legal framework within the scope of prevention, monitoring and correction of clients’ default risk.

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, namely:

- Decree-Law 227/2012, of 25 October 2012 (“General Regime”), that foresees that credit institutions should adopt an action plan for default risk (PARI), setting forth procedures and measures to prevent defaulting loans; and that created the Extra-Judicial Procedure for the Correction of Default Situations (PERSI), that aims to promote negotiations outside the courts between credit institutions and bank customers in case of default;
- Law 58/2012, of 9 November 2012, that enshrines an extraordinary regime for the protection of home loans debtors that are in an extremely difficult economic situation, wherein is foreseen that credit institutions should adopt extraordinary measures to correct defaults on loan agreements for the acquisition, construction or ordinary or extraordinary conservation, or for the improvement of own permanent home, in cases when the bank customers request access to said regime and meet the application requirements.

This legal framework sets forth a group of obligations for credit institutions and protection measures for bank customers, contemplating procedures for gathering of information, contacting customers, monitoring the execution of loan agreements and managing default risk situations; duties to assess the financial capacity of the bank customer and the presentation of default correction proposals adapted to the debtor’s situation; drawing up a plan for restructuring the debts emerging from home loans or replacing mortgage foreclosures, that 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, reduction of spreads for the duration of the grace period, among others.

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 will in turn have an adverse effect on the financial condition, results and prospects.

These initiatives represent significant changes in terms of execution of loan agreements within an adverse economic environment, with high and persistent unemployment rates, which resulted in a surge of credits with doubtful collection. Implicit limitations in terms of fees, financial margin and flexibility in terminating contracts, as well as the uncertainty regarding the behavioural effects that these changes may raise, may have a negative impact on the Bank’s financial condition, results and prospects.

New provisions of the ECB relating to the discretionary acceptance of bank debt guaranteed by national central banks may affect the pool of the Bank's eligible collateral.

The ECB recently issued Guideline ECB/2012/18, of 2 August 2012, on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral and amending Guideline ECB/2007/9. Among other aspects, Guideline ECB/2012/18 includes provisions permitting national central banks not to accept bank bonds guaranteed by an EU Member State under a EU/IMF programme or whose credit assessment does not comply with the ECB benchmark as collateral. In addition, this Guideline establishes that, except under exceptional conditions where the Governing Council may grant exemptions, bank bonds guaranteed by an EU Member State may not be used as collateral in excess of the nominal amount of such collateral already submitted to the ECB on that date. These decisions introduce uncertainty with regard to the Bank's liquidity in light of the discretionary nature of decision-making by each national central bank, which has an indirect impact on the acceptance of this type of debt as collateral by third parties, thereby affecting the Bank's ability to obtain market funding, and may lead to greater isolation of the financial systems of the countries undergoing financial aid.

The planned creation of a deposit guarantee system applicable throughout the European Union may result in additional costs to the Group.

The harmonisation of the deposit guarantee systems will represent significant changes to the mechanisms of the deposit guarantee systems currently in force in individual countries. Harmonisation of the deposit guarantee systems contemplates increasing *ex ante* funding to around 75% of total funds and increasing the target levels of the deposit guarantee systems to 2% of eligible deposits. Banks may be required, as a result, to contribute to the deposit guarantee systems in amounts that are much higher than the current contributions. The European Union estimates that the cumulative impact on banks will be a reduction of 4% in their operational results over the first five years, and a reduction of 2.5% over the following five years.

Although the harmonisation of the deposit guarantee systems is currently expected to maintain the level of coverage at EUR 100,000, the pressure on the European Union authorities to simplify eligibility criteria and put swifter payment procedures in place may lead to additional adjustments in the level and scope of coverage, resulting in higher bank contributions to the deposit guarantee schemes.

Indirect additional costs on the deposit guarantee system might also have to be considered even if significantly lower than the direct contributions to the fund, such as detailed information to customers on products and specific regulation for advertising deposit or deposit-like products.

Any additional costs to the Group as a result of the harmonisation of the deposit guarantee systemation at an EU level may have a negative impact on the financial condition and results of the Bank.

Government regulatory responses to market turbulence may be inadequate and have undesired consequences, in particular in the banking activity.

As a consequence of the persistence of the sovereign debt crisis at an European level and the internal economic and financial crisis, there has been government intervention aimed at mitigating their effects and it is expected that considerable increase in the regulation of the financial service sector will continue, in addition to those that have already taken place, materialised in the establishment of higher capital requirements, more strict standards of communication duties and restrictions to certain types of transactions. New regulations could imply that Banco Comercial Português needs more capital or that the rates or fees it charges on certain loans or other products are changed. Any of these events could have material adverse effects on the Group's financial situation and net income of its operations. The BCP Group may also face increased compliance costs and limitations to its capacity to pursue certain business opportunities.

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 European Union and other countries in which it operates, as well as by changes of interpretation by the competent tax authorities of legislation and regulation. 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 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 to public finance in the medium term, as negotiated in the PAEF, will imply increased tax costs through the expansion of the tax base, tax rates and/or reduction of tax benefits, as well as increased restrictions on tax planning practices, with direct impact on the Bank's net income and turnover. Moreover, changes in legislation may require the Bank to bear costs due to participation in financial stabilisation mechanisms, at a national or European level.

For example, under Portuguese Law 55-A/2010, of 31 December 2010 and Ministerial Order (*Portaria*) no. 121/2011, of 30 March 2011, a bank levy is now applicable to the Bank and will be applied over (i) the Bank's liabilities at a tax rate of 0.05% and (ii) the notional amount of off-balance sheet financial derivatives, excluding hedging derivatives and back-to-back derivatives at a tax rate of 0.00015%. 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. The Bank has made provisions which it believes are adequate to cover an adverse outcome of those disputes. However, there can be no assurance that those provisions will be sufficient to cover all the additional taxes assessed if the outcome of those disputes was negative.

The resolutions adopted by the European Commission relating to the Banking Recovery and Resolution ("Crisis Management Framework") may restrict the trading operations of the Group and increase its refinancing costs.

The Crisis Management Framework aims to equip authorities with common tools and powers to tackle bank crises at the earliest possible moment, and avoid costs for taxpayers. The set of measures foreseen in the Crisis Management Framework includes preparatory and preventive measures, the attribution of powers to the supervision authorities enabling them to act in advance and that are triggered whenever one financial institution does not comply or it is likely that it will not comply with the regulatory requirements it is subject to and also resolution instruments and powers to be used when a financial institution does not comply or it is likely to fail. The application of these measures and powers will likely interfere with the rights of shareholders and creditors of the Bank.

Implementation of the Crisis Management Framework also entails the establishment of national funds to support bank resolution. Banks subject to the Crisis Management Framework may be required to contribute to *ex ante* funds. The exact amount of such contributions has not been determined, but any requirement for banks to contribute to *ex ante* funds will increase the banks' costs.

Pursuant to the Crisis Management Framework, credit institutions will be required to prepare and update recovery plans suitable for addressing liquidity problems, solvency or overall risk exposure. As a complement to resolution planning, authorities will have preventative powers including limiting or modifying risk exposure, enacting additional reporting requirements, restricting or prohibiting certain activities and changing group structures. These actions may negatively affect the Bank's profitability and cost of funds and/or require the Bank to change its overall strategy.

As part of the early intervention powers provided for by the framework, authorities will be invested with powers to prohibit the distribution of net income to shareholders or holders of hybrid securities, to replace managers or directors of a financial institution and to require the financial institution to dispose of assets that pose excessive or unwanted risk to the financial soundness of the institution. Such actions may negatively affect the investors' expected income and may have other adverse effects due to changes in the business lines of the Bank.

When dealing with failing financial institutions, regulatory authorities' resolution powers include, among others, the right to determine the transfer of assets, rights or liabilities to another entity, to write off or cancel shares, to write down or convert debt, to replace management and to demand continuity of essential services. (See "*The Bank's activity may be affected by potential changes in the regulatory framework of the banking activity, including, among other factors, in what concerns capital and liquidity requirements - New credit institutions restructuring rules*").

7 Risks Relating to Administrative Proceedings by the CMVM and the Bank of Portugal

The Bank has been accused and condemned by the CMVM and (not definitively) by Banco de Portugal in infringement proceedings related to operations, including the financing of the acquisition of shares issued by the Bank, carried out with companies, namely based in off-shore centres, and, in this context, has proceed with the precautionary recording of an adjustment of Euro 300 million (Euro 220.5 million net of tax) to its financial statements of the fiscal year of 2006. The Bank has contested these infringement proceedings and taken legal action against the condemnatory decisions of Banco de Portugal and the CMVM, where the final decision relative to the infringement proceeding of the CMVM is already known, which maintained the condemnation of BCP to pay a fine of Euro 5,000,000 and determined the suspension, for the period of two years, of the enforcement of half the value of this fine.

Summary of procedures and investigations by the CMVM and Banco de Portugal

At the end of the financial year of 2007, the Bank received a formal notice dated 27 December 2007 sent by Banco de Portugal, informing that it had filed infringement proceeding number 24/07/CO against the Bank, *“based on the existence of preliminary evidence of administrative offences established and punished by the General Framework of Credit Institutions and Financial Companies (approved by Decree-Law number 298/92, of 31 December), namely non-compliance with accounting rules, provision of false or incomplete information to Banco de Portugal, in particular regarding the value of own funds, and non-compliance with prudential obligations”*.

A press release issued by Banco de Portugal on 28 December 2007 noted that this proceeding had been filed *“based on facts related to 17 off-shore entities whose nature and activities were always hidden from Banco de Portugal, namely during previous inspections”*.

On 12 December 2008, the Bank was notified by Banco de Portugal of an accusation under the process of the abovementioned infringement proceeding number 24/07/CO instructed by Banco de Portugal.

The Bank did not accept the accusation made against it, and submitted objection to this infringement proceeding within the period of time for this effect, which ended on 16 March 2009.

On 12 May 2010, the Bank was notified of the contents of the decision read under the proceedings filed against it by the Board of Directors of Banco de Portugal, which condemned the Banco to pay a single fine of the value of Euro 5,000,000 and also applied sanctions to various natural persons connected to the Bank.

The Bank appealed against the decision of the administrative authority, and initiated judgement in the Small Instance Criminal Court of Lisbon. Following the inquiry of one of the witnesses for better appraisal of the question of the validity of the documentation attached to the accusations and on its possible nullity as evidence, due to breach of bank secrecy, an order was read in October 2011, declaring the nullity of the evidence submitted and, as a consequence, the nullity of the entire proceeding.

The Public Prosecutor and Banco de Portugal have appealed against this decision. The Bank and other defendants, in due time, submitted their respective answers to the allegations. The Court admitted such appeals, as well as the respective replies, and those have been sent to the Lisbon Court of Appeal. The Public Prosecutor has submitted its opinion before the Lisbon Court of Appeal that the appeals should be accepted. The Bank has replied to this opinion, arguing in favour of the appealed decision. By a judgment dated 3 July 2012, the Lisbon Court of Appeal upheld the appeal of the Public Prosecutor and Banco de Portugal and therefore revoked the appealed judgment, having determined that the trial hearing should be resumed and continued. Three defendants (natural persons) have appealed to the Constitutional Court against the decision of the Lisbon Court of Appeal. On 21 March 2013, the Constitutional Court rejected the mentioned appeal.

On 12 December 2008, the Bank was also notified by the CMVM of an accusation brought against it under infringement proceeding number 41/2008.

The Bank did not accept the accusation brought against it and submitted, on 27 January 2009, objection to the infringement proceeding in question, having argued for the total rejection of the accusation.

On 26 June 2009, BCP was notified of the condemnation to pay a single fine of the value of Euro 5,000,000 (five million) for the disclosure of untrue information. The CMVM deliberated to proceed with the partial suspension, of the value of Euro 2,500,000 for the period of 2 years, of the enforcement of the applied fine. In its decision, the CMVM expressed the understanding derived from the law that, in the case of the taking of legal

action against this outcome, the decision relative to the partial suspension of the enforcement of the fine would extinguish.

The Bank did not accept the decision and on 24 July 2009 submitted legal action against the decision.

On 21 July 2010, the Small Instance Criminal Court of Lisbon read the sentence in the proceeding which confirmed the condemnatory decision of the CMVM, including the value of the fine of Euro 5,000,000, although it considered founded and granted the Bank's appeal with respect to the subsistence of the partial suspension of the fine, which was maintained in spite of the Bank having taken legal action against the decision of the CMVM.

The Bank appealed against the judicial decision and was notified, on 11 April 2011, of the decision of the Court of Appeal which dismissed its appeal, having then submitted an appeal at the Constitutional Court, which declined to grant it. Therefore, the decision of 21 July 2010 of the Small Instance Criminal Court of Lisbon is now final.

Consequently, the development of regulatory investigations, any regulatory proceedings and liabilities resulting thereof, and any dispute arising from or related to the procedures and investigations described above, if decided against the Bank, could have an important negative effect on its activity and results.

Adjustment to the financial statements

In December 2007, the Bank initiated an internal investigation process in relation to the operations connected to the off-shore companies referred to above. Furthermore, the Bank complied with the requests of the CMVM and Banco de Portugal, namely by providing the requested documentation.

In view of the existing indications arising from the investigations conducted by the supervisory authorities regarding the more thorough analysis of the economic substance of the transactions described below, the Bank decided in 2008 to consider a more prudent interpretation, considering the currently identified risks, of their nature and restructuring, and recorded an adjustment of Euro 300 million taking effect as at 1 January 2006, where its respective effect net of tax reached approximately Euro 220.5 million. This decision did not imply any kind of recognition by the Bank of the existence of alleged infractions which might be imputed to it.

This adjustment decreased the Bank's Tier 1 capital ratios and may lead to loss of trust, which could hinder any future share capital increases. It cannot be guaranteed that new adjustments will not be required or recommended to the Bank, which may depend on the outcome of the procedures and investigations conducted by Banco de Portugal and the CMVM or could arise otherwise as a consequence of, or in relation to, the transactions summarised below. Consequently, the development of regulatory investigations, any regulatory proceedings and liabilities resulting thereof, and any dispute arising from or related to the above, if decided against the Bank, could have an important negative effect on its activity and results.

Summary of the activities of the off-shore entities and respective transactions

The abovementioned procedures and investigations, as well as the said adjustment, are related to the transactions summarised below.

Between 1999 and 2002, companies based in off-shore centres, financed by the Bank, acquired Bank shares, which, in November 2002, reached approximately 5% of the Bank's share capital. In November 2002, the said off-shore companies sold their BCP shares to a financial institution, against cash, having also received securities indexed to shares issued by this (Equity-Linked Notes). In 2004, the said financing was subject to a restructuring and was taken by a business group whose activity consists of the real estate projects (hereinafter referred to as "GI"). Under this operation, GI assumed net liabilities with the Bank of approximately Euro 450 million. The Bank also sold the company Comercial Imobiliária (hereinafter referred to as "CI") to GI for Euro 26 million and a series of other real estate properties of the total value of Euro 61 million. Subsequently, and also during 2004, the Bank reacquired 11.5% of the share capital of CI.

In 2005, the Bank made a contribution in kind to the Pension Fund of the BCP Group of a group of assets which included commercial paper issued by CI, of the value of Euro 210 million, together with shares issued by listed entities. The proceeds of the commercial paper issued by CI were used to repay the Bank for part of the loans owed. In 2007, the commercial paper was converted into share capital of CI, with the GI Group henceforth holding a stake of 68.3% in the share capital of CI and the Pension Fund of the BCP Group holding a stake of 28.29% (of which 18.29% was subsequently sold to the Bank).

In 2006, CI acquired a holding and economic interest of 54% in a real estate development project in Luanda, Angola (“Luanda Bay Project”) and the Bank granted shareholder loans of the value of Euro 300 million, whose proceeds were used to repay part of the loans owed by GI to BCP.

In 2007, the Bank accepted, as assets in lieu of payment, 68.34% of the share capital of CI, for the repayment of liabilities to the Bank of the value of Euro 61 million.

As a result, namely, of the transactions referred to above, (i) all the loans granted by the Bank to the off-shore entities (subsequently assumed by GI) were repaid; (ii) the Bank, as of 2005, allocated a provision of the value of Euro 85 million for the loan in question; (iii) the Bank became the creditor of CI for the sum of Euro 300 million of shareholder loans, which, after the adjustment referred to above, are stated at the net value of Euro 23.4 million; (iv) the Banco became the shareholder of 99.9% of the share capital of CI, and, indirectly, approximately 54% of the future benefits of the Luanda Bay Project (a stake which, according to two independent valuations made in September 2007, was at that time valued between Euro 278.8 million and Euro 231.6 million).

In view of the existing indications arising from the investigations conducted by the supervisory authorities regarding the more thorough analysis of the economic substance of the transactions described below, the Bank has decided to consider a more prudent interpretation, considering the identified risks, of their nature and restructuring, and recorded an adjustment of Euro 300 million (Euro 220.5 million net of tax) relative to the shareholder loan agreement concluded with CI, and proceeded with its book recording at its investment value (Euro 23.4 million). This decision did not imply any kind of recognition by the Bank of the existence of alleged infractions which might be imputed to it. The adjustment took effect as of 1 January 2006 and the Bank’s financial statements as at 31 December 2007 were adjusted in order to reflect the effects of this restructuring as of 1 January 2006. The Bank, when it made this adjustment, had not been notified of any accusation and did not admit nor admits to any infraction or liability relative to the transactions described above.

During 2009, Banco Comercial Português S.A., after analysing the market conditions and the development prospects of the Luanda Bay Project, decided to reduce the Group’s investment in the said project to 10%, through sale to the Angolan company Finicapital - Investimentos e Gestão S.A., which generated a cash inflow of approximately USD 100,000,000 and capital gains of Euro 57,196,000.

Banco Comercial Português considers that the holding kept by the Group in the Luanda Bay Project will enable it to retain a relevant presence in an extremely important project for Angola and maintains the expectation that the Luanda Bay Project will generate additional earnings in the future, which may be recorded against profit or loss of the Bank for the financial years when they are generated.

At this date it is not possible to predict the definitive outcome of the proceeding lodged by Banco de Portugal or whether new lawsuits or investigations will be submitted in the future. However, the Bank runs the risk of being subject to restrictive measures of civil, administrative or other nature, including fines, depending on the result of the accusations, investigations and proceedings in question. The Bank might also be subject to investigations or proceedings by other regulators or disputes, in Portugal or in any other place, by shareholders or third parties, disputes which, if decided against the Bank, could lead to significant losses for the Bank and the downgrading of its ratings. Any of these regulatory proceedings and disputes could lead to negative publicity or perceptions relative to the business developed by the Bank and could lead to loss of customers and increased funding costs, and even draw the attention of the management team away from the current management of the Bank’s activity. Consequently, the development of regulatory investigations, any regulatory proceedings and liabilities resulting thereof, and any dispute arising from or related to the operations described above, if decided against the Bank, could have an important negative effect on its activity, operating income or financial situation.

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 (see *Terms and Conditions*).

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 above mentioned 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. At the date hereof, the Cover Pool contains mortgage credits, other eligible assets and hedging contracts in accordance with 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 per cent. 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.

Withholding under the EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non- EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

U.S. Foreign Account Tax Compliance Withholding

In all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems (see *Taxation – Foreign Account Tax Compliance Act*). 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), 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 by payment to Interbolsa in respect of each amount so paid and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing systems and custodians or intermediaries.

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 Interbolsa, as management entity of the Portuguese Centralised System (*Central de Valores Mobiliários*) held by non-resident investors (both individual and corporate) eligible for the debt securities special tax exemption regime which was approved by Decree-Law 193/2005, of 7 November, as amended, ("**Decree-Law 193/2005**") and in force as from 1 January 2006, may benefit from withholding tax exemption, provided that certain procedures and certification requirements are complied with.

Failure to comply with these procedures and certifications will result in the application of the Portuguese domestic withholding tax.

Decree-Law 193/2005 does not apply to Covered Bonds not held through Interbolsa. 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 Clause 7. Investors should note that such is the case if the Covered Bonds are issued through Euroclear Bank SA/NV, Clearstream Banking société anonyme or The Depository Trust Company and for as long as these do not have in place any procedures to identify the beneficial owners.

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 included in the "tax havens" list approved by Ministerial order no. 150/2004 of 13 February (as amended by Ministerial order no. 292/2011 of 8 November) is subject to withholding tax at 35%, which is the final tax on that income. The Bank will not be required to gross up payments in respect of any of such non-resident holders, in accordance with Clause 7.

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 (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) 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 Regulation (EC) No. 1060/2009 (as amended) (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 documents, which have previously been published and have been filed with the Financial Conduct Authority, shall be incorporated in, and to form part of, this Base Prospectus:

- (a) the published consolidated balance sheet (page 255 of the document related to 2011 Annual Report and page 183 of the document related to 2012 Annual Report), income statement (page 254 of the document related to 2011 Annual Report and page 182 of the document related to 2012 Annual Report), cash flows statement (page 256 of the document related to 2011 Annual Report and page 184 of the document related to 2012 Annual Report), statement of changes in equity (page 257 of the document related to 2011 Annual Report and page 185 of the document related to 2012 Annual Report), statement of comprehensive income (page 258 of the document related to 2011 Annual Report and page 186 of the document related to 2012 Annual Report), notes to the consolidated financial statements (pages 259 to 381 of the document related to 2011 Annual Report and pages 187 to 307 of the document related to 2012 Annual Report) and audit reports (pages 488 to 490 of the document related to 2011 Annual Report and pages 416 to 418 of the document related to 2012 Annual Report) of the Banco Comercial Português Group for the years ended on 31 December 2011 and 31 December 2012 all as included in the 2011 and 2012 Annual Reports of the BCP Group. The remainder of the 2011 and 2012 Annual Reports of the BCP Group is not incorporated by reference in this Base Prospectus;
- (b) the published unaudited consolidated balance sheet (page 17) and income statement (page 16) of the Bank and its subsidiaries for the three-month period ended 31 March 2013 included in the Earnings Press Release of the 1st Quarter 2013. The remainder of the Earnings Press Release of the 1st Quarter 2013 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 and on pages 74 to 99 of the Base Prospectus dated 29 June 2012 each prepared by the Issuer in connection with the Programme.

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

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive.

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

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered offices of the Issuer and from the specified offices of the Agent and of the Common Representative for the time being. Documents referred to in (a) and (b) above can be viewed electronically and free of charge at the Issuer's website at the following links <http://ind.millenniumbcp.pt/en/Institucional/investidores/Pages/RelatorioContas.aspx> and http://ind.millenniumbcp.pt/pt/Institucional/investidores/Documents/ApresentacaoResultados/Earnings_Millenniumbcp_1Q13.pdf. Earlier Base Prospectus published by the Issuer referred to in (c) above can be viewed electronically and free of charge at the website of the London Stock Exchange (www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).

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. The Issuer has undertaken to the Dealers in the Programme Agreement to comply with section 87G of the Financial Services and Markets Act 2000.

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 this 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 endorsed on, or attached 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 Covered Bonds* below.

This Base Prospectus will only be valid for admitting Covered Bonds to trading on the London 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 below)) 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;
- (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 depository (“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, société anonyme (“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 Secondary Market Arrangements*). Accordingly, the Covered Bonds will only be issued outside the United States in reliance upon Regulation S under the Securities Act.

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 tradeable 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, 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 *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), 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 Secondary Market Arrangements*). Accordingly, the Covered Bonds will only be issued outside the United States in reliance upon Regulation S under the Securities Act.

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 (the “**Common Depositary**”) for Euroclear and/or Clearstream.

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, have 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 anytime 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 €100,000 (or its equivalent in any other currency) plus one or more higher integral multiples of another smaller amount such as €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 Covered Bonds which have an original maturity of more than 1 year and on all interest coupons relating to such Covered Bonds.

“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 depository 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*) 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 “Eurosystème”), 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 (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 and, in the case of principal payments, the nominal amount of the Covered Bonds recorded in the records of Euroclear and/or Clearstream 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 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 []

[[] per cent./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 10 July 2013 [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, and copies may be obtained from the same address.]

[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 10 July 2013 [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 10 July 2013 [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 10 July 2013 [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 and copies may be obtained from the same address.]

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 [Issue 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:
 - A. Series: []

- B. Tranche: []
4. Issue Price: [] per cent. 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: [[] per cent. Fixed Rate] [[] month [LIBOR/EURIBOR] +/- [] per cent. Floating Rate] [Zero Coupon] (further particulars specified below)
- (ii) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date: [Not Applicable] [[] per cent. Fixed Rate] [[] month [LIBOR/EURIBOR] +/- [] per cent. Floating Rate] (further particulars specified below)
10. Redemption Basis: Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date at [] per cent. of their nominal amount.
11. Change of Interest Basis: [] [Not Applicable]
12. Put/Call Options: [Investor Put] [Issuer Call] [(further particulars specified 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 cent. per annum payable in arrear on each Interest Payment Date]
 - From Maturity Date up to Extended Maturity Date: [Not Applicable] [[] per cent 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
- B. From Maturity Date up to Extended Maturity Date: [Applicable]/[Not Applicable]
- Reference Rate: [LIBOR/EURIBOR]
 - Interest Determination Date: []
 - Relevant Screen Page: [Reuters] []
- (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 cent. per annum]
 - From Maturity Date up to Extended Maturity Date: [Not Applicable] [[+/-] [] per cent. per annum]
- (ix) Minimum Rate of Interest:
- To Maturity Date: [Not Applicable] [[] per cent. per annum]

- From Maturity Date up to Extended Maturity Date: [Not Applicable] [[+/-] [] per cent. per annum]
- (x) Maximum Rate of Interest:
 - To Maturity Date: [Not Applicable] [] per cent. per annum]
 - From Maturity Date up to Extended Maturity Date: [Not Applicable] [[+/-] [] per cent. per annum]
- (xi) Day Count Fraction:
 - To Maturity Date: [Not Applicable]
[Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360]
[30E/360]
[30E/360 (ISDA)]
 - From Maturity Date up to Extended Maturity Date: [Not Applicable]
[Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360]
[30E/360]
[30E/360 (ISDA)]
- 16. Zero Coupon Covered Bonds Provisions: [Applicable/Not Applicable]
 - (i) Accrual Yield: [] per cent. 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 made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [the London Stock Exchange’s regulated market and admitted to listing on the Official List of the UK Listing Authority/the Euronext Lisbon’s regulated market] with effect from [].]
[Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [the London Stock Exchange’s regulated market and admitted to listing on the Official List of the UK Listing Authority/the Euronext Lisbon’s regulated market] 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:
[Ba1] by Moody’s
[BBB (minus)] 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] [] per cent.

5. Operational Information

- (i) ISIN Code: []
- (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):

U.S. Selling Restrictions: [Reg. S Compliance Category] [Tefra D] [Tefra C]
[Tefra rules not applicable]

6. 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 UKLA 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]

[[] per cent./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 10 July 2013 [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, and copies may be obtained from the same address.

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 sub-paragraphs. 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:

A. Series: []

- B. [Tranche: []]
5. Issue Price: [] per cent. 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 Euro [100,000] or equivalent are being issued the following language should be used:*
- “Euro [100,000] and integral multiples of Euro [1,000] in excess thereof up to and including Euro [199,000]. No Covered Bonds in definitive form will be issued with a denomination above Euro [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: [[] per cent. Fixed Rate]
[[] month [LIBOR/EURIBOR/●] +/- [] per cent.
Floating Rate]
[Zero Coupon]
(further particulars specified below)
- (ii) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date: [Not Applicable] /
[[] per cent. Fixed Rate]
[[] month [LIBOR/EURIBOR/●] +/- [] per cent.
Floating Rate]
(further particulars specified 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 [] per cent. of their nominal amount

12. Change of Interest Basis: *[Specify the date when any fixed to floating rate change occurs or cross refer to paragraph [15 and 16] below and identify there]* [Not Applicable]
13. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified 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 cent. per annum payable in arrear on each interest payment day
 - From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [] per cent 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]

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

- From Maturity Date up to Extended Maturity Date: [Not Applicable]/ Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) (see Condition 4 (*Interest*))

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

17. Zero Coupon Covered Bonds Provisions: [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Accrual Yield: [] per cent. 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 5 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 5 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 includes language substantially to the following effect:

"[Euro 100,000] and integral multiples of [Euro 1,000] in excess thereof up to and including [Euro 199,000]. No Covered Bonds in definitive form will be issued with a denomination above [Euro 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: [Ba1] by Moody's [BBB (minus)] 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 Code: []

- (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) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (iv) 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 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** shall be deemed to include a reference to **applicable Pricing Supplement** 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 London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information source. If this Note 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 €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency) or, in any case only if higher than €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); and
- (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.
- (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.(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.

The Set of Agency Procedures contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (i) above, no such offered quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(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 paragraph 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 paragraph 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 nonleap 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:

“**Y₁**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“**D₂**” 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 D₁ is greater than 29, in which case D₂ 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:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” 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 D₂ will be 30;

- (i) 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:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” 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 D₁ will be 30; and

“D₂” 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 D₂ 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 6.8, 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, but without prejudice 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 Euro 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 6.8, 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 Terms¹ 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 (the “**Redeemed Covered Bonds**”) 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 (such date of selection being hereinafter called the Selection Date).

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 Terms² the Issuer will, upon

1. 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 5 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.

2. 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 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.

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 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 above (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 above or upon its becoming due and repayable as provided in Condition 9 (Insolvency Event and Enforcement) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

$$“RP” \times (1 + AY)^Y$$

where:

“RP” means the Reference Price; and ‘

‘AY’ means the Accrual Yield expressed as a decimal; and

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

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

7.3 *Taxing Jurisdiction*

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Portugal, references in these Terms and Conditions to the Republic of Portugal shall be construed as references to the Republic of Portugal 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 above, 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 5 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;
 - (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 a leading English language daily newspaper of general circulation in the United Kingdom. It is expected that such publication will be made in the *Financial Times* or another daily newspaper in the United Kingdom approved by the Trustee. 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 depository 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 per cent. 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; or (ii) if in respect to a Resolution regarding a Reserved Matter, at least 50 per cent. 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.

For the purposes of these Terms and Conditions, a “**Reserved Matter**” means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series, (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 12(C)(ii);

- (D) A Resolution approved at any meeting of the holders of Covered Bonds of a Series shall, subject as provided below, be binding on all the holders of Covered Bonds of such Series, whether or not they are present at the meeting. Pursuant to the Common Representative Appointment Agreement, the Common Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Common Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.
- (E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (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 per cent. 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 per cent. 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 per cent.; 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 per cent. of the Current Property Value, in case of a Property intended primarily for residential purposes, or 60 per cent. 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 per cent. 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 unless specifically stated to the contrary.

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 (*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 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 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 Hedge Contracts.

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

“**Overcollateralisation Percentage**” means 105.26 per cent. 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 per cent.; 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 (*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 recognized 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(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 London Stock Exchange or Euronext Lisbon’s regulated market.

“**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 Euro 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 EU 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 per cent. 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 Issuer Default Rating (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 per cent. of the value of the Property, if it is residential property, or 60 per cent. 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 per cent. 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 per cent. 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 per cent.; 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. 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.

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;
- (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 per cent. of the own funds of the Issuer or (ii) Euro 500,000, in the case of residential Properties, or Euro 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 recognized 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 Credit Institutions General Regime, 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;
 - 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 Commercial 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 per cent. or more of the share capital of the Issuer, either directly or on behalf of a third party; or (ii) have been reelected 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 9093.

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.

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 the second largest banking group in Portugal in terms of number of branches, total assets, loans to customers (gross, excluding off balance sheet securitisations) and customer deposits, as at 31 December 2012 (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 is highly regarded in Europe and Africa by virtue of its operations in Poland, Greece, Romania, Switzerland and in Mozambique and Angola, respectively, all of which operate under the Millennium brand.

In accordance with International Financial Reporting Standards (“**IFRS**”), the Group had at 31 March 2013, total assets of Euro 89,474 million and total customer funds (including customer deposits, debt securities, asset management and capitalization insurance) in the sum of Euro 70,622 million. Loans to customers (gross) amounted to Euro 66,507 million. The consolidated solvency ratio, calculated in accordance with Bank of Portugal rules stood at 12.6% (Core Tier 1 at 12.1%).

Based on the latest available data from Bank of Portugal, the Group accounted for 19.1% of loans to customers (gross) and 18.9% of customer funds in the Portuguese banking sector on 31 December 2012.

In addition, on 31 March 2013, the Bank was one of the largest companies listed on Euronext Lisbon in terms of market capitalisation (Euro 1,872 million).

The Bank’s registered offices are located at Praça Dom João I, 28, 4000–295 Oporto, with telephone number +351 211 134 001.

Bank History

Banco Comercial Português was incorporated in 1985 as a limited liability company (“*sociedade anónima*”), registered at the Commercial Registry of Oporto with a single register and fiscal number of 501 525 882, and is organised under the laws of the Portuguese Republic, in the wake of the deregulation of the Portuguese banking system, which allowed private-capital commercial banks to be established. The Bank was founded with the support of a group of over 200 founding shareholders and a team of experienced banking professionals who sought to capitalise upon the opportunity to form an independent financial institution, operating primarily in Portugal, that would serve the underdeveloped domestic financial market in areas and in a manner previously unexplored by the state-owned banks.

The first stage of the Millennium Group development was characterised primarily by organic growth and, until 1994, the Bank was able to significantly increase its share of the Portuguese financial services market by exploiting the market opportunities presented by deregulation. In 1994, the Bank gained market shares of 8.3% in total assets, 8.7% in loans to customers and 8.6% in deposits, according to information released by the Portuguese Banking Association (“*Associação Portuguesa de Bancos*”).

After 1994, competition in the domestic banking market intensified following the modernisation of existing financial institutions and the entry of new foreign and domestic deposit taking banks and non-deposit taking financial institutions. The Bank decided to acquire a domestic bank with a complementary business focus to secure additional market share in domestic banking, insurance and other related financial services sectors. In March 1995, the Bank acquired control of Banco Português do Atlântico, S.A. (“**Atlântico**”), which was then the largest private sector bank in Portugal. This followed a joint take-over 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 the Bank.

The Bank took a clear decision to opt for an internationalisation strategy, after the consolidation of its relevant position in the Portuguese market. From the beginning, the aim underlying the involvement in a process of internationalisation was the desire to participate in businesses with strong growth prospects in foreign markets with a close historical connection with Portugal and with businesses that have large communities of Portuguese

origin – including Mozambique, Macao, Luxembourg, France, USA and Canada – as well as in markets where there is a strong commercial rationale for establishing banking operations following a similar business model to the one the Bank has adopted in its Portuguese market – including Poland and Greece. The access to specialised knowhow and the new organisational capabilities led to the development of strategic partnerships with selected foreign financial institutions. These included alliances with Fortis (currently, Ageas) for bancassurance in Portugal, Eureko (currently, Achmea B.V.) for bancassurance in other markets, Banco Sabadell in Spain (wherein the Group provides support to Banco Sabadell customers in Portugal while Banco Sabadell provides support to the Group’s customers in Spain), and F&C Investments, for the asset management activities of the Group, and, in 2007, the establishment of a partnership with Sonangol – Sociedade Nacional de Combustíveis de Angola, Empresa Pública (“**Sonangol**”), providing for the subscription of up to 49.99% of Banco Millennium Angola (“**BMA**”) through a capital increase of the former.

In 1998, the Bank entered into a partnership agreement with the Polish financial group, BBG, pursuant to which it launched a retail operation with BBG in the Polish market under the name “Millennium”. This joint venture was controlled jointly by the Bank and BBG. As part of a restructuring of BBG in 2002, the Bank and BBG decided to merge their Millennium joint venture into BBG and to establish one banking operation. During the fourth quarter of 2002, the Bank increased its shareholding in BBG to 50% of its share capital. At the start of 2003, BBG changed its name to Bank Millennium. All existing BBG branches and brands were rebranded under the name ‘Bank Millennium’. On 16 December 2006, a further 15.51% of Bank Millennium’s share capital and voting rights was acquired, increasing the Bank’s participation to 65.51% of Bank Millennium’s share capital and voting rights.

In July 1999, the Bank and Interamerican Hellenic Life Insurance Company S.A. (“**Interamerican**”), one of the largest Greek life insurers and a wholly owned subsidiary of Eureko, launched a joint greenfield retail banking operation in the Greek market, NovaBank. Following the April 2005 acquisition of the remaining 50% of NovaBank’s share capital, the Bank wholly owned NovaBank. Following the brand change in all its Group operations in 2006, Novabank started to operate under the name of Millennium Bank.

The joint takeover bid for the whole share capital of Atlântico led to further co-operation between the Bank and the José de Mello Group, which was Império’s largest shareholder. This culminated in the merger of the Bank’s financial services business with that of the José de Mello Group in January 2000. The merger included the purchase from the José de Mello Group, of its subsidiaries Uniparticipa and Finimper which, in turn, controlled 51% of the share capital of each of Banco Mello and Império, respectively. Subsequently, the Bank launched public offers for the minority interests in Banco Mello and Império. In June 2000, Banco Mello was merged into the Bank.

In March 2000, the Bank reached an agreement with Caixa Geral de Depósitos (“**CGD**”) for the purchase of a controlling stake in Banco Pinto & SottoMayor (“**SottoMayor**”), held by CGD. In April 2000, the Bank purchased, in a public tender offer, a majority interest in SottoMayor from CGD and the remaining shares in SottoMayor from its minority shareholders. In December 2000, SottoMayor was merged into the Bank.

With a view to strengthening the focus on the core business of distribution of financial products including bancassurance, and to optimise capital consumption, important agreements were established in 2004 with CGD and Ageas Groups relating to non-bancassurance insurance. In the former case, the agreement involved the sale of the whole of the share capital of insurers Império Bonança and Seguro Directo, and of Impergesto and Servicomerical. The agreement with Ageas involved the sale of 51% of the share capital and the transfer of management control of the insurers Ocidental – Companhia Portuguesa de Seguros, S.A. (“**Ocidental**”), Ocidental – Companhia Portuguesa de Seguros de Vida, S.A. (“**Ocidental Vida**”) and Médis – Companhia Portuguesa de Seguros de Saúde, S.A. (“**Médis**”), and of the pension-fund manager Pensõesgere – Sociedade Gestora de Fundos de Pensões, S.A. (“**Pensõesgere**”). Following approval by the relevant authorities, these operations took place in the first half of 2005. Within the scope of this partnership, Ageas increased its shareholding in the Bank to 4.99% in September 2005. As a consequence of the two Bank share capital increases that took place in 2006, Ageas’s shareholding in the Bank fell to 4.94%. In September 2007, Ageas disposed of its qualified holdings in the share capital of the Bank.

During 2005, important operations were carried out in the matter of the sale of or reduction of exposure to non-core assets, particularly: completion of the sale of Crédilar; the agreement for the sale of Santander Consumer Finance of the Bank’s holding in Interbanco (50.001% of its share capital); the agreement with Hong Kong-based Dah Sing Bank Limited for the sale of the banking and insurance businesses carried out in Macao, while ensuring the continuation of the local Bank branch; the sale of shareholdings in Friends Provident, Banca Intesa, PZU, and reduction of the holding in EDP – Energias de Portugal, S.A. (“**EDP**”). These were measures

of strategic nature that generated considerable capital gains and made a material contribution to an increase in the Group's own funds.

In 2005, the Bank participated in the process of the privatisation of Banca Comerciala Romana ("BCR") with the aim of acquiring a controlling participation in the share capital of BCR held by the Romanian State. The rationale behind the participation in the process of privatisation of BCR was based on its potential contribution to the transformation of the Bank into a multi-national bank operating not only in Portugal but also in emerging European countries and/or conforming to European Union standards. The Bank was selected (short listed) by the BCR Privatisation Commission and by the Romanian Authority for Assets Recovery as one of the two institutions that went through to the next stage of the privatisation process. However, the Bank was not selected as the acquirer of BCR, as its financial offer was not the highest price offered. In October 2007, the Bank launched a greenfield operation in Romania.

During 2006, important operations were carried out in the matter of the sale of or reduction of exposure to non-core assets, particularly: conclusion of the sale of the 50.001% stake in Interbanco, S.A., in a transaction that had been announced on 5 August 2005; completion of the sale of 80.1% of the share capital of Banque BCP France and Banque BCP Luxembourg to the French financial institution, Groupe Caisses d'Épargne – the Group retained 19.9% participation in both the French and Luxembourg operations and established cooperation agreements with the buyer for developing cross-border remittances in both markets (meanwhile, the Bank agreed the phasing sale of its remaining shareholding in Banque BCP Luxembourg); closing of an agreement with the Canadian financial institution BMO Financial Group (formerly the Bank of Montreal) in respect of the sale of the whole of the share capital of bcpbank Canada; and the closing of an agreement by the Bank and BCP Pension Fund with EDP with a view to the sale of the whole of the Bank's holding in ONI, SGPS, S.A., corresponding to 23.062% of its share capital.

The Bank made a preliminary public announcement on 13 March 2006 for the launch of a General Tender Offer for the acquisition of the shares representing the total share capital of Banco BPI, S.A. ("BPI"). On 16 March 2007, the final decision from the Portuguese Competition Authority of non opposition to the acquisition by the Bank of BPI through the public takeover originally announced on 13 March 2006 was formally notified, with the imposition of certain conditions and obligations. On 5 April 2007, CMVM granted the final registration of the General Tender Offer for the acquisition of BPI. On 7 May 2007, the results of the general tender offer for the acquisition of the shares representing the share capital of BPI by the Bank, were published by Euronext Lisbon, and notwithstanding the undoubted strategic rationale and attractiveness of the offered compensation, the offer was not successful.

During 2007, the Bank sold its shareholdings of 1.954% in Sabadell and 1.641% in EDP to the Bank pension fund. Following the agreement with Banco Santander (Portugal) Group and the Bank Pension Fund, represented by its managing company Pensõesgere for the acquisition by the Bank of BPI shares, the Bank acquired a 10.50% stake of BPI. On 31 May 2007, the Bank announced the reduction in a sale in the trading session of Euronext Lisbon, of its participation in the BPI from 12.30% to 9.9988%. On 17 December 2008, the Bank sold 87,214,836 shares representing 9.69% of BPI share capital, to a company wholly owned by Santoro Financial Holdings, SGPS, SA, incorporated under Portuguese law, disposing of its qualified participation in BPI.

On 25 October 2007, the Bank received a proposal from BPI to negotiate a possible merger of the two banks. On 30 October 2007, the Executive Board of Directors of the Bank, considered the terms of the proposal inadequate and unacceptable but also resolved to express to the Board of Directors of BPI its willingness to initiate talks for the purpose of reaching a merger agreement, as long as this process was not subject to preconditions of any nature whatsoever and that the ultimate objective would be to reach an equitable solution and create, from a strategic standpoint, a fully autonomous institution. On 25 November 2007, the talks that had started on 6 November 2007 with BPI, with the aim of reaching a possible merger agreement between the two banks, were concluded without success.

On 15 May and 23 September 2008, the Bank signed strategic partnership agreements with Sonangol and BPA. The group of interlinked agreements that govern this partnership include a framework agreement that foresees, notably, an indicative qualified stake of Sonangol in the share capital of the Bank and, while this stake remains as such, a presentation to the shareholders of the Bank of a proposal for the appointment of a member agreed with Sonangol to be a member of the Supervisory Board and the Senior Board of the Bank, as well as consultation principles that will govern the evolution of the qualified stake referred to. The partnership also contemplated the acquisition of up to 49.9% of the share capital of BMA by Sonangol and by BPA by means of a share capital increase to be subscribed in cash, which took place in February 2009. Under the terms of the

agreements, BMA maintains its current nature as the Bank subsidiary, but will benefit from the reference participations therein held by Sonangol and BPA. Under the agreement, BMA acquired a 10% stake in BPA's share capital.

The deterioration of global macroeconomic conditions, between the end of 2008 and early 2009, was exacerbated by the impact of the preceding financial turbulence, exerting considerable pressure on the profitability and solvency of financial institutions. Thus, in 2009, in view of a particularly adverse context and under the pressure of many exogenous variables, the Bank considered that, following a period of institutional stabilisation, conditions were gathered for establishing new strategic priorities based on three fundamental pillars: 'Solidity and Trust', 'Commitment and Performance' and 'Sustainability and Value', focusing on the European portfolio and setting affinity markets as one of the principal lines of action. As a result of the reanalysis of the portfolio of international operations, in October 2010 the Bank sold the entire network of branches of Millennium bcp bank in the United States of America ("USA"), the respective deposit base and part of the loan portfolio to Investors Savings Bank, ceasing to hold banking operations in the USA. Also following the above mentioned strategy of focusing on affinity markets, the Bank also concluded, in December 2010, the process of sale of 95% of the share capital of Millennium Bank A.S. in Turkey to the financial institution Credit Europe Bank, N.V..

The year of 2010, which had been expected to be a year of recovery from the financial crisis experienced in the previous years, was marked by the eclosion of the sovereign debt crisis, which shadowed the European markets, especially the markets of peripheral countries. In response to the aggravation of the economic and sovereign crisis, the Bank carried out a new adjustment to its strategic agenda, having implemented initiatives based on three priority lines: i) 'Increasing Trust', in particular the strengthening of customer relations, maintaining higher capital ratios via reduction of risk weighted assets ("RWA"), maintaining control of the commercial gap and improving results; ii) 'Overcoming financial and economic crisis', especially through repricing of loans, growth of funds, deleverage of the balance sheet and the launch of an innovative Bank based on the ActivoBank platform; and iii) 'Focus and Sustainability', through organisational simplification, cost control and focus on the international portfolio.

In December 2010, Bitalpart B.V., a wholly-owned subsidiary of the Bank agreed to sell to the Pension Fund of Group BCP a minority shareholding corresponding to 2.7% of the share capital of Eureko B.V.

On 27 July 2011, the Bank announced the new strategic agenda for the period 2011-2014, based on four key drivers: i) to ensure solvency levels above regulatory requirements (9% of Core Tier 1 in 2011 and 10% in 2012); ii) to manage the deleveraging process to stabilise balance sheet funding needs and structure, having defined as a goal a Loan to Deposit ratio of 120% in 2014; iii) to recover profitability levels in Portugal, aiming at surpassing a 10% Return-on-Equity ("ROE"); and iv) to organise the international portfolio according to attractiveness and availability of resources criteria. In the scope of the new strategic vision and of the aimed focus in Portugal, Africa, Asia and Brazil, the remaining operations in Europe are considered as non-core. In the scope of the strategic agenda adjustment, the Bank announced that it had initiated a process of evaluating different scenarios for creating value for the operations in Poland.

On 7 September 2011, the Bank announced that it had signed a partnership agreement with BPA to create a bank in Brazil in order to access opportunities in the Brazilian market, namely in corporate finance and trade finance, through partnerships, reflecting the new strategic agenda to refocus on affinity markets.

On 19 December 2011, the Bank, after considering different scenarios for creating value for the operations in Poland, some of them involving offers received for the acquisition of the Bank's shareholding in Bank Millennium, concluded that the option that best protected the interests of all stakeholders and that best preserved its ability for creating value was to maintain its stake in Bank Millennium. Hence, the Bank reaffirmed its confidence in the Polish economy, and remained committed to continuing to support the organic growth of Bank Millennium, anchored on its strong retail franchise, a low risk credit portfolio, and efficiency and productivity gains.

On 28 February 2012, the General Meeting of Shareholders of the Bank approved the amendment and restructuring of the articles of association, including the adoption of a one-tier management and supervisory model, composed of a Board of Directors and respective Executive Committee (the Bank's current management body), an Audit Committee (with only non-executive members according to the law), and a 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 the Group, entrusted with the analysis and reflection on this strategy, and supervision of its evolution and implementation.

The Bank completed its capitalization 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 Euro 3,000 million, at the end of June and ii) private investment, consisting of a rights issue in the amount of Euro 500 million, at the price of Euro 0.04 per share, which was completed in early October 2012. The Bank thus fulfilled the regulatory requirements established by the European Banking Authority (“EBA”) and delivered its Core Tier 1 ratio of 9.7% in June 2012 and 9.8% in December 2012 (adjusted for the values of 31 December 2012, the buffer sovereign is zero euros, implying a ratio of 11.4%, according to the criteria of EBA), and 12.4% in December 2012, according to the criteria of the Bank of Portugal. As a result of the recapitalization plan implemented by the Bank, and the terms provided by law, the State appointed, on 3 December 2012, two non-executive members to the Board of Directors, to hold office during the term of the public investment aimed at strengthen the Bank’s own funds.

In December 2012, the Bank prepared and presented to the Government a restructuring plan, required by national law and by the applicable European rules on matters of State aid, which was formally submitted by the State to the European Commission, in observance of the maximum period of six months after the approval of the Bank’s recapitalization as provided in Order number 8840-B/2012 of the Minister of State and Finance, of 28 June 2012. The final version of the restructuring plan, which is currently pending approval by the European Commission, might contain an additional series of measures, on top of those already established in the Recapitalisation Plan, namely possible commitments of a behavioral and/or structural nature.

On 22 April 2013, the Bank entered into definitive agreements with Piraeus Bank regarding: (i) the sale to Piraeus Bank of the entire share capital of Millennium Bank (Greece) and, (ii) the investment by the Bank in the forthcoming capital increase of Piraeus Bank. The transaction was completed on 19 June 2013 and the Bank is now the holder of approximately 4.6% in Piraeus Bank share capital after settlement of Piraeus Bank share capital increase.

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, Greece, Switzerland, Romania, Mozambique and Angola. 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 Bank’s by-laws, which provides that “the corporate object is to engage in banking 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, the Bank presented a strategic plan composed of three phases for the subsequent period of 5 years: i) strengthening of the capital and liquidity position (underway during 2012-2013); ii) creation of conditions to ensure growth and profitability (for implementation over 2014-2015); iii) sustainable growth (from 2016 to 2017).

Hence, the priorities of the 1st phase, which started in 2012 and shall end by the end of 2013, is the achievement of comfortable capital ratios, improvement of the liquidity position and strengthening of provisions.

From December 2009 until March 2013, the Bank has undertaken a significant deleveraging effort, with loans and advances to customers (gross) having declined by Euro 10 billion and customer funds on the balance sheet

having increased by Euro 6 billion. The commercial gap decreased by Euro 16 billion between December 2009 and March 2013, the ratio of loans and advances (gross) to customer funds on the balance sheet (loan-to-deposit ratio) fell from 152% in December 2009 to 116% in March 2013. The Bank had amortised Euro 19.5 billion of medium and long term debt by March 2013 and the use of ECB funding declined from Euro 14.9 billion in December 2010 to 10.2 billion in March 2013, of which 11.5 billion are long term refinancing operations (“**LTRO**”) with the objective of replacing short term funding.

The Core Tier 1 ratio increased from 6.4% in December 2009 to 12.1% in March 2013, benefiting from the reinforcement of Core Tier 1 by Euro 3 billion as a result of liability management operations (2011 and 2012) and issue of hybrid instruments (2012), in spite of the negative impacts of Greece and pension fund and the reduction of RWA by Euro 12 billion, arising from the deleveraging process and adoption of internal rating based (“**IRB**”) methodologies, despite the downgrade of ratings. The Bank implemented a capitalisation plan reflected in the issue of Euro 3 billion of hybrid instruments and a share capital increase of Euro 500 million.

In relation to the reinforcement of provisioning, allocations for impairment of a value around Euro 3,282 million were carried from 2010 up to March 2013. Part of this provisioning effort resulted from inspections conducted pursuant to the measures and actions agreed by the Portuguese authorities in relation to the financial system, under the Economic and Financial Assistance Programme established with the IMF, EU and ECB. Thus, the Special Inspection Programme (“**SIP**”) of the Bank of Portugal was reflected in the strengthening of provisioning by Euro 381 million, while the On-site Inspection Programme (“**OIP**”) covering exposure to the construction and real estate development sectors resulted in the strengthening of provisioning by Euro 290 million.

During the 2nd phase, the Bank intends to ensure the recovery of profitability in Portugal and the continued development of the business in Poland, Mozambique and Angola. The priority of the 3rd phase is the sustainable growth of net income, with an improved balance between the contributions of the domestic and international operations.

During 2013, the Bank intends to recover the profitability in Portugal through 3 areas of action: improve net interest income, reduce operating costs and decrease allocations for impairment. The improvement of net interest income should result from the reduction of the cost of deposits and continued repricing of loans and advances through the recomposition of the mix of the credit portfolio. The objective for operating costs points to an annual reduction of Euro 100 million, through scale reduction (decrease of the network of branches by over 40 in 2012-2013 and cutting of staff numbers by 977 Full Time Employees (“**FTE**”) until 2013) and administrative reorganisation, consisting of the simplification of the organisation, improvement of processes and optimisation of the commercial network. Regarding allocations for impairment, the implementation of a new credit management model, covering the stages of its granting, monitoring and recovering, should lead to a reduction of the cost of risk. These actions should result in a recovery of profitability.

The Bank has a unique international presence focused on key markets where our business model add value and with a large population (Poland) or high rates of growth of the population’s participation in the banking system (Mozambique and Angola). By the end of March 2013, these three operations represented 41% of the total branch network, 47% of total employees, 21% of Turnover and 45% of Net Operating Revenues.

In Poland, Bank Millennium has a well distributed network of branches, supported on modern multi-channel infrastructure, reference service quality, high brand recognition, a robust capital base, comfortable liquidity and solid risk management and control. The principal initiatives consist of the exploration of new market opportunities in the corporate segment with strong focus on Medium-sized Enterprises and the expansion of consumer credit. Bank Millennium has already announced its strategic plan for 2013-2015.

Mozambique is a market of high growth of GDP, based on natural resources and with rates of expansion of the population’s participation in the banking system that are above the regional average. The potential for credit expansion is significant.

Similarly, Angola is also a market of strong growth of GDP, based on the export of oil. However, the contribution of the non-oil sector to the expansion of GDP has been increasing, essentially as a result of the investment in major infrastructure and agriculture. Also in Angola, the rates expansion of the population’s participation in the banking system are higher than the regional average.

In respect of its Greek subsidiary, on 22 April 2013, the Bank entered into definitive agreements with Piraeus Bank regarding: (i) the sale to Piraeus Bank of the entire share capital of Millennium Bank (Greece) (“**MBG**”) and, (ii) the investment by the Bank in the forthcoming capital increase of Piraeus Bank.

The signing of these agreements marks the successful conclusion of the negotiations between the Bank and Piraeus Bank following the announcement on 6 February 2013 that the parties had entered into exclusive discussions.

This agreement falls within the framework that has been defined by the Bank of Greece and the Hellenic Financial Stability Fund (“HFSF”) aiming at the restructuring of the Greek banking system and strengthening its financial stability. The terms and conditions of the transactions have been approved by the HFSF.

The transactions were completed on 19 June 2013.

The key elements of the sale transaction are the following:

- The aggregate consideration for the sale of the share capital of MBG was agreed at one million euros;
- Pre closing recapitalization of MBG by the Bank for Euro 413 million, in line with the requirement of Bank of Greece, through the conversion of approximately Euro 261 million of the existing intercompany funding, in addition to the Euro 139 million already contributed by the Bank into MBG in December 2012. Under this scope, the Bank has already booked in 2012 Financial Statements, an impairment in the amount of Euro 427 million;
- Piraeus Bank to ensure reimbursement by MBG of all the remaining intragroup funding currently provided by the Bank to MBG in two tranches. The first tranche, in the amount of approximately Euro 650 million, was paid on the date of closing of the sale transaction, and the second one, of approximately Euro 250 million will be paid within 6 months from that date;
- No asset transfer from MBG to the Bank as part of the transaction.

The key elements of the investment transaction are the following:

- The Bank invested Euro 400 million in the rights issue of Piraeus Bank within the framework of recapitalisation of Greek banks with the participation of the HFSF, i.e., at the same price as HFSF, leading to a minority stake in Piraeus Bank’s share capital;
- The Bank and Piraeus Bank entered into an agreement providing that Piraeus Bank undertakes to assist BCP in the orderly disposal over time of its shareholding in Piraeus Bank, subject to the Bank undertaking certain limitations, including a 6 month lock up period and certain temporary voting and orderly disposal rules for the period where HFSF is also restricted on voting;
- The Bank’s minority investment in the share capital of Piraeus Bank will not be consolidated.

The transaction will enable the Bank to deconsolidate circa Euro 4.000.000.000 of RWA of Millennium Bank as of 31 December 2012. There will be no intercompany funding 6 month after closing. In consequence, after this date the impact on RWA will solely be the investment in Piraeus Shares.

The final impact from this transaction on the Bank’s capital position will be dependent on the performance of the participation in Piraeus Bank.

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, it was held a General Meeting of Shareholders of the Bank, where it has been approved the alteration and restructuring of the articles of association of the company, which was consolidated in the adoption of an one-tier management and supervision model, composed by a Board of Directors (that includes an Executive Committee), an Audit Committee and a Statutory Auditor.

Following the General Meeting 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 Committees and Commissions directly appointed by the Executive Committee 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 31 December 2012, there were nine Committees, 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 Committee, as follows:

Committee for the Approval of New Products: This Committee is composed of sixteen permanent members. In addition to five Directors with specific areas of responsibility, Miguel Maya, Miguel Bragança, Iglésias Soares, Luís Pereira Coutinho and Rui Manuel Teixeira, this Committee is also composed of the persons in charge of the Tax Advisory Department, Legal Department, Audit Department, Direct Banking Department, Compliance Office (acting as secretary of the Committee), Communication Department, Accounting Department, IT and Technology Department, Companies Marketing Department, Retail Marketing Department and Market Research.

This Committee has the primary mission and is entrusted with the analysis of the policy of approval, formalisation, and risk management inherent to the process of implementation, launch and commercialisation of new products and activities of the Bank, as well as correcting and rectifying specific characteristics of products or services or have them removed from the commercial circuit ensuring their suitability with the defined risk management policy and assessing any determinations or communications relative to the products or services issued by supervisory authorities.

Asset Management Committee: This Committee is composed of ten permanent members. The Head of the Group's insurance company participates by invitation. In addition to three Directors with specific areas of responsibility, Luís Pereira Coutinho, Conceição Lucas and Rui Manuel Teixeira, this Committee is composed of the Heads of the Specialised Monitoring Department, Research, Planning and ALM Department, Companies Marketing Department, Private Banking Department, Treasury and Markets Department, through Banque Privée BCP Suisse and Market Research.

The mission of this Committee is to ensure the monitoring and coordination of investment processes and policies, benchmarks and guidelines of investment products managed and/or distributed by the Bank and Services of Asset Management, Management of Portfolios and Individual Customers, Treasury and Markets, Life Insurance and Private Banking, and high-level definition of scenarios of market evolution by relevant geographical areas.

Legal Affairs Committee: This Committee is composed of eight permanent members. In addition to two Directors with specific areas of responsibility, Miguel Maya and Iglésias Soares, this Committee is composed of the Heads of the Tax Advisory Department, Legal Department, Logistics & Procurement Department, Litigation Department, Cost Control and Performance Department and the Company Secretary (which acts as secretary).

This Committee has the primary mission of ensuring an adequate coordination of the legal function between the different areas of the Bank and of issuing an opinion on the external engagement of legal services.

This Committee 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.

Costs and Investments Committee: This Committee is composed of seven permanent members and the heads of other areas also participate by invitation when justified by the topic under discussion. In addition to three Directors with specific areas of responsibility, Miguel Maya, Miguel Bragança and Iglésias Soares, this Committee is composed of the Heads of the Purchase and Means Department, which acts as secretary, Cost Control and Performance Department, Management Information Department and Information Technology Department.

This Committee is entrusted with the regular monitoring of the operating evolution and optimisation of the processes involving negotiation and/or acquisition of the most relevant goods and services for the Bank and authorisation of charges and payments.

Companies Committee: This Committee is composed of fourteen 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, Miguel Maya, Miguel Bragança, Luís Pereira Coutinho and Conceição Lucas, this Committee is composed of the Heads of the Specialised Monitoring Department, Investment Banking, Corporate Department, Companies Banking North, Centre and South, Large Corporates Department, Companies Marketing Department (which acts as secretary), Real Estate Business Department and Specialised Recovery Department.

This Committee ensures the analysis, preparation and planning of the monitoring and development of the Bank's business in the small and medium-sized enterprise ("SME"), Corporate, Large Corporates and Investment Banking segments and analysis of the compliance with the objectives; definition of the priorities of the commercial action; approval of the products and services to be launched; analysis of the business context and proposal of commercial actions and of the main risk indicators associated to the business, as well as analysis of the models of coordination of the business regarding their migration in the value proposal and their interconnection with the Bank's networks.

European Banking Committee: This Committee is composed of four permanent members and includes, in addition to the Director with the related area of responsibility, Luís Pereira Coutinho, the heads of the banks of the Group in Poland, Greece and Romania.

This Committee ensures the monitoring of the activity of the Group's operations on the European territory.

This Committee is entrusted with the analysis of the evolution of the activity in the different European operations; search for the best solutions to control costs; increase efficiency and streamline the activity of the different Banks; monitoring of the Process Management model and governance structure of the different operations and definition of the main policies on action and guidelines.

Banking Processes and Services Committee: This Committee is composed of nine permanent members. In addition to three Directors with related areas of responsibility, Iglésias Soares, Luís Pereira Coutinho and Rui Manuel Teixeira, this Committee is composed of the Heads of the Purchase and Means Department, Cost Control and Performance Department, Information Technology Department, Operations Department (which acts as secretary), Quality and Network Support Department and Human Resources Department.

This Committee is entrusted with the monitoring of activity in the major areas of support to the Bank's front-end services; increase the number of mechanisms and processes to enhance efficiency, reduce costs and improve the business processes and monitoring of the management structure at the Bank, analysis of the evolution of the activities of areas involving this Committee, study of the best solutions to control costs, enhance efficiency and streamline the Bank's activity, definition and strengthening of the duties and competences of process owners, approval of proposals of innovation in the management of the Bank's resources and optimisation of their use; definition of policies regarding monitoring, procurement, control and contracting of outsourcing services to be used by the Bank; and definition of the analytical measurements and evolution of controllable variables by the Committee's areas, so as to ensure the continuous measurement of resource efficiency and productivity levels.

Human Resources Committee: This Committee is composed of four 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 Iglésias Soares, the Head of the Human Resources Department is also a member of this Committee and acts as secretary.

The primary mission of this Committee is the definition, decision and monitoring of the Bank's human resources policies to support the operational and business efficiency.

This Committee is entrusted with the definition of the strategy and approval of the Bank's human resource policies, namely monitoring the top 10 KPIs 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.

Retail Committee: This Committee is composed of thirteen permanent members and three non-permanent members who participate in meetings when justified by the topic under discussion. In addition to the Directors

with the specific areas of responsibility, Miguel Bragança and Rui Manuel Teixeira, this Committee is composed of, as permanent members, 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, Foreign Residents Department, Retail Departments - North, Centre North, Centre South and South and, as non-permanent members, the Heads of the Real Estate Business, Human Resources and Insurance areas.

The main mission of this Committee is to monitor and manage the Retail Customers, with the objective of analysing the Bank's activity in this segment and finding the best solutions for growth and enhancement of customer loyalty. This Committee is entrusted with the monitoring of the activity and compliance with the objectives related with Individual and Business Customers; definition of the priorities of the commercial action; approval of products and services for retail customers; analysis of the business context and proposal of commercial action so as to respond to this segment; and analysis of the models of coordination of the individuals segment regarding their migration in the value proposition and networks of the Bank.

As at 31 December 2012, there were six Commissions and two Sub-Commissions under the Executive Board of Directors, essentially with overall and transversal duties, responsible for pursuing the study and assessment, for each area of intervention, of the policies and principles which should guide the action of the Bank and the Group, as follows:

Pension Fund Monitoring Commission: The mission of this Commission is the monitoring of the Pension Funds. This Commission issues opinions on proposals to amend the respective constitutive contracts, and was established under the terms of article 53 of Decree-Law 12/2006, of 20 January 2006, as amended by Decree-Law 180/2007, of 9 May 2007.

This Commission is composed of two permanent members of the Executive Committee, the Vice-Chairman of the Executive Committee, Miguel Bragança and Rui Manuel Teixeira, member of the Executive Committee, and may also include other members of the Executive Committee, depending on the matters scheduled for discussion, the Risk Officer, the Manager of Pensõesgera (Pension Funds holding company), the Heads of the Research, Planning and Assets and Liabilities Management Department and 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, having for this reason assigned one of the two places to which it was entitled. This Commission also includes three representatives of the Bank Sector Unions.

Capital Assets and Liabilities Management Commission (CALCO): The main duties of this Commission are the monitoring and management of market risks associated to the asset and liability structure, the planning and allocation of capital and definition of suitable policies for liquidity and market risk management for the Group as a whole. Seven permanent members of the Executive Committee are part of this Commission, including the Chairman and the two Vice-Chairmen, as well as the Heads of the Corporate Department, Research, Planning and Assets and Liabilities Management Department, which acts as secretary, Management Information Department, Companies Marketing Department, Retail Marketing Department, Risk Officer, Treasury and Markets Department and the International Strategic Research Office, by invitation.

Credit Commission: This Commission, which has the composition and competences stipulated in the Credit Concession, Monitoring and Recovery Regulations, deliberates on the granting of loans and advances to customers (integrated or not in economic groups), whenever this involves an increase of exposure above Euro 20 million, or, for situations where the Bank's exposure is above Euro 50 million, for occasional operations above Euro 10 million and for proposals of renewal or review of credit lines and ceilings which are within the aforesaid amounts.

The Credit Commission is composed of a minimum of three members of the Executive Committee, the Heads of the Credit Department, Specialised Recovery Department, Retail Recovery Department, Legal Department, Litigation Department, Rating and Assessment 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 and the Compliance Officer.

This Committee is supported by secretarial services administered by the Company Secretary.

Risk Commission: This Commission is responsible for monitoring overall risk levels (credit, market, liquidity and operating risk), ensuring that these are compatible with the objectives, the available financial resources and strategies approved for the development of the Group's activity.

All the members of the Executive Committee, 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, Management Information Department, Rating and Assessments Department and Treasury and Markets Department are part of this Commission.

Two Sub-Commissions operate under the Risk Commission, the Pension Fund Risk Sub-commission and the Credit Risk Monitoring Sub-commission.

The **Pension Fund Risk Sub-Commission** is responsible for monitoring the performance and risk of the Group's Pension Funds and defining suitable hedging and investment policy strategies.

Nuno Amado, Chairman of the Executive Committee, Miguel Bragança, Vice-Chairman of the Executive Committee, and Conceição Lucas, member of the Executive Committee, as well as a representative of F&C Asset Management plc, the General Manager of Pensõesgera and the Heads of the Research, Planning and Assets and Liabilities Management Department, Human Resources Department and the Risk Officer, who administers the secretarial services for this Sub-Commission, are part of this Sub-Commission.

The **Credit Risk Monitoring Sub-Commission** is responsible for monitoring 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 highest exposures and the evolution of impairment and the main cases analysed at an individual level. This Sub-Commission also analyses the performance of the recovery processes and supervises the divestment of the real estate portfolio. It submits proposals for the definition of credit concession policies and regulations, Probability of Default and Loss Given Default models and the models underlying the calculation of impairment as well as the automatic decision-making and credit recovery processes.

Miguel Maya, Vice-Chairman of the Executive Committee, and Luís Pereira Coutinho, Conceição Lucas and Rui Manuel Teixeira, members of the Executive Committee, as well as the Risk Officer, who administers the secretarial services, the Heads of the Corporate Department, Credit Department, Management Information Department, Companies Marketing Department, Retail Marketing Department, Real Estate Business Department, Rating and Assessments Department, Retail Recovery Department and Specialised Recovery Department are also members of this Sub-Commission.

Stakeholders Commission: This Commission is responsible for relations with stakeholders, functioning simultaneously as a privileged channel for the disclosure of internal information and as a forum of debate and strategic advice for the Board of Directors.

Some of its members are persons of high and publicly recognised merit and prestige, without ties to the Bank and are invited amongst the main stakeholders, namely shareholders, employees, customers and civil society.

The Chairman of the Board of Directors, the Chairman of the Executive Committee, three members of the Executive Committee, the Chairman of the Board of the General Meeting of the Bank, the Ombudsman of the Bank, a representative of the Workers Commission, a representative of the Fundação Millennium bcp, a representative of the customers, a representative of suppliers and a representative of universities are part of this Commission.

Sustainability Commission: This Commission is responsible for submitting proposals for decision-making on topics related to the action plan based on the sustainability policy, as well as monitoring and reporting on the degree of achievement of the approved initiatives, and supervision of the preparation of reports and other communication formats in the area of sustainability.

Miguel Maya, Iglésias Soares and Rui Manuel Teixeira, Vice-Chairman and members of the Executive Committee respectively, and the Heads of the Communication Department, Quality and Network Support Department, Purchases and Means Department, Companies Marketing Department, Retail Marketing Department, Human Resources Department, Cost Control and Performance Department (which administers the secretarial services), and a representative of the Fundação Millennium bcp are part of this Commission.

In accordance with the International Financial Reporting Standards (“IFRS”) on 31 December 2012, the Group had total assets of Euro 89,474 million and total customers' funds in the sum of Euro 70,622 million. Loans to customers (gross) amounted to Euro 65,507 million. The consolidated solvency ratio, calculated in accordance with Bank of Portugal rules, stood at 12.6% (Core Tier 1 at 12.1%).

In a context of high uncertainty, in particular regarding the mechanisms to overcome the sovereign debt crisis in the Eurozone, the challenges faced by the Portuguese economy and Portuguese financial system have further magnified. Portuguese banks have been confronted with the generalisation of the difficulties in access to funding on international wholesale funding markets. This combined with the capital strengthening requirements, management of a deleverage process and a particularly adverse macroeconomic and financial context, arising from the austerity and consolidation of public finance measures, have constrained their business, profitability, asset quality and solvency. In spite of that, the Bank has revealed its strength in successfully exceeding the European stress tests and in complying with the European regulatory requirements, regarding matters of capital and liquidity.

As at 31 December 2012, the business in Portugal accounts for 75% of total assets, 74% of gross loans to customers, 74% of total customers' funds and 50% of banking income. International operations account for 52% of the Group's 1,662 branches and 56% of approximately 20,205 employees in March 2013. It should be highlighted the maintenance of the expansion plans in Africa, with Millennium Angola having opened its 76th branch and Millennium bim, a strong leader in Mozambique, having achieved the milestone of one million active customers. In March 2013, these two operations, as a whole, recorded a contribution of Euro 26.8 million to the Group. Also noteworthy are the good results of the Polish operation, held by the Group in 65.5%, which showed a contribution of Euro 28.7 million in March 2013 (+9.0% y-o-y, including FX effects) and the growing size and importance of such operation in Poland, with 447 branches and a market share of approximately 5.2% in deposits and 4.8% in loans and advances to customers in February 2013 (Source: National Bank of Poland).

Other Financial Services in Portugal

Mortgage Lending

The Bank entered the mortgage lending business in 1992, when it launched, in association with Cariplo – Cassa di Risparmio delle Provincie Lombarde S.p.A. (“**Cariplo**”, 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 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 was launched as part of the joint initiative entered into by the Group and Banco Sabadell to launch a banking operation across the Iberian Peninsula in a multichannel approach, taking advantage of the experience and knowledge of the respective domestic markets accumulated by the two institutions involved. The Group had a large amount of experience accumulated during the seven years of its direct banking operation, Banco 7 (launched in 1994), which has achieved leadership in innovation in direct channels of the Portuguese market.

In 2002, ActivoBank became 100% owned by the Group, continuing to strive towards consolidation as the first Portuguese bank in the market specialising in offering investment solutions to the private sector through the internet. Keeping an open-architecture framework, this bank offers the best financial products from the most prestigious national and international investment houses.

In view of the importance of innovation, as a distinguishing factor of excellence relative to the competition, the Bank was also a pioneer in the launch of a new banking concept, supported by the ActivoBank platform, based on the simplicity of customer service, convenience, transparency and presence of emerging distribution and communication channels (e.g. Mobile Banking). And even though this repositioning and restructuring focus on transactional retail banking, ActivoBank continues to remain true to its original speciality, investment solutions.

This new banking concept involved a new brand image, a new product offering and new service channels, directed at urban customers, young in spirit, who are intensive users of new communication technologies and who favour a banking relationship based on simplicity, transparency, trust, innovation and accessibility. The

renewed value proposition is reflected in the brand slogan: “Simplify” – ActivoBank is a Bank thought out in detail to simplify the day-to-day lives of its customers.

ActivoBank is based on distinctive factors, such as branches with extended hours, bank access via smart phones, applications for investment support for iphones. ActivoBank opened eight branches in 2011, consolidating the leading role that the bank holds in the national innovation market.

ActivoBank has been recognised by the international financial community and distinguished with the attribution of awards such as “Best Consumer Internet Bank 2012 in Europe” and “Best in Mobile Banking”, given by Global Finance magazine, amongst others, and was short-listed as one of the five finalists, amongst 200 candidates, for the Global Banking Innovation Awards in the category “Disruptive Innovation” promoted by the BAI. ActivoBank was also distinguished by World Finance magazine as “Best Commercial Bank” in Portugal, in the World Finance Banking Awards 2012, and the awards given in 2012 by Global Finance in the categories of “Best consumer internet bank”, “Best Web Site Design” and “Best in Social Media”, all attributed in the context of the European Area.

Insurance

The Bank has an interest in insurance activities through Millennium bcp Ageas, a joint venture with Ageas for bancassurance business in Portugal. The Group holds 49% of Millennium bcp Ageas’ share capital, while the remaining 51% is held by Ageas.

Foreign Business

In recent years, the Group has pursued a strategy focused on international expansion. The Group has concentrated on those businesses with strong growth prospects in foreign markets and with a close historical connection to Portugal or which have large communities of Portuguese origin (such as Angola and Mozambique), as well as on markets where our successful Portuguese business model can be effectively exported and tailored to suit local markets (such as Poland, Greece and Romania).

Mozambique

The Group has had banking operations in Mozambique since 1995.

In 2012, Millennium bim strengthened its leadership as the largest financial Group in Mozambique. With 151 branches distributed throughout the entire country, the bank has the largest distribution network and highest geographical penetration in that country. During this period, in terms of the provided alternative channels services, the bank expanded its capillarity by increasing its total number of ATM (385) and POS (4,058). Millennium bim is also distinguished as the largest employer of the sector, as one of the highest tax contributors, by its asset volume, and by having a reputable social responsibility programme, recognised at a national and international level.

As at 31 March 2013, Millennium bim had Euro 1,981 million in total assets, Euro 1,480 million in customers’ funds, Euro 1,114 million in loans to customers (gross), and was operating with 151 branches and with 2,426 employees. Net income of Millennium bim in Mozambique decreased -1.7% to Euro 20.3 million in the first quarter of 2013. Fees and commissions and net interest income increased, despite lower reference interest rates. Net interest income was penalized by public debt portfolio evolution. Operating costs increased 14% in line with the expansion plan (an increase of 9 branches compared to March 2012).

Angola

BMA was incorporated on 3 April 2006, as a result of the transformation of the Bank’s branch in Angola into a bank incorporated under the laws of Angola. In 2008, BMA strengthened its goal of contributing to the modernisation and development of the Angolan financial system by providing marketing innovative, personalised financial products and services conceived to satisfy all the financial needs and expectations of the various market segments, and maintaining the highest quality and specialisation standards.

In February 2009, the financial transactions relating to the strategic agreement established with Sonangol and BPA were completed through a rights issue carried out by BMA, in the amount of USD 105,752,496.80.

The Bank established the main strategic guidelines for 2012 as being the growth of the business, which includes the expansion of the customer base, the strengthening of its position on the market, through the increased attraction of funds in all business segments, and the higher penetration of financial products amongst customers. In order to achieve these objectives, BMA embarked on the expansion of its distribution network nationwide, in order to increase capillarity, to offer innovative and personalised products and services, designed to meet the needs and expectations of different market segments, to strengthen staff recruitment and training programmes, and to reinforce its risk management and monitoring processes aimed at ensuring excellent service to its customers.

During 2012, BMA inaugurated 15 new Branches, including 3 Prestige Centres, and created a new Corporate Centre specifically designed for the Oil Industry and a Central Treasury, having reached, by the end of December, a total of 76 Branches in the retail network (of which 39 are open to the public on Saturday mornings), 3 Prestige Centres and 6 Corporate Centres. The number of customers stood at approximately 228 thousand in December 2012, having grown by 49.2% in relation to the previous year.

At the end of March 2013, BMA had total assets of Euro 1,331 million. Loans to customers amounted to Euro 540 million and customer funds to Euro 839 million. BMA was operating with 76 branches and 1,029 employees. Net income for the first quarter of 2013 stood at Euro 6.5 million, decreasing 26.7% y-o-y. Fees and commissions and net interest income increased, despite lower reference interest rates. Net interest income was penalised by public debt portfolio evolution. Operating costs increased by 3.6%.

Poland

In Poland, the Group operates through Bank Millennium, S.A., a universal bank directed at individuals and at small and medium-sized companies. Bank Millennium 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 Group entered into a partnership agreement with the Polish financial group, BBG, pursuant to which the Group launched a retail operation with BBG in the Polish market under the name "Millennium". This joint venture was controlled jointly by the Group and by BBG. As part of a restructuring of BBG in 2002, the Group and BBG decided to merge the Millennium joint venture into BBG and to establish one banking operation. During the fourth quarter of 2002, the Group increased its shareholding in BBG to 50% of BBG's share capital. At the start of 2003, BBG changed its name to Bank Millennium. In December 2006, the Group acquired 131,701,722 shares of Bank Millennium corresponding to 15.51% of its share capital and voting rights, at the price of PLN 7.30 per share, thus increasing the Bank's holding in Bank Millennium S.A. to 65.51% of its share capital and voting rights. In February 2010, Bank Millennium successfully completed a capital increase of approximately Euro 258.6 million (PLN 1,055.4 million) through a rights issue of 363,935,033 new shares (3 shares per each 7 owned) with a subscription price of PLN 2.9 per share. The Bank (the main shareholder with 65.5% of the share capital) exercised its pre-emptive rights. The remainder of the rights issue was fully subscribed, with the shares available to minority shareholders being almost four times oversubscribed.

Bank Millennium announced a new strategy for 2013-2015 at the time of the third quarter earnings presentation (end of October 2012). The definition of the new strategy was based on the future prospects for the macroeconomic environment, trends for the banking industry in Poland and the ambition to achieve a higher performance and generate value for shareholders, customers and employees.

The medium-term objectives set for 2015, according to the new strategy are to achieve: (i) "Return on Equity" of 14-15%, (ii) Ratio "cost-to-income ratio" of 50% (iii) Ratio "Loan-to-deposit" less than 100%, (iv) Core Tier 1 ratio greater than 10%, (v) customer satisfaction index exceeding 90% (satisfied and very satisfied customers) and (vi) Weight of corporate loans (including leasing) in the total loan portfolio of 30-35%. In this sense, the strategic priorities for 2013-2015 include: (i) Focus on areas which brings value and redirect the product mix to higher margin products, (ii) Improving the efficiency of network sales, (iii) Improved balance sheet structure and profitability of the "franchise" for companies, (iv) Preparation of the Bank for the future by investing in business analysis and a multi-channel platform, and (v) Support the efficiency advantage through strict management platform and discipline in cost savings.

In order to ensure the sustainable growth of Bank Millennium, all strategic initiatives should ensure a high capital base, comfortable liquidity, prudent risk management, ongoing cost control and streamlined processes. Thus, Bank Millennium closed 2012 with a strong capital position and liquidity, with Tier I ratio reaching

12.9%, clearly above the goal assumed in the new medium-term strategy, and a ratio Loans-to-deposit under 100%. Bank Millennium has managed to improve the efficiency of its operations, with the ratio “cost-to-income” below 60%. In terms of profitability, the net income increased compared to 2011, despite the fact the return on equity have been affected by the strengthening of the own funds, prompted by the recommendations of the supervisor, in the sense of Polish banks retain their full 2011 results at its base capital.

As at 31 March 2013, Bank Millennium had total assets of Euro 13,513 million, Euro 12,121 million in customer funds, Euro 10,012 million in loans to customers (gross), and was operating with 447 branches and 5,920 employees. Bank Millennium’s net income in the first quarter of 2013 was Euro 28.7 million, increasing 9% y-o-y, as a result of the increase in banking income (+4.5%), despite the decrease in the reference interest rates that reached historic minimum. Costs decreased 3.4%, in line with the strict costs control policy.

Greece

Millennium Bank in Greece is focused on retail banking and on further developing its private banking, corporate and companies businesses. In July 1999, the Bank and Interamerican Hellenic Life Insurance Company S.A., one of the largest Greek life insurers and a wholly owned subsidiary of Achmea B.V. (formerly Eureko), launched a joint greenfield retail banking operation in the Greek market, NovaBank. Following the April 2005 acquisition of the remaining 50% of NovaBank’s share capital and controlling rights, the Bank wholly-owns NovaBank. The brand ‘Millennium’ was adopted in 2006.

Since its creation, Millennium Bank has implemented an ambitious development plan focused on fast organic growth and, at the same time, growth in income and value creation. Millennium Bank’s strategy is based on developing innovative products and services and providing excellent quality of service, together with a specialised approach to business customers.

During 2011, Greece’s banking sector was significantly affected by the aggravation of the economic and financial crisis, which caused a significant increase of funding costs, intensification of competition in terms of deposits attraction, deterioration of the quality of the loan portfolio as a result of the increased levels of default, and greater restrictiveness in loan concession.

On 22 April 2013, the Bank entered into definitive agreements with Piraeus Bank regarding: (i) the sale to Piraeus Bank of the entire share capital of MBG and, (ii) the investment by the Bank in the forthcoming capital increase of Piraeus Bank.

The signing of these agreements marks the successful conclusion of the negotiations between the Bank and Piraeus Bank following the announcement on 6 February 2013 that the parties had entered into exclusive discussions.

This agreement falls within the framework that has been defined by the Bank of Greece and the HFSF aiming at the restructuring of the Greek banking system and strengthening its financial stability. The terms and conditions of the transactions have been approved by the HFSF.

The transactions were completed on 19 June 2013.

The key elements of the sale transaction are the following:

- The aggregate consideration for the sale of the share capital of MBG was agreed at one million euros;
- Pre closing recapitalization of MBG by the Bank for Euro 413 million, in line with the requirement of Bank of Greece, through the conversion of approximately Euro 261 million of the existing intercompany funding, in addition to the Euro 139 million already contributed by the Bank into MBG in December 2012. Under this scope, the Bank has already booked in 2012 Financial Statements, an impairment in the amount of Euro 427 million;
- Piraeus Bank to ensure reimbursement by MBG of all the remaining intragroup funding currently provided by the Bank to MBG in two tranches. The first tranche, in the amount of approximately Euro 650 million, was paid on the date of closing of the sale transaction, and the second one, of approximately Euro 250 million will be paid within 6 months from that date;
- No asset transfer from MBG to the Bank as part of the transaction.

The key elements of the investment transaction are the following:

- The Bank invested Euro 400 million in the rights issue of Piraeus Bank within the framework of recapitalisation of Greek banks with the participation of the HFSF, i.e., at the same price as HFSF, leading to a minority stake in Piraeus Bank's share capital.
- The Bank and Piraeus Bank entered into an agreement providing that Piraeus Bank undertakes to assist the Bank in the orderly disposal over time of its shareholding in Piraeus Bank, subject to the Bank undertaking certain limitations, including a 6 month lock up period and certain temporary voting and orderly disposal rules for the period where HFSF is also restricted on voting;
- The Bank's minority investment in the share capital of Piraeus Bank will not be consolidated.

The transaction will enable the Bank to deconsolidate circa Euro 4.000.000.000 of RWA of Millennium Bank as of 31 December 2012. There will be no intercompany funding 6 month after closing. In consequence, after this date the impact on RWA will solely be the investment in Piraeus Shares.

The final impact from this transaction on the Bank's capital position will be dependent on the performance of the participation in Piraeus Bank.

As at 31 March 2013, Millennium bank had total assets of Euro 4,711 million, customer funds of Euro 2,966 million and loans to customers (gross) of Euro 4,666 million, operating with 120 branches and 1,182 employees. Net income amounted to Euro -31.9 million in the first quarter of 2013.

Switzerland

Millennium bcp Banque Privée is a private banking platform set up in Switzerland in 2003 which provides services to Group clients with high net worth, including matters of discretionary management, financial advisory services and order execution.

One of the key strategic priorities in 2012 consisted in positioning the bank as a pure asset management player, reducing the loan to assets under management ratio, through the reduction of the Clients credit portfolio. During 2012, the bank managed to reduce its credit portfolio from Euro 406 million to Euro 280 million, concentrating the deleveraging effort on high risk loans and simultaneously improving the diversification of the assets used as collateral.

The focus on deleveraging resulted in increased profitability associated with lower level of loan impairment. Additionally, in 2012, Millennium bcp Banque Privée proceeded to a restructuring of IT costs, credit repricing and commission increase and the impacts will be fully visible in 2013, due to the implementation of new initiatives to reduce costs, in order to improve profitability.

The reduction of the loan portfolio, as well as the use of equity and customer deposits to finance short term loans through exchange rate swaps, enabled the bank to achieve autonomy in terms of funding, significantly reducing interest and equivalent costs and substantially increasing its contribution to the Group's liquidity.

As at the end of March 2013, total assets amounted to Euro 484 million. Loans to customers (gross) stood at Euro 288 million and total customer funds at Euro 2,174 million. Millennium bcp Banque Privée was operating with 1 branch and 67 employees. Net income was Euro 1,7 million in the first quarter of 2013.

Romania

Millennium Bank, a greenfield operation launched in Romania in October 2007, is a nation-wide bank offering a wide range of innovative financial products and services to individuals and companies, leveraged by a network of 66 retail branches and 6 company centres, covering main Romanian cities.

In spite of the extremely adverse and challenging environment for the development of banking activity in 2012, Banca Millennium has continued to consolidate its position in the Romanian banking sector through the expansion of its customer base and increased business volumes. In this context, the following strategic priorities were defined:

- Optimisation of the Customer acquisition model, focused on target products and segments;
- Increase of corporate business, through the development of banking relations with small and medium-sized enterprises, namely via acceleration of credit portfolio growth;

- Higher efficiency levels and maintenance of a conservative approach in relation to risk management;
- Change of credit concession policy by reducing the share of loans in foreign currency.

As at 31 March 2013, Millennium Bank had Euro 585 million in total assets, Euro 321 million in customers' funds and Euro 446 million in loans to customers (gross), and was operating with 65 branches and 609 employees. Net income stood at Euro -2.1 million in the first quarter of 2013, compared to Euro -3.3 million in the first quarter of 2012. Net income improvement was due to the increase in banking income and the reduction in operating costs. Banking income evolution was driven by higher net interest income (+44.9% y-o-y) and higher fees and commissions (+14.7% y-o-y). Decrease in operating costs was a result of the cost containment policy and of the number of employees reduction.

Cayman Islands

Millennium bcp Bank & Trust, with its head office in the Cayman Islands and a "B" category banking license, offers international banking services to customers situated in a variety of countries (not including persons or entities resident in Portugal).

Loans to customers (gross) decreased from Euro 271 million in the first quarter of 2012 to Euro 145 million in the first quarter of 2013. Customer funds decreased from Euro 909 million in the first quarter of 2012 to Euro 718 million in the first quarter of 2013. Net income for 2012 was Euro 3.2 million, which compares to Euro -0.6 million in the first quarter of 2013.

International Partnerships

Since 1991, the Group has also developed an internationalisation strategy based on establishing cooperation agreements with foreign partners. The Group's current foreign partners are Banco Sabadell, Achmea B.V. (formerly Eureko), Ageas, Sonangol and Banco Privado Atlântico. 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 Bank Pension Fund. On December 2012, Banco Sabadell held 4.27% of the share capital of the Bank.

Achmea B.V. (formerly Eureko)

In 1991, the Group established strategic partnerships with two significant European insurance groups, Friends Provident and AVCB Avero Centraal Beheer. In 1992, Eureko 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 Pensões Gere, 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 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 this date to sell a minority shareholding corresponding to 2.7% of the share capital of Eureko B.V. to the Pension Fund of Group BCP.

Ageas

In 2005, the Group and Fortis (currently, Ageas) established a joint venture for bancassurance business, through the insurance company Millennium bcp Fortis (currently, Millennium bcp Ageas). The Group holds 49% of Millennium bcp 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.

Sonangol and Banco Privado Atlântico

Sonangol and BPA acquired 47.3% of Banco Millennium Angola's share capital through a capital increase, subscribed by the acquirers, in cash. BMA acquired 10% of the share capital of BPA. According to the terms of the agreement, BMA continues to be a subsidiary company of BCP but would benefit from having important minority shareholders, with the corresponding shareholder influence and co-operation potential. Sonangol has acquired a 4.98% shareholding in the Bank in 2007 and held 19.44% of the Bank on 31 December 2012.

Significant Developments in 2012

On 1 February 2012, the Bank announced that, following a downgrade of the rating of the Portuguese Republic, DBRS reviewed the long-term rating of the Bank from BBB to BBB (low), with "Negative Trend", and the short-term rating from R-2 (high) to R-2 (mid) with "Negative Trend".

On 3 February 2012, the Bank announced that it received the following statement from the President of the Supervisory Board:

"The Chairman of the Supervisory Board of the Bank, having the concurrence of the main shareholders, confirmed that, meeting the criteria of Basel 2.5, translated in the EBA's requirements for the Core Tier 1 ratio on 30 June 2012, and the prudential demands made by the Bank of Portugal for the end of 2012, the Bank submitted to the Bank of Portugal a Capital Plan on 20 January 2012, as per the EBA's recommendation of 8 December.

The Capital Plan delivered involves two components:

- (a) Increasing the share capital, with preference right, to be subscribed by private shareholders, so as to assure permanent own funds. Besides the concurrence of current shareholders, the Bank has received several assurances that allow it to count on the participation of reference investors in a future share capital increase.
- (b) Using the temporary State recapitalization line regulated by Law 63-A/2008.

The completion of the Capital Plan to be agreed with the competent authorities and submitted to the analysis and approval of a General Meeting specifically convened for that purpose, will be carried out within the deadlines and under the terms and conditions defined.

The execution of the Capital Plan presented will strengthen the financial standing of the Bank, as a foundation for a strategic project involving the Bank, its shareholders and other stakeholders, which will reinforce the Bank' place as a reference financial institution both in Portugal and abroad.

The losses taken in 2011 are an exception, non-recurrent items adding up to a balance sheet that translates the reality that is the stepping stone for the Bank to turn a new page.

The Chairman of the Supervisory Board of the Bank confirmed that he received positive feedback from the Supervisor on the process leading up to the recapitalisation, which allows the Bank to consider that all the conditions required to complete the operation successfully have been met."

On 3 February 2012, the Bank, S.A. announced that it received from its shareholders Sonangol, Grupo Teixeira Duarte, Grupo Berardo, EDP, Sabadell, Interoceânico and Hipólito Pires the following information:

"The shareholders of Banco Comercial Português, S.A., Sonangol, Grupo Teixeira Duarte, Grupo Berardo, EDP, Sabadell, Interoceânico and Hipólito Pires informed that they have asked the Chairman of the Board of

the General Meeting of the Bank to call a General Meeting of Shareholders to appraise and resolve on the alteration of the governance model and consequent election of members of the new corporate bodies.

By presenting the proposal, the shareholders intended, together with the reinforcement of the bank's own funds, to establish in the institution a governance model better suited to deal with the major challenges that the company faces today and will face in the future, a model that confers greater internal efficiency and cohesion while maintaining high audit and supervision levels, namely the adoption of the Anglo-Saxon model, composed by a Board of Directors, an Audit Committee and an Executive Committee. On the other hand, and aiming at the development by the Bank of a strategy for international expansion, the proposal foresees the creation of a Board for International Strategy to help the institution in the pursuit of that strategic vision.

At the same time and expecting that the General Meeting will approve the new corporate governance model it was also proposed the election of the members of the Board of Directors by means of a list that included Ambassador António Monteiro as Chairman of the Board and Mr. Nuno Amado as Chairman of the Executive Committee.

The shareholders also proposed names to be part of the Board for International Strategy that will be chaired by Mr. Carlos Santos Ferreira.”

On 3 February 2012, the Bank announced that, following his acceptance to integrate the Government of the Republic of Angola as Minister for State Affairs and Economic Coordination, Mr. Manuel Domingos Vicente, presented his renunciation to the position of Vice-Chairman of the Supervisory Board.

Moreover, the Bank informed that, due to his professional activities exercised abroad, Mr. Luís de Mello Champalimaud also presented his renunciation to the position he exercised as Member of the Supervisory Board.

On 14 February 2012, the Bank announced that following a downgrade of the Portuguese Republic's rating, a revision of the Banking Industry Country Risk Assessment for Portugal, and in the context of a review of Portuguese banks' ratings, Standard and Poor's reduced the long-term rating of the Bank from “BB” to “B+”, with Negative Outlook, while the short-term rating was confirmed at “B”.

On 16 February 2012, Banco Comercial Português, S.A., informed that following a revision of the rating of the Republic of Portugal, the rating for state guaranteed debt issued by BCP was revised by Moody's from “Ba2” to “Ba3”, with negative outlook.

On 28 February 2012, the Bank announced that it concluded on that day its General Meeting of Shareholders. The following deliberations were taken:

Item One – Approval of the alteration and restructuring of the articles of association of the company aiming at the adoption of a one-tier management and supervision model, composed by a Board of Directors, an Audit Committee and Chartered Accountant, as well as the creation of a Board for International Strategy.

Item Two – Election of members for the Board of Directors, Audit Committee, Board for International Strategy and Welfare and Remunerations Board for the term office 2012-2014.

On 1 March 2012, the Bank announced that the Bank of Portugal disclosed on that day the global results of the third and final phase of the Special Inspections Program (“SIP”). The third phase of the SIP, now completed, was forward-looking and designed to assess the adequacy of the parameters and methodologies used by banking groups when preparing financial projections that support the assessment of their future solvency, as part of the stress test exercise. This assessment confirmed that the Bank uses the appropriate parameters and methodologies. BCP Group will establish and submit to the Bank of Portugal a plan to be implemented that ensures these parameters and methodologies are adopted in future stress test exercises.

On 1 March 2012, the Bank announced that following the General Meeting of Shareholders held on February 28, that elected the new members of the Bank, corporate bodies, the Board of Directors elected the Executive Committee and its First Vice-President, Miguel Maya Dias Pinheiro, and Second Vice-President, Miguel de Campos Pereira Bragança.

On 29 March 2012, Banco Comercial Português informed that Moody's rating agency, in a release dated 28 March 2012, announced that it has concluded the review of the ratings of the Portuguese banks, initiated on 15 February, following the revision of its rating for the Republic of Portugal on 13 February 2012. In this context,

BCP long-term rating was confirmed at “Ba3” with Negative Outlook (identical to the rating of the Portuguese Republic), and the short-term rating was confirmed at Not Prime (NP).

On 4 June 2012, the Bank informed that, following the presentation to the Bank of Portugal of its proposed capitalization plan, developed in accordance with the Recapitalization Program for Portuguese Credit Institutions established by Law 63-A/2008 of November 24, and the assessment of its main terms by the Bank of Portugal and the State, whose indications and decisions were received, has obtained on that day confirmation that the State is available to participate with public investment in the Bank’s capitalization program, with the following components:

- (a) A capital increase to raise new funds, to be subscribed by the Bank’s shareholders exercising their legal right of preference, in a total expected amount of Euro 500,000,000, to be carried out in the third quarter of 2012, for which it has been agreed that the State will underwrite the offer at a price of Euro 0.04 per share, in compliance with Article 4 of Ministerial Order (“*Portaria*”) no.150-A/2012, of 17 May 2012;
- (b) The subscription by the State of hybrid instruments that qualify as Core Tier 1 capital (instruments that are completely repayable by the Bank over a period of five years and which only in specific circumstances, including non-compliance or failure to pay, can be converted into shares of the Bank), in a total value of Euro 3,000,000,000, to be carried out by the end of June 2012.

On 25 June 2012, the Bank announced that at a General Meeting of Shareholders held on that day, with 42.7% of the share capital represented, the following resolutions were adopted:

Item One – Approval of the Bank’s recapitalization plan, including public investment under the terms of Law 63-A/2008, of 24 November, upon related commitments and obligations, and upon granting the management body the powers necessary to accomplish the plan, including the: (i) eventual adjustment of the plan’s conditions, in accordance with the approval decision of the ministry mentioned in that Law; (ii) accomplishment and development of measures to execute the plan, including, *inter alia*, resolving on the issue of shares and financial instruments that may be converted into shares as part of the public investment, the exercise by the State of its rights, and the conditions for the Bank to repurchase such financial instruments; and (iii) definition and execution of eventual adjustments, to namely correct extraordinary deviations or update the conditions for the public divestment.

Item Two – Approval of the proposal to disapply the preference right of the shareholders in the subscription of an issue or issues, to be resolved by the Executive Board of Directors – with the favourable opinion of the Audit Committee- of the financial instruments that may be converted into shares and of shares which are part of public capital injection envisaged in the plan.

Item Three – Approval of the proposal for the “Core Tier 1 capital instruments subscribed by the State” which are capable of being converted into shares and the shares that are eventually issued to be subscribed by the State mentioned in the proposal to disapply the preference right to be approved in the context of the above mentioned item.

On 11 July 2012, Standard & Poor’s downgraded the rating assigned to the Programme in respect of Subordinated Notes from “CCC+” to “CCC”.

On 17 July Fitch announced the upgrade of the Viability Rating of BCP from “cc” to “b”, Subordinated debt from “C” to “B-”, and Preferred Shares from “C” to “CC”. The long and short term ratings were confirmed at “BB+”/”B”, maintaining the negative outlook.

On 3 October 2012, EBA and the Bank of Portugal announced the results of the final assessment of the capital exercise and compliance with the EBA recommendation of December 2011, informing that the Bank exceeded the minimum requirement of a Core Tier 1 ratio of 9%, including the sovereign buffer as indicated in the mentioned EBA recommendation.

On 4 October 2012, the Bank announced that, in compliance with the applicable legal provisions, the share capital increase of the Bank from Euro 3,000,000,000 to Euro 3,500,000,000, comprising the issuance of 12,500,000,000 ordinary, registered and book-entry shares, without nominal value, with the issuance price and subscription price of 0.04 Euro each, which were offered to the shareholders of the Bank for subscription through the exercise of their pre-emptive subscription rights, was registered with the competent Commercial Registry Office. As such, the share capital of the Bank, S.A. is now of Euro 3,500,000,000, represented by 19,707,167,060 ordinary, book-entry shares without nominal value.

On 29 November 2012, the Bank announced that, in the wake of the Bank's recapitalisation operation and in accordance with article 14 (2) of Law 63-A/2008 (altered and republished by Law 4/2012) and the Decision no. 8840-B/2012, dated 28 June, the State appointed Mr. Bernardo Sottomayor, as first non-executive director, and Mr. José Rodrigues Jesus, as second non-executive director, to be its representatives in the Bank's corporate bodies. Mr. José Rodrigues will also be a member of the Audit Committee.

On 3 December 2012, the Bank announced that on 29 November 2012, the On-Site Inspections Program (OIP) for the exposures to construction and real estate promotion sectors in Spain and Portugal, with reference to 30 June 2012, was completed.

For the BCP Group, the assessment concluded that there was a need to reinforce the recorded impairment by a total amount of Euro 290 million, corresponding to about 3.1% of the exposures evaluated.

Impairment reinforcements made by BCP Group, with reference to 30 September (Euro 103 million) and 31 October 2012 (Euro 176 million), already covered most of the identified needs, reducing the amount of EUR 290 million to EUR 11 million, that will be recorded until 31 December 2012.

Additionally, the BCP Group informed that the impairment reinforcement needs identified by the OIP did not affect in any way the solvency and capital targets set out in the bank's recapitalization plan.

On 4 December 2012, Moody's downgraded the rating assigned to the Programme in respect of Senior Notes with a maturity of more than one year from "Ba3" to "B1" and in respect of Subordinated Notes from "B3" to "Caa3".

On 5 December, following the confirmation of the long term rating of the Portuguese Republic at "BBB(low)", the Bank announced that the rating agency DBRS reaffirmed, the rating of the Bank at "BBB(low)" for long term senior debt and deposits, and at "R2(middle)" for short term debt & deposits, maintaining a negative outlook.

Recent Developments in 2013

On 22 April the Bank entered into definitive agreements with Piraeus Bank regarding: (i) the sale to Piraeus Bank of the entire share capital of MBG and, (ii) the investment by the Bank in the forthcoming capital increase of Piraeus Bank.

The signing of these agreements marks the successful conclusion of the negotiations between the Bank and Piraeus Bank following the announcement on 6 February 2013 that the parties had entered into exclusive discussions.

This agreement falls within the framework that has been defined by the Bank of Greece and the HFSF aiming at the restructuring of the Greek banking system and strengthening its financial stability. The terms and conditions of the transactions have been approved by the HFSF.

The transactions were completed on 19 June 2013.

The key elements of the sale transaction are the following:

- The aggregate consideration for the sale of the share capital of MBG was agreed at one million euros;
- Pre closing recapitalization of MBG by the Bank for Euro 413 million, in line with the requirement of Bank of Greece, through the conversion of approximately Euro 261 million of the existing intercompany funding, in addition to the Euro 139 million already contributed by the Bank into MBG in December 2012. Under this scope, the Bank has already booked in 2012 Financial Statements, an impairment in the amount of Euro 427 million;
- Piraeus Bank to ensure reimbursement by MBG of all the remaining intragroup funding currently provided by the Bank to MBG in two tranches. The first tranche, in the amount of approximately Euro 650 million, was paid on the date of closing of the sale transaction, and the second one, of approximately Euro 250 million will be paid within 6 months from that date;
- No asset transfer from MBG to the Bank as part of the transaction.

The key elements of the investment transaction are the following:

- The Bank invested Euro 400 million in the rights issue of Piraeus Bank within the framework of recapitalisation of Greek banks with the participation of the HFSF, i.e., at the same price as HFSF, leading to a minority stake in Piraeus Bank's share capital.
- The Bank and Piraeus Bank entered into an agreement providing that Piraeus Bank undertakes to assist the Bank in the orderly disposal over time of its shareholding in Piraeus Bank, subject to the Bank undertaking certain limitations, including a 6 month lock up period and certain temporary voting and orderly disposal rules for the period where HFSF is also restricted on voting;
- The Bank's minority investment in the share capital of Piraeus Bank will not be consolidated.

The transaction will enable the Bank to deconsolidate circa Euro 4.000.000.000 of RWA of Millennium Bank as of 31 December 2012. There will be no intercompany funding 6 month after closing. In consequence, after this date the impact on RWA will solely be the investment in Piraeus Shares.

The final impact from this transaction on the Bank's capital position will be dependent on the performance of the participation in Piraeus Bank.

C. Principal Markets and Competition

Since 1996, there has been a significant expansion of retail financial services in the Portuguese banking market, resulting in a sustained development of mortgage credit, consumer loans, investment funds and unlinked products, and increased use of credit cards. The Portuguese banking market is now well developed, and includes strong domestic and foreign competitors that incorporate a multi-product, multi-channel and multiclient segmented approach. This has allowed Portuguese banks to tailor their financial products and services to customers' needs and to improve their commercial capabilities. In addition, there have been significant developments of internet banking operations and the use of new techniques, such as customer relationship management, which enable banks to accurately track customers' requirements. Cross-selling has benefited from the use of such techniques and has increased the proportion of banks' non-interest income in recent years.

Foreign banks have also entered the Portuguese market, particularly in areas such as corporate banking, asset management, private banking and brokerage services. These factors have resulted in increased competition, especially for customers' funds and brokerage services. Customer loans and advances increased significantly in the second half of the 1990s, but lower economic growth observed since the end of 2000 led to a slowdown of demand for credit, resulting in increased competition. The Bank competes primarily with the four other major Portuguese banking groups: Caixa Geral de Depósitos; Banco Espírito Santo, Banco Santander Totta; and Banco BPI. The dimension of the Bank's distribution network operating under a single brand, Millennium bcp, has enabled the Bank to maintain a leading position among its competitors. The Bank's fully centralised back office operations have also enabled the Bank to operate efficiently and exploit economies of scale.

According to the Bank of Portugal, as at the end of March 2013, the Bank had a market share of 19.1% of loans to customers (gross) and 18.9% of customer funds. In the second half of the 1990s, the Portuguese banking system experienced a consolidation process, which was driven by the need to achieve economies of scale and operating synergies. More recently, major Portuguese banks have rationalised their operating structures, with the aim of cost cutting and improving efficiency. In addition, many Portuguese banks have focused on increasing revenues through increased market share, cross-selling and new branch openings, as well as on core operations, which tend to support aggressive commercial strategies.

The following table illustrates the competitive environment in Portugal from 31 December 2008 to 31 December 2011:

	<i>As at 31 December</i>			
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
No. of Banks ⁽¹⁾	36	37	40	40
No. of Branches	6,080	6,232	6,162	6,062
Population (thousands)	10,562	10,637	10,638	10,627
Inhabitants per branch	1,737	1,707	1,726	1,753
Branches per bank	169	168	150	152

Sources: Portuguese Banking Association (“Associação Portuguesa de Bancos”) and National Statistics Institute of Portugal (“Instituto Nacional de Estatística”).

(1) Including Caixa Económica Montepio Geral

The Bank is also subject to strong competition in the international markets in which it operates.

In Mozambique, Millennium bim is the market leader, with a market share of 33.2% of customer loans and 31.1% of deposits, in February 2013, according to data from the Bank of Mozambique. Also in this market, it is expected that competition from foreign banks, including South Africans, will continue to increase. In Angola, as a result of the share capital increase foreseen in the strategic partnership agreements established with Sonangol and BPA, BMA embodies the ambition to grow up to 130 branches by 2015. The main competitors have very ambitious business expansion plans, contemplating in some cases the expansion of the branch network. Additionally, there has been an increase in competition in Retail, “Corporate” and Investment Banking. It should be noted that currently there are 23 banking licenses in Angola, although the banking rate is only 11%, compared with a regional average of 33% (Source: FinScope Africa Service). The market share of the BMA in Angola in February 2013, and according to data from the Bank of Angola, stood at 2.9% in customer loans and 2.6% for deposits.

In Poland and Greece, significant opportunities have led to increased competition in recent years. Privatisation and consolidation of the Polish banking market in the second half of the 90s also contributed to increase in competition. Additionally, both in Poland and Greece, the European integration process has created strong incentives for cross-border provision of financial services without local commercial representation and cross-border mergers, which resulted in a significant increase in competition from foreign banks. In February 2013, the market share of Bank Millennium in Poland, according to data released by the National Bank of Poland, stood at 4.8% of loans to customers (gross) and 5.2% of deposits. In Greece, according to data from the Bank of Greece, the market share of customer loans and deposits of Millennium Bank reached, respectively, 2.1% and 1.6% in February 2013.

Third party information

Information sourced from the Bank of Portugal (“Banco de Portugal”), Portuguese Banking Association (“Associação Portuguesa de Bancos”), the National Statistics Institute of Portugal (“Instituto Nacional de Estatística”), the National Bank of Poland, the Bank of Greece, the Bank of Mozambique, the Bank of Angola, the Hellenic Statistical Authority Office, FinScope Africa Service and from other sources mentioned in this Base Prospectus has been accurately reproduced and, so far as the Bank 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.

D. Trends Information

The extremely adverse macroeconomic context arising from the persistence of the economic and financial crisis which began in 2007 has brought new challenges to banking activity. During 2012, with the aggravation of the sovereign debt crisis in the euro zone, especially in the peripheral euro area Member States, the environment in which banks develop their activity has further deteriorated. It is expected that the extremely demanding economic conditions will continue during 2013 in the peripheral countries and especially in Portugal, as a result of the maintenance of the recessive environment, rising unemployment, reduction of disposable family income, and deflationary pressures on the economy operating on the market of products and services, real estate and on wages. This combination of factors is likely to continue to constrain banking activity.

In Portugal, 2012 was marked by the implementation of the banks recapitalisation programme and by a climate of growing austerity, imposed by the Economic and Financial Adjustment Programme (PAEF), agreed in May 2011. 2013 will be marked by the continuation of the deleveraging process (lower volumes) and, simultaneously, efforts will be developed to recover profitability in a context of increased default and past due loans. 2013 will also be characterised by the implementation of the restructuring plan agreed with the European Commission, for the banks which received public investment.

The banks at a European level were confronted with higher regulatory requirements, namely with respect to the strengthening of solvency levels in 2012. In December 2011, EBA issued a recommendation appealing to the National Authorities to request, from the selected banks, an exceptional and temporary buffer to ensure the achievement of a minimum level of 9% for their Core Tier 1 ratio by June 2012. Most of the banks complied with this target and Portuguese banks were no exception. However, over the coming years the banks will have to adapt to a much more complex and demanding regulatory framework (transition to Basel III).

The recapitalisation of Portuguese banks and the management of a demanding deleveraging process, agreed under the PAEF, developed in a particularly adverse macroeconomic context have contributed to the deterioration of profitability and efficiency indicators. Return on equity has fallen in a widespread manner, to stand below the cost of capital and the Cost-to-Income indicator has shown a tendency to increase. Banks were also faced with the deterioration of the quality of their assets and consequent reinforcement of allocations for impairment. As a result, banking institutions have seen a progressive decline in stock market capitalisation, resulting of the downward revision of prospects for the generation of earnings in the future and downgrade of their ratings.

The global economic environment continues to generate volatility and risk aversion on the part of international investors and led to the closure of the wholesale funding markets, making the European banking system more vulnerable and dependent on financing obtained from the European Central Bank (ECB). In this context and with the objective of replacing short term funding, the banking institutions decided on the massive use of long term refinancing operations (LTRO) in order to limit the pressures on their liquidity.

Even if Portugal complies with the targets of the memorandum, the scale and scope of the financial assistance received by the country might not be sufficient to ensure the return of the Republic to market funding in 2013, which limits the options open to Portuguese banks. Portuguese banks remain dependent on the willingness of the ECB to continue to supply the funding needs of European banks, in particular of the peripheral countries, in an unlimited form.

These circumstances shall continue to be pervasive during 2013, creating pressures towards the reformulation of the business models of banks and organisational restructuring. Moreover, the changes in regulations on the structure of the banking sector have given rise to new measures aimed at restricting the activities developed in terms of investment banking and global finance, re-segmenting domestic operations and adjusting the banks to the new interbank funding system.

In this context, the Bank has been implementing, since 2008, a vast series of measures and initiatives with a view to strengthening its capital base, namely concerning the levels of share capital and own funds, including liability management operations, asset management and transfer of Pension Fund liabilities to Social Security. The underwriting of hybrid instruments that qualify as Core Tier 1 capital by the State, on 29 June 2012, to the total value of Euro 3,000 million, and the successful share capital increase operation through new cash entries, intended for subscription by its shareholders in the exercise of their legal preemptive right, of a total amount of Euro 500 million, in October of the same year, reflect compliance with the priority of financial strength, defined in the management agenda for 2012. However, the issue of hybrid instruments poses new challenges for the management of net interest income and commissions, operating costs and allocations for impairment.

In 2012, the Bank prepared and presented to the Government a restructuring plan, required by national law and by the applicable European rules on matters of State aid, which was formally submitted by the State to the European Commission, in observance of the maximum period of six months after the approval of the Bank's recapitalisation, as provided in Order no. 8840-B/2012 of the Minister of State and Finance, of 28 June. The final version of the restructuring plan, which is currently pending approval by the European Commission, might contain an additional series of measures, on top of those already established in the Recapitalisation Plan, namely possible commitments of a behavioral and/or structural nature. The restructuring plan referred to above will have to (i) demonstrate the Bank's long term viability without any assistance from the State; (ii) demonstrate the contribution that the Bank and its shareholders have provided and shall provide to support the necessary efforts of recapitalisation and restructuring of the Bank; and (iii) define measures to limit any

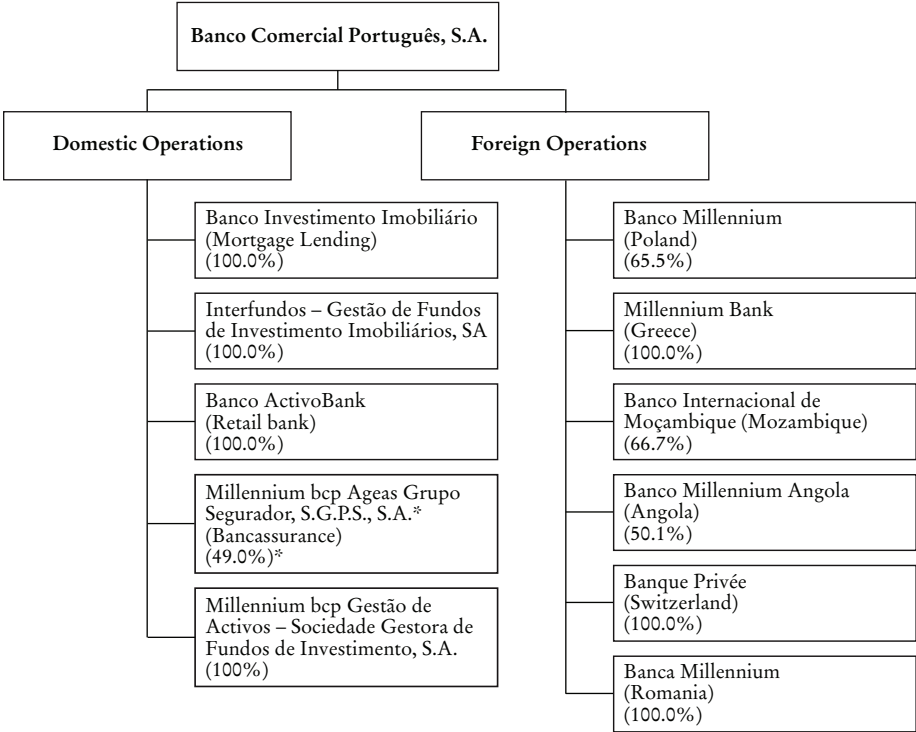
potential competition distortions arising from the public assistance that the Bank has received from the Portuguese Republic.

The Bank believes that the conditions currently established in the Recapitalisation Plan and in Order number 8840-B/2012 of the Minister of State and Finance, of 28 June 2012, which approved the public investment stipulated in the Recapitalisation Plan, as well as in the annexes of both documents, and the additional management measures that the Bank has already considered, are balanced and in proportion, particularly in view of the exogenous factors and transitory nature which justify resorting to public investment, the Bank’s management model and investment strategy and, furthermore, the measures of reinforcement of solidity which the Bank has successively adopted over the last few years. Nevertheless, there is still uncertainty regarding the extent of the restructuring that the Bank will have to carry out and on the precise content of the restructuring plan which is expected to be approved by the European Commission.

E. Organisational Structure

The Bank and the Group

The following diagram summarises the organisational structure of the principal subsidiaries of the Group on 31 December 2012:



* Consolidated via 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.

Significant Subsidiaries

The following is a list of the main subsidiaries of the Bank at 31 December 2012:

	<i>Country of Incorporation/ Residence</i>	<i>% held by the Bank</i>	<i>% held by the Group</i>
Banco de Investimento Imobiliário, S.A.	Portugal	100.0	100.0
Banco ActivoBank, S.A.	Portugal	–	100.0
Banco Internacional de Moçambique, S.A.	Mozambique	–	66.7
Banco Millennium Angola, S.A.	Angola	50.1	50.1
Millennium Bank, S.A.	Poland	65.5	65.5
Banque Privée BCP (Suisse) S.A.	Switzerland	–	100.0
Millennium bcp Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	Portugal	100.0	100.0
Interfundos - Gestão de Fundos de Investimento Imobiliários, S.A.	Portugal	100.0	100.0
Millennium bcp-Prestação de Serviços, A.C.E.	Portugal	73.5	91.5
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Portugal	–	49.0
Millennium Bank, Societe Anonyme	Greece	–	100.0
Banca Millennium, S.A.	Romania	–	100.0

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.

Save as disclosed in the “Recent Developments in 2013” section on pages 137 and 138 of this Base Prospectus, 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.

Save as disclosed in the “Evolution of the Solvency Ratio on the first quarter of 2013” section on page 147 and 148 of this Base Prospectus, there have been no recent events particular to the Bank, which are to a material extent relevant to the evaluation of the Banks solvency.

F. Share Capital

The authorised, issued and fully paid up share capital of the Bank is Euro 3,500,000,000, divided into 19,707,167,060 shares with no nominal value. The shares are ordinary, issued in a dematerialized book-entry form (*escriturais*) and *nominativas*, and are integrated in a centralised system recognised under the 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 to 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 Companies Code – and, in particular, the Legal Framework of Credit Institutions and Financial Companies (*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 Bank of Portugal (*Banco de Portugal*), to the supervision of the Portuguese Securities Exchange Commission (*Comissão do Mercado de Valores Mobiliários*) as an issuer and a financial intermediary and to the supervision of the Portuguese Insurance Institute (*Instituto de Seguros de Portugal*) as the tied insurance intermediary.

MANAGEMENT AND AUDIT CORPORATE BODIES

The Bank adopted on 28 February 2012, a one-tiered corporate governance model, with one Board of Directors within which there are 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 seventeen and a maximum of twenty-five members, elected by the General Meeting.

The Board of Directors of the Bank, elected by the General Meeting on 28 February 2012, for the 2012/2014 term-of-office, which included 20 members, is currently composed of 22 because due to the Bank's recapitalisation operation, on 4 December 2012 the State appointed Mr. Bernardo de Sá Braamcamp Sobral Sottomayor and Mr. José Rodrigues de Jesus as its representatives to the Board of Directors of the Bank during the period of the state aid for strengthening own funds. The Board of Directors has the following members:

Chairman:	António Vítor Martins Monteiro
Vice-Chairmen:	Carlos José da Silva Nuno Manuel da Silva Amado Pedro Maria Caláinho Teixeira Duarte
Members:	Álvaro Roque de Pinho Bissaia Barreto André Luiz Gomes António Henriques de Pinho Cardão António Luís Guerra Nunes Mexia António Manuel Costeira Faustino Bernardo de Sá Braamcamp Sobral Sottomayor César Paxi Manuel João Pedro Jaime de Macedo Santos Bastos João Bernardo Bastos Mendes Resende João Manuel de Matos Loureiro José Guilherme Xavier de Basto José Jacinto Iglésias Soares José Rodrigues de Jesus Luís Maria França de Castro Pereira Coutinho Maria da Conceição Mota Soares de Oliveira Callé Lucas Miguel de Campos Pereira de Bragança Miguel Maya Dias Pinheiro Rui Manuel da Silva Teixeira

Positions held outside the Group by the Members of the Board of Directors that are relevant to the Group:

<u>Name</u>	<u>Position</u>	<u>Company</u>
António Vítor Martins Monteiro	Chairman of the Board of Curators	Fundação Luso Brasileira
	Non-Executive Member of the Board of Directors	SOCO - Internacional, plc
	Non-Executive Member of the Board of Directors	Banco Privado Atlântico, S.A.
	Member of the General Board	School of Humanities and Social Sciences of Universidade Nova de Lisboa

Name	Position	Company
Carlos José da Silva	CEO	Banco Privado Atlântico, S.A.
	Chairman	Banco Privado Atlântico Europa
	Chairman	Angola Management School
	Chairman	Interoceânico Capital SGPS, S.A.
	Vice- Chairman of the Company	Baía de Luanda
Nuno Manuel da Silva Amado	Member of APB- Associação Portuguesa de Bancos	in representation of Banco Comercial Português, S.A.
Pedro Maria Caláinho Teixeira Duarte	Chairman of the Board of Directors	Teixeira Duarte, S.A.
	Chairman of the Board of Directors	Teixeira Duarte – Engenharia e Construções, S.A.
	Chairman of the Board of Directors	Teixeira Duarte – Sociedade Gestora de Participações Sociais, S.A.
	Chairman of the Board of Directors	PASIM – Sociedade Imobiliária, S.A.
	Chairman of the Board of Directors	PACIM – Sociedade Gestora de Participações Sociais, S.A.
Álvaro Roque de Pinho Bissaia Barreto	Chairman of the Board of Directors	Tejo Energia, S.A.
	Non-Executive Director	Nutrinveste – Sociedade Gestora de Participações Sociais, S.A.
	Chairman of the Board of the General Meeting	Prime Drinks, S.A.
	Non-Executive Director	SAIP – Soc. Alentejana de Investimentos e Participações, SGPS, S.A.
	Non-Executive Director	Beralt Tin & Wolfram (Portugal), S.A.
André Luiz Gomes	Partner	Cuatrecasas, Gonçalves Pereira & Associados, Sociedade de Advogados, R.L.
	Non-Executive Director	Bacalhôa – Vinhos de Portugal, S.A.
	Non-Executive Director	Atram – Sociedade Imobiliária, S.A.
	Non-Executive Director	Matiz – Sociedade Imobiliária, S.A.
António Henriques Pinho Cardão	Freelance economist	
António Luís Guerra Nunes Mexia	Chairman of the Executive Board of Directors	EDP - Energias de Portugal, S.A.
	Vice-Chairman	AIP – Associação Industrial Portuguesa
António Manuel Costeira Faustino	Freelance lawyer	

Name	Position	Company
Bernardo de Sá Braamcamp Sobral Sottomayor	Member of the Board of Directors	Deutsche Bank – RREEF Infrastruture
	Head of Acquisitions	European Infrastructure Fund Management Team
	Investment Management Certificate – qualification required by the Financial Services Authority for the exercise of the financial functions presently exercised in the City of London	
César Paxi Manuel João Pedro	Senior Director	Group Sonangol
Jaime de Macedo Santos Bastos	Chartered Accountant	
	Member of the Audit Board on behalf of J. Bastos, C. Sousa Góis & Associados, SROC	Cimpor
João Bernardo Bastos Mendes Resende	Member of the Management Board	Instituto de Estudos Económicos
	Member of the Board of Directors	Banco Urquijo (Group Banco Sabadell)
João Manuel de Matos Loureiro	Professor	School of Economics of Universidade do Porto and EGP-UPBS
	Head of the Post Graduate Degree in Company Management	Escola de Gestão do Porto
José Guilherme Xavier de Basto	Member of the Research Office	Ordem dos Técnicos Oficiais de Contas (Chartered Accountants Association)
	Non-executive Director	SIBS, S.G.P.S., S.A. and of SIBS Forward Payment Solutions, S.A.
	Member of the Remunerations Committee	Unicre – Instituição Financeira de Crédito, S.A.
José Jacinto Iglésias Soares	Vice-Chairman of the General Board of Associação Industrial Portuguesa – Câmara de Comércio e Indústria, representing Banco Comercial Português, S.A.	
José Rodrigues de Jesus	Member of the Audit Board	Mota-Engil, S.G.P.S., S.A. and of Germen – Moagem de Cereais, S.A.
Miguel Maya Dias Pinheiro	Member of the Supervisory Board of Portugal Capital Ventures-Sociedade de Capital de Risco, S.A. representing Banco Comercial Português, S.A.	

Name	Position	Company
Rui Manuel da Silva Teixeira	Member of the Board of Directors of Unicre-Instituição Financeira de Crédito, S.A. representing Banco Comercial Português, S.A.	

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 1 March 2012, composed of 7 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
1 st Vice-Chairman:	Miguel Maya Dias Pinheiro
2 nd Vice-Chairman:	Miguel de Campos Pereira de Bragança
Members:	José Jacinto Iglésias Soares Luís Maria França de Castro Pereira Coutinho 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 and composed of a minimum of three and a maximum of five members.

The Audit Committee was 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 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;
- (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 José Guilherme Xavier de Basto José Rodrigues de Jesus (Member appointed by the 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, 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, without prejudice to the existence of 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, with the mention of the adoption of a restrictive regime of access to sensitive information.

Statutory Auditor

KPMG & Associados, SROC, S.A. (SROC no. 189), represented by Ana Cristina Valente Dourado (ROC no. 1011), as Statutory Auditor and João Albino Cordeiro Augusto (ROC no. 632), as alternate Statutory Auditor.

The business address for the Statutory Auditor and alternate Statutory Auditor is Edifício Monumental, Avenida Praia da Vitória, 71, 11.º, 1069-006 Lisboa.

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 first quarter of 2013

Following the request submitted by the Bank, the Bank of Portugal authorised the adoption of methodologies based on Internal Rating Models ("IRB") for the calculation of capital requirements for credit and counterparty risk, covering a substantial part of the risk from the activity in Portugal as from 31 December 2010. In the scope of the gradual adoption of the IRB methodologies for the calculation of capital requirements for credit and counterparty risk, the Bank of Portugal authorised the extension of this methodology to the subclasses of risk "Renewable Retail Positions" and "Other Retail Positions" in Portugal with effect as from 31 December 2011. Afterwards, with effect as from 31 December 2012, the Bank of Portugal authorised the use of own estimates of Credit Conversion Factors ("CCF") for exposures of the class of risk "Companies" in Portugal and the adoption of IRB methodologies for "Loans secured by residential real estate" and "Renewable positions" of the Retail portfolio in Poland.

At the end of the first quarter of 2013, the Core Tier 1 ratio stood at 12.1% in accordance with the Bank of Portugal rules and at 9.6% in accordance with EBA rules (12.4% and 9.8%, respectively, at the end of 2012), reflecting the reduction of the Core Tier 1 ratio (by Euro 90 million in accordance with the Bank of Portugal rules and by Euro 56 million in accordance with EBA rules) and the increase in risk weighted assets (by Euro 355 million) in the first quarter of 2013.

The decrease of Core Tier 1 calculated by the rules of the Bank of Portugal was mainly influenced by negative net income posted for the first quarter of 2013 (Euro 152 million), despite the positive effects mostly associated with the lower deductions related to deposits with higher interest rates (Euro 26 million), with the increases in non-controlling interests (Euro 24 million) and in fair value reserves of Millenniumbcp Ageas (Euro 15 million). Compared with the figures obtained in accordance with the Bank of Portugal rule, the figures

determined by the EBA rules benefited from the decrease in the deductions related to significant investments and from the shortfall of impairment to expected loss (Euro 34 million).

The increase of risk weighted assets was mostly influenced by the unfavourable impacts associated with the deterioration of the credit risk of some customers and the increase of market risk, which more than offset the positive effect determined by the reduction in credit exposures observed over the first quarter of 2013.

SOLVENCY

	<i>31 March</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>Euro million</i>	
Own funds		
Core tier 1	6,489	6,579
Preference shares and perpetual subordinated debt securities with conditional coupons	172	173
Other deduction ⁽¹⁾	(496)	(530)
Tier 1 capital	6,165	6,223
Tier 2 capital	730	697
Deductions to total regulatory capital	(146)	(146)
Total regulatory capital	6,750	6,773
Risk weighted assets	53,625	53,271
Solvency ratios		
Core tier 1	12.1%	12.4%
Tier 1	11.5%	11.7%
Tier 2	1.1%	1.0%
Total	12.6%	12.7%
Core tier 1 ratio EBA⁽²⁾	9.6%	9.8%

(1) Includes deductions related to the shortfall of the stock of impairment to estimated losses and to significant shareholdings in unconsolidated financial institutions, in particular to the shareholdings held in Millenniumbcp Ageas and Banque BCP (France and Luxembourg).

(2) Core tier 1 ratio in accordance with the criteria of EBA. In this scope, core tier 1 in accordance with the rules of the Bank of Portugal was deducted of the "Other deductions (1)" and of the buffer to sovereign risks (Euro 848 million); the risk weighted assets do not have adjustments.

Note: The Bank received authorisation from the Bank of Portugal to adopt IRB approaches for the calculation of capital requirements for credit risks, as from 31 December 2010. In the scope of the gradual adoption of the IRB methodologies for the calculation of capital requirements for credit and counterparty risk, the Bank of Portugal authorised the extension of this methodology to the subclasses of risk "Renewable Retail Positions" and "Other Retail Positions" in Portugal with effect as from 31 December 2011. Afterwards, with effect as from 31 December 2012, the Bank of Portugal authorised the use of own estimates of CCF for exposures of the class of risk "Companies" in Portugal and the adoption of IRB methodologies for "Loans secured by residential real estate" and "Renewable positions" of the Retail portfolio in Poland. In the 1st half of 2009, the Bank received authorisation from BoP to adopt the advanced approaches (internal models) to the generic market risk and the standard method for the operational risk.

THE PORTUGUESE MORTGAGE MARKET AND THE SERVICING OF THE COVER POOL

PORTUGUESE MORTGAGE MARKET

Since Portugal joined the European Union (“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 around 75% in recent years¹.

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 what relates the access to capital, coupled with high indebtedness levels, led the Portuguese government to request for external assistance by mid-2011. Since then, Portugal is under a specific economic and adjustment program that entails official funding up to 2014 along with a wide range set of structural reforms, 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 adjustment program, the unavoidable austerity drive in public finances coupled with adverse external and financial conditions significantly constrain the country’s ability to grow in the short run. Recession set in during 2011 and 2012 (-1.6% and -3,2% in real GDP annual growth, respectively²) and is expected to endure in 2013, as domestic demand continues to adjust to a more sustainable level.

Lower public spending, higher tax burden, more stringent regulations and tighter financing conditions are expected to continue to affect the mortgage markets. Business volumes have been significantly reduced, as demand collapsed and home supply continues to adjust downwards. House prices are moving down, though in an orderly manner benefitting from the fact that Portugal has not embraced a boom over the past decade.

Mortgage markets are prone to remain weak. The fundamental drive towards a more export oriented economy means fewer resources being devoted to traditional non-tradables sectors, such as housing. At the same time, market conditions and regulations remain challenging for long term credit operations. The undeveloped rental market is likely to gain importance 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 latterly shown some difficulties in adjusting to the monetary union (1999 to date).

During the first two phases, from the high levels of unemployment, inflation and public deficit recorded in the mid-1980s, Portugal managed to comply with the Maastricht criteria only ten years later. The country’s unemployment rate declined from 9% to 4%; inflation dropped from close to 30% in 1985 to 2% in the late 1990s. Over those years, real GDP growth averaged 3.5% per year. The three-month Lisbon interbank offer rate moved from 10% in 1993 to about 3% by the end of the decade.

The ongoing deregulation and liberalisation of the banking and financial markets led to growing competition among market participants. Demand for residential property was strong. The growth rate of credit granted to households rose quickly for most of the 1990s, topping 38% year-on-year in 1998.

After 2000, the Portuguese economy convergence process stalled. The loss of the exchange rate instrument, greater emphasis on productivity gains and flexible markets, increasing competition, all resulted in the Portuguese economy facing great difficulties in the global marketplace. At the domestic level, households’ build-up of debt, uncertainty and the 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)³.

1. Eurostat
2. Portugal’s National Statistics Institute
3. Portugal’s National Statistics Institute and Bank of Portugal

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.

2. Current situation

(a) *The economy*

The intensification of the European sovereign crisis put the Portuguese fiscally driven growth model to an end. Back in April 2011, the Portuguese government negotiated an external assistance package with the International Monetary Fund ("IMF"), the European Central Bank ("ECB") and the European Commission ("EC") - "the program" - envisioning a total of Euro 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.

Almost two years passed and, on the 7 quarterly reviews completed to date, Portugal recorded positive appraisals by the external authorities on the pace of development and compliance with the program. That made possible for a substantial disbursement of the funds (above 80% of the total⁴) up until the end of March 2013 and was of the utmost importance to start changing perceptions on the capacity of the country to abide and deliver on tough and deep changing compromises.

A key contributor has been the significant social and political cohesion on the program. Portugal held general elections in June 2011 after signing the agreement. The 3 parties involved in the negotiations received around 80% of the votes. Government and opposition changed places. The center-right coalition that took office has shown a strong commitment to deliver on the targets. The main opposition party, which headed the previous government, has expressed its willingness to support the implementation of the program, although with growing reservations.

This consensus goes beyond the political arena. A year after imposing extreme austerity measures, namely reducing public wages, the government still enjoys some degree of popular support, especially when compared with other European countries under similar economic and social strains. Some of the most important unions also stand behind the structural reforms and have engaged in redesigning the labour laws and practices, together with government and employees, in order to make greater labour flexibility a facilitator for stronger employment in the future. Lower severance payments, cuts in holidays, reduced unemployment benefits have all been agreed upon during 2012.

In 2012, the budget deficit reached 6.4% of GDP⁵, a reading that stood above the target of 5.0% of GDP only due to the statistical treatment given by Eurostat to specific operations, without which the fiscal deficit would have been 4.9% of GDP⁶. Nevertheless, the structural deficit, that excludes extraordinary items and the cycle effect, was reduced from 8.8% in 2010 to 4.2 % of GDP in 2012⁷. An additional reduction is expected in 2013. On 2012 the public debt reached 123.6% of GDP⁸, a high level by any standard. However, debt sustainability analysis performed by the IMF, the EC and the European Central Bank ("ECB") draw similar conclusions: (i) provided the program runs according to schedule, public debt is expected to start descending in a sustainable manner starting in 2014/2015; (ii) long term pressures on public finances seem well below those faced by many advanced economies

Though it is still very early to assess the full impact of the adjustment program, two developments are worth highlighting: (i) the significant expansion of the exporting sector and (ii) the strong contraction of domestic demand, which together produced a significant reduction of the external deficit. The former stemmed essentially from the substantial gains in external competitiveness whereas the latter reflects pronounced drops in consumption and investment and is a consequence of the rising unemployment, falling wages, tight financing conditions, global uncertainty and fiscal austerity. These headwinds caused GDP to drop by 3.2% in 2012⁹. According to the flash estimate of Portugal's National Statistics Institute, during the first quarter of 2013, economic activity turned weaker than expected (-3,9% y-o-y versus -3.7% y-o-y, on EC estimates, May 2013).

4. Portuguese Treasury and Debt Management Agency (IGCP), April 2013

5. Eurostat, April 2013

6. European Commission, Statement by the EC, ECB and IMF on the Seventh Review Mission to Portugal, 15 March 2015

7. European Commission, May 2013

8. Eurostat, April 2013

9. Portugal's National Statistics Institute

For the whole of 2013, GDP is expected to remain weak (-2.3%, according to EC and IMF estimates), driven by significant retrenchment of domestic demand, only partly offset by the resilience of the net external demand.

In fact, a key factor for the resiliency of growth has been the evolution of exports, underscoring gains in the degree of the competitiveness of Portuguese goods and services abroad and its progress in terms of both markets diversification and technological content. Related to these developments, by the end of 2012, Portugal's current plus capital account posted a small surplus.

The better than expected developments and institutional support helped bringing down sovereign risk premiums. Two-year yields on Portuguese public debt receded from high 20% at some point in 2011 towards the vicinity of 2.5% in the second quarter of 2013. Long term yields remain at high levels, especially against the historical low yields being charged on core European countries sovereign debt, demonstrating that investor's still remain weary on the country's success over the long run. Indeed, several risk factors stand in the way, including: (i) Portugal is not immune to outside events, and issues like EMU's geometry and contagion effects associated to the high degree of interconnectedness among EU countries and its financial systems remain of relevance; (ii) on the domestic front, the significant increase in the unemployment rate (17.7% in the first quarter 2013¹⁰), among other deleterious social impacts of the ongoing recession, constitutes a risk for the full attainment of the goals – fiscal and otherwise - inscribed in the program.

(b) The housing market

The changing landscape on the credit markets reinforced prior market trends within the housing segment. Demand for new housing loans has been moving downwards. Residential permits issued and new dwellings completed have been declining since 2002, contributing to some rebalancing of the residential property market. House prices are declining, albeit moderately. Credit delinquencies are rising as unemployment increases, though somewhat mitigated by the considerably lower installments arising from historical low Euribor rates, the main indexer in Portuguese housing loans. The banking industry together with the authorities are 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 lacklustre as credit and economic conditions remain poor. Confidence readings in the housing market remain depressed pointing to weak growth in housing markets. Risks are tilted to the downside, on depressed households' confidence levels, lower disposable income and tighter financial conditions. The transition to a new equilibrium means a reallocation of demand towards cheaper housing, being 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 increase and force some additional reductions in house prices.

Over the years measures to prop up the rental market have been 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. Part of this has already changed with the recently introduced piece of legislation featuring, among others aspects, a balanced degree of rent liberalization.

Though the residential mortgage market credit delinquency ranks well below other credit segments, the adverse economic conditions are pushing nonperforming loans upwards. There are political initiatives as well as actions of self-regulation for the presentation of measures for restructuring of debts arising from housing loans. Although some banks had already unilaterally adopted several actions, measures certain were implemented by law for the entire Portuguese banking system, creating exception regimes for targeted financially weak group 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 installments. 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

10. Portugal's National Statistics Institute

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 70% by the end of 2012¹¹. The mortgage business share in total lending to private individuals has grown over the years, standing slightly above 80% of total, at around Euro 113 billion (excluding securitised loans)¹². 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 leveling off since then¹³. However, taking into account for the asset side, and according to the Banco de Portugal 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, not counting for 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 loans were liberalised (2005). In 2007 a cap on prepayment penalties, conditional on the type of interest rate indexer (variable or fixed), as well as specific rounding procedures for the interest rate charged were introduced. Lenders have to disclose a full set of the loan conditions when publicising product offers. This set of rules enhances both competition and transparency in the marketplace. As part of the adjustment program a new wave of liberalization of housing markets is in the offing, this time 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 – Cassa di Risparmio delle Provincie Lombarde S.p.A. (“**Cariplo**”) (now a part of the Italian financial group Banca Intesa), an autonomous residential mortgage bank - Banco de Investimento Imobiliário S.A. (“**BII**”). Until December 2000, all residential mortgage loan business generated by the the 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 and merged into the Bank. 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 into a front-end system application linked to an automatic decision-making support process and an electronic underwriting and pricing workflow.

Appropriate behavior or applicational probability of default (“**PD**”) models (according to customer commercial segment and risk portfolio) are embedded in the automatic decision-making support process and generate a credit risk rating assigned to the customer. PD models are calibrated annually and their performance is monitored by an independent team at the Risk Office. Although rarely used, a rating override facility is centralised at the Rating Division (*Direção de Rating*).

11. Bank of Portugal, April 2013

12. Bank of Portugal, April 2013

13. Bank of Portugal, April 2013

A set of risk and product filters is automatically checked online, as well as additional underwriting criteria relating to affordability – debt-to-income ratio and loan-to-value (“LTV”). Information available at the Bank of Portugal credit bureau is checked automatically.

This system where credit applications are automatically processed will define, according to the automatic decision-making support message and underwriting empowerment as 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, and information on total borrowings and defaults available at the Bank of Portugal credit bureau, bank account 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 24 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 Mortgage Contracting Division (*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.

Arrears Procedures

In the retail business area, delinquencies persisting for less than 15 days are dealt with directly at branch level. 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 Internet, and all branches receive the list of these customers, in order to contact each of them.

Once 15 days’ overdue, loans are transferred to the “First Line” in the Standard Recovery Department. Within a period of, at maximum, 60 days, the “First Line” contacts the customers and, if the collection effort proves unsuccessful, refers them to the “Second Line – Small Amounts” if the volume of exposure is under €50,000 and to the “Second Line – Medium Amounts” if the volume of exposure is over €50,000 and under €1,000,000. During a period of, at maximum, six months on the “Second Line – Small Amounts” and nine months on the “Second Line – Medium Amounts”, all possible credit restructuring strategies are tried, and if these are not successful, the next stage is to send all cases to 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.

This operating model in the retail business area began in October 2008, and with this initiative the Bank sought to (1) reinforce all the remote communication means with the borrowers (letters, SMS, CAT, Internet); (2) reinforce the collection area and credit restructuring strategies, creating first and second communication lines in order to accelerate resolution of all situations; (3) segment the exposure treatment in specialised recovery teams for past due amounts over €50,000; and (4) improve the process of instructing external lawyers.

For customers from corporate, Mid Corporate and Private Banking areas or retail customers with over €1,000,000 of total exposure, delinquencies persisting for less than 90 days are dealt with directly at branch level; after this period the cases are handled by the Specialised Recovery Department.

The Specialised Recovery Department explores different approaches on a case-by-case basis over a period which normally does not exceed nine months from the date on which the loan becomes overdue. If its efforts are not successful, the delinquent loan is sent to external lawyers for the commencement of enforcement proceedings, which typically take two to four years to complete. Simultaneously the recovery agent who manages the relationship with the borrower will continue to seek an out-of-court solution.

USE OF PROCEEDS

The net proceeds resulting from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.

THE COVERED BONDS LAW

FRAMEWORK

The Covered Bonds Law introduced a framework for the issuance of asset covered debt securities into Portuguese law.

The Covered Bonds Law has been supplemented by secondary legislation issued by the Bank of Portugal (the “**Bank of Portugal Regulations**”), which comprises both regulations (“*Avisos*”) and instructions (“*Instruções*”). The Bank of Portugal Regulations address matters such as the segregation of cover pool assets from the insolvent estate of the issuer in the event of insolvency, the compliance with asset and liability matching requirements and the methodology for valuation of mortgages and properties.

ISSUERS OF COVERED BONDS

Mortgage covered bonds (“*obrigações hipotecárias*”) may be issued by credit institutions (the “**Institutions**”) legally authorised to grant credit guaranteed by mortgages over property and having own funds amounting to no less than Euro 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 (a) or (b) above.

- Other assets (up to 20 per cent. 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 per cent. and 60 per cent. for commercial mortgages loans.

The value of each property securing a mortgage credit comprised in a cover pool may not be higher than 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 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 per cent. 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 Regulation, 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 establish 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 to 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 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 Credit Institutions General Regime, 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.

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 3.5% surtax 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 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 3.5% surtax 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 favor 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 realized with the transfer of the Covered Bonds by legal persons resident for tax purposes in Portugal and by nonresident 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 25% 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 Euro 1,500,000 and up to Euro 7,500,000 and at 5% on taxable profits in excess of Euro 7,500,000. Withholding tax at 25% applies to interest and other investment income, which is deemed a payment on account of the final tax due. The withholding (and final) tax rate is 21,5% in the case of entities benefitting from an exemption from tax under Articles 9 and 10 of the corporate tax code that does not apply to investment income. The corporate tax rate is 21,5% in the case of entities not carrying on an activity of a commercial, industrial or agricultural nature.

The annual positive difference between capital gains and capital losses deriving from the sale of Covered Bonds, other debt securities, shares and other financial instruments by investment funds created and operating under Portuguese legislation is subject to tax at 25%. Financial institutions, pension funds, retirement and/or education savings funds, share savings funds, venture capital funds 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 nonresident acting through a Portuguese permanent establishment is subject to corporate tax at 25% 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 Euro 1,500,000 and up to Euro 7,500,000 and at 5% on taxable profits in excess of Euro 7,500,000. The corporate tax rate is 21.5% 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 included in the “tax havens” list approved by Ministerial order no. 150/2004 of 13 February (as amended by Ministerial order no. 292/2011 of 8 November).

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 Finance and may be available for viewing at www.portaldasfinancas.gov.pt.

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.

Income paid to an associated company of the Bank who is resident in the European Union is subject to withholding tax at 5% until 30 June 2013.

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 European Union 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, and not as an intermediary, either as a representative, a trustee or authorized signatory, for some other person.

The reduction of the withholding tax rate may take place at source or through the refund of excess withholding tax. The forms currently applicable for the reduction of withholding tax rate and for the refund of excess withholding tax where the minimum holding period is met after withholding tax becomes due were approved by Order (“Despacho”) no. 4727/2009 (2nd series), published in the Portuguese Official Gazette, 2nd series, n.27, of 9 February 2009, and may be available for viewing and downloading at www.portaldasfinancas.gov.pt.

The refund of excess withholding tax in other cases is subject to the general procedures.

Capital gains obtained on the disposal 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 residents individuals, unless they are resident in a country included in the “tax havens” list approved by Ministerial order no. 105/2004 of 13 February (as amended by Ministerial order no. 292/2011 of 8 November).

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 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 more than 25% directly or indirectly, held by Portuguese resident entities or if the holder is resident in a country included in the “tax havens” list approved by Ministerial order (*Portaria*) no. 150/2004 of 13 February (as amended by Ministerial order no. 292/2011 of 8 November). 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 193/2005, of 7 November 2005, as amended from time to time (hereafter “the special regime approved by Decree-Law 193/2005”), investment income and gains on the disposal 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 recognised under the Securities Code (such as the Central de Valores Mobiliários, managed by Interbolsa), 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 not domiciled in a country, territory or region subject to a clearly more favorable tax regime included in the list approved by Ministerial order no. 150/2004 of 13 February (as amended by Ministerial order no. 292/2011 of 8 November), except if they are central banks and government agencies; and

- (iii) the beneficial owners are not held, directly or indirectly, in more than 20% by Portuguese resident entities.

The special regime approved by Decree-Law 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 (i.e. the entity affiliated to the centralised system where the securities are integrated), as the entity holding the relevant account with the relevant centralised system in which the Covered Bonds are integrated, 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 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 institution or an international organisation, a declaration of tax residence issued by the holder of Covered Bonds, duly signed and authenticated or proof pursuant to (ii) or (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 any country with which Portugal has entered into a double tax treaty, 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.

(b) Internationally Cleared Covered Bonds

If the Covered Bonds are held through a centralised system recognised under the Portuguese Securities Code and complementary legislation, and are registered in an account with an international clearing system recognised by the Minister of Finance in accordance with the special regime approved by Decree-Law 193/2005 (such as Euroclear or Clearstream, Luxembourg) and the management entity of such international

clearing system undertakes not to provide registration services to (i) residents for tax purposes in Portugal which do not benefit from either an exemption from Portuguese taxation or an exemption from Portuguese withholding tax, and (ii) non-resident entities for tax purposes which do not benefit from the above Portuguese income tax exemption, special rules apply under which proof of the requirements to benefit from the exemption will be made through documents provided by the participants to the direct register entity through the international clearing system managing entity. These documents must take into account the total accounts under their management regarding each holder of Covered Bonds that is tax exempt or benefits from an exemption from Portuguese withholding tax. The relevant procedures are as follows:

- (i) Filing a certificate, on a yearly basis, with the name of each beneficial owner, address, taxpayer number (if applicable), specification of the securities held and the legal basis for the exemption from taxation or from Portuguese withholding tax. The current forms for these purposes were approved by Order (“*Despacho*”) no. 4980/2006 (2nd series), of the Portuguese Minister of Finance and Public Administration (currently “*Ministro de Estado e das Finanças*”), published in the Portuguese official gazette, 2nd series, no. 45, of 3 March 2006, and may be available for viewing and downloading at www.portaldasfinancas.gov.pt;
- (ii) Alternatively, filing a yearly declaration that states that the beneficial owners are exempt or not subject to withholding tax. This declaration is complemented with a disclosure list, on each coupon payment date, of the beneficial owners, stating their address, tax payer number (if applicable), quantity held, and legal basis for the exemption from taxation or from Portuguese withholding tax. The current forms for these purposes were approved by Notice (“*Aviso*”) no. 3714/2006 (2nd series), published in the Portuguese official gazette, 2nd series, no. 59, of 23 March 2006 issued by the Portuguese Secretary of State for Tax Affairs (currently “*Secretário de Estado dos Assuntos Fiscais*”) and may be available for viewing and downloading at www.portaldasfinancas.gov.pt.

In addition, the international clearing system managing entity shall inform the direct register entity of the income paid to each participant for each security payment.

No Portuguese exemption shall apply at source under the special regime approved by Decree-Law 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 the 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 193/2005.

The refund claim is to be submitted to the direct or indirect register entity of the Covered Bonds within 90 days from the date the withholding took place. A special form (Form 19-RFI) for these purposes was approved by Order (“*Despacho*”) no. 4980/2006 (2nd series), published in the Portuguese official gazette, 2nd series, no. 45, of 3 March 2006 issued by the Portuguese Minister of Finance and Public Administration (currently “*Ministro das Finanças*”) and may be available for viewing and downloading at www.portaldasfinancas.gov.pt

The refund of withholding tax in other circumstances or after the above 90 days period is to be claimed to the Portuguese tax authorities under the general procedures or through Form 22-RFI, approved by Order (“*Despacho*”) no. 4743-A/2008, of 8 February 2008 (2nd series), as rectified by Rectification no. 427-A/2008, of 29 February 2008, published in the Portuguese Official Gazette, 2nd series, no. 43, of 29 February 2008, of the Portuguese Minister of Finance and may be available for viewing and downloading at www.portaldasfinancas.gov.pt. and within the general deadlines.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code (“**FATCA**”) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a “**foreign financial institution**”, or “**FFI**” (as defined by FATCA)) that does not become a “**Participating FFI**” by entering into an agreement with the U.S. Internal Revenue Service (“**IRS**”) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of the Issuer (a “**Recalcitrant Holder**”). The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 January 2014 for payments from sources within the United States and will apply to “foreign passthru payments” (a term not yet defined) no earlier than 1 January

2017. This withholding would potentially apply to payments in respect of (i) any Covered Bonds characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the “grandfathering date”, which is the later of (a) 1 January 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Covered Bonds characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Covered Bonds are issued before the grandfathering date, and additional Covered Bonds of the same series are issued on or after that date, the additional Covered Bonds may not be treated as grandfathered, which may have negative consequences for the existing Covered Bonds, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an “IGA”). Pursuant to FATCA and the “Model 1” and “Model 2” IGAs released by the United States, an FFI in an IGA signatory country could be treated as a “Reporting FI” not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being “FATCA Withholding”) from payments it makes (unless it has agreed to do so under the U.S. “qualified intermediary,” “withholding foreign partnership,” or “withholding foreign trust” regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

If the Issuer becomes a Participating FFI under FATCA, the Issuer and financial institutions through which payments on the Covered Bonds are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Covered Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

If an amount in respect of FATCA Withholding were to be deducted or withheld from interest, principal or other payments made in respect of the Covered Bonds, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Covered Bonds, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

Whilst the Covered Bonds are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Covered Bonds by the Issuer, any paying agent and the any common depositary or common safekeeper, given that each of the entities in the payment chain beginning with the Issuer and ending with the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Covered Bonds. The documentation expressly contemplates the possibility that the Covered Bonds may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Covered Bonds will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Covered Bonds.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The proposed financial transactions tax

The European Commission has published a proposal for a Directive for a common financial transaction tax (“FTT”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States).

The proposed FTT has 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. The issuance and subscription of Covered Bonds should, however, be exempt.

Under current proposals 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.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. 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.

Withholding under the EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non- EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The European Commission has proposed certain amendments to the Directive, which may, if implemented amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE AND TRANSFER RESTRICTIONS AND SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement dated 10 July 2013, 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 (Law No. 25 of 1948, as amended; the "FIEA"). Accordingly, 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 Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or re-sale, directly or indirectly, in Japan to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and other relevant laws and regulations 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 (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 to the public**” 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 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 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 (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 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 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.

For Covered Bonds with a denomination of less than EUR 100,000:

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under (i) and (ii) above, the subsequent distribution of the Covered Bonds on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Covered Bonds being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

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 Exchange Commission (“*Comissão do Mercado de Valores Mobiliários*” (“*CMVM*”)) is obtained or a recognition procedure is made with the CMVM. In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not directly or indirectly taken any action or offered, advertised, marketed invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer 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 was 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 and 10 July 2013 in accordance with the provisions of the Covered Bond Law.

Listing

Application has been made to list the Covered Bonds on the London 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 Notes). 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.

$$P = \frac{C}{r} (1 - (1 + r)^{-n}) + A(1 + r)^{-n}$$

Where:

“P” is the Issue Price of the Covered Bonds;

“C” is the annualised amount of interest payable;

“A” is the principal amount of Covered Bonds due on redemption;

“n” is time to maturity in years; and

“r” is the annualised yield.

Conditions for Determining Price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Significant or material change

Save as disclosed in the section entitled “Recent Developments in 2013” on pages 137 and 138 of this Base Prospectus there has been no significant change in the financial or trading position of the Group since 31 March 2013. There has been no material adverse change in the prospects of the Issuer since the date of the last audited accounts, 31 December 2012.

Litigation

1. As mentioned in note 56 to the 2012 consolidated financial statements of the Bank, quoting:

“At the end of the year of 2007, the Bank received a formal notice dated of 27 December 2007 informing that administrative proceedings no. 24/07/CO were brought by the Bank of Portugal against the Bank and against seven former Directors and two Managers, “based in preliminary evidence of administrative offences foreseen in the General Framework of credit Institutions and Financial Companies (approved by Decree-Law no. 298/92, of December 31), in particular with respect to breach of accounting rules, provision of false or incomplete information to Bank of Portugal, in particular in what respects to the amount of own funds and breach of prudential obligations”.

A press release issued by the Bank of Portugal on 28 December 2007 mentioned that such administrative proceedings were initiated “based in facts related with 17 off-shore entities, whose nature and activities were always hidden from Bank of Portugal, in particular in previous inspections carried out”. On 12 December 2008, the Bank was notified of an accusation under the administrative proceedings no. 24/07/CO instructed by the Bank of Portugal, in which this Authority charges the Bank and the other defendants, with the practice of six administrative offences regulated by paragraph g) and three administrative offences regulated by paragraph r) of article 211 of the Legal Framework for Credit Institutions and Financial Companies (LFCIFC).

The offences, should the charges be proven true, would be the following:

- (a) Failure to comply with the applicable accounting rules, determined by law or by the Bank of Portugal, that do not cause serious damages to the knowledge of the company's assets and financial standing is an administrative offence regulated in article 210 (f) of the LFCIFC, whereby companies are punished by a fine between Euros 750 and Euros 750,000. However, if such conduct causes serious damages, it may become the offence regulated in article 211 (g) of the LFCIFC, whereby companies are punished by a fine between Euros 2,500 and Euros 2,494,000.
- (b) the (i) omission of information and communications to the Bank of Portugal, within the due deadlines or (ii) the provision of incomplete information are offences regulated in article 210 (h – presently amended to i) of the LFCIFC, whereby companies are punished by a fine between Euros 750 and Euros 750,000. However, the (i) provision of false information or (ii) of incomplete information to the Bank of Portugal that may lead to wrongful conclusions with the same or similar effect as false information regarding that subject are offences regulated in article 211 (r) of the LFCIFC, whereby companies are punished by a fine between Euros 2,500 and Euros 2,494,000.

According to the charges, each offence is punishable by a fine between Euros 2,493.99 and Euros 2,493,989.49, and pursuant to the rules on accrued offences, defined in article 19 (1 and 2), of the Portuguese regime on administrative offences (Regime Geral das Contra-ordenações), in case of conviction for several offences, there shall be a single fine, the maximum amount of which cannot surpass twice the highest limit of the accrued offences.

On March 2009, the Bank did not accept the charges or accusations made and provided defence under these administrative proceedings within due term.

On 12 May 2010, the Bank was notified of the contents of the decision that, within the scope of the proceedings, was issued by the Board of Directors of the Bank of Portugal, applying to it, as primary sanction, a single fine of Euros 5,000,000.

Different fines were applied to the remaining defendants as primary sanctions, globally amounting to Euros 4,470,000. The Board of Directors of the Bank of Portugal decided to file the proceedings relating to a former Director and a Manager.

The Bank objected to this decision and has already been informed of the decision to accept the legal objections presented by all the defendants.

The trial hearing began in April 2011 and in September, the Court heard the witnesses so as to better appraise the validity of the documentation provided with the claims and their eventual nullity as evidence due to violation of banking secrecy.

After the hearing, the Court issued a decision dated of 7 October 2011 declaring that the evidence was null and therefore the entire process was annulled.

The Public Prosecutor and Banco of Portugal appealed this decision. The Bank and other defendants have already presented their counter-claim.

On 5 July 2012, the Bank was notified of the decision of the Tribunal da Relação de Lisboa (Lisbon court of appeals) which approved the appeals presented by Banco de Portugal and by the public prosecution, and revoked the decision appealed, determining that, “there being no other reason not to, the trial hearing shall be continued and at the appropriate moment, a decision will be made based on the evidence”.

Several defendants (natural persons) presented an appeal to the Constitutional Court and the proceeding is waiting to be appraised.”

Regarding the administrative proceeding brought by the Banco de Portugal no. 24/07/CO, the Constitutional Court, by decision of 21 March 2013, rejected the appeal presented to the Constitutional Court referred to above.

2. As mentioned in note 56 to the 2012 consolidated financial statements of the Bank quoting:

“On July 2009, the Bank was notified of the accusation deducted by Public Ministry in a criminal process against five former members of the Board of Directors of the Bank, related mainly to the above mentioned 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 above mentioned 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 regarding: (i) the recognition of its right, in a later period namely following the final identification of the facts, 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 8^a Vara Criminal de Lisboa (Lisbon criminal court section) to recognise 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 that ends the proceedings.”

The debate and trial hearing is currently underway, the Bank not having so far filed any proceedings in civil courts.

At the present time, the existing circumstances do not allow either a certainty of filing by the Bank or a quantification of a potential civil claim.

3. As mentioned in note 56 to the 2012 consolidated financial statements of the Bank quoting:

“On 22 June 2012, three companies controlled by the same physical person, the Ring Development Corp., the Willow Securities Inc., and the Lisop Sociedade de Serviços Investimentos e Comércio de Imobiliários Lda. (the “Plaintiffs””) brought forward a lawsuit in the courts of Lisbon against Banque Privée BCP (Suíça) S.A. and the Bank requesting: (i) compensation for an unspecified amount, but always above Euro 40 million, for alleged damages and (ii) that certain loan agreements established between the Plaintiffs and Banque Privée BCP (Suisse) S.A. in 2008, amounting to a total of around Euros 80 million be declared null but without the subsequent legal duty to return the funds borrowed. Notwithstanding the fact that the agreements are ruled by the Swiss law, the Plaintiffs based their request for the agreements to be declared null on an alleged violation of the provisos of the Portuguese Companies Code, stating that the loan agreements were made to enable the Plaintiffs to purchase shares of the Bank and on the fact that they had been forced to enter into the same. The Plaintiffs based their compensation request on alleged losses incurred due to the fact that Banque Privée BCP (Suisse) S.A. triggered the agreements’ clause, selling the listed shares given as pledge at base prices, as foreseen in the loan agreements, and that the Plaintiffs were not given the possibility to continue to trade the pledged assets after the execution.

The loan agreements are ruled by the Swiss Law and subject to the jurisdiction of the Swiss courts and the Bank was informed that, according to the Swiss law, the Plaintiffs’ request is not likely to be granted.

Since the lawsuit was brought forward in the Portuguese courts, if the Portuguese courts decide to try the same, its outcome may be uncertain. Since the Bank believes that the Plaintiffs' request has no grounds, the Bank did not make any provisions regarding this litigation.

On 29 October 2012, the Bank presented its arguments. Banque Privée BCP (Suisse) S.A. requested that the citation be considered null; the request was accepted and an order was issued for the repetition of the citation, and the same was repeated on 08 January 2013, and Banque Privée now has 60 days to present its arguments."

In this respect, Banque Privée has, in the meantime, presented its arguments and the plaintiffs filed their response. At this stage it is not possible to quantify any amounts under these claims.

4. On 10 August 2010, the U.S. Securities and Exchange Commission (the "SEC") initiated a Formal Order of Investigation styled In the Matter of Millennium BCP (NY-8329) (the "SEC Investigation"). The SEC staff has indicated that the SEC Investigation was initiated after receipt of a complaint from a U.S. customer who also filed an action in the United States Courts (which action has been contested by BCP and ultimately, as requested by BCP, was fully dismissed by the Court which dismissal was upheld by Court of Appeals).

BCP, with respect to the legally applicable framework, responded and cooperated with the request made by SEC for information, and, on 18 March 2013, BCP without accepting or denying the findings, accepted to pay total amount of USD 1,892,058.00.

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 consolidated financial position or profitability of the Issuer or the Group.

Accounts

The auditors of the Issuer are KPMG & Associados, SROC, SA ("KPMG"), (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, 110, 1069-006, Lisbon.

The consolidated financial statements of the Group for the financial years ended 31 December, 2011 and 31 December, 2012 were prepared in accordance with International Financial Reporting Standards. The financial statements of the Group were audited in accordance with International Standards on Auditing for each of the two years ended 31 December, 2011 and 31 December, 2012 by KPMG.

Documents Available

For the period of twelve months following the date of this Base Prospectus, 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, 2011 and 31 December, 2012 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 Programme Agreement dated 10 July 2013 and the Set of Agency Procedures dated 23 July 2009;
- (e) the Common Representative Appointment Agreement dated 4 August, 2008;
- (e) this Base Prospectus;

- (f) 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
- (g) 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 (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.

Electronic copy of this Base Prospectus

Electronic copies of this Base Prospectus (and any supplements thereto) are available from the official website of the London Stock Exchange (www.londonstockexchange.com/exchange/news/market-news/market-news-home.html).

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Covered Bonds.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. 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 short 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.

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 (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.

“**Auditor**” 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, 11º, 1069-006 Lisbon.

“**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.

“**Base Prospectus**” means this base prospectus dated 10 July 2013 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 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 9093, with registered office at Edifício Monumental, Av. Praia da Vitória 71 – A, 11^o, 1069-006 Lisbon.

“**Cover Pool Monitor Agreement**” means the agreement dated 4 August, 2008 as supplemented 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.

“**Credit Institutions General Regime**” means Decree-Law no. 298/92 of 31 December, as amended.

“**CSD**” means a central securities depository.

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

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

- (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 set out in Condition 4.2(D)(v);
- (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 set out in Condition 4.2(D)(vi); and (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 set out in Condition 4.2(D)(vii).

“**DBRS**” means DBRS, Inc.

“**Dealers**” means Banco Comerical 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, 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 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.

“**Moody’s**” means Moody’s Investors Service Ltd.

“**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 (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 Hedge Contracts.

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

“**Overcollateralization Percentage**” means 105.26 per cent 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 per cent; 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 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.

“**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 dated 2 September 1986 (as amended from time to time).

“**Portuguese Securities Code**” means Decree-Law 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, 29 June 2012 and 10 July 2013 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

“**Programme Agreement**” means the agreement dated 10 July 2013 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 (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 recognized 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 No. 2003/71/EC of the European Parliament and of the Council of 4 November, 2003 as amended (which includes the amendments introduced by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area).

“Prospectus Regulation” means Commission Regulation (EC) No. 809/2004.

“Rating” means the then current rating of rated Covered Bonds given by the relevant Rating Agency and **“Ratings”** means all of such Ratings.

“Rating Agencies” means Moody’s, Fitch 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).

“Reserved Matter” means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Covered Bonds of all or of a given Series; (ii) to reduce the amount of principal or interest due on any date in respect of the Covered Bonds of all or of a given Series or to alter the method of calculating the amount of any payment in respect of the Covered Bonds of all or of a given Series on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Covered Bonds of all or of a given Series into shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Covered Bonds of all or of a given Series are payable; (v) to alter the priority of payment of interest or principal in respect of the Covered Bonds of all or of a given Series; (vi) to amend this definition; and (vii) any other matter required by law to be approved by the majorities set out in Condition 12(C)(ii) of the Terms and Conditions.

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

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

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

“**Set of Agency Procedures**” means the set of agency procedures (such set of agency procedures as amended and/or supplemented and/or restated from time to time) dated 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.

“**Stabilising Manager**” means the Dealer or Dealers (if any) named as the stabilising manager(s) for a particular Tranche of Covered Bonds.

“**Stock Exchange**” means London Stock Exchange or the Euronext Lisbon’s regulated market.

“**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;

- (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.

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