Millennium
bcp

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 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 for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**"). Application has been made to the Financial Services 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 London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/ 39/EC (the "**Markets in Financial Instruments Directive**"). The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other stock exchange(s) or markets (including regulated markets) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

Arranger
Barclays

Co-Arranger
Millennium Investment Banking

Dealers

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

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

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

The date of this Base Prospectus is 29 June, 2012.

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. 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.

Subject as provided in the applicable Final Terms, 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 under *General Description of the Programme*) 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, "Ba3" 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 Baa3 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 Europeean Union. DBRS Ratings Limited is a rating agency established in the Europeean 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 Services 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 Covered Bonds with principal or interest payable in one or more currencies, or 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.

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 Unites 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 *General Description of the Programme*), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "**Stabilising Manager(s)**") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms 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.

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 modified and supplemented by the applicable final terms attached to, or endorsed on, such Covered Bonds (the "**Final Terms**"), as more fully described under *Final Terms 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 from the date 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, described under *Final Terms for Covered Bonds*) 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 Index Linked Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds, described under *Final Terms for Covered Bonds*) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Covered Bonds; and

(c) the euro equivalent of Zero Coupon Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds, described under *Final Terms for Covered Bonds*) 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.

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. The Issuer and any relevant Dealer may agree that Covered Bonds shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Covered Bonds only and if appropriate, a supplemental Base Prospectus will be published.

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: Up to Euro 12,500,000,000 (or its equivalent in other currencies, all calculated as described under *General Description of the Programme*) aggregate principal amount (or, in the case of Covered Bonds issued at a discount, their aggregate nominal value) of Covered Bonds outstanding at any time.

The Issuer will have the option at any time to increase the amount of the Programme, subject to compliance with the relevant provisions of the Programme Agreement.

Issuer: Banco Comercial Português, S.A.

Arranger: Barclays Bank PLC.

Co-Arranger: Banco Comercial Português, S.A.

Dealers: Banco Comercial Português, S.A., BANCO SANTANDER TOTTA, S.A., Barclays Bank PLC, BNP PARIBAS, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft. DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, HSBC Bank plc, J.P. Morgan Securities Ltd., 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 Porto, 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 Porto, Portugal, and any other Paying Agent appointed from time to time by the Issuer in accordance with the Programme Documents.

Cover Pool Monitor: KPMG & Associados, SROC, SA, member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM (**Comissão do Mercado de**

Valores Mobiliários) with registration number 9093, with registered office at Edificio Monumental, Av. Praia da Vitõria 71 – A, 110, 1069-006 Lisbon, Lisbon. 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. These are set out under *Risk Factors* below and include, *inter alia*, exposure to adverse changes in the Portuguese economy, the credit risk of borrowers and clients of the Issuer, the risk of increased competition in the Portuguese market and other market risks to which the Issuer is or may become exposed. In addition, there are risk factors which are material for the purpose of assessing the other risks associated with Covered Bonds issued under the Programme. These are also set out in detail under Risk Factors below and include, *inter alia*, the 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 *Subscription and Sale and Secondary Market Arrangements*.

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

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

Redenomination: The applicable Final Terms may provide that certain Covered Bonds not denominated in euro on issue may be redenominated in euro.

Ratings: Covered Bonds issued under the Programme are expected on issue to be rated Baa3 by Moody's, BBB (minus) by Fitch and A (low) by DBRS.

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**").

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 Europeean Union. DBRS Ratings Limited is a rating agency established in the Europeean Union and registered in accordance with the CRA Regulation.

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

Listing and Admission to Trading: Application has been made for Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the London Stock Exchange. The Covered Bonds may also be listed on such further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer(s). Covered Bonds which are neither listed nor admitted to trading on any market may also be issued under the Programme. The relevant Final Terms will state whether or not the relevant Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or regulated market(s).

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA (including Italy, Portugal and the United Kingdom) and Japan as set out in S*ubscription and Sale and Secondary Market Arrangements* and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds in a particular jurisdiction, which will be set out in the relevant Final Terms.

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

Use of Proceeds: Proceeds from the issue of Covered Bonds will be used by the Issuer for its general corporate purposes.

Status of the Covered Bonds: The Covered Bonds will constitute direct, unconditional and unsubordinated obligations of the Issuer and will rank *pari passu* among themselves. The Covered Bonds will be mortgage covered bonds issued by the Issuer in accordance with the Covered Bonds Law and, accordingly, will be secured on cover assets that comprise a cover assets pool maintained by the Issuer in accordance with the terms of the Covered Bonds Law, and will rank *pari passu* with all other obligations of the Issuer under mortgage covered bonds issued or to be issued by the Issuer pursuant to the Covered Bonds Law. See *Characteristics of the Cover Pool.*

Terms and Conditions of the Covered Bonds: Final Terms will be prepared in respect of each Tranche of Covered Bonds, supplementing or modifying the Terms and Conditions of the Covered Bonds set out in *Terms and Conditions of the Covered Bonds*.

Clearing Systems: Interbolsa, and/or Euroclear, and/or Clearstream, Luxembourg, (together the "**Clearing Systems**" and, each, a "**Clearing System**") and/or, in relation to any Series of Covered Bonds, any other clearing system as specified in the relevant Final Terms. See *Form of the Covered Bonds and Clearing Systems*.

Form of the Covered Bonds: The Covered Bonds held through Interbolsa will be in book-entry form (*forma escritural*) and can be either *nominativas* (in which case Interbolsa, at the Issuer's request, can ask the Interbolsa Participants information regarding the identity of the holders of Covered Bonds and transmit such information to the Issuer) or *ao portador* (in which case Interbolsa cannot inform the Issuer of the identity of the holders of Covered Bonds), and thus title to such Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code and the applicable CMVM regulations. No physical document of title will be issued in respect of Covered Bonds held through Interbolsa. The Covered Bonds held through Euroclear and/or Clearstream 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 depositary with which the relevant Covered Bond has been deposited. The transferability of the Covered Bonds is not restricted.

Maturities: The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as set out in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body), the Covered Bonds Law or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Currently the Covered Bonds Law establishes that Covered Bonds may not be issued with a maturity term shorter than 2 years or in excess of 50 years. See also *Extended Maturity Date*.

Issue Price: The Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.

Events of Default: Issuer Insolvency. See *Terms and Conditions of the Covered Bonds*.

Negative Pledge: None.

Cross Default: None.

Guarantor: None.

Fixed Rate Covered Bonds: Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Floating Rate Covered Bonds: Floating Rate Covered Bonds will bear interest determined separately for each Series as follows:

- on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association Inc. ("**ISDA**") and as amended and updated as at the Issue Date of the first Tranche of Covered Bonds of the relevant Series); or
- on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- on such other basis as may be agreed between the Issuer and the relevant Dealer(s), as set out in the applicable Final Terms.

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.

Index Linked Covered Bonds: Payments of principal in respect of Index Linked Redemption Covered Bonds or of interest in respect of Index Linked Interest Covered Bonds will be calculated by reference to such index and/or formula as may be specified in the applicable Final Terms.

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 (other than in specified instalments, if applicable – 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). The applicable Final Terms may provide that the Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are specified in the applicable Final Terms. 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, Floating Rate Covered Bonds or Index Linked Covered Bonds in respect of the period from the Issue Date to (and including) the Maturity Date;

(b) Fixed Interest Covered Bonds, Floating Rate Covered Bonds or Index Linked 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 the Covered Bonds: Covered Bonds will be issued in such denominations equal to or higher than Euro 1,000 (or if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) as may be agreed between the Issuer and the relevant Dealer(s), as specified in the applicable Final Terms, subject to compliance with the applicable legal and/or regulatory and/or central bank requirements and provided that each Series will have Covered Bonds of one denomination only. See *Certain Restrictions above*.

Minimum Denomination: The minimum denomination of each Covered Bond admitted to trading on a regulated market within the EEA or offered to the public in a member state of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive will be Euro 100,000 (or if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

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.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and have been filed with the Financial Services Authority, shall be incorporated in, and to form part of, this Base Prospectus:

(a) the audited consolidated financial statements of the Bank and its subsidiaries and the financial statements of the Bank in respect of the financial year ended 31 December, 2010, in each case together with the auditors' reports prepared in connection therewith which are contained within the 2010 Annual Report. The remainder of the 2010 Annual Report is not incorporated by reference in this Base Prospectus;

(b) the audited consolidated financial statements of the Bank and its subsidiaries and the financial statements of the Bank in respect of the financial year ended 31 December, 2011, in each case together with the auditors' reports prepared in connection therewith which are contained in the 2011 Annual Report.[1] The remainder of the 2011 Annual Report is not incorporated by reference in this Base Prospectus;

(c) the published unaudited interim consolidated financial statements of the Bank and its subsidiaries for the three-month period ended 31 March 2012 included in the 1st Quarter 2012 Activity Report.[2] The remainder of the 1st Quarter 2012 Activity Report is not incorporated by reference in this Base Prospectus; and

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

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

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the 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.

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.

[1] Due to an error in the pagination of the 2011 Annual Report, the audited consolidated financial statements of the Bank and its subsidiaries and the financial statements of the Bank in respect of the financial year ended 31 December 2011 are set out in the 242 pages included between page 19 and 21 of Volume II of the 2011 Annual Report and the Consolidated Auditors Report and Auditors Report are set out at the end of the financial statements after the section entitled "*Declaration of Compliance*" and before page 21;

[2] Due to an error in the pagination of the 1st Quarter 2012 Activity Report, the unaudited Interim Consolidated Financial Statements of the Bank and its subsidiaries for the three-month period ended 31 March 2012 are set out in the 55 pages starting after page 20 of the 1st Quarter 2012 Activity Report;

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Covered Bonds issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below. The Issuer believes that the factors described below represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Covered Bonds for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Covered Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus or incorporated by reference herein and reach their own views prior to making any investment decision.

Words and expressions defined in Definitions shall have the same meaning in this section.

Covered Bonds are obligations of the Issuer only

The Covered Bonds will constitute unsubordinated obligations of the Issuer secured by a special creditor privilege created under the Covered Bonds Law over the Cover Pool (as defined in Terms and Conditions of the Covered Bonds) maintained by the Issuer. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer. The Covered Bonds are not guaranteed by any person. In addition, an investment in Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Covered Bonds.

Risks Relating to the Bank's Business

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

The rating agencies Standard & Poor's, Moody's, Fitch and DBRS have, on more than one occasion over recent months, downgraded the long term rating of the Portuguese Republic. All four agencies have placed the rating prospects of the Portuguese Republic in negative outlook, even after the cuts carried out, due, essentially, to the uncertainties and risks arising from the budgetary consolidation process under the Economic and Financial Assistance Programme ("**PAEF**"), 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 thus dependent on the successful implementation of the measures included in the PAEF. There might be a new downgrade of the rating of the Portuguese Republic in the future, namely in the case of drastic deterioration of the public finance situation arising from weaker performance of economic activity, caused by the austerity measures adopted internally or induced by the contagion effect as a consequence of the slowdown of the activity of the main trading partners of the Portuguese economy, 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 European Central Bank ("**ECB**") has relaxed the rules relative to eligible assets for discount operations and currently assigns liquidity for longer periods of time (up to 3 years without limit of amount, with the exception of the available collateral) under the special long term refunding operations ("**LTRO**"). 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 of 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.

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 note should be made to the constraints arising from the implementation of the PAEF, the systemic effects of the European sovereign debt crisis, the agreed institutional commitments relative to the government of the Economic and Monetary Union, apart, naturally, from the evolution of the global economic and financial environment.

The financial and economic crisis which has been affecting the world economy since mid-2007 draw the growth model that had characterised the Portuguese economy since its adhesion to the single currency to a close. Over the period 1999-2011, the annual average growth rate of Gross Domestic Product ("**GDP**") was 1.0% in real terms (Source: Portuguese National Institute of Statistics (Instituto Nacional de Estatística – "INE"), March 2012) and total external debt reached 83% of GDP by the end of 2011 (Source: Banco de Portugal, March 2012). 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, leading to the inevitability of the request for international financial assistance submitted in April 2011 by the Portuguese government.

Economic activity resumed a downward path over 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 by 1.6% in 2011, after a temporary acceleration in 2010 (Source: INE, March 2012), accompanied by a significant increase in the annual average unemployment rate from 10.5% in 2010 to 12.7% in 2011 (Source: INE, February 2012). The public deficit stood at 4.2% of GDP (Source: INE, March 2012), considerably lower than that agreed in the adjustment programme (5.9% of GDP) (Source: Second Review of the Memorandum of Understanding, December 2011), an outcome enabled by the use of measures of a non-recurrent nature, in particular the partial transfer of bank pension funds to Social Security. The consolidated value of the gross debt of Public Administration increased to 107.8% of GDP, compared with 93.3% for the previous year (Source: INE, March 2012). 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 is forecasted to continue over the next few years, in line with the final and fundamental objective of the PAEF.

The economic context appears to be particularly challenging for Portugal. The transition of additional budgetary liabilities for 2012, the persistence of major instability in international financial markets, the extreme 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 3.4% is forecasted for 2012 followed by stagnation in 2013, with a strong negative contribution of internal demand (Source: Banco de Portugal, March 2012). Lower 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 more 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 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 next 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 competition intensifies or due to the adoption of protectionist policies.

The adverse macroeconomic conditions in Portugal have significantly affected, and will continue to affect, the behaviour and financial situation 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 following years, hindering the creation of revenue supporting net interest income. The 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. 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 would:

– have direct impact on the value of the Bank's portfolio of public debt bonds (as at 31 December 2011, the Bank's investments reached approximately 4.706 billion euros in Portuguese public debt bonds and Euro 0.262 billion in Greek public debt bonds, representing approximately 74% 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's 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 Programme. The PAEF includes important financial assistance to Portugal, up to 78 Euro billion for the period 2011-2014. 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 Programme 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, whose pursuit will be controlled on a quarterly basis by the European Union and IMF during the enforcement of the Programme. By the end of 2011, the level of compliance with the scheduled targets had enabled Portugal to receive Euro 35.9 billion of external assistance.

The objectives of the Programme 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 Programme is based on three fundamental pillars: structural reforms promoting potential growth, budgetary consolidation and stabilisation of the financial sector.

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 as of 2013. Furthermore, the Programme 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 implies, over the first years of implementation of the Programme, 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 face considerable resistance by unions and citizens, which might undercut the capacity of the Government to maintain the reformist dynamics in the future.

c) Financial stabilisation: the programme establishes a deleveraging process together with the strengthening of bank solvency, both associated to quantitative and scheduled targets (loans-to-deposits ratio of 120% in 2014 and Core Tier I ratio of 10% by the end of 2012), 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 the net interest income.

The Adjustment Programme 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 Programme, tensions related to Portuguese public finances or the negative effect of contagion of events abroad may continue to affect 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 and, consequently, of their respective cost; limitation of loan concession to customers; and deterioration of the quality of the loan portfolio.

The successful implementation of the Programme 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 direct foreign investment; does 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 with repercussions arising from changes to the European institutional framework, which might contribute to the permanence or enhancement 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 Programme might justify the early cancellation of the external financial assistance, and, consequently the country's inability 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 sovereign debt crisis of the euro zone has constituted, and may persist, a source of turbulence for the markets and evolution of economic activity, in general, with impact in the Bank's activity, and has also contributed to some political instability and tensions in relations between countries

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 various 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 and the additional use of unconventional monetary policy measures, uncertainties still remain as to the resolution of the sovereign debt crisis and stability of the Euro, negatively affecting the underlying economic and financial environment faced by the Portuguese economy.

Special reference should also be made to the evolution of the Spanish and Italian economies, due to their direct relevance in the commercial behaviour and financial exposure to Portugal and indirectly by virtue of the confidence climate of the euro zone markets; and the electoral processes in France and Greece which took place in the first half of 2012 and which will take place in Germany in 2013, in the event that the respective results determine changes in the political path pursued hitherto. In particular with regards to Greece, centre-right New Democracy (ND) party won the second general elections held on June 17, 2012 and begun talks to build a coalition government. A new coalition government was formed on 20th June 2011. The coalition will have a specific mandate to complete a modified fiscal and structural reform programme. The success of pro-euro parties in Greece means that the albeit the risk of the Euro exit has decreased somewhat the uncertainty regarding the Greek environment and reformulation of the economic and financial stability programme remains. The impact of Greece's eventual departure from the Euro Zone has unpredictable consequences and could result in catastrophic effects for the Portuguese banking system, including the Bank, which under pressure of the risk of transfer of funds/deposits abroad as a result of the deterioration of the confidence levels. Additionally, it would still translate into pressure on the conditions and financing costs of Portuguese banks, particularly in respect of deposits, impacting on the net interest margin and the results of the Bank.

The strengthening of the monitoring mechanisms and settlement of fundamental macroeconomic imbalances in the European Union, institutes an unilateral and innovative but stringent regulatory and supervisory framework regarding the options for economic policy, but in the short term may constrain the economic environment, with negative consequences in the banking activity.

The heads of state and government of the European Union agreed (not unanimously) at the summit of December 2011 to strengthen the governing mechanisms of the European Union, through intergovernmental agreements, establishing, amongst other measures, the reinforcement of the early budget control mechanisms and subjection of member states to new budgetary rules. The new rules, which must be approved by each member state, stipulate the limit of 0.5% of structural public deficit and the compulsory path of convergence of public debt to figures below 60% of GDP at a rate of 1/20 of the difference per year. These are demanding objectives which determine, in the case of Portugal, the extension of the period of strong budgetary discipline and respective effects of limiting the capacity to stimulate economic growth through expenditure or mitigation of the tax burden, with adverse consequences on the Bank's capacity to generate profit.

Concerning specific government support to the financial systems of the member states, uncertainty remains as to the ability to maintain or strengthen government support in order to ensure the solvency of various banks, and regarding the need to reorganise the structure of the banking system in accordance with the constraints implied by the scarcity of regular funding, weakness of the balance sheet structure and prevalence of risks to asset quality. These conditions may act unfavourably on the price of assets, riskiness of counterparties, including sovereign states, pressure on the cost of funding, changes in the competition structure of the market and availability of loans.

The funding capacity and conditions of the Portuguese economy, public and private entities, constitute an uncertainty factor over the medium term and may negatively affect the evolution of the 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 economic and financial adjustment programme agreed between Portugal and the joint mission of the European Union ("EU") and IMF foresees the institutional funding for a significant portion of the public financing needs over the programme's duration period and institutes exceptional financing and recapitalisation mechanisms for financial institutions.

However, the adjustment programme indicates, as important assumptions, autonomy in the refunding of short term public debt and the gradual and medium term 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 Portuguese economic adjustment programme, 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 adverse financing conditions, or the possibility of further aggravation, increases the degree of difficulty of the current economic and financial adjustment process, hindering the evolution of banking business and, consequently, the profitability and solvency of national financial institutions.

The Bank faces exposure to macroeconomic risks in its international business, namely in Poland, Greece, Mozambique, Angola and Romania

The Net Income of international operations was Euro 122.7 million, compared with the net income of Euro -848.6 million for the Group as a whole, as at 31 December 2011. Considering the operations individually, the respective Net Income was, at the same date, Euro 113.3 million for Poland (of which Euro 74.2 million were imputable to the Group), Euro -3.5 million for Greece, Euro 89.4 million for Mozambique (of which Euro 59.6 million were imputable to the Group), Euro 33.3 million for Angola (of which Euro 17.6 million were imputable to the Group) and Euro -17.8 million for Romania.

Up to 2009, the economies of Greece, Poland and Romania showed strong growth rates of GDP, 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, the correction of specific sectorial bubbles, such as in the housing sector, and the excessive public debt have led to a profound change of economic circumstances with very significant and persistent effects.

In 2011, GDP in Poland increased in real terms by 4.3% (Source: National Bank of Poland, March 2012) supported by internal demand, namely investment spending, the buoyancy of private consumption and acceleration of the production cycle. The official forecasts suggest the maintenance of a still relatively robust growth but subject to a series of risks which are more likely to materialise over 2012. Forecasts indicate a GDP annual average growth of 2.7% for the two year period 2012-2013 (Source: National Bank of Poland, March 2012). Amongst these risk factors, the following stand out: the external context, with the sequential downward review of the growth of the Economic Union, maintrading partner of Poland, being able to constrain activity through exports and indirect effects on the expectations of agents and public accounts; the foreign exchange rate evolution, in particular in case of intensification of the instability scenario in the markets and relating to the Polish zloty/Swiss franc exchange rate where the 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; the depletion of the temporary dynamics associated to the holding of the European football championship in 2012; and budgetary policy, in view of the need to reduce the public deficit to figures below 3% for 2012 (slightly below 5.6% in 2011) (Source: European Commission, November 2011), in particular if this were to take place in a lower growth environment. Therefore, in the longer term, a more adverse context may develop in terms of turnover, asset quality and higher tax costs on banking activity.

In Greece, the intensive process of budgetary consolidation in progress in order to correct the excessive public debt and implemented under a plan negotiated with the European partners and IMF, should continue to negatively influence economic activity, where recessive conditions are expected to persist during 2012 (GDP contraction of 6.9% in 2011 and 4.8% in 2012) (Source: IMF, March 2012). Unemployment has increased significantly over the last few years, it being estimated that it will stabilise at close to 20% in 2012 and 2013 (Source: IMF, March 2012) and that families will face more restrictive financial conditions. Simultaneously, the economic framework is under deep restructuring, with greater sectorial liberalisation and reduction of the weight of the public sector and related activities. In this context, cases may emerge of discontinuation of certain economic activities that might entice to social unrest, as has been the case in the recent past, with negative consequences for the regular evolution of banking activity, implying increased operating costs, uncertainty on the stability of funds and disruptions in loans.

In Greece, a transitional government remained in office until a new government is formed, after the elections held on May 6, 2012. The main duty of this transitional government, a coalition of the three main political parties of Greece, was the negotiation and reformulation of the economic and financial stability programme, determinant for the attribution of funds to Greece by the IMF and European institutions. Clearly the situation in Greece after the elections held on May 6, 2012 is very complex and polarized, with several parties against the continuation in the Euro Area, after its centre-right leader failed to win left-wing support to form a "national salvation government" after the inconclusive outcome at the polls. On May 15, it was announced that Greece will hold a new election after politicians failed to form a government following an inconclusive vote, prolonging a political crisis that pushes it closer to bankruptcy and exit from the euro. A caretaker government was formed on May 16 which will lead the country to new polls in mid June 2012.

The non-sustainability of the debt level and vicious cycle that its correction via budgetary austerity would exert on the standards of living of Greek citizens implied the absolute need for the renegotiation of the Greek public debt with its creditors, in order to substantially reduce future funding needs and restore greater sustainability and credibility to the financial and economic adjustment programme. This effort, of a truly exceptional nature, is not risk free, considering that, even after the debt restructuring programme, the debt levels remain high and a path of return to a more sustainable condition requires an extremely strict budgetary austerity programme, in a much more favourable context of growth and stability of the financial markets than is the current case, and the full implementation of a privatisation programme itself subject to a significant degree of uncertainty. Whether through the Bank's direct exposure by virtue of its banking operation on the Greek market or through the repercussions in the euro zone and countries under adjustment programmes, the political and economic developments in Greece might have an important impact on the Bank's activity and profitability.

In 2011, GDP in Romania expanded in real terms by 2.5% (Source: National Bank of Romania, March 2012), representing a positive outcome for the multilateral financial assistance programme originally negotiated in 2009 and renewed in 2011. The following constitute some relevant risks: 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 which has affected Hungary; the sustainability of short term financial flows of the Romanian economy; and the commitment of the authorities in the pursuit of the agreed budgetary targets and measures and, consequently, to the scenario of recovery in the long term.

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. According to the preliminary national accounts, Mozambique's GDP recorded a real annual average growth rate of 7.1% in 2012, showing a trend of strong intra-annual recovery, largely determined by the acceleration of mining industry, which grew by 36% in the fourth quarter, year-on-year (Source: INE, March 2012). GDP expanded by 3.4% in Angola during 2011 with approximately 47% of GDP being derived from the oil sector, representing, even so, a figure about 10 p.p. lower than that recorded in 2006. In fact, while the oil sector contracted by 5.6% in 2011, the non-oil sector grew by approximately 9.0% (Source: Banco Nacional de Angola, January 2012). 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 to natural resources such as oil (Angola) and aluminium (Mozambique), which is subject to some vulnerability 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 in 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 with a notable improvement in recent years, represent 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, the Bank 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 (63 branches as at 31 March

2012; target of 100 branches) and creation of over 1,000 jobs by 2012 (932 employees as at 31 March 2012). It is not possible to guarantee in advance the success of the Group's expansion in Angola.

The Bank may face difficulties in 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-à-vis the euro could have a negative impact on the Group's business activity, financial condition and results. Any devaluation of these currencies could have a negative impact on the Group's consolidated results. In the case of Romania, and since the operation has not yet reached its break-even point, the impact would be in the opposite direction.

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 loans in foreign currency loans in Poland at the end of 2008, the Bank still holds a considerable loan portfolio in foreign currency, hence 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 the current expectation of the country joining the Single European Currency in the medium term does not materialise or in the event of reallocation of the portfolios of institutional investors in favour of "safe haven" assets in detriment of assets in emerging markets, in particular in a context of greater instability related to the redefinition of the European institutional framework, and which have had repercussions on the evolution of the Swiss franc, 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 is also reflected in an increase in loss history and corresponding impairments. The Group can also face difficulties in implementing its strategy for its international operations, due to general constraints, such as the worsening of market conditions, adverse circumstances, competitive actions as well as specific constraints associated to possible delays in the implementation of its strategic plan. These difficulties could have a significant impact on the opening of new branches, attraction of new customers and turnover.

The Bank is exposed to Greek and Portuguese sovereign debt

Under its activity in Portugal and Greece, the Bank is exposed to the sovereign debt of both of these countries. The Bank's exposure to Portuguese and Greek sovereign debt may relate to public debt bonds held in its portfolio of financial assets held to maturity, in its trading portfolio and in its portfolio of financial 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. On disposal, the accumulated gains or losses accounted for as reserves are recognised as income. Any depreciation in the value of the Group's trading portfolio and portfolio of assets available for sale of sovereign debt bonds could have negative repercussions on its financial condition and results. In turn, the financial assets held to maturity are initially recognised at fair value and subsequently measured at amortised cost. Impairment losses are recognised as income. As at 31 December 2011, the Group's exposure to Portuguese sovereign debt was Euro 4.706 billion, exposure to Greek sovereign debt was Euro 0.262 billion (net of impairment), exposure to Irish sovereign debt was Euro 0.211 billion, exposure to Italian sovereign debt was Euro 0.05 billion and exposure to Spanish sovereign debt was Euro 0.005 billion, amongst which Euro 4.284 billion was recorded under the portfolio of financial assets held for trading and available for sale, Euro 2.561 billion under the portfolio of financial assets held to maturity.

The compulsory deduction of capital losses on public debt from own funds would create an adverse impact on the Bank's capital ratios, creating greater difficulties in compliance with the additional and temporary requirements established by the supervisory entities of achieving a solvency ratio (Core Tier I, calculated pursuant to the criteria stipulated by the EBA) of 9% by June 2012, and 10% (calculated pursuant to the criteria stipulated by Banco de Portugal) by December 2012 (as at 31 December 2011, this ratio, calculated pursuant to the criteria of Banco de Portugal, reached 9.41%), leading to the process of additional strengthening of the Bank's own funds that is currently being implemented.

Impact on capital of the deterioration of the Greek financial situation

There is a high risk of sovereign default by Greece, which would be reflected in an additional significant increase in spreads and adverse contagion effects, as well as the risk of the assistance provided by the international institutions not being effective, added to domestic social and political tensions. By the end of 2011, the Bank recognised a write-down of the entirety of the goodwill, of the value of Euro 294.3 million associated to the acquisition of Millennium bank in Greece; hence the current risk factors are related to the business risk of the operation and level of support which will be required from the parent company. As at 31 December 2011, the risk weighted assets (RWA) of Millennium bank in Greece reached a total of Euro 4.4 billion and represented 7.96% of the total RWA of the Group. Consequently, the continued recession or economic deterioration of the financial situation in Greece or a deterioration of the prospects relative to the performance and financial situation of Millennium bank in Greece could lead to additional impairment in the Group's consolidated accounts, arising from the deterioration of the quality of the assets held by Millennium bank in Greece. The deterioration of the Greek situation could hinder the evolution of net interest income, in a context of lower activity levels (less loans granted and reduction of the deposit base), which, combined with increased loan default, could result in even more negative net income. As a result of the deterioration of the economic situation in Greece, Millennium bank loans overdue more than 90 days stood at 6.7% of gross loans as at 31 December 2011. In view of a very demanding economic and financial context and subject to high uncertainty, the unfavourable evolution of non-performing loans might continue and compromise the results of Millennium bank in Greece, and consequently the Group's consolidated results and its position in terms of capital. During the first half of 2012, there has been an erosion of the level of deposits in the Greek banking market, which represents the continuation of the trend observed in 2011, with more emphasis in the second half of the year. Although Millennium bank in Greece intends to rely on official recapitalization lines established in Greece, there is no certainty that access to those will be obtained. Additionally, the pricing effort required to avoid a greater fleeing of deposits from the Greek banking system strongly affects the evolution of net interest income and the bank's results.

In Greece, a transitional government remained in office until a new government is formed, after the elections held on May 6, 2012. The main duty of this transitional government, a coalition of the three main political parties of Greece, was the negotiation and reformulation of the economic and financial stability programme, determinant for the attribution of funds to Greece by the IMF and European institutions. Clearly the situation in Greece after the elections held on May 6, 2012 was very complex and polarized, with several parties against the continuation in the Euro Area, after its centre-right leader failed to win left-wing support to form a "national salvation government" after the inconclusive outcome at the polls. On May 15, it was announced that Greece would hold a new election after politicians failed to form a government following an inconclusive vote, prolonging a political crisis that pushed it closer to bankruptcy and exit from the euro. A caretaker government was formed on May 16 which led the country to new polls in mid June. Greece's centre-right New Democracy (ND) party won the second general elections held on June 17, 2012 and begun talks to build a coalition government. A new coalition government was formed on 20th June 2012. The coalition will have a specific mandate to complete a modified fiscal and structural reform programme. The success of pro-euro parties in Greece means that the albeit the risk of the Euro exit has decreased somewhat the uncertainty regarding the Greek environment and reformulation of the economic and financial stability programme remains.

Depreciation of real estate assets

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 guaranteeing loans or through funding of real estate promotion projects (assets received in lieu of payment in Portugal represented 1.1% of total assets as at 31 December 2011 and direct exposure to the real estate sector, composed of loans granted to construction companies, real estate activities and mortgage loans, represented 57% of the consolidated loan portfolio as at 31 December 2011). This fact makes the Bank vulnerable to a depression 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, lower coverage of exposure to loans guaranteed by real estate collateral and in the pension fund, adversely affecting the Bank's financial condition and results.

Exception regime for the protection of mortgage lenders in serious economic failure

Following the current economic and financial crisis and as a consequence thereof, there has been an increase in non performing loans, being the most sensitive in the area of mortgage loans because of the social and human issues that underlie it.

In this context, some political parties have already presented some legislative initiatives and it is expected that others will arise as well as actions of self-regulation for the presentation of measures for restructuring of debts arising from loans to finance the acquisition or edification of own permanent housing. Although some banks have already unilaterally adopted several actions in this regard, it is likely that measures will be envisaged for the entire Portuguese banking system.

The implementation of any such legislative, regulatory or self-regulatory initiatives may lead to limitations to the level of spreads and commissions charged, as well as to an increase in Bank's credit impairments, whose impact will arise from the amplitude of the criterion' scope of access to an exception regime that may come to be adopted, as well as from the possibility that any such rules allow that, in some cases, the financial institutions be obliged to accept the repossession of assets as a way to settle clients' debts.

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 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 business activity, financial condition and results of operations.

A 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

Investments 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., life insurance business carried out by the Millenniumbcp Ageas joint venture, and investment banking business.

The uncertainty regarding the duration of the current international financial crisis will continue to penalise the evolution of the capital markets and maintain or aggravate the already high risk aversion, reflected in the existence of market risk related to the evolution of stock prices, penalising the evolution of fees on stock exchange and asset management operations, the results of financial operations and other income and, also the value of financial holdings and securities portfolios.

In particular, a heavy depreciation in global capital markets could affect sales of some of the Bank's products and services, such as unit-linked products, capitalisation insurance, real estate investment funds, asset management services, brokerage, primary market issues and investment banking transactions, and significantly reduce the fees related to them, as well as adversely affect the Bank's business, financial condition and results of operations. As a minority shareholder of Millennium bcp 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, for example, as a result of insurance product derivative bonds with guaranteed minimum levels of return. Furthermore, the constant 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 be reflected 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, resulting in decreased own funds of the Bank. Therefore, a decline in the capital markets in general could adversely affect the Bank's results, financial conditions and future prospects.

As at 31 December 2011, the equity portfolio of the Group, including the investments in associated companies, reached Euro 587.4 million, which corresponds to 0.6% of the Group's total assets. Any depreciation in the value of portfolio investments could adversely impact its financial condition and results. A fall in stock and debt markets would also have an impact in terms of the quality of the assets due to the lower value of the collateral of various loans granted, based on this kind of guarantee, leading to the reduction in coverage ratios (as at 31 December 2011, 6.5% of the loan portfolio had financial assets as collateral).

Finally, the value of the assets included in the portfolio of the Group Pension Fund is also dependent on the future performance 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 the Bank's capital ratios and results.

The depreciation of the value of financial collateral, risk premium associated to operations in different markets and yields of pension funds might also negatively affect the Bank's results and solvency ratios. The uncertainty of the opening of the capital markets to the national banking system, to return to being a source of funding of the sector, will contribute to increased pressure on the balance sheet deleveraging process and maintenance of excessive dependence on funding from the ECB.

The continued deterioration of global economic conditions, including the credit profile of other countries of the European Union, or credit-worthiness of Portuguese or international banks and changes in the euro zone, may exacerbate concerns regarding the ability of the Portuguese Republic to meet its funding needs. Indeed, the high level of uncertainty relative to the macroeconomic environment, the possible inability of the Portuguese Republic to meet the commitments assumed under the Economic and Financial Assistance Programme, which, combined with the non-opening of the capital/debt markets, might lead to the need for additional external assistance. This scenario, of increased risk and uncertainty, will exert pressure on the Bank to seek alternative funding sources, as well as the need to accelerate/review its Capital and Liquidity Plan and add new eligible assets to its pool of assets eligible for discount at the ECB.

Apart from Portugal, the European Union, ECB and IMF have prepared assistance packages for other European countries affected by the unfavourable economic situation (Greece and Ireland). The Bank cannot predict the degree of success of the Programme, or other assistance programmes, their effects on the single currency, European Union or business of the Bank, arising from the cash-flow operations and financial situation. Under these terms, the uncertainties derived from the Portuguese economic-financial crisis and implementation of the Programme, and respective reaction by the market, have and will continue to have an adverse material effect on the Bank business, its results and financial condition.

The turbulence in the main financial markets, more specifically the interbank and debt markets, could affect the Bank's liquidity position and its ability to increase loan volumes

Since the second half of 2007, the turbulence which has characterised global credit markets, together with the repricing of credit risk and deterioration of real estate markets, in particular in the United States, have contributed to a growing worsening of the conditions in the financial markets and have had a negative impact on investors' confidence. This has negatively affected the interbank markets and debt issues in terms of volumes, maturities and credit spreads. Among the sectors of the global credit markets which have faced greatest difficulties due to the current crisis are those related to sub-prime mortgage backed securities, asset backed securities, collateralised debt obligations, leveraged finance and complex structured securities. These conditions have resulted in historic volatility, less or no liquidity, widening of credit spreads and lack of price transparency in certain markets.

These conditions have resulted in the bankruptcy of a large number of financial institutions in the United States and Europe and in the unprecedented action by government authorities, regulators and central banks all over the world. It is difficult to predict how long these conditions will remain and how the Bank's investments and markets will be affected.

In particular, Portuguese banks are currently facing a situation of serious inability of obtaining financing on wholesale funding markets and high dependency on funding received from the ECB. Government expectations, in line with the Economic and Financial Assistance Programme, are that, until 2013, access of the national banking system to whole funding markets will be rather limited. It is expected that as of 2013, and assuming compliance with the targets of the Adjustment Programme by the Portuguese Republic, the access of the Treasury and Portuguese banks to international funding markets will improve both in terms of volume and funding cost/spreads. Otherwise, the continuation of this situation will increase pressure on the deleveraging effort and lead to excessive dependence on ECB funding.

Although the Portuguese financial system has shown great resilience since the beginning of the economic and financial crisis, having ensured the normal funding of the economy during this period, the tensions associated to the sovereign debt crisis and to the constrained access to international wholesale funding markets have exerted major restrictions on banking activity, forcing the institutions to resort to funding from the ECB and to the intensification of the attraction of funding from more stable domestic sources. In this context, the management of liquidity risk has gained increasing importance. The Group has adopted some measures through its risk management policies since 2008, which seek to mitigate the adverse impact of the unfavourable liquidity circumstances of the markets, by reducing the commercial gap (balance sheet customer loans-funds), strengthening the attraction of deposits, sale of non-strategic assets and recomposition of assets, through the increase of highly liquid assets. Under the Group's overall liquidity management strategy, there has been more careful granting of loans and focus on the obtaining of funds with the objective of reducing the commercial gap. Medium and long term debt refunding needs for the rest of 2012 and for 2013 are estimated at Euro 0.9 billion and Euro 1.0 billion, respectively. The Bank, whenever permitted by market conditions, will obtain its funding from interbank and capital markets according to its needs.

As noted above, the ECB has been one of the sources of funding most used by the national banking system during this phase of inability to obtain funding on wholesale funding markets, reflected in high dependence on funding from the ECB, which, by the end of 2011, reached Euro 12.7 billion (net use), corresponding to 14.3% of the Bank's liabilities. By the end of 2011, the Bank had a total of Euro 15.7 billion of assets eligible for discount at the ECB, of which Euro 3.0 billion are available. The reduction of the pool of eligible assets, reflecting the erosion of collateral following the rating downgrades and the increased difficulty in managing eligible assets to compensate the erosion arising from the loss of eligibility will have a negative impact in terms of liquidity, forcing a search for alternative funding sources and acceleration of the deleveraging of the Balance Sheet, which might have a negative impact on the Bank's activity, financial situation and net operating income. It is important to emphasise that the ECB has shown, especially in the last few months, greater willingness to support the European banking system, where particular note should be made of the extension, in December 2011, of the maximum period of its funding to banks to 3 years aimed at reducing the liquidity risk of the sector in the euro zone, the simplification of the rules on collateral and the reduction of minimum reserve requirements by half. These criterion might be changed in the future and consequently reduce the possibility of carrying out these funding operations.

The objective of the Bank is to reduce this dependency in the short/medium term and the Bank is implementing various measures to diversify its funding sources away from the ECB, having also accelerated its deleveraging process, endeavouring to increase customer funds and reduce the granting of loans to customers, which could represent a risk of increased cost of deposits and, if this process is not accompanied simultaneously by the repricing of loans, might negatively affect the net interest income and overall results of the Bank. However, if the authorities force a faster reduction of exposure or if there are restrictions to access to ECB funding, the Bank might be forced to accelerate its Capital and Liquidity Plan, exerting pressure on profitability and on the deleveraging process. It is important to stress that, under the current context, the review of the conditions of assignment of liquidity by the ECB could lead to the Bank being forced to dispose of assets, with a potentially significant discount in relation to their respective book value, in order to comply with the Bank's liabilities, and corresponding negative impact on capital and results.

Although the Bank considers that its liquidity risk management and mitigation policies are suitable, the extension of the market circumstances and continuation of sovereign debt risk at high levels might penalise the Group'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 due to difficulties of one or more institutions, or even their default, which could lead to significant liquidity problems in the market in general, losses and default 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 if for an extended period of time, this could lead to the reduction of credit availability, credit quality and increased default on debt, which could have a negative impact on the rating, business activity, financial condition and net operating income of the Bank.

The Bank's interest rate risk is historically high, making it vulnerable to increased interest rates, which might 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 decisions of the monetary authorities and internal 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. This difference could reduce the Bank's net interest income. At the end of 2011, ECB announced its decision to reduce the interest rate applicable to the main refunding operations of the Eurosystem from 1.25% to 1%. A movement in the opposite direction by the ECB (increased interest rates in the Euro Zone) could increase the costs associated to debt service in Portugal and aggravate the general financial conditions if the interest rate increases do not correspond to the Portuguese financial situation. Moreover, it is expected that access to the capital markets will remain difficult in the short/medium term. Furthermore, an increase in the interest rate could reduce demand for loans and the Bank's capacity to grant loans to customers, and also contribute to increased loan default. Conversely, 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, significant changes or volatility in interest rates may have a material adverse impact on the Bank's business activity, financial condition or results.

The Bank may not be able to preserve its customer base

The Bank's success depends on its capacity to main high levels of loyalty amongst its customer base and offer of a vast range of competitive and high quality products, with excellent service standards,to its customers. In order to pursue this objective, the Bank has adopted the strategy of segmentation of its customer base, aimed at serving the various needs of each segment in the most suitable manner, and the cross-selling of 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 domiciliation, standing transfers, credit cards and saving products. Bancassurance products are also included in the vast offer of products provided by the Bank, managed by the insurers Ocidental - Companhia Portuguesa de Seguros de Vida, S.A. ("**Ocidental Vida**"), Ocidental - Companhia Portuguesa de Seguros, S.A. ("**Ocidental**"), Médis - Companhia Portuguesa de Seguros de Saúde, S.A. ("**Medis**"), and by the pension fund holding company PensõesGere - Sociedade Gestora de Fundos de Pensões, S.A. ("**PensõesGere**"), of which the Bank is an insurance broker, all held by Millenniumbcp Ageas - Grupo Segurador, SGPS, S.A., an entity which resulted from the partnership agreement with the Ageas Group for bancassurance business in Portugal, 51% held by Ageas and 49% held by the Bank.

The Portuguese banking market is resilient and well developed, including strong national and international competitors who follow multi product, multi channel and/or multi segment approaches. In a very adverse economic context, with pressure to deleverage balance sheets and reduce the granting of loans, many Portuguese banks are dedicated to increasing their revenue through an increase in their respective market shares and cross-selling, which has led to more aggressive commercial strategies. It is also expected that there will be an intensification of the trend of integration of financial services at a European level, which could contribute towards increased competition, especially in the areas of asset management, investment banking, online brokerage services and remote financial services. The high level of competition in the sector in Portugal and in other countries where the Bank operates implies the existence of business and strategy risk, which could lead to the loss of market share in some products and/or business segments, difficulty of adjustment of spreads to credit risk, decreased net interest income, fees and other revenue and penalise the evolution of revenue, net income and net worth.

The potential lack of success in the maintenance of the high loyalty levels of the customer base or in providing a diversified, competitive and high quality offer of products or consistently high service standards could affect the Bank's financial condition and results in an adverse manner.

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

Reputation risk is inherent to the Group's business activity. A negative opinion of the public or sector could result from real or widespread perceived practices in the banking sector, such as money laundering or the fraudulent sale of financial products, or even from the way, real or perceived, that the Group conducts its business. A negative opinion of the public or sector could adversely affect the Group's ability to maintain and attract customers and, in particular, institutional and retail depositors, whose loss could adversely affect the Group's business, financial condition and future prospects as a result, for example, of a run on deposits and the disappearance of funding sources.

The Bank has a limited number of customers who were classified as politically exposed persons pursuant to the applicable legislation. Although the Group exercises an increasingly stricter scrutiny of the transactions with politically exposed persons in order to ensure compliance with the applicable laws, the bank services provided to these individuals imply reputation risks, even when there is no breach of the law.

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 47% of all its employees were members of labour unions by the end of

2011 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, create problems in the Group's activity, result in increased salaries and benefits granted to employees or otherwise have a material adverse effect on the business, financial condition and results of the Bank's operations.

The Bank may have to bear additional costs, especially as regards staff costs, related to restructuring foreseen in its management priorities

Under the measures for the implementation of its strategy, the Bank might reduce, albeit gradually, the number of employees in Portugal or other countries, in particular through voluntary mechanisms, as termination by mutual agreement or, to the extent legally possible, early retirement.This could imply additional restructuring expenditure in terms of staff costs. Although the staff reductions in the past have taken place without very significant social, legal or moral damage, the Issuer cannot guarantee that these measures or any other future action relative to the reorganisation of its activities will not imply disputes, disturbance to the Bank's activity or other adverse effects on its business, financial condition and/or results.

The Bank may have difficulty in hiring and retaining qualified personnel

The Bank's ability to successfully implement its defined strategy depends, namely, on its capacity to recruit and maintain the most qualified and competent employees for each position in Portugal and other countries. Although the Group's policy on human resources is driven by the achievement of these objectives, it is not possible to guarantee that in the future there will be no limitations in this area. Inability to attract and retain the most qualified and competent employees for each position could limit or delay the implementation of the strategy, which could have a negative effect on the Bank's business activity, financial condition and results.

The Bank faces strategy risks

The Bank is exposed to strategy risk, with the possibility of inadequate strategic decisions being taken, failures in the implementation of decisions or lack of response capability in view of the evolution of market conditions, and may thus not, totally or partially, achieve the objectives presented to the market in its strategic programme. It is not possible to guarantee in advance that the Group will manage to implement its strategic agenda due to general constraints, such as the deterioration of market conditions, an adverse environment, increased competition or the actions taken by the main competitors, as well as specific constraining factors associated to possible delays or inadequacies in the implementation of its strategic program or in the efficacy and degree of implementation of the measures to resume growth and leadership in Retail Banking and attract greater value in the Companies and Corporate segments, maintain the drive to reduce costs and optimise discipline in capital and liquidity management and strengthen risk management. Furthermore, the Bank could face difficulties in the implementation of critical management measures aimed at continued repricing, optimising the recovery of banking revenues and profitability, mitigating exposure to various types of risk and increasing own funds, with a negative impact on expected efficiency levels, and compromising the defined objectives and solvency. If the Bank is unable to achieve the established strategic objectives, its business activity, financial condition, results and the value of its shares may be adversely affected.

The Bank is exposed to credit risk

The Bank is exposed to the credit risk of its customers and counterparts, including risk arising from the high concentration of individual exposures of its loan portfolio. The 20 largest individual loan exposures represented, as at 31 December 2011, 9.7% of the total loan portfolio, corresponding to a relatively high value, which, together with the high credit exposure to the civil construction sector, contributes to raising 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 greatly noted by the rating agencies as a fundamental challenge facing the Portuguese banking system. The rating agencies have been particularly critical in relation to the Bank's concentration of its exposure in larger customers and, especially, of the exposure to Shareholders, which has contributed to making the rating sensitive to the evolution of these variables. Although the Bank carries out its business based on strict risk control policies, in particular of credit risk, seeking to increase the degree of diversification of its loan portfolio, it is not possible to guarantee that the exposure to these groups will fall significantly in the short and medium term.

This exposure to credit risk could derive from trading activities, loan concession, acceptance of deposits, clearing and settlement, as well as other activities and relations. These counterparts include customers, brokers and dealers, commercial banks, investment banks and borrowing companies. Most of these relations expose the Bank to credit risk in the event of the counterpart or customer entering into default. Furthermore, should there be any reduction in the value of assets given to guarantee loans that have been granted, or in the case of their not being 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 the payments under the securities. Some risk diversification and management strategies used by the Bank also involve transactions which include the provision of financial services by the relevant counterparts. The insolvency of any of these counterparts might imbalance the efficacy of the Bank's risk diversification and management strategies, which might also affect the Bank's capacity to meet the payments under the securities and adversely affect the Bank's financial condition and results.

The maintenance of the current economic and financial crisis, combined with the implementation of the austerity measures established under the Economic and Financial Assistance Programme, exert further pressure on the quality of the assets of the national banking system. The risks arising from changes in credit quality and the repayment of loans and other amounts owed by customers and counterparts are inherent to a broad spectrum of the Bank's business activity. Adverse changes in the credit quality of customers and counterparts 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 increase in provision for bad debt and other provisions, which would adversely affect the Bank's financial condition and results.

The Bank's consolidated loan portfolio, as at 31 December 2011, reached Euro 71,533 million, of which 6.2% refer to non-performing loans, representing an increase of 1.7 p.p. in relation to the same period of 2010. As noted above, the prolonged maintenance 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 own funds and/or increased risk weighted assets (RWA). Non-performing loans, calculated in accordance with Instruction number 23/2011 of Banco de Portugal, which includes loans overdue more than 90 days and bad debt, accounted for 6.2% of total loans and advances to customers as at 31 December 2011, compared with 4.5% of total loans and advances to customers as at 31 December 2010. Loan impairment (net of recoveries) reached Euro 1,331.9 million in 2011, compared with Euro 713.3 million in 2010, showing the strengthening of allocations for loan impairment. The provisioning effort, measured by the proportion of allocations for loan impairment (net of recoveries) in relation to the loan portfolio, excluding securitised loans, stood at 186 basis points in 2011, compared with 93 basis points in 2010. The coverage of loans overdue more than 90 days stood at 109.1% as at 31 December 2011, compared with 109.4% in 2010. The maintenance, or aggravation, of the crisis, namely due to the persistence of sluggish economic growth, increased unemployed rate and sharp increase in risk premiums required would tend to lead to increased loan impairment levels and, consequently, to the reduction of the Bank's net income. Moreover, 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 business activity, financial condition and results of the Bank.

The Bank is exposed to market risk

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: 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 VaR ("**Value at Risk**"). The 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 an unilateral statistical confidence interval of 99%. During 2011, the average of the VaR for the trading portfolio stood at Euro 4.5 million.

The interest rate risk originated by transactions involving the non-trading book is assessed through a risk sensitivity analysis process, carried out every month for all operations included in the Group's consolidated balance sheet. The reported analysis as at 31 December 2011 indicates that interest rate risk sensitivity of the balance sheet, calculated through the difference between the present value of the interest rate mismatch after discounting at market interest rate and the discounted value of the same cash flows parallel shifts in the market interest rate by +100 b.p., shows values of Euro -71.8 million, for the currency in which the Group has most significant positions, the euro.

The Group carries out transactions with derivatives fundamentally to hedge structured products for customers (guaranteed capital and other products), risks stemming from the Bank's day-to-day business, essentially including the hedging of interest rate risk and exchange rate risk. The current level of trading activity of the Group's own portfolio in derivatives is immaterial insofar as Group profits or risk exposure is concerned.

The trading portfolio and portfolio of assets available for sale reached a total of Euro 137.907 million as at 31 December 2011, compared with Euro 126.610 million as at 31 December 2010. 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 and its exposure is continuously monitored. However, it is difficult to accurately predict changes in market conditions and foresee the effects that these changes might have on the Bank's financial condition and results of its operations. The Bank is exposed to the risk associated with investment in complex derivative. Any failure in risk management or control policies relative to market risk could have a negative impact on the Bank's business activity, financial condition and results of its operations. The net trading income represented, as at 31 December 2011, 8.1% of banking income.

The Bank is subject to operational risks

During the Bank's normal activity and as a result of its organisational structure, the Bank is subject to certain operational risks, including interruptions in the service 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 in respect of certain operational risks. However, it is not possible to guarantee that the monitoring and prevention of these risks would be totally efficient. Any lack of success in the implementation of the Bank's risk management and control policies could adversely affect its financial condition and results.

Notwithstanding anything in this risk factor, this risk should not be taken as implying that the Bank or any other member of the Group will be unable to comply with its respective obligations as a company with securities admitted to the Official List.

Liabilities to customers of the Bank are higher than the highly liquid assets

The Bank's main source of funding is its deposits base. However, over the last few years the maintenance of interest rates at historically low levels has resulted in the channelling of customer savings invested in more traditional financial products, namely deposits, to instruments with higher potential yield. This trend has been reverted since 2008. The Bank's other funding sources include money market operations, medium and long term bonds, covered bonds, commercial paper, medium term structured products and securitisation of a portion of its loan book. Over the last few years, the Bank has strengthened its own funds through capital increases (the most recent share capital increase in cash entry occurred in 2011), the issue of securities mandatorily convertible into BCP shares, called Capital BCP 2005 (this issue occurred in December 2002, with a corresponding capital increase in January 2006), exchangeable subordinated bonds and convertible bonds (the remainder of the most recent issue, which occurred in 2001, has been repaid).

The Group has sought to mitigate the liquidity risk, having adopted various measures since 2007 which attenuate the penalising impact of the unfavourable market circumstances on its liquidity position - namely, by reducing the deficit, strengthening the attraction of deposits, sale of non-strategic assets, increasing highly liquid assets and increasing the maturity of institutional funding. However, the prolonged crisis of the financial markets led to a decline in the weight of the wholesale component with maturity greater than one year from 59.0% in 2007 to approximately 48.3% as at 31 December 2011. The possible inability of the Bank to obtain sufficient funds, in an adverse context of financial markets, namely following the sub-prime crisis, in order to meet its liabilities with customers and other investors could negatively affect its financial condition and results. Furthermore, due to the Bank's liquid funding position, any downgrade of its rating could adversely affect its financial condition and results.

New provisions of the ECB relating to the discretionary acceptance of bank debt guaranteed by National Central Banks represent the risk of reduction of the pool of eligible assets.

The ECB recently issued Decision ECB/2012/4 of 21 March 2012 which changes the collateral eligibility acceptance criteria. Pursuant to this decision "(…) National Central Banks shall not be obliged to accept as collateral for Eurosystem credit operations eligible bank bonds guaranteed by a Member State under a European Union/International Monetary Fund programme, or by a Member State whose credit assessment does not comply with the Eurosystem's benchmark for establishing its minimum requirement for high credit standards applicable for issuers and guarantors of marketable assets (…)". This decision represents an uncertainty regarding liquidity buffers in view of the discretionary nature of decision-making by each national central bank, has indirect impacts on the acceptance of this type of debt by third parties, affecting ability and speed of return to market funding and may lead to a greater isolation of the financial systems of countries under adjustment programmes.

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

The Group has undertaken the liability to pay pensions to its employees upon retirement or due to disability and other liabilities, 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 the Bank, which is managed by PensõesGere.

Following the Government's decision in Decree-Law no. 127/2011, of 31 December,which was a structural measure in the fulfilling of the objectives established in the PAEF, a Tripartite Agreement for the implementation of said Decree-Law was established between the Government, the Portuguese Association of Banks and the Unions of bank employees on the transfer, to Social Security, of the liabilities related to pensions paid to current retired employees and pensioners.

This Decree-Law established that the liabilities to be transferred correspond to the pensions being paid as at 31 December 2011, at constant values (0% updating rate) of the component laid forth in the Collective Labour Regulation Instrument ("**IRCT**") of retired workers and pensioners. The liabilities relative to the updating of pensions, supplementary benefits to pensions to be undertaken by Social Security, contributions to the Bank's Social Health Assistance Service ("**SAMS**") for retirement and survivors' pensions, death grants and deferred survivors' pensions continue to be the responsibility of the Institutions with the funding being ensured through their respective Pension Funds. The abovementioned Decree-Law also establishes the terms and conditions under which the transfer was carried out, defining a discount rate of 4% to determine the liabilities to be transferred.

The impacts of such changed include:

- A negative impact of € 1.141 million in the Bank's equity as at 31 December 2011, associated to the liabilities in respect of pensions of retired employees transferred to the Social Security, of which € 117 million in net results. The transaction would imply a negative impact of 74 b.p. to the regulatory capital as at 31 December 2011, which will only be recognised in June 2012, as a result of a decision of the Bank of Portugal
- A reduction to the Bank's liabilities with pensions of approximately 50%, which means that the Bank's vulnerabilities associated with the market risk inherent to the Pensions Fund is also reduced. This risk has penalised significantly the Bank in the recent past, especially considering the adverse economic and financial environment. In fact, the Bank has sustained accumulated actuarial losses of € 1.464 million in the 2007-2011 period and 2009 was the only year where no actuarial losses occurred.

The transferred liabilities were determined based on actuarial assumptions that are different from those used by the Group, namely with respect to the discount rate (4%) and mortality table (TV 88/90 for women and TV 73/77 aggravated by 1 year for men). These assumptions were determined with a view to the liquidation of liabilities (exit value) since this involves a definitive and irreversible transfer of these liabilities implying 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. The total value of the transferred liabilities reached Euro 2,583 million. The financial settlement of 55% of the operation, of the value of Euro 1,510 million, took place before 31 December 2011, and the remaining value will be transferred in the first semester of 2012.

The liabilities related to retirement pensions had been totally funded and at levels above the minimum limits defined by Banco de Portugal, presenting a coverage level of 111%. As at 31 December 2011, the liabilities related to the Pension Fund reached Euro 2,452 million, compared with Euro 5,322 million recorded as at 31 December 2010, reflecting a significant reduction due to the transfer of part of the liabilities to Social Security.

In 2011, the Pension Fund recorded a negative rate of return of 0.7%, following the adverse behaviour of the markets and, in particular, of the performance of the capital markets in Portugal. Since the liquidation of the transferred liabilities is carried out in cash or public debt valued at market prices, the remaining assets in the Pension Fund corresponding to non-transferred liabilities present a composition which is substantially different from that recorded as at 31 December 2010.

IAS 19 permits the use of alternative criteria for the accounting treatment of actuarial deviations. 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 liabilities and the fair value of the Fund's assets were recognised against profit or loss according to the estimated remaining working life of the active employees.

Considering that IAS 19 – Employee Benefits enables the use of the method of direct recognition in equity of actuarial deviations, the Group decided in 2011 to alter its accounting policy, and now recognises the actuarial deviations for the year against reserves. According to IAS 8, this alteration of accounting policy is presented for comparative effect as of 1 January 2010, whereby the entirety of the deferred actuarial deviations is recognised under equity on that date. Hence, as of 31 December 2011, inclusively, the Group no longer records actuarial deviations in the Balance Sheet.

For prudential effects, 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 losses recorded in 2008, of the value corresponding to the liabilities transferred to Social Security. As at 31 December 2011, the value of the corridor relevant only for prudential effects reached Euro 245 million.

The level of coverage of Pension Fund liabilities of the Bank 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, which are recognised against reserves for the year when they occur.

Since the settlement of the transferred liabilities is carried out in cash or public debt valued at market prices, the remaining assets in the Pension Fund corresponding to non-transferred liabilities might be considered at higher risk and therefore, depending on the evolution of the financial markets, might lead to actuarial deviations.

In the future, the Bank cannot guarantee that changes will not take place in the actuarial assumptions relating to the pension fund. Any such changes in the assumptions could lead to increased actuarial differences.

The partial transfer of liabilities in respect of pensions onto Social Security that took place in late 2011, although reducing some risks, in the sense that it reduced the value of the responsibilities that the Bank will have to comply with in the future, may have significant adverse impacts in the short term, particularly in terms of liquidity, to the extent that the Bank needs to acquire assets from the pension fund in order to provide it with sufficient liquidity to meet the conditions of transfer of the aforementioned liabilities.

Volatility caused by the Bank's credit risk

The last few years have been characterised by the aggravation of the international financial crisis and by the sharp deterioration of the sovereign debt crisis. The existing uncertainty, especially in the financial sector, as a result of the growing difficulties of the financial institutions and systemic risk, led to the maintenance of very high levels of costs related to protection against the default of private debt instruments of the financial market and, in particular, Portuguese banks. The continuation of this situation has led to the increased spread of the Bank's credit, with negative impact on the level of net interest income, but may lead to gains in the fair value of liabilities at fair value.

However, these effects are reversible in the long term: the reduction of the Bank's credit spread will produce opposite effects, which will be reflected in a possible decrease in the Bank's results.

The Bank is subject to compliance risk

The Bank's activity is heavily regulated. As a consequence, the Bank is subject to claims of non-compliance with regulations and that public entities, regulatory authorities or third parties file lawsuits against it. Inspections or other procedures which are unfavourable to the Bank could result in penalties of a legal nature, limitations of business opportunities, reductions of potential of expansion or the impossibility to demand compliance with contractual obligations.

The Bank is also subject to rules and regulations relating to money laundering and the financing of terrorism. Compliance with the rules of combat of money laundering and the financing of terrorism implies significant costs and efforts and/or failure to observe them may have severe consequences, both legal and in terms of reputation, for the Bank. Although the Bank believes that its current policies and procedures of combat of money laundering and the financing of terrorism are sufficient to ensure compliance with all the applicable legislation, the Bank cannot guarantee that, at any given time, it complies with all the applicable rules, or that its rules on the combat of money laundering and the financing of terrorism, which are extendable to the entire Group, are being applied consistently by its employees under all circumstances. Any breach, or even suspected breach, of these rules could have very serious legal, financial and reputational consequences, which could negatively and significantly affect the Bank‘s business activity, financial condition and results.

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.

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

The credit ratings are an important component of the Bank's liquidity profile. The evolution of the ratings attributed to the Bank reflects, apart from the evolution of the rating of the Portuguese Republic, a series of factors intrinsic to the Bank. In terms of capital, and in spite of the initiatives implemented recently to strengthen its capital position, the deleverage process in progress and the existence of the support line to banks offered by the Portuguese State of Euro 12 billion for capital reinforcement, the rating agencies have pointed to some fragility in the Bank's capital position. In terms of results, the evolution of the Bank will be constrained, essentially, by the evolution of the Portuguese economy. The rating agencies also consider the deterioration of the quality of the loan portfolio to be an additional risk factor, essentially related to its exposure to the Small and Medium Enterprises sector in Portugal and to its risks, and also refer to the Bank's exposure to public debt. Finally, the rating agencies consider, as an additional risk factor, 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 the wholesale funding markets are practically closed to the Portuguese Republic and to the national banking system under conditions considered suitable, the continuation of the trend observed during 2011 of downgrading of the ratings could contribute, for example, to the erosion of the collateral eligible for funding at the ECB (requirement of higher haircuts), as well as more restrictive access to funding, at a higher cost. In order to overcome this situation, the Bank might need to accelerate its deleverage process and reduce its activity, with an negative effect on its results.

The Bank's credit ratings can be revised from time to time and have 'positive', 'stable' or 'negative' outlooks, depending on the rating agencies' views of the Bank's credit quality. Such outlooks give indications or suggest the direction of future rating actions. Indeed, there is no guarantee that the Bank will not be subject to downgrades in credit ratings in the near future. In fact, the credit conditions of the Portuguese banking system, which influence the creditworthiness of Portuguese banks, may cause an expectation of deterioration of such creditworthiness. Furthermore, the Portuguese banks' deposits and debt ratings are dependent on the Portuguese Republic's ratings and, consequently, may vary as a result of Portuguese Republic's rating changes. The ratings of the Portuguese Republic are a key element in determining its capacity to support the banking system.

The Bank's capacity to successfully compete in the deposit market depends on various factors, including financial stability, namely operating results and credit ratings attributed by recognised rating agencies. In this regard, a downgrade in the credit rating could affect the Bank's ability to raise funding and could have an adverse effect on its business activity, financial condition and results.

The Bank faces technological risks

In the scope of the implementation of a new organisational and strategic coordination model, the Bank was divided into five business areas and two service areas (Banking Services and Corporate Areas). The Banking Services area is composed of organic 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 business areas' activity. The operations developed by the Group, on Portuguese territory and abroad, have an infrastructure of information systems which is externalised, but 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 the best international practices, such as the principal information security standard ISO 17799/27001 (currently named ISO 27002). In spite of the assessment that has been made of the computer systems and the conviction that the back-up capacities are adequate, it is not possible to guarantee to potential investors the total identification and timely correction of all problems related to the information technology systems, or systemic success in the instalment of technological improvements. Should any of the abovementioned risks effectively occur, the Bank's business activity, financial condition and results could be significantly and negatively affected.

Notwithstanding anything in this risk factor, this risk should not be taken as implying that the Bank or any other member of the Group will be unable to comply with its respective obligations as a company with securities admitted to the Official List.

Transactions in the Bank's own portfolio involve risks

The Bank carries out various treasury activities on its own account, 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 the taking of 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 depends 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 losses which could adversely affect its financial condition and results.

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 to 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 considerable adverse impacts on its business activity, financial condition and results.

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

Although the current Board of Directors of the Bank, including 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 memorandum of association, comprising the adoption of a one-tier management and supervisory model, the composition of the Board of Directors of the Bank and/or its Executive Committee might change due to decisions taken by the shareholders or by the Board of Directors or due to personal motives of the relevant members. The Bank could face difficulties in replacing any directors who leave, which could negatively affect its financial condition and results. Furthermore, changes may also be decided in the Boards of Directors and executive management of the Bank's subsidiaries in other countries in which the Group has operations which, while not necessarily implying alterations in the strategy pursued by said operations, might negatively affect their financial condition, results and, where applicable, their stock market performance.

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

Market turmoil and economic recession, especially in Portugal, Greece, and other European countries, could have a material adverse effect on the liquidity, businesses and/or financial conditions of the Group's clients, which could in turn further impair the Group's loan portfolio. In 31 December 2011, the ratio of overdue loans and doubtful loans over 90 days to gross loans has registered an aggravation (increased from 6.9% as at March 2011 to 9.7% as at March 2012, with provisions coverage of 52%.

In a context of continued 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, which could result in impairment of the value of the Group's loan assets. Loans to businesses and individuals are expected to remain under considerable pressure in Portugal as the sizeable downward pressure on household disposable income and firms' profitability from the austerity measures as well as the resulting deterioration in the business environment, more restrictive credit conditions and stressed liquidity are likely to adversely affect the demand for loans.

The Group's customers' levels of savings and credit demand are dependent on customers' 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 investments such as stocks, bonds and mutual funds, which 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.

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 need 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 the 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.

The results of litigation in which the Group is not a party may have adverse consequences for the Group

Judicial and regulatory decisions that are unfavourable to other banks may also have implications for the Group, even in cases in which the Group is not a part of the proceedings. This could occur in cases where the contractual practices or clauses in question are in common use throughout the sector and are interpreted against the relevant bank. For example, decisions that have an impact on clauses in general terms and conditions or schedules for repayment of loans could affect the whole sector. This could also be the case in a decision that depends on the special circumstances of an individual case, where its result is used by third parties against the Group. The Bank may, as a consequence, be forced to change its practices or to pay compensation to avoid damage to its reputation. These decisions may have a substantial adverse impact on the financial condition or operating results of the Group.

Regulatory Risks

The Bank's activity may be affected by possible changes in the banking activity regulatory framework, including, amongst other factors, in terms of capital requirements

The Group conducts its business in accordance with the applicable regulations and subject to the related regulatory risks, including the effects of amendments to laws, regulations and policies in Portugal and other countries in which the Group operates. As a result of the current environment and recent market events, the regulatory entities, Portuguese and international, including the European Union, have considered significant changes to the regulatory framework, particularly in relation to capital adequacy and the scope of bank operations. As a result of these and other changes in progress and, possibly, future changes in the regulatory framework of financial services, the Bank may face tighter regulation which implies specific and relevant conditions for the development of the Bank's regular activity.

Capital requirements

The implementation of a more demanding and restrictive regulatory framework, with additional restrictions on Financial Institutions, in particular regarding capital ratios, indebtedness, liquidity and compulsory information, 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 heavier duties of information, restrict certain types of transactions, affect the Bank's strategy and limit or imply the modification of the rates or fees charged by the Bank for certain loans and other products, where any of the above might reduce the yield of its investments, assets or holdings. The Bank might also face increased compliance costs and limitations on its capacity to pursue certain business opportunities, and, as a consequence, this could have a significant adverse effect on the activity, financial situation and net income of the Bank's operations.

As part of the Stabilisation Programme signed with the IMF/EU, Portugal agreed that, for as long as the Programme is in place, Banco de Portugal would require that all the banking groups under its supervision should achieve a Core Tier I ratio of 9% by the end of 2011 and a Core Tier I ratio of 10% by the end of 2012, and that it should be maintained at this level thereafter. On this issue, it should be noted that Banco de Portugal Notice number 3/2011 was published on 17 May 2011, in Diário da República, which determines compliance with a minimum Core Tier I ratio of 9% by 31 December 2011, and 10 % by 31 December 2012, for banking groups subject to supervision on a consolidated basis by Banco de Portugal and by institutions, not included in these groups, with head office in Portugal and which are qualified to acquire deposits.

Without prejudice to the foregoing Portuguese banks are also required to reach a Core Tier 1 capital ratio of 9% by 30 June 2012, calculated in accordance with the methodology of the European Banking Authority.

In addition to these requirements of a temporary nature, on 8 December 2011 the European Banking Authority recommended the temporary strengthening of capital requirements in accordance with bank exposure to sovereign debt, for precautionary reasons. For Portugal, the exercise represented a substantial increase in capital strengthening requirements (reaching a total of Euro 6.95 billion, of which Euro 3.7 billion refer to the public debt buffer) (Source: EBA, December 2011). This recommendation was endorsed by Banco de Portugal, which, in line with the guidelines issued by the EBA, instituted in Notice number 5/2012 that these additional requirements should to be complied with by 30 June 2012. Following the recommendation of the EBA, banks should favour market instruments or use the established public support facilities.

The regulatory requirements will imply the need for additional capital strengthening in order to comply with the more demanding capital ratios and the lower profitability of such capital. Stricter requirements on disclosure and transparency of information will also lead to increased costs for the Bank, with a potentially significant adverse effect on the activity, financial situation and net income of the operations of the Bank.

The enhanced supervision by Banco de Portugal as a result of the Stabilisation Programme agreed with the IMF/EU might increase costs and potentially force the Group to sell some of its non-core assets under sub-optimal conditions. As a consequence, the Bank might be confronted with the need to further increase its capital base or restrict its policy of distribution of profit. Moreover, the Bank might be faced with additional constraints concerning the management of its assets and liabilities, and might be affected by the triggering of public recapitalisation mechanisms (which are subject to conditions) which are specifically contained in the Programme.

The Bank's Core Tier I ratio stood at 9.3% (IRB method) as at 31 December 2011 and, after the capitalisation operation will reach a level of 9% (based on the implementation of the recapitalisation plan). However, it is not possible to guarantee that the Core Tier I ratio will remain above the minimum values established by Banco de Portugal in Notices number 3/2011 and 5/2012 referred to above in the near future, which might imply the need to adopt additional specific measures, such as acceleration of the deleveraging process, the optimisation of risk weighted assets (RWA), the sale of non-core assets, the assessment of other strategic initiatives and other specific measures with the objective of strengthening the Core Tier I ratio, so as to ensure that the Bank complies with its regulatory capital requirements. It should also be noted that increased capital requirements could imply a lower return on equity.

Basel III

On 12 September 2010, the Basel Committee on Banking Supervision announced a new agreement, known as Basel III, which reviews 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 attenuate their impact on the international financial system. The minimum capital requirements for Common Equity Tier I capital (which does not include hybrid capital) will gradually increase from 2% of risk weighted assets to 7% of risk-weighted assets 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 2% to 4.5% by 2015; ii) a progressive increase in the Tier I ratio from 4% to 6% by 2015; iii) an additional requirement of a capital conservation ratio of 2.5% on common equity, with phased implementation from 2016 to 2019 and application of 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 buffer of anti-cyclical capital, which will stand at 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; v) the leverage ratio will be tested for a non-adjusted ratio of risk of 3%. Furthermore, the Basel III regimen 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. The full implementation of Basel III is forecasted only for the end of 2019. It is expected that the main impacts of Basel III on consolidated capital ratios will be related to deferred tax assets, deficit of the value of impairments for expected losses, Pension Fund corridor,minority holdings in consolidated subsidiaries, significant holdings in non-consolidated financial institutions and in the increased capital requirements for market and counterpart 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. The rules require that all additional Tier I and Tier II 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 implemented in its current wording, this could affect the price of the additional Tier I and Tier II instruments issued by the Group in the future.

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 it is not foreseen 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 local level. In this case, in view of the Bank's dimension in the national banking system, a classification of this nature could imply additional costs for the development of business activity.

Some 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. Consequently, this may have an adverse effect on the net income, financial condition and prospects of the Group.

Banco de Portugal (Notice number 7/2011 and Instruction number 28/2011) determined penalisation in the calculation of the capital ratios applicable to situations where the remuneration of deposits exceeds a specified limit defined based in the Euribor rates. Although this measure contributes to counteract the trend of increased deposit remuneration rates and pressure on net interest income in a context of scarcity of funds and major instability in international funding markets, the effort of attraction of stable long term financial resources might imply a double impact on yields and, consequently, on capital.

New credit institution restructuring system

The international financial crisis and its effects on the banking sector has led to reflection on the available legal mechanisms and intervention powers of supervisors in credit institutions whose 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. This reflection identified the need to entrust the supervisors with a series of preventative intervention powers, with the adoption of a harmonised system for the establishment of this type of mechanism in the Community currently being underway.

In this context, Decree-Law number 31-A/2012, of 10 February, which amended various rules of the General Framework of Credit Institutions and Financial Companies, 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 with the rules which discipline its activity, 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 modality of intervention and adoption of specific measures.

The legal endorsement of these measures constitutes a relevant change to the applicable rules, since, in the light of the previous rules, when a credit institution was in a very serious situation the authorities had, as alternative action, the revocation of its respective authorisation for the exercise of the activity and its subsequent winding-up or nationalisation.

The new system foresees 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, thus seeking to ensure the planning of measures 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 equilibrium or solvency of the institution at serious risk, or constitute a threat to the stability of the financial system. In this phase, 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 non-compliance with the requirements for the maintenance of the authorisation for the exercise of its activity and it is not foreseeable that it will manage to return, within a suitable period, to adequate conditions of soundness and compliance with prudential ratios, the entry into a resolution phase will enable the application of measures of last resort, including the total or partial disposal of the business of a 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, prioritarily 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 measures 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 number 31-A/2012, of 10 February, 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 measure.

Although this measure contributes to increase the flexibility of the regulators' intervention in the case of difficulties experienced by credit institutions, aimed at increasing efficiency in the restructuring and resolution process, its effective implementation may result in increases expenses (related, in particular, to possible contributions to the Resolution Fund) or, particularly in the case of effective implementation of the system, losses, which could imply a relevant negative impact for investors and, furthermore, for the bank's activity, financial situation and net income.

The European Commission's resolutions regarding the framework for Banking Recovery and Resolution ("Crisis Management Framework") may restrict the Group's business operations and lead to an increase in its refinancing costs

The Crisis Management Framework contains three classes of measures: preparatory and preventive measures, prior supervision intervention, and instruments and powers of resolution. The implementation of these measures and powers will directly affect the rights of shareholders and creditors.

The cost of resolution may also lead to the establishment of national funds to support resolution funds. Banks subject to the Crisis Management Framework may be required to make ex ante contributions to funds. The conditions for such contributions are yet to be determined, but will probably result in a cost for the banks, which cost could be material.

Credit institutions will be required to produce suitable recovery plans to resolve problems with liquidity, solvency, or overall exposure to risk, and to keep them up-to-date. To complement the resolution plans, the authorities may be given preventive powers, including limits or modifications of exposure to risk; requirements for additional information, restrictions or prohibitions on certain activities and changes to group structures. Such actions could have consequences on the Group's profitability, its financing costs and the implementation of its global strategy.

Within the scope of preventive interventions, the authorities may be given powers to prohibit the distribution of dividends to shareholders or to holders of hybrid securities, to replace managers or directors, and to require the Bank to transfer assets that constitute an excessive or undesirable risk to the soundness of the financial institution. These actions may have a direct effect on shareholders' expected returns and additional indirect impacts through changes to the Bank's business activities.

In relation to financial institutions that are in breach, the authorities' powers may include, among others, the right to enforce the transfer of assets, rights or liabilities to another entity, amortisation or cancellation of shares; debt write-off or conversion, replacement of management, or demands for continuity of supply of essential services.

The Restructuring Plan to be submitted by the State to the European Commission, and which conditions, conclusions and obligations the Bank has undertaken to comply with, may constrain the strategic and operational flexibility of the Group and may have an adverse effect on the activity, competitive position and results of the Group. Furthermore, the European Commission may impose measures and conditions more disadvantageous than those proposed in the Restructuring Plan, comprising a significant and additional set of structural measures.

Pursuant to Portuguese law and European rules regarding State aids, the Bank should submit a Restructuring Plan to the Government member responsible for the area of finance, in order to allow the Government to send this Plan to the European Commission within six months after the enactment of the order foreseen in Article 13 of the Law no. 63-A/2008.

This Plan will be prepared in order to highlight the reasons that demonstrate the Bank's long-term viability, to prove the contribution given by the Bank itself and which the Bank will continue to give to the necessary recapitalization and restructuring efforts and also to introduce measures that are likely to limit the potential competition distortions that may arise out of the allocation of public investment.

The Bank believes that the conditions currently provided for in the recapitalization plan and its respective annexes are balanced and proportionate, having regard, in particular, to exogenous and transitory factors which justify the recourse to the public investment, to the management model and the Bank's investment strategy and as well to the measures to enhance strength adopted by the Bank over the past few years. Therefore, the Bank will seek to sustain that no structural measures are necessary (or, in case of failure, to limit their respective impact). Nevertheless, it is not possible to ensure which will be the understanding of the European Commission in this regard.

Thus, in addition to the conditions and obligations referred to above and which accompany the Recapitalization Plan, the Bank cannot exclude that additional measures may be required by the European Commission; that being the case, such measures may constrain the strategic and operational flexibility of the Group and may have an adverse effect on the activity, competitive position and results of the latter. Therefore, at the present moment, there is a risk associated with the approval and implementation of the Restructuring Plan.

In the immediate future, the Bank believes that the continuation (or reinforcement) of management measures to avoid distortions of competition related with public investment and to contribute to limit the need and impact of any structural measures, together with those which are already associated with the Recapitalization Plan, may be within its reach. These measures would tend to be applicable until the end of the period of the public investment and could consist of the following: restrictions on dividend distribution policy; changes to remuneration policy; setting of even more stricter limits to risk-taking decisions, in particular regarding market risk and loans to related entities; no allocation of public funds to the expansion of the Group's international operations; reduction of the structure in Portugal, thus contributing to the matching between supply and demand for banking services; limits to the acquisition of controlling stakes in entities that have a material impact on the financial situation of the institution.

However, the final position on the measures to be included in the Restructuring Plan belongs to the European Commission, and, at this stage, there is still a great amount of uncertainty regarding the final content of the Restructuring Plan, and, as such, a risk related with the approval and implementation of this Plan. In particular, the European Commission may deem the measures already envisaged in the Recapitalization Plan and other important measures that the Bank already pursues and those which the Bank is willing to pursue without delay, such as the reduction of the commercial gap and the reduction of the Loans-to-Deposits ratio up to 120% until 2014, which will lead to a decrease of about 20% in the Risk-weighted Assets, as insufficient, requiring instead the adoption of measures and conditions more disadvantageous to the Group, which may include, in particular, structural measures.

In addition to these substantive issues, the Bank is, at a procedural level, also endeavoring, in coordination with the Portuguese Government, to promote the subsequent assessment of the Plan by the European Commission as soon as possible, in order to mitigate the effect of uncertainty that still exists at this time as to the content and extent of the restructuring to be undertaken by the Bank.

The Bank expects that it will be possible, within a short and reasonable delay, to obtain approval from the Commission regarding the measures to be included in the Restructuring Plan, in terms that allow the Group to maintain its strength and viability and, simultaneously, to preserve the balance of the value necessary for the Bank to maintain its integrity and attractiveness. However, it is currently not possible to accurately anticipate the requirements and the duration of this procedure.

In the worst case scenario, if it was not possible to reach an agreement with the Commission regarding the possible restructuring measures, the Commission could, *in extremis*, order the Portuguese Government to recover the amount of public investment made available to the Bank, which, besides the difficulties inherent to public investment made in shares, would imply a relevant change to the reimbursement plan provided for in the recapitalization plan for hybrid instruments, with the inherent adverse consequences for the Group.

The planned creation of a deposit protection 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. Taking into account that it is being considered to increase ex ante financing to approximately three quarters of total financing and the objective relating to the level of deposit guarantee schemes to 2% of eligible deposits, banks may be required 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 Euro 100,000, the pressure on the European Union authorities to simplify eligibility criteria and put in place swifter payment procedures may lead to additional adjustments in the level and scope of coverage, implying higher bank contributions to the deposit guarantee schemes.

The additional indirect costs of the deposit guarantee systems may also be significant, even if they are much lower than the direct contributions to the fund, as may the case of the costs associated with the provision of detailed information to clients about products, as well as of compliance with specific regulations on advertising for deposits or other products similar to deposits.

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 a 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 the Bank needs more capital or that the rates or fees it charges on certain loans or other products are changed, where any of these events could have adverse material effects on the Group's financial situation and net income of its operations. The Group may also face increased compliance costs and limitations to its capacity to pursue certain business opportunities.

Changes to tax legislation and regulations and 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 this legislation and these regulations, which might have a negative impact on the Bank's activity, financial situation and net income. Significant changes in the tax legislation in Portugal, the European Union and other countries in which the Bank operates, or difficulties in the interpretation of or compliance with new tax laws and regulations could have a relevant negative impact on the Bank's activity, financial situation and net income.

The various measures approved by the Portuguese Government to ensure budgetary consolidation, stimulate the economy and support the banking system have led to a considerable increase of public debt levels. In a context of low potential growth, the need to restore the balance to public finance in the medium term, as negotiated in the Economic and Financial Assistance Programme, 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. Added to this series of factors strictly related to taxation, are any costs which might be borne due to participation in financial stabilisation mechanisms, national or at a European level.

The results of the stress tests might imply the need to increase capital or a loss of public confidence in the Group

National and international regulators, including the International Monetary Fund, European Central Bank, European Banking Authority (EBA) and others, have conducted stress tests to the banking sector. Additional stress tests might reveal new capital requirements in a bank in particular or in the Portuguese banking system in general, and may lead to the introduction of tighter regulations in the financial system. In particular, the stress tests might imply that the Bank is forced to obtain additional capital. Consequently, the undertaking of stress tests could adversely affect the Group's funding cost, with adverse impact on its activity and financial situation. Furthermore, a breach of 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 cost of funding.

Risks Relating to the Market

There is strong competition in the Bank's principal 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. The Portuguese banking market is currently a very developed market, containing major national and foreign competitors which follow multi product, multi channel and multi segment approaches and have evolved significantly in terms of commercial competence. Over recent years, there has also 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 operate accordingly, adjusting their respective value proposals. The Portuguese market has raised the interest of foreign banks, 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, thus sustaining more aggressive commercial strategies. A possible intensification of the trend of integration of European financial services may contribute to increased competition, namely, in the areas of asset management, investment banking, online brokerage and the marketing of banking and financial services through remote means. These levels of competition in the sector, in Portugal and in other countries where the Bank operates, or its intensification, imply business and strategy risks, which might lead to a reduction in the Bank's market share for some products and/business segments and hinder the adjustment of spreads for credit risk. Moreover, such a situation could also lead to a reduction in net interest income, fees and other income of the Bank, and also penalise the evolution of its revenue, net income and financial situation.

Risks Relating to Acquisitions

The Bank may be the object of an unsolicited acquisition bid

The Portuguese banking system is more vulnerable to hostile acquisition bids as a result of the significant devaluation on the stock market during 2011, the negative performance of the credit default swaps and the consecutive downward revisions, over the last two years, of the ratings of the main Portuguese banks, following the downgrading of the Portuguese Republic. This reflects factors such as the deterioration of the economic and financial foundations of the Portuguese banking system, its exposure to sovereign debt or the market perception of the growing dependence of most banks on funds from the ECB, as a form of obtaining liquidity. In this context, the Bank may be the object of an unsolicited acquisition bid. In this case, changes may occur in the current strategy being implemented, in its core business, operations and funds, which might have a relevant negative impact on the Bank's activity, financial situation and net income.

The Bank may participate in concentration operations

Although the Bank's management priorities are focused on organic growth and the Bank has strengthened its commitment to discipline in its implementation, there are no guarantees that the Bank might not participate in concentration operations, in Portugal or other geographical areas, should an opportunity arise. In the event of the Bank participating in concentration operations, changes may occur in the Bank's current strategy, organisation and structure, including the shareholder structure, in its core business, funds, financial situation and net income. Moreover, the Bank might not be capable of benefiting from potential synergies, costs and/or income, totally or partially, associated to any concentration operation that might take place. The Bank might also be required to incur additional costs arising from any restructuring required by any such possible concentration operation, in particular in terms of staff costs. Future merger or acquisition operations could result in unexpected losses due to unforeseen liabilities, and may significantly and negatively affect the activity, financial situation and net income of the Bank.

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 the Bank 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 Ministry 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 Ministry has submitted its opinion before the Lisbon Court of Appeal that the appeals should be accepted. The Banks has replied to this opinion, arguing in favour of the appealed decision and the decision of the Court of Appeal is not awaited.

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, the Bank 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, and 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 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 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%4 in the share capital of CI and the Pension Fund of the 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 the Bank.

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 Bank 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, the Bank, 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.

The Bank 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 and results.

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 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. 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. 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 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) as amended by the applicable Final Terms.

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.

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.

Index linked Covered Bonds

The Issuer may issue Covered Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Covered Bonds with principal or interest payable in one or more currencies which may be different from the currency in which the Covered Bonds are denominated. Potential investors should be aware that:

(i) the market price of such Covered Bonds may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) they may lose all or a substantial portion of their principal;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Covered Bonds.

Basel Capital Requirements Directive

The Basel Committee has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline and sensitivity to risk. The Issuer cannot predict the precise effects of the potential changes that might result from implementation of the proposals on both its own financial performance or the impact on the pricing of Covered Bonds issued under the Programme. Potential investors in the Covered Bonds should consult their own advisers as to the consequences for them of the application of the New Basel Capital Accord proposals published by the Basel Committee on Banking Supervision.

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) with effect from the same date.

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

The Issuer and other financial institutions through which payments on the Covered Bonds are made may be required to withhold U.S. tax at a rate of 30% on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after 31 December 2012 or are materially modified after that 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, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (**FATCA**) or similar law implementing an intergovernmental approach to FATCA. In addition, if Covered Bonds are issued before 1 January 2013 and additional Covered Bonds of the same series are issued after that date, the additional Covered Bonds may not be treated as exempt from FATCA withholding, which may have negative consequences on the existing Covered Bonds, including a negative impact on market price.

This withholding tax may be triggered if (i) the Issuer is a foreign financial institution (**FFI**) (as defined in FATCA) that enters into and complies with an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders (making the Issuer a **Participating FFI**), (ii) the Issuer has a positive “passthru payment percentage” (as determined under FATCA), and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of such Participating FFI, or (b) any FFI that is an investor, or through which payment on such Covered Bonds is made, is not a Participating FFI.

The application of FATCA to interest, principal or other amounts paid with respect to the Covered Bonds is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on 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 of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change.

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 30% 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 30% 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 30%, 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. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or that have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Covered Bonds.

Bearer Covered Bonds where denominations involve integral multiples: Definitive Bearer Covered Bonds

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.

Interest rate risks

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.

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 will be disclosed in the Final Terms.

FORM OF THE COVERED BONDS AND CLEARING SYSTEMS

The Covered Bonds will be held through a central securities depositary ("**CSD**") which can be either (i) a Portuguese domestic CSD, which will be Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. as operator of the Central de Valores Mobiliários ("**Interbolsa**") or (ii) an international CSD, which will be Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, 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 Porto, 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 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.

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, receipts, 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, receipts, 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 following legend will appear on all Covered Bonds which have an original maturity of more than 1 year and on all receipts and 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, receipts 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, receipts or interest coupons.

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

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

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

In addition, Covered Bonds in definitive registered form may be privately placed to non-US persons outside the United States on a non-syndicated basis with professional investors only in reliance on Regulation S. Any such issue of Covered Bonds will be evidenced by a single security registered in the name of the holder thereof.

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

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

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

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

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

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

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

Covered Bonds issued in the NGN form

On 13 June, 2006 the European Central Bank (the "**ECB**") announced that Covered Bonds in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the Euro (the "Eurosystem"), provided that certain other criteria are fulfilled. At the same time, the ECB also announced that arrangements for Covered Bonds in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June, 2006.

If the Covered Bonds are stated in the applicable Final Terms to be issued in NGN form, they are intended to be eligible collateral for Eurosystem monetary policy and will be delivered on or prior to the original issue date of the Tranche to a common safekeeper for Euroclear and/or Clearstream (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 [*Aggregate Nominal Amount of Tranche*]
[[●] per cent./Floating Rate/Index Linked/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.

This document constitutes the Final Terms relating to the issue of Covered Bonds described herein.

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 29 June 2012 [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 Porto, Portugal, and copies may be obtained from the same address.]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.

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 29 June 2012 [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 29 June 2012 [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 29 June 2012 [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 Porto, Portugal and copies may be obtained from the same address.]

[*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.*]

[*When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information (i) constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive or (ii) trigger the need for a new Base Prospectus.*]

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 or Currencies:	[●] (*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.	(i)	Aggregate Nominal Amount of Covered Bonds:	
		A. Series:	[●]
		B. [Tranche:	[●]]
	(ii)	Specify whether Covered Bonds to be admitted to trading:	[Yes (if so, specify each Series/Tranche)/No]
5.	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (if applicable)]
	(ii)	[Net Proceeds (Required only for listed issues):]	[●]]
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 If an issue of Covered Bonds is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the [Euro 100,000] minimum denomination is not required.*)
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] [[*specify reference rate*] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*specify*)] (further particulars specified below)
	(ii)	Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date:	[Not Applicable] / [[●] per cent. Fixed Rate] [[*specify reference rate*] +/- [●] per cent. Floating Rate] [Other (specify)] (further particulars specified below) [Insert "*Not Applicable" only if Extended Maturity Date does not apply*]
11.	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption] [Instalment] [Other (*specify*)] (*NB If the Final Redemption Amount is other than 100 per cent. of the nominal value, then the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)
12.	Change of Interest or Redemption/Payment Basis:		[*Specify details of any provision for convertibility of Covered Bonds into another Interest Basis or Redemption/Payment Basis*]
13.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)]
14.	(i)	Status of the Covered Bonds:	The Covered Bonds will be direct, unconditional and senior obligations of the Issuer and rank equally with all other mortgage covered bonds issued or to be issued by the Issuer. The Covered Bonds will qualify as mortgage covered bonds for the purposes of the Covered Bonds Law.
	(ii)	[Date [Board] approval for issuance of Covered Bonds obtained]:	[●]
15.	Method of distribution:		[Syndicated/Non-syndicated]
16.	Listing/Admission to Regulated Market:		[London Stock Exchange/*specify other/None*]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17. 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 [annually/ semi-annually/quarterly/other (*specify*)] in arrear] (if payable other than annually consider amending condition 4)
• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [●] per cent per annum. [payable [annually/semi annually/quarterly/other (*specify*)] in arrear] [*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:	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate*]
• From Maturity Date up to Extended Maturity Date:	[Not Applicable] [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [(s)] and the Interest Payment Date(s) to which they relate*]

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

(v) Day Count Fraction:

- To Maturity Date: [30/360 or Actual/Actual (ICMA) or [*specify other*]

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

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

(vi) Determination Date(s):

- To Maturity Date: [*Insert day(s) and month(s) on which interest is normally paid (if more than one, then insert such dates in the alternative*)] in each year]

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

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

(vii) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [None/*give details*]

18. Floating Rate Covered Bonds Provisions

- To Maturity Date: [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*.)

- From Maturity Date up to Extended Maturity Date: [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this para*graph.)

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

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

- To Maturity Date: [●]

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

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

(ii) Business Day Convention:

- To Maturity Date: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (*give details*)]

- 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/other (*give details*)] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date*.]
(iii)	Additional Business Centre(s):	
	• To Maturity Date:	[●]
	• 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/ other (*give details*)]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [Screen Rate Determination/ ISDA Determination/other (*give details*)] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date*.]
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Calculation Agent):	
	• To Maturity Date:	[●]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [●] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date*.]
(vi)	Screen Rate Determination:	
A.	To Maturity Date:	
	• Reference Rate:	[●] (*Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement*)
	• 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:	[●] (*in the case of Euribor, if not Reuters page EURIBOR01 ensure it is a page which shows a composite rate* or amend the fallback provisions accordingly)
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: [●] (*Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement*)
- 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: [●] (*in the case of Euribor, if not Reuters page EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions accordingly*)

(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)
  Other]
  (see Condition 4 (*Interest*) for alternatives)

- 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)
  Other] (see Condition 4 (*Interest*) for alternatives)

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

(xii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions:

- To Maturity Date: [●]

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

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

19. Index Linked Covered Bonds Provisions

- To Maturity Date: [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

  (*NB If the Final Redemption Amount is other than 100 per cent. of the nominal value, then the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.*)

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

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

(i)	Index/Formula:	
	• To Maturity Date:	[*Give or annex details*]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable/*Give or annex details*] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Index Linked Covered Bonds after the Maturity Date.*]
(ii)	Calculation Agent:	[*give name (and, if the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)*]
(iii)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent):	
	• To Maturity Date:	[●]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [●] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	• To Maturity Date:	[●]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [●] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
(v)	Specified Period(s):	
	• To Maturity Date:	[●]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [●] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
(vi)	Specified Interest Payment Dates:	
	• To Maturity Date:	[●]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [●] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
(vii)	Business Day Convention:	
	• To Maturity Date:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day

			Convention/Preceding Business Day Convention/ other (*give details*)]
		• 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/other (*give details*)] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Index Linked Covered Bonds after the Maturity Date.*]
	(viii)	Additional Business Centre(s)	
		• To Maturity Date:	[●]
		• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [●] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	(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:	[●]
		• 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.*]
20.	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:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
	(iv)	Day Count Fraction in relation to late payment:	[Condition 6.7 applies/specify other] (*consider applicable day count fraction if not U.S. dollar denominated*)

PROVISIONS RELATING TO REDEMPTION

21.	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 and method, if any, of calculation of such amount(s):	[[●] per Covered Bond of [*] Specified Denomination/*specify other*/see Appendix]
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●]
	(b) Maximum Redemption Amount:	[●]
	(iv) Notice period (if other than as set out in the Terms and Conditions):	[●] (*NB – If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
22.	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 and method, if any, of calculation of such amount(s):	[[●] per Covered Bond of [●] Specified Denomination/*specify other*/see Appendix]
	(iii) Notice period (if other than as set out in the Conditions):	[●] (*NB – If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
23	Final Redemption Amount of each Covered Bond:	[[●] per Covered Bond of [●] Specified Denomination/Other/See Appendix] (*N.B. If the Final Redemption Amount of each Covered Bond is other than 100 per cent. of its nominal value or if payment and/or delivery obligations are linked to an underlying, then the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the Requirements of Annex XII to the Prospectus Directive Regulation will apply*)
24.	[Early Redemption Amount of each Covered Bond payable on an event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6 (*Redemption and Purchase*))]:	[Applicable/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

25. 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]]

26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/*give details] (Note that this item relates to the place of payment and not Interest Period end dates to which item 18 (iii) and 19 (viii) relates*)

27. Talons for future Coupons or Receipts to be attached to Definitive Bearer Covered Bonds (and dates on which such Talons mature): [Yes/No. *If yes, give details*]

28.		Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment:	[Not Applicable/*give details. NB a new form of Temporary Bearer Global Note and/or Permanent Global Bearer Note may be required for Partly Paid issues*]
29.		Details relating to Instalment Covered Bonds:	
	(i)	Instalment Amount(s):	[Not Applicable/*give details*]
	(ii)	Instalment Date(s):	[Not Applicable/*give details*]
30.		Redenomination applicable:	[Applicable/Not Applicable] [(*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))] (if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms*)]
31.		Other final terms:	[Not Applicable/*give details*] (*When adding on any other final terms consideration should be given as to whether such terms (i) constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive or (ii) trigger the need for a new Base Prospectus.*) (*Consider including a term providing for tax certification if required to enable interest to be paid gross*)

DISTRIBUTION

32.	(i)	If syndicated, names of Managers:	[Not Applicable/*give names and date of relevant agreement*] (*If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*)
	(ii)	Date of [Subscription] Agreement:	[●] (*The above is only relevant if the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies*).
	(iii)	Stabilising Manager(s) (if any):	[Not Applicable/*give names*] (*Consider including address and brief description of the main terms of its commitment as per paragraph 6.3 of Annex XII of the Prospectus Directive Regulation*).
	(iv)	Commission Payable/Selling Concession:	[●]

33.	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name and date of relevant agreement*]
34.	U.S. Selling Restrictions:	[Reg. S Compliance Category; TEFRA D/TEFRA C/ TEFRA not applicable]
35.	Additional selling restrictions:	[Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] [admission to trading on (*specify relevant regulated market) (for example the London Stock Exchange's regulated market) and, if relevant, listing on an official list (for example the Official List of the UK Listing Authority*)] of the Covered Bonds described herein pursuant to the Euro 12,500,000,000 Covered Bonds Programme of Banco Comercial Português, S.A.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[*Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components*] 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.]

Signed on behalf [name of the Issuer]:

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 [*specify relevant regulated market (for example the London Stock Exchange's regulated market [and admitted to listing on the Official List of the UK Listing Authority*]] 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 [specify relevant regulated market (*for example the London Stock Exchange's regulated market [and admitted to listing on the Official List of the UK Listing Authority*]] 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 Covered Bonds have not been specifically rated.]

[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)*].]

(*The above disclosure should reflect the rating allocated to the issue of Covered Bonds, if the issue has been specifically rated.*)

[[Insert the legal name of the relevant CRA entity] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended)]. [As such [insert the legal name of the relevant CRA entity] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended)[.

[Insert the legal name of the relevant non-EU CRA entity] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation].]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"). The ratings have been endorsed by [insert the legal name of the relevant EU-registered CRA entity] in accordance with the CRA Regulation. [Insert the legal name of the relevant EU CRA entity] is established in the European Union and registered under the CRA Regulation[. As such [insert the legal name of the relevant EU CRA entity] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].] The European Securities Markets Authority has indicated that ratings issued in [Japan/Australia/the USA/Canada/Hong Kong/Singapore/Argentina/Mexico (delete as appropriate)] which have been endorsed by [insert the legal name of the relevant EU CRA entity that applied for registration] may be used in the EU by the relevant market participants.]

[[Insert the legal name of the relevant non-EU CRA entity] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"), but it [is]/[has applied to be] certified in accordance with the CRA Regulation and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

3. **Interests of Natural and Legal Persons Involved in the [Issue/Offer]**

[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 offer. – *Amend as appropriate if there are other interests*]

[(*When adding any other description, consideration should be given as to whether such matters described (i) constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive or (ii) trigger the need for a new Base Prospectus.*)]

4. **Reasons for the Offer, Estimated Net Proceeds and Total Expenses**

[(i) Reasons for the offer: [●]

[(ii)] Estimated net proceeds: [●]

[(iii)] Estimated total expenses: [●]

(*NB Delete unless the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.*)]

5. **[YIELD – Fixed Rate Covered Bonds only]**

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. [**Performance of index/formula, explanation of effect on value of investment and associated risks and and other information concerning the underlying – Index Linked Covered Bonds only**]

[*Need to include details of where past and future performance and volatility of the index/ formula can be obtained.*]

[*Where the underlying is an index, need to include the name of the index and a description if composed by the Issuer and, if the index is not composed by the Issuer, need to include details of where the information about the index can be obtained. Where the underlying is not an index, need to include equivalent information.*]

[*Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.*]

[(*When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

(*NB This paragraph 6 only applies if the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.*)

7. **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) and number(s)*]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[●]
(vi)	[Intended to be held in a manner which would allow Eurosystem eligibility:]	[[Yes] [No] [Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of Euroclear and/or Clearstream Luxembourg as common safekeeper, and/or are intended upon issue to be registered with Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. in its capacity as a securities settlement system, and 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.] [*Include this text if "yes" selected in which case, and if intended upon issue to be deposited with one of Euroclear and/or Clearstream Luxembourg as common safekeeper, the Covered Bonds must be issued in NGN form*]

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 Final Terms in relation to any Tranche of 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.

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. Definitive Bearer Covered Bonds repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Covered Bonds and Global Covered Bonds do not have Coupons, Receipts 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

"**Receiptholders**" shall mean the holders of Receipts. 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 save that, if these Covered Bonds are unlisted, the applicable Final Terms will only be obtainable by a holder holding one or more unlisted Covered Bonds and such holder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Covered Bonds and identity. The Covered Bonds holders, the Receiptholders 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 Receipts 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 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, an Index Linked Interest Covered Bond, an Index Linked Redemption Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Terms applicable to other types and structures of Covered Bonds that the Issuer and any Dealer(s) may agree to issue under the Programme will be set out 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, Floating Rate Covered Bonds or Index Linked Covered Bonds in respect of the period from the Issue Date to and including the Maturity Date and Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Index Linked 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.

This Covered Bond may be an Instalment Covered Bond depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

The Covered Bonds to be issued on or after the date hereof will be issued in denomination per unit equal to or higher than Euro 1,000 (or if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) as specified in the relevant Final Terms, provided that the minimum denomination of each Covered Bond admitted to trading on a regulated market within the EEA or offered to the public in a member state of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive will be Euro 100,000 (or if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

Subject as set out below, title to the Bearer Covered Bonds, Receipts 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, Receipt 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 and Index Linked Interest Covered Bonds

(A) Interest Payment Dates

Each Floating Rate Covered Bond and Index Linked Interest 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 either (A) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or the Euro-zone interbank offered rate (EURIBOR) for a currency, the first day of that Interest Period, or (B) in any other case, 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 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.

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms.

Index Linked Interest Covered Bonds

The Rate of Interest in respect of Index Linked Interest Covered Bonds for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(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 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 or Index Linked Interest 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:

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

where:

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

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

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

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

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and 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:

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

where:

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

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

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

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

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

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

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

where:

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

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

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

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

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case 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 or Index Linked Interest 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 6.8, 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 6.8.

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) Payments of instalments of principal (if any) in respect of Definitive Bearer Covered Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will 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 the relevant Bearer Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Covered Bond to which it appertains. Receipts presented without the Definitive Bearer Covered Bond to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Covered Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

(C) 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.

(D) Upon the date on which any Floating Rate Covered Bond or Index Linked Interest Covered Bonds 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.

(E) 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;

(iii) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts (as specified in the applicable Final Terms); and

(iv) 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, or determined in the manner specified in, the applicable Final Terms, in the relevant Specified Currency on the Maturity Date.

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 (unless otherwise specified, in the applicable Final Terms) not less than 30 nor more than 60 days' notice 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, or determined in the manner 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. 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 30 nor more than 60 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount as specified in, or determined in the manner 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 *Instalments*

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates.

6.5 *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 Receipts, 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.

6.6 *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled (together – if applicable – with all unmatured Coupons, Receipts 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 6.5 above (together with all unmatured Coupons, Receipts and Talons cancelled therewith) shall be cancelled by Interbolsa or the Agent (as applicable) and cannot be held, reissued or resold.

6.7 *Late payment on Zero Coupon Covered Bonds*

If the amount payable in respect of any Zero Coupon Covered Bond to which Condition 6.8 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" x $(1 + \text{AY})^{y}$

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.

6.8 *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 6.8 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 6.8 shall be irrevocable. Where this Condition 6.8 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 6.8 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 6.8, 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 6.8, 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 6.8 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, 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. 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 depositary for Euroclear and Clearstream, Luxembourg, notices to the holders of the Covered Bonds may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in addition, for so long as any Covered Bonds are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg, unless otherwise specified in the Final Terms.

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, Receipt, 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, Receipt, 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, Receipts, 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 Overcollaterisation 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 Porto, 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 socie´te´ 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 Edificio 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 or Index Linked Interest 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:

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.

"**Receipts**" means the principal receipts related to the Definitive Bearer Covered Bonds.

"**Receiptholders**" means the persons who for the time being are holders of the Receipts.

"**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 any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms.

"**Talon**" and "**Talons**" means the talons for further Receipts and 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 (including hedging contracts) 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 comprised in the Cover Pool will be managed through the 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.

Under Hedging Contracts, with respect to interest rate hedging on the Cover Pool, on a monthly basis the Issuer will pay to a Hedge Counterparty an amount related to a weighted average basket interest rate, determined by reference to the interest rates payable on the Mortgage Credits held by the Issuer and which are included in the Cover Pool on the relevant date. The payment will be calculated on a notional amount equal to the principal amount outstanding of those Mortgage Credits on the relevant date. In return, on a monthly basis, the Hedge Counterparty will pay to the Issuer an amount related to one month EURIBOR on that notional amount.

Additionally, with respect to interest rate hedging on Covered Bonds, on an annual basis or such other basis referable to the relevant coupon period, the Hedge Counterparty will pay under the Hedging Contracts an amount related to the interest rate payable on the relevant Covered Bonds on a notional amount equal to the principal amount outstanding of the relevant Covered Bonds and the Issuer will pay to such Hedge Counterparty an amount related to one month EURIBOR on that notional amount.

Under the terms of the proposed Hedging Contracts to be entered into with the Hedge Counterparty, among other termination events, 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 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.

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

Banco Comercial Português, S.A. and its subsidiaries (the "Group") is the largest banking group in Portugal in terms of number of branches and the second largest in terms of total assets, loans to customers (gross, excluding off balance sheet securitisations) and customer deposits, as at 31 December 2011 (based on data from the Bank of Portugal). The legal name of the Bank is Banco Comercial Português, S.A. and uses as a brand name Millennium bcp. 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, all of which operate under the Millennium brand.

In accordance with International Financial Reporting Standards ("IFRS"), the Group had at 31 December 2011, total assets of Euro 93,482 million and total customer funds (including customer deposits, debt securities, asset management and capitalization insurance) in the sum of Euro 65,530 million. Loans to customers (net) amounted to Euro 68,046 million. The consolidated solvency ratio, calculated in accordance with Bank of Portugal rules stood at 9.5% (Core Tier I at 9.3%).

Based on the latest available data from Bank of Portugal, the Group accounted for 19.6% of loans to customers (gross) and 17.6% of customer deposits in the Portuguese banking sector on 31 December 2011.

In addition, on 31 December 2011, the Bank was one of the largest companies listed on Euronext Lisbon in terms of market capitalisation (Euro 980 million).

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

Bank History

The Bank was incorporated in 1985 as a limited liability company ("sociedade anónima"), registered at the Commercial Registry of Porto 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 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. ("BPA" or "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 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, providing for the subscription of up to 49.99% of Banco Millennium Angola 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 Caixa Geral de Depósitos 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 Servicomercial. 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's 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's branch; the sale of shareholdings in Friends Provident, Banca Intesa, PZU, and reduction of the holding in 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 ("AVAS") 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'Epargne – 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; 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 the Bank's Pension Fund with EDP – Energias de Portugal S.A. 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 Banco BPI, S.A. 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's pension fund. Following the agreement with Banco Santander (Portugal) Group and the Bank's 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 Banco BPI, SA. On 31 May 2007, the Bank announced the reduction in a sale in the trading session of Euronext Lisbon, of its participation in the Banco BPI, SA from 12.30% to 9.9988%. On 17 December 2008, the Bank sold 87,214,836 shares representing 9.69% of Banco BPI, SA share capital, to a company wholly owned by Santoro Financial Holdings, SGPS, SA, incorporated under Portuguese law, disposing of its qualified participation in Banco BPI, SA.

On 25 October 2007, the Bank received a proposal from Banco BPI, S.A. 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 – Sociedade Nacional de Combustíveis de Angola, Empresa Pública ("Sonangol") and Banco Privado Atlântico S.A. ("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 Banco Millennium Angola ("BMA") by Sonangol and by Banco Privado Atlântico 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's 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 BV, a wholly-owned subsidiary of the Bank agreed to sell to the Pension Fund of the Group a minority shareholding corresponding to 2.7% of the share capital of Eureko BV.

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 I in 2011 and 10% in 2012); ii) to manage the deleveraging process to stabilize 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 Banco Privado Atlântico, S.A. 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.

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 July 2011, the Bank announced a strategic agenda for the period of 2011-2014, based on four keys areas of operation: i) to ensure solvency levels above the regulatory requirements (9% of Core Tier 1 in 2011 and 10% in 2012); ii) to manage for deleveraging process in order to stabilize the funding needs and the funding structure; iii) to re-establish the business profit levels in Portugal, in order to obtain a ROE of more than 10%, and iv) to focus on the international portfolio according to its attractiveness and available resources.

The Bank has been constantly adjusting itself in the recent years due to the continuous changes of the macroeconomic and regulatory environment in the banking sector in Europe and in Portugal. In early 2012, the Bank reorganized around a new corporate model, and revised its strategic agenda, consolidating the strategic pillars and priority vectors.

Accordingly, the Bank's strategic pillars are currently the following:

- To maintain the unity and consistency of the Group, leveraging on the international operations to enhance value creation;
- To preserve the attractiveness of the Bank's project, creating conditions to reimburse the projected State Aid up until 2016 and to increase share value;
- To reinforce private shareholder structure, while minimizing the dilutive and interfering impact of the projected State Aid;
- To capitalize upon the competitive advantages of the Bank, by exploring synergies, know-how and resources of the several operations.

The strategic guidelines aim to:

In Portugal:

- Reinforce competitive position, recover profitability and increase efficiency on capital allocation;
- Reduce cost loans to deposits, through increased funds and regain market share in affluent segment;
- Optimize credit recovery processes;

  Simplifying with higher efficiency and relevant cost reduction;
- Manage credit granting – altering credit mix towards a stronger support to SMEs and companies in tradable goods sectors.

In the international operations:

- Reinforce the capability of value creation of the international operations - Poland, Angola and Mozambique;
- Reduce exposure to Greece and access to the recapitalization support mechanisms for Greek banks;

- Expand international operations without the State Aid;
- Availability to new partnerships with foreign investors;
- Keep shareholding control.

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.

As at 28 February 2012, it was held a General Meeting of Shareholders of the Bank, being 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.

There are five Coordination Committees, aimed at facilitating the articulation of current managerial decisions, involving the senior management of the units included in each Business Area and in the Banking Services Unit, with the mission of aligning perspectives and supporting the management decision-making process of the Executive Committee:

Retail Committee: This Committee's mission is (i) the monitoring and management of Retail Customers, with the objective of analysing the Bank's activity in this area and finding the best solutions for growth and enhancement of loyalty in the different segments. The duties of this committee involve monitoring the activity and outcomes related to Individual and Business Customers and analysis of compliance with the objectives established; (ii) the definition of the priorities of the commercial action; (iii) the approval of products and services for Retail customers; (iv) the analysis of the business context and proposal of commercial action so as to respond to this context; analysis of the main risk indicators associated to the Individual and Business segments; and (v) the analysis of the models of coordination of the Individuals segment regarding their migration in the value proposition and networks of the Bank.

Companies Committee: This Committee's mission is the analysis and planning of the monitoring and development of the Bank's business in the SME, Corporate and Investment Banking segments. The duties of this committee involve (i) monitoring the activity related to Company and Corporate Customers and analysis of compliance with the objectives established; (ii) definition of the priorities of the commercial action; (iii) approval of the products and services to be launched; analysis of the business context and proposal of commercial action so as to respond to that context; (iv) analysis of the main risk indicators associated to the business; and (v) analysis of the models of coordination of the business regarding their migration in the value proposition and their interconnection with the Bank's networks.

Human Resources Committee: This Committee aims to define, decide and monitor Human Resources policies to support the Bank's operational efficiency and business, aiming to achieve accuracy and meritocracy promoted through a leadership which is strong, enthusiastic, closer to people and based on experience of the values of the Bank.

European Business Committee: This Committee's mission is the monitoring of activity concerning the Group's operations on the European territory. Its duty involve (i) analysis of the evolution of activity in the different European operations; (ii) search for the best solutions to control costs, increase the efficiency and streamline the various Banks; (iii) monitoring of the Process Management model and governance structure of the different operations and (iv) the definition of the main policies on action and guidelines.

Processes and Banking Services Committee: This Committee's mission is the monitoring of activity in the major areas of support to the bank's front-end services and fundamental search for mechanisms and processes to efficiency, cut costs, and improve the business processes and monitoring of the management structure of processes implemented at the Bank. The duties of this committee involve (i) the analysis of the evolution of the activities of the areas included under the committee; (ii) search for the best solutions to control costs, enhance the efficiency and streamline the Bank's activity; (iii) monitoring of the Process Management model, governance structure and creation of new processes, definition and stimulation of the duties and competences of the process owners; (iv) approval of proposals of innovation in the management of the Bank's resources and in the optimisation of their use; (v) definition of policies concerning procurement and control of external services to be used by the Bank; (vi) definition of policies on contracting, monitoring and control of outsourcers and other external services; and (vii) definition of the measurement of analysis and evolution of the areas under the control of this committee, so as to enable the continuous measurement of the efficiency and productivity levels of the resources.

The monitoring of the activity of the previous Corporate & Investment Banking segment has been transferred to the Companies Committee. Business Abroad in Africa (Mozambique and Angola) and Other International Business (Macao/China) it was considered that the particularities of these markets require individualised treatment and, consequently, that they would not benefit from integration into coordination committees.

Furthermore, there are five commissions under the Executive Committee, whose duties are essentially of an overall and transversal nature, involving the study and assessment, for each area of intervention, of the policies and principles which should guide the action of the Bank and of the Group. These Commissions are as follow:

Capital, Asset and Liabilities Management Commission (CALCO): is responsible for the monitoring and management of market risks associated to the structure of assets and liabilities, the planning and proposals of capital allocation and proposals for the definition of suitable liquidity and market risk management policies, at the level of the Group's consolidated balance sheet.

Credit Commission: is responsible for resolving on the granting of loans and advances to Customers, pursuant to the Credit Regulation.

Risk Commission: whose duties involve monitoring overall risk levels (credit, market, liquidity and operating risk), ensuring that these risks are compatible with the objectives and available financial resources and strategies approved for the development of the Group's activity. This Commission includes also two sub-commissions:

Credit Risk Monitoring Sub-commission: it is responsible for (i) monitoring the evolution of credit exposure and the contracting process; (ii) monitoring the evolution of the portfolio's quality and key indicators on performance and risk; (iii) monitoring the counterparty risk and concentration risk of the highest exposures; (iv) monitoring the evolution of impairment and the main cases of individual analysis; (v) analysis of the performance of the recovery processes; (vi) monitoring of property portfolio divestment; (vii) preparation of proposals for the definition of policies and rules on credit concession; (viii) monitoring of the Probability of Default ("PD") and Loss Given Default ("LGD") models; and (iv) monitoring of the models underlying the calculation of impairment and monitoring of the automatic decision-making and loan recovery processes.

Pension Fund Risk Sub-commission: whose duties involve monitoring the performance and risk of the Group's Pension Funds and establishing appropriate investment policies and hedging strategies.

Pension Fund Monitoring Commission: whose duties involve monitoring the financial management of the Pension Funds and issuing opinions on proposals to alter the respective pension plans. It was established under the terms of article 53 of Decree-Law 12/2006, of 20 January, as amended by Decree-Law 180/2007, of 9 May.

Sustainability Coordination Commission: whose duties involve the submission of proposals for decision-making on topics related to the action plan based on the sustainability policy, the monitoring and reporting on the degree of achievement of the approved initiatives, and the supervision of the preparation of reports and other communication formats in the area of sustainability.

In accordance with the International Financial Reporting Standards ("IFRS") on 31 December 2011, the Group had total assets of Euro 93,482 million and total customers' funds in the sum of Euro 65,530 million. Loans to customers (net) amounted to Euro 68,046 million. The consolidated solvency ratio, calculated in accordance with Bank of Portugal rules, stood at 9.5% (Core Tier I at 9.3%).

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.

In 2011, amongst the various initiatives implemented by the Bank for the purpose of mitigating the adverse effects caused by the intensification of the sovereign debt crisis, the following are of particular importance: i) the operation of liability management on preference shares, completed in October, as well as the deleverage process and reinforcement of financial collateral which, amongst other measures implemented under the capital plan defined by the Bank, enabled the strengthening of the Core Tier I ratio; ii) the loan portfolio repricing initiatives and focus on growth of on balance sheet funds, which had impact in the reduction of the commercial gap by Euro 7.8 billion. Loans and advances to customers declined by 6.4% while deposits increased by 4.2%, in particular concerning domestic business, where deposits grew by 7.2%, comparing to the end of 2010; iii) the expansion of ActivoBank, by opening eight branches in 2011, thus consolidating its status of leadership on the national market in the area of innovation; and iv) the focus on the provision of excellent service, with the Customer satisfaction index having reached its highest level ever (81.2 index points) since the creation of the Millennium brand.

As at 31 December 2011, the business in Portugal accounts for 76.1% of total assets, 76.3% of gross loans to customers and 68.4% of total customers' funds. International operations account for 48.6% of the Group's 1,722 branches and 53.7% of approximately 21,508 employees, presenting a contribution of Euro 122.7 million to the Group, in 2011. Should be highlighted the maintenance of the expansion plans in Africa, with Millennium Angola having opened its 61st branch and Millennium bim, a strong leader in Mozambique, having achieved the milestone of one million active Customers. As a whole, in 2011, these two operations recorded a contribution of Euro 77.2 million to the Group, corresponding to an increase of 62.1%, year-on-year. Also noteworthy are the good results of the Polish operation, held by the Group in 65.5%, which showed a contribution of Euro 74.2 million in 2011 (+39.3% in relation to 2010, including FX effects) and the growing size and importance of such operation in Poland, with 451 branches and a market share of approximately 4.9% in deposits and 5.0% in loans and advances to customers(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 Lombarda 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

ActivoBank7 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, ActivoBank7 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.

Despite the uncertainty in the world economy, the Bank confirmed its status as a leading bank with regard to innovation, surprising the market with the launch of a value proposition allowing ActivoBank to provide cutting-edge financial services. And even though this repositioning and restructuring focuses 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 smartphones, 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. It was recognized by the international financial community, having been honoured with awards such as "Most Innovative Bank in Portugal" by World Finance magazine (Banking Awards 2011), "Best Consumer Internet Bank in Europe" and "Best in Mobile Banking", awarded by Global Finance magazine, among others, and the appointment as one of five finalists among approximately 200 applicants in the Global Banking Innovation Awards in the category "Disruptive Innovation" sponsored by the BAI.

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. Banco Internacional de Moçambique ("Millennium bim") is Mozambique's largest bank (Source: Banco de Moçambique). In 2008, the Bank continued its expansion plan for the retail branch network which had begun in 2007, having achieved the historic mark of 100 branches and over half a million customers. At the end of the 3rd quarter of 2011, Millennium bim reached the milestone of 1 million active customers.

In 2011, Millennium bim continued its strategy of growth supported by the programme of expansion of the branch network, being its enlargement to the whole country an unequivocal sign of Millennium bim's commitment to increasing banking sector penetration. The focus on increasing accessibility and proximity and expanding customer relations has decisively contributed to reaching the milestone of 1 million active customers.

As at 31 December 2011, Millennium bim had Euro 1,793 million in total assets, Euro 1,338 million in customers' funds, Euro 1,061 million in loans to customers (gross), and was operating with 138 branches with 2,377 employees. Net income of Millennium bim in Mozambique increased 69.3% to Euro 89.4 million in 2011. This growth was due mainly to the increase of net interest income, together with credit volume growth, having also been influenced by the appreciation of the Metical, and was achieved despite the costs incurred in connection with the expansion of the branch network.

Angola

Banco Millennium Angola, SA ("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 – Sociedade Nacional de Combustíveis de Angola, Empresa Pública ("Sonangol") and Banco Privado Atlântico S.A. ("BPA"), were completed through a rights issue carried out by BMA, in the amount of USD 105,752,496.80. Presently, Sonangol holds a 31.5% stake in the capital of BMA, and BPA holds a 15.8% stake. BMA has meanwhile acquired a 10% stake in the capital of BPA.

Following this capital increase, BMA was in a position to carry out its business plan, with plans to invest more than USD 200 million over the next three years to expand the retail branch network and create more than 1,000 jobs in Angola.

In 2011, the strategic priorities of BMA were essentially based on business development, cost containment and greater control of the quality of the loan portfolio. The Bank's retail network continued to expand through the increasing number of branches, growth of the customer base and attraction of balance sheet funds in each business segment. During the year of 2011, 22 branches were inaugurated, raising the number of branches of the retail network to a total of 61, 30 of which open on Saturday mornings. It is particularly noteworthy that, by December 2011, after the inauguration of the Ndalatando branch in the province of Kwanza Norte, BMA covered all of the 18 provinces of Angola.

At the end of 2011, BMA had total assets of Euro 1,388 million, an increase of 37.2% in relation to the 2010 figure. Loans to customers and customer funds performed very well during the year, with increases of 8.8% and 46.9% respectively, compared to the previous year. Customer funds reached Euro 872 million, while loans to customers (gross) reached Euro 506 million. Net income for 2011 stood at Euro 33.3 million, an increase of 41.1% in relation to 2010, essentially reflecting the good performance of operating income, with a special emphasis on the growth of net interest income.

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 Bank Millennium shares 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.

Leveraging on a renewed network of 451 retail branches – including the larger multisegment outlets – Bank Millennium is one of the operators in the Polish market that has returned the greatest growth, underpinned by an efficient sales industrialisation platform and by growing awareness of the Millennium brand.

After the two year period of 2009/2010 dedicated to the internal reorganisation in which Bank Millennium implemented the 2010 Millennium strategic programme, designed to minimise the impact of the worldwide financial crisis on its activity, in 2011 the Bank concentrated completely on business development and on the fine-tuning of profitability levels, keeping costs under control and maintaining a conservative risk profile. Bank Millennium pursued its policy of new customers acquisition and simultaneously promoted the deepening of relations with the existing customers based on the cross-selling ratio, on the improved level of the quality of services and on the offer of innovative products which enabled the maintenance of the high level of sales and the increasing of its market share.

As at 31 December 2011, Bank Millennium had total assets of Euro 11,404 million, Euro 9,292 million in customer funds, Euro 9,545 million in loans to customers (gross), and was operating with 451 branches and 6,289 employees. Bank Millennium's net income in 2011 was Euro 113.3 million, higher than in the corresponding period in 2010, essentially as a result of the core income increase and impairment decrease. The improvement in core income was underpinned by the rational management of term deposits spread, the impact of the efforts made since 2009 to adjust the spreads of the loans to companies to current market conditions and the significant increase in the cross-selling ratio. Particular note should be made to the reduction of cost of risk in relation to 2010, essentially as a result of the improvement of the loan portfolio quality and the maintenance of a conservative policy of write-downs.

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 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.

In spite of the adverse macroeconomic circumstances, the acquisition of customers was significant in 2011. The Bank registered 21 thousand new customers, increasing the total customer base of Millennium bank to 584 thousand by the end of December 2011, representing over 6% of the population actively engaged with the banking sector in Greece (Source: Hellenic Statistical Authority Office).

Following the transformation agenda implemented in 2010, Millennium Bank continued to adjust rapidly to the growing market uncertainty by acting in accordance with four strategic pillars: i) Capital: the capital base was strengthened – a share capital increase of Euro 105 million was completed in December 2011 - in order to comply with the new minimum capital requirements, measures of optimisation of risk weighted assets and a liabilities repurchase programme were implemented; ii) Liquidity: Millennium Bank maintained the deleveraging programme, simultaneously implementing various measures to protect its deposit base, even in a context of generalised removal of deposits from the Greek banking system - the market share of deposits increased from 1.3% in December 2010 to 1.4% in December 2011(Source: Bank of Greece) - and, reducing loans and advances to customers by 6.9% when compared to 2010, thus reducing structural funding needs; iii) Default: minimisation of the impact of delinquency, continuing to improve risk management and control processes in order to limit the increase of overdue loans; and iv) Efficiency: adjustment of the bank to current reality, having completed the reconstruction plan in December 2011 so as to achieve the optimisation of costs through rationalisation measures implemented rapidly and in a sustainable manner. More specifically, Millennium Bank proceeded with the optimisation of the branch network, reducing the network by 35 branches, so as to increase the effectiveness of the commercial efforts and resilience of the bank, especially in the bleak current context. Furthermore, Millennium Bank finalised a voluntary staff reduction scheme, achieving a reduction of 258 employees in 2011.

As at 31 December 2011, Millennium bank had total assets of Euro 6,364 million, customer funds of Euro 2,983 million and loans to customers (gross) of Euro 4,865 million, operating with 120 branches and 1,212 employees. Net income amounted to Euro -3.5 million in 2011.

Switzerland

Millennium Banque Privée BCP is a private banking platform set up in Switzerland in 2003 which provides services to Group clients, with a focus on the Portuguese, Greek, Polish and Brazilian markets. All its activities are centred on the client. High-quality services are provided, with an emphasis on innovation and performance based on trust and discretion, and supported by a team that has excellent qualifications and skills at every level of the organisation. The Bank values innovation and dedication to excellence, and this is reflected in the ongoing training of its staff.

In 2011, Millennium Banque Privée BCP's activity was particularly affected by the sovereign debt crisis and its consequences on the evolution of business, and by the extreme volatility of the financial markets. In a very adverse environment, characterised by the decrease of the assets base of Portuguese customers, the adoption of a deleveraging strategy and the appreciation of the Swiss Franc, Millennium Banque Privée BCP recorded, in 2011, a reduction of 11% in income essentially derived from commissions decrease. However, and in spite of the reduction of the loan portfolio, the efforts aiming to increase spreads enabled Millennium Banque Privée BCP to preserve its net interest margin. Last year's performance was also marked by the unfavourable evolution of impairment. By the end of the year, and in view of the adverse economic circumstances experienced during 2011, Millennium Banque Privée BCP recorded a decline in net income, which fell from Euro 4.2 million to Euro -12.0 million. The deleverage strategy pursued allowed the Bank to progressively reduce its funding needs and concentrate on its operating activities. It is also important to stress that Millennium Banque Privée BCP shows high financial solidity, embodied in a Core Tier I ratio of 53.2% at the end of 2011.

Romania

Millennium Bank, 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.

Having recently completed its 4th anniversary, Millennium Bank has consistently strengthened its positioning in the Romanian banking sector, supported by the sustainable business growth and by the bank's growing reputation in the market. Millennium bank has clearly demonstrated its capacity to rapidly adapt its strategy to changing circumstances. After a period dedicated to the adjustment of its business model, implementing a series of measures to improve efficiency and fine-tune its risk policy, Millennium Bank is currently prepared to enter into a new phase of growth.

In 2011, Millennium Bank continued to pursue the strategy adopted since 2009, which is based on making the most of its retail franchise potential, through the attraction of deposits and granting of mortgage loans, and on the development of the overall bank relation with SMEs in selected sectors, supported by a low-cost operation and conservative approach to risk, with the objective of improving profitability in a sustainable manner, aiming at reaching break-even of the operation.

As at 31 December 2011, Millennium Bank had Euro 522 million in total assets, Euro 275 million in customers' funds and Euro 398 million in loans to customers (gross), and was operating with 66 branches and 690 employees. In spite of the particularly adverse market conditions that constrained the activity of the Romanian banking sector, reflected in terms of lower demand for loans, liquidity difficulties and increased impairment, Millennium Bank was able to increase its net income by 24.5%, as a result of its good performance in terms of core income. The Bank was also able to reduce its cost base for the second year consecutively, as a result of a staff reduction and processes of renegotiation of third-party supply contracts, and in spite of the VAT rate increase in July 2010 and the negative impact of the shutting down of eight branches. The reduction of impairment over the year, reflecting the good quality of the new loans portfolio and the efficiency in overdue loans recovery should also be particularly noted.

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).

The evolution of the turnover recorded in 2011 essentially results from the reduction of loans and advances as a consequence of the pursuit of objectives to reduce the Group's consolidated commercial gap. The net income for 2011 was Euro 4.6 million.

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, 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's Pension Fund. On December 2011, Banco Sabadell held 4.14% of the share capital of the Bank.

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 Bank's banking network in Portugal.

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

Ageas

In 2005, the Group and Fortis (currently, Ageas) established a joint venture for bancassurance business, through the insurance company Millennium bcp Fortis (currently, 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 share capital increases of the Bank 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 Banco Privado Atlântico ("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 the Bank 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 11.03% of the Bank on 31 December 2011. In April 2012, the Bank reduced its stake in BMA to 50.1%, following the increase in BMA share capital fully subscribed by Global Pactum - Gestão Ativos (main shareholder of BPA), in line with the partnership agreement signed with Sonangol and BPA in 2009.

The Bank and Banco Privado Atlântico signed a partnership agreement to create a bank in Brazil in order to access opportunities in the Brazilian market, namely in the areas of corporate finance and trade finance, through partnerships.

Significant Developments in 2011

On 28 March 2011, the Bank informed that, following the announcement of placing the rating on CreditWatch negative on December 1, 2010, and immediately after the resignation of the Prime Minister, on March 25, 2011, Standard & Poor's Rating Agency has reduced the Portuguese Republic's rating for long-term. Following this change, Standard & Poor's on 28 March 2011 lowered the long-term rating of the Bank, by two notches from "BBB+" to "BBB-". The short-term rating was revised from "A-2" to "A-3". The Bank hybrids' rating was revised from "BB+" to "B+".

Both the long-term and short-term ratings remain on CreditWatch negative, reflecting the possibility of additional downgrades of the Portuguese Republic and their indirect impact on the credit risk of the Bank.

On 5 April 2011, the Bank informed that, following the announcement of the reduction of the Portuguese Republic's rating for long-term debt, Fitch Rating Agency announced on 5 April 2011 the revision of the rating of several Portuguese banks. In this context, the long-term rating of the Bank was reduced by Fitch by two notches from "BBB+" to "BBB-", while the short term rating was revised from "F2" to "F3". The Bank also informed that the following issues were also revised: lower Tier 2 subordinated debt from "BBB" to "BB+", preference shares from "BBB- " to "B+" and senior debt guaranteed by the Portuguese state from "A-" to "BBB-". All these ratings remain on Rating Watch Negative.

On 6 April 2011, the Bank informed that, following the announcement of the reduction of the Portuguese Republic's rating for long-term debt, Moody's Rating Agency announced on 6 April 2011 the revision of the rating of several Portuguese banks. In this context, the long-term rating of the Bank was reduced by Moody's from "A3" to "Baa3", while the short-term rating was revised from "P-2" to "P-3". The Bank Financial Strength Rating (BFSR) was revised from "D+" to "D". The Bank also informed that the following issues were also revised: subordinated debt from "Baa1" to "Ba1", preference shares from "Ba3" to "B2" and senior debt guaranteed by the Portuguese state from "A3" to "Baa1". These ratings remain on review for a possible further downgrade with the exception of the preference shares and BFSR that have a negative outlook.

On 18 April 2011, the Bank held its annual general meeting of shareholders. The following resolutions were approved:

Item One – Approval of the 2010 individual and consolidated annual report, balance sheet and financial statements.

Item Two – Approval of the following proposal for the application of year-end results amounting to Euro 300,647,939.68:

(a) Euro 30,064,793.97 for reinforcement of the legal reserve;

(b) Euro 167,157,049.29 for other reserves;

(c) Euro 10,000,000.00 for reinforcement of the reserve for dividend stabilisation;

(d) Euro 93,426,096.42 for retained earnings.

Item Three - Approval of a vote of confidence and praise addressed to the Executive Board of Directors and the Supervisory Board and each one of their members, as well as to the Chartered Accountant.

Item Four – Approval of the proposal of restructuring and entire amendment of the Company's Articles of Association (altering articles 1 to 34, both inclusive, and adding new articles 35 to 56), including the renewal of the authorization to increase the share capital to be resolved by the Executive Board of Directors.

Item Four A – Approval of the appointment, ratifying the appointment by the Executive Board of Directors, of an independent statutory auditor to, pursuant to article 28 of the Companies Code, make a report on the contributions in kind to be made within the scope of the subscription of shares to be issued in the part of the share capital increase by new contributions in kind object of item 4-B of the Agenda.

Item Four B - Approval of the increase of the share capital by Euro 1,120,400,000, being the total increase composed of:

- An increase of Euro 120,400,000, by incorporation of reserves of issue premium through the issue of new ordinary, book entry and nominative shares without nominal value and with an issue value of Euro 0.583, corresponding to the weighted average per volumes of the price of the company's shares in the

Regulated Market Euronext Lisbon in the 5 trading days immediately before the date of the General Meeting, to be attributed to the shareholders pursuant to the law; and

– A share capital increase by new contributions in kind amounting to Euro 1,000,000,000, limited to the subscriptions made through the issue of new ordinary, book entry and nominative shares without nominal value, with an issue value yet to be established, without premium and corresponding to the weighted average per volumes of the BCP share price in the Regulated Market Euronext Lisbon, in the five trading days immediately before the exchange public offer is launched, though subject to the minimum limit of Euro 0.625 and, therefore, the maximum number of shares to be issued cannot surpass 1,600,000,000, and the new contributions will be composed by securities named "Valores Mobiliários Perpétuos Subordinados com Juros Condicionados" (subordinated perpetual securities with conditioned interest, hereinafter the "EPO");

It was also resolved, without prejudice or limitation to the statutory powers of the Executive Board of Directors or to the evaluation that the EBD may make of the convenience or need to increase own funds, to approve, so as to complement the amount of the increase mentioned above, the eventual subsequent share capital increase in cash, with preference rights to the shareholders, to be resolved by the Executive Board of Directors, by an amount corresponding to the portion not subscribed, or, should the subscription percentage be 75% or more, corresponding to the not subscribed amount plus Euro 250,000,000.

Item Five – Considering the approval of the capital increase referred in the previous item, the proposal in this item five was deemed unnecessary.

Item Six - Approval the remuneration policy for the Chairman and Vice-Chairman of the Board of the General Meeting.

Item Seven - Approval of the remuneration of the members of the Remunerations and Welfare Board.

Item Eight – Approval of the remuneration policy for the members of the Supervisory Board.

Item Nine – Approval of the remuneration policy for the members of the Executive Board of Directors.

Item Ten – Approval of the remuneration policy for heads of function, senior executives and other employees.

Item Eleven - Election of the Board of the General Meeting for the triennial 2011/2013.

Item Twelve - Election of the Remuneration and Welfare Board for the triennial 2011/2013.

Item Thirteen - Election of the Supervisory Board for the triennial 2011/2013 and on the authorizations that are, or may be, applicable in accordance with article 434 (5 and 6) of the Companies Code.

Item Fourteen - Election of the Executive Board of Directors for the triennial 2011/2013.

Item Fifteen - Election of the Statutory Auditor and his/her alternate for the triennial 2011/2013.

Item Sixteen – Approval of the appointment of the external auditor for the triennial 2011/2013.

Item Seventeen – Approval of the acquisition and sale of own shares.

Item Eighteen – Approval of the acquisition and sale of own bonds.

On 20 April 2011, the Bank announced that, in accordance with the resolutions passed at the Bank's General Meeting of shareholders of 18 April 2011 (the "GSM"), and subject to the receipt of all necessary internal and regulatory approvals, in particular with respect to registration with the CMVM, it intends to launch an exchange public offer for the Bank's securities "Valores Mobiliários Perpétuos Subordinados com Juros Condicionados" (subordinated perpetual securities with conditioned interest) of up to Euro 1,000,000,000 depending on subscription levels (the "EPO"). To complement the EPO, and pursuant to further resolutions passed at the GSM, the Bank also expects to launch a share capital increase in cash, with preference rights to shareholders, of an amount corresponding to the portion not subscribed in the EPO, or, should the subscription percentage in the EPO be 75% or more, an amount corresponding to the unsubscribed amount under the EPO plus Euro 250,000,000 (the "Rights Issue"). The total share capital increase under the EPO and the Rights Issue will therefore be between the maximum amount of Euro 1,250,000,000 and a minimum amount of Euro 1,000,000,000.

Credit Suisse, Deutsche Bank, J.P. Morgan and Morgan Stanley have been appointed as Joint Bookrunners in connection with the Rights Issue and have entered into an underwriting agreement with the Bank. Deutsche Bank and Morgan Stanley will also act as Joint Global Coordinators for the Rights Issue. The Rights Issue is expected to be launched during the first half of 2011.

With this capital strengthening plan, the Bank expects to achieve a high level of capitalisation and will continue to explore other capital enhancing options with a view to achieving one of the strongest capital positions among its regional peers.

On 16 May 2011, the Bank informed that, following the Special Session of the Regulated Market for the purpose of assessing the results of the public offer for the acquisition of perpertual subordinated securities with conditional interest ("EPO" or "Offer"), held on 16 May 2011, at 5 p.m., at the Head Office of Euronext Lisbon, and in addition to the presentation made by that entity, which is available on CMVM's website, at www.cmvm.pt, the Bank announced that Euro 990,147,000, corresponding to 99.01% of the total number of Securities that were subject of the Offer, were tendered in the EPO, in exchange for shares, still to be issued, representative of the share capital of the Bank, with the following detail:

– 290,147 Securities with the ISIN Code PTBCPMOM0002 (also known as "Millennium bcp Valor Capital 2009"), in an amount of Euro 290,147,000, corresponding to 96.72% of the total of the issuance;

– 200,000 Securities with the ISIN Code PTBCPYOM0024, in an amount of Euro 200,000,000, corresponding to 100.00% of the total of the issuance;

– 400,000 Securities with the ISIN Code PTBCLZOM0019, in an amount of Euro 400,000,000, corresponding to 100.00% of the total of the issuance; and

– 100,000 Securities with the ISIN Code PTBAI8OM0069, in an amount of Euro 100,000,000, corresponding to 100.00% of the total of the issuance.

As a result, a total of 1,584,235,200 ordinary, book-entry shares without nominal value and with issuance value of Euro 0.625 each will be issued as consideration for the Securities tendered in the Offer.

The Bank has submitted a request to the Executive Commission of Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A. for listing of the new shares in the Regulated Market Euronext Lisbon. As foreseen in the EPO Prospectus, listing is expected to occur until the end of June 2011, and is expected to take place simultaneously with the listing of the shares that may be issued in a subsequent right issue, in the event that said share capital increase in cash is resolved, within the scope of the authorization granted to the Executive Board of Directors by the General Meeting held on 18 April 2011.

On 17 May 2011, the Bank announced that, for all due effects, a share capital increase from Euro 4,694,600,000 to Euro 5,805,147,000, integrating the following components, had been definitively registered with the competent Commercial Registry Office:

(i) Euro 120,400,000, by means of the incorporation of issuance premium reserves, by means of the issuance of 206,518,010 new ordinary, book-entry shares without nominal value, and

(ii) Euro 990,147,000, by means of new contributions in kind of 990,147 perpetual subordinated securities with conditional interest, by means of the issuance of 1,584,235,200 new ordinary, book-entry shares, without nominal value.

The share capital of the Bank was then of Euro 5,805,147,000, represented by 6,485,353,210 ordinary, book-entry shares without nominal value.

On 19 May 2011, the Bank informed the market, and, in particular, its shareholders, for all due legal effects, that, within the scope of the authorization granted by the General Meeting held on April 18, 2011, the Executive Board of Directors of the Bank resolved, with the favourable opinion if the Supervisory Board, to increase the share capital from Euro 5,805,147,000 to Euro 6,064,999,986, limited to the subscription orders collected, by means of a Rights Offering, through the issuance of 721,813,850 new ordinary, book-entry shares, without nominal value. The subscription price was set at Euro 0.36 per share, a value that corresponds to its issuance value.

The number of shares to be subscribed results from the application of the factor 0.1113585667 to the number of subscription rights held at moment of subscription, rounding downwards. A subscription right will be attributed to each share that represents the current share capital of the Bank (including the shares issued in the scope of the incorporation of reserves and Exchange Public Offer).

It is the Bank intention to initiate the Rights Offering as soon as possible, upon the publication, pursuant to the law, of its respective prospectus and of the notice for the exercise of subscription rights, following approval by the Portuguese Securities and Exchange Commission (CMVM).

On 24 May 2011, the Bank announced its decision to implement the process of issuance of bonds guaranteed by the Portuguese Republic pursuant to Portuguese Law 60-A/2008 of 20 October, in an aggregate amount of up to Euro 1.75 billion, with a spread to be determined with reference to prevailing market conditions and a three year maturity, which may be placed with institutional investors, and its submission of an application with the Bank of Portugal for this purpose. Issuance of such bond is subject to the approval by the Executive Board of Directors of the final terms and conditions of the issuance and to receipt of all the necessary approvals from the competent Authorities, in accordance with the abovementioned Law.

In accordance with applicable Portuguese law and regulations, and if the guarantee were to be called, the Portuguese Republic would have a right (if and to the extent necessary for protection of the State's interest) to convert its credit into share capital of the Bank, notably (without limitation) through the issuance of preference shares. In order to safeguard this right and as a condition to approving the Bank's application, the Bank of Portugal has requested, in line with the request to other banks, that the general meeting of shareholders adopt a resolution authorising (through an amendment to the Bank's by-laws) the Executive Board of Directors to issue preference shares in the event that the State were to exercise such right, with the corresponding waiver of shareholders" pre-emption rights in connection with the exercise of any such right. The Executive Board of Directors will ask the Chairman of the General Meeting of Shareholders to convene a general meeting of shareholders for such purpose.

On 14 June 2011, the Bank announced that DBRS initiated rating coverage on the Bank. DBRS, Inc. ("DBRS") assigned a rating of BBB (high) to its Senior Long-Term Debt & Deposit and a rating of R-2 (high) to its Short-Term & Deposit, both with a negative trend. DBRS also assigned an intrinsic assessment of BBB to the Bank.

According to DBRS, the ratings of the Group reflect its importance in the Portuguese financial system and its significant universal banking franchise in Portugal combined with its international presence, that are enabling the Bank to deliver positive earnings and weather the difficult environment. The Bank's intrinsic assessment is based on its universal banking franchise, its strong position in retail banking, revenue generation capacity, capable management of liquidity and funding through an extended period of stress, effective risk management and improving capitalisation. This assessment was reinforced by the Group's solid 1Q11 earnings results.

On 20 June 2011, Mr. Paulo José de Ribeiro Moita de Macedo resigned, following his acceptance to integrate the Government of the Republic of Portugal as Health Minister, with immediate effect, as Vice-Chairman of the Executive Board of Directors, as well as from all positions he held in the Group or as its representative.

On 7 July 2011, the Bank announced that Moody's Rating Agency announced the revision of the ratings for issues from Portuguese banks using the state guarantee, following the revision of the rating for the Portuguese Republic. In this context, the Bank's debt issue of January 12, 2009, maturing in 2012 was revised by Moody's from "Baa1" to "Ba2", with negative outlook. The Bank also announced that Moody's maintained Financial Strength Rating (BFSR) and long-term debt ratings of D and Baa3, respectively, under review for downgrade.

On 15 July 2011, the Bank announced the results of the stress tests performed in 2011 within the European Union, led by the European Banking Authority, in cooperation with the Bank of Portugal, the European Central Bank, the European Commission and the European Committee of Systemic Risk, where the Bank's estimated core Tier I was 5.4% at year-end 2012, considering an adverse scenario, which compares to 5.9% in late 2010.

On 15 July 2011, the Bank, S.A. announced that as a result of the announcement of the reduction of the Republic of Portugal's rating for long-term debt, Moody's Rating Agency announced on 15 July 2011 the revision of the ratings of several Portuguese banks. In this context, Moody's announced that the ratings of the Bank were reduced by one notch from "Baa3/P-3" to "Ba1/NP". All ratings remain on Rating Watch Negative.

On 27 July, the Bank informed that, within the scope of the structural transformation of the market context in Portugal, it has adjusted its strategic agenda.

On 7 September 2011, the Bank announced that, following the meetings of the Executive Board of Directors and the Supervisory Board that took place on 6 September and 7 September 2011 respectively, Mr. António Manuel Palma Ramalho was named Vice-Chairman of the Executive Board of Directors of the Bank. The process of the redistribution of the areas of responsibility was also formalised for the members of the Executive Board of Directors, which continues to have seven members.

On 22 September 2011, the Bank announced that it had launched an offer to exchange the securities of two series of preference shares and one of subordinated notes, issued by its subsidiaries BCP Finance Bank, Ltd. and BCP Finance Company for new debt securities with a minimum denomination of Euro 50,000 issued under its Euro Note Programme (the "Offers"). Participants in the offer could elect to receive either 3-year senior debt securities with a 9.25%-coupon or 10-year subordinated securities with a 13%-coupon. Participants could also, under certain conditions, elect to receive a cash payment.

The purpose of the Offers was to proactively manage the Group's outstanding liabilities and capital structure and it is one of the initiatives undertaken to increase the Core Tier I ratio to 9% until the end of 2011.

On 7 October 2011, following the announcements dated 30 September and 4 October 2011, the Bank announced that, following the high level of acceptance for its exchange offer directed to holders of the above-mentioned securities (identified below), and the resulting extension of the duration of the Offers and the increase of the Maximum Acceptance Amount for the C and D series of the preference shares, the results of the Offers were the following:

Issues	*Amount subject to the offer*	*Amount of demand until 29 September 2011*	*Amount of demand until 6 October 2011*	*Nominal amount of the offers accepted*
Series C Preference Shares	€850,000,000 (Maximum Acceptance Amount)	€397.458.100	€400.936.600	€400.936.600
Series D Preference Shares		€325.426.000	€406.458.000	€406.458.000
Total		€722.884.100	€807.394.600	€807.394.600

Within the scope of the above-mentioned transaction, the Bank reported the results of the offer for exchange of the Lower Tier II Notes, the first phase of which was concluded on 30 September and whose amount had not change.

Issue	*Amount subject to the offer*	*Amount of demand until 6 October 2011*	*Nominal amount of the offers accepted*
Lower Tier II Notes	€400.000.000	€242.741.000	€242.741.000

Aggregate nominal amount of senior debt issued on the settlement date: Euro 555,600,000.

Aggregate nominal amount of subordinated debt issued on the settlement date: Euro 95,600,000.

Amount to be paid in cash to holders on the settlement date, was: Euro 6,764,910.

The settlement was on 13 October 2011.

On 7 October 2011, the Bank announced the following rating decisions:

As a result of a rating downgrade of Portugal and placement of Portuguese banks ratings on "Rating Watch Negative", Fitch announced that it maintained its ratings for the Bank, in particular its Long-term Issuer Default Ratings ("IDR") at "BBB- " and its Short-term IDR at "F3". Both these ratings remain on Ratings Watch Negative.

In the context of a review of the Portuguese banks ratings initiated on 15 July 2011 following a downgrade of the Republic of Portugal, Moody's reduced the debt rating of the Bank from "Ba1/NP" to "Ba3/NP" and the Standalone rating from "Ba2" to "B1". Ratings maintain a Negative Outlook.

On 20 October 2011, the Bank announced that following a downgrade of the rating of the Republic of Portugal, and in the context of a review of the ratings of the Portuguese banks, DBRS downgraded the Bank's long-term rating from BBB (High) to BBB, with "Negative Trend" (identical to the Republic of Portugal rating), while the short-term rating was confirmed at R-2 (High) with "Negative Trend".

On 27 October 2011, the Bank announced that is had received the following information from the Bank of Portugal:

"1. Given the rise in systemic risk resulting from the sovereign debt crisis in the Euro area, the decision was taken that the banking groups subjected to the European Banking Authority's stress tests reinforce their respective capitalization levels in order to achieve, by 30 June 2012, a Core Tier 1 ratio of 9%, following a prudent evaluation, at market values, of the exposure to sovereign debt held by those institutions as of 30 September 2011.

2. The total capital requirement identified for the Group is Euro 2.361 billion, of which Euro 1.299 billion corresponds to the value resulting from the evaluation at market prices of the exposure to sovereign debt.

3. The remaining amount is contemplated, in its near entirety, in the capitalization plans presented to the Bank of Portugal, as part of the Financial Assistance Program, which permits the regular monitoring of relevant prudential ratios.

4. This estimate is preliminary and indicative, and is susceptible to alteration based on data referring to the end of September."

In addition, the Bank announced that:

1. From 30 June, 2011 to 27 October 2011 a set of initiatives have been carried out that resulted in an increase in Core Tier 1 by more than Euro 600 million, in particular through the completion of an Exchange Offer for preference shares and Lower Tier II Notes. As a result, the amount of Euro 2.361 billion referred to in 2. above should be adjusted downward to around Euro 1.750 billion.

2. The Bank will continue to carry out the previously-planned initiatives to boost its capital ratios, namely through the reduction of assets (deleveraging) and the restructuring of its international portfolio, as well as studying other opportunities available, including the Euro 12 billion recapitalization line available to Portuguese banks.

On 25 November 2011, the Bank announced that following a reduction of the Portuguese Republic's rating, and in the context of a review of the ratings of several Portuguese banks, Fitch reduced the long-term rating of the Bank from "BBB-" to "BB+", removed from Rating Watch Negative and assigned with Negative Outlook, while the short-term rating was revised from "F3" to "B" and removed from Rating Watch Negative. The ratings of the following issues were also revised: Lower Tier 2 subordinated debt from "BB+" to "BB", preference shares from "B" to "CC" and senior debt guaranteed by the Portuguese state from "BBB-" to "BB+". All these ratings were removed from Rating Watch Negative.

On 8 December 2011, the Bank, announced, following the announcements made on that date by the European Banking Authority ("EBA") and Banco de Portugal regarding the capital exercise, the result for the Bank:

A) The capital exercise proposed by the EBA and agreed by the Council on 26 October 2011 requires banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. In addition, it requires them to establish a buffer such that Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012. The amount of any final capital shortfall identified is based on September 2011 figures. The amount of the sovereign capital buffer will not be revised.

   71 Banks across Europe, including the Bank, were subject to the capital exercise whose objective is to create an exceptional and temporary capital buffer to address current market concerns over sovereign risk and other residual credit risk related to the current difficult market environment. This buffer would explicitly not be designed to cover losses in sovereigns but to provide a reassurance to markets about banks' ability to withstand a range of shocks and still maintain adequate capital.

   Following completion of the capital exercise conducted by the EBA, in close cooperation with Banco de Portugal, the exercise has determined that the Bank, S.A. has a capital shortfall of Euro 2,130 million which must be addressed by end June 2012.

The Bank will ensure that by the end of June 2012 the bank will adhere to the 9% core tier ration and, to this end, submit a plan to Banco de Portugal. In this plan the bank will set out the proposed mix of actions to meet the required 9% target thereby bringing the shortfall to zero by June 2012. The plan – to be submitted by 20 January 2012 – will be discussed with Banco de Portugal, in consultation with the relevant college of supervisors and the EBA.

The capital to be raised and measures to be taken by the bank are designed to restore confidence in market participants, to facilitate banks' access to the funding markets as well as to put them in the condition to continue providing financial support to the real economy.

The methodology underlying the capital exercise was outlined by the EBA prior to its announcement to ensure consistency across all banks in the EU banking system involved in the exercise.

B) In addition, the Bank also announced that:

1. The above-mentioned capital shortfall of Euro 2,130 million does not include the exchange of preference shares for senior and subordinated debt completed on October 13, 2011, that resulted in an increase in Core Tier 1 by Euro 405 million.

2. Therefore, the total capital requirement for the Group, considering the exchange of preference shares for senior and subordinated debt completed on 13 October 2011, is Euro 1.725 billion, of which Euro 1.165 billion corresponds to the value resulting from the evaluation at market prices of the exposure to sovereign debt and remaining Euro 560 million to the other capital requirements in order to reach the EBA target for 30 June 2012.

3. The Bank will continue to carry out the previously-planned initiatives to boost its capital ratios, namely through the reduction of assets (deleveraging) and the restructuring of its international portfolio, as well as studying other opportunities available, namely through all the instruments eligible as Core Tier I, including the recapitalization line available to Portuguese banks.

On 16 December 2011, the Bank announced that following a revision of the ratings of six Portuguese banks by applying a new ratings criteria and update group methodology for banks, Standard and Poor's lowered the Bank's long-term rating from "BBB-" to "BB", which remained on Rating Watch with negative implications, while the short-term rating was downgraded from "A-3" to "B" and removed from Rating Watch Negative.

On 16 December 2011, the Bank announced that the Bank of Portugal disclosed the first global results of the Special Inspections Program (SIP) conducted as part of the measures and coordinated actions agreed by the Portuguese authorities for the financial system, within the scope of the Economic and Financial Assistance Program established with the IMF/EU/ECB last May.

This Inspections Program covers the eight major Portuguese banking groups, including the Group, and aims to validate, with reference to 30 June 2011, the credit risk data used in assessing their financial strength through an independent assessment of the credit portfolios and the adequacy of risk management policies and procedures, as well as the confirmation of the calculation of capital requirements for credit risk.

The exercise focused on loans amounting to Euro 55.4 billion from the Group's portfolio, corresponding to 72% of the total loan portfolio of the Group. The inspection concluded that there is a need to increase the impairment recorded in the consolidated accounts of the group by Euro 381 million. This represents 0.7% of the loan portfolio analyzed and 16.0% of the impairment recorded on this portfolio.

The needs to strengthen capital requirements resulting from the recommendations of SIP shall, in accordance with guidelines of the Bank of Portugal, be met by June 2012 and will therefore be addressed in the strategic capitalization plan that the Group will present in the beginning of 2012 and in which it will detail measures to adopt to meet the global needs for strengthening capital, including those arising from the EBA exercise.

With regard to opportunities for improvements identified in the policies and procedures followed in the credit risk management, the Bank will establish and present to the Bank of Portugal a plan to resolve the short-term situations that still exist.

In this context, the Bank also reports that during the second half of 2011 the Bank maintained a high rate of provisioning for impairment of its loan portfolio, accounting for impairments made in this period, until October, for the activity in Portugal, of about Euro 174 million.

Additionally, as regards the adjustment of the value of risk weighted assets, about Euro 336 million from the value identified was already incorporated in the capital ratios reported to the Bank of Portugal, with reference to the end of October.

On 19 December 2011, the Bank announced that, as a result of this analysis of scenarios for the creation of value involving its Polish operation as a result of an adjustment to its strategy, previously announced on July 27th 2011, it concluded that the option that best protects the interest of all stakeholders and that best preserves its power for creating value is to maintain its stake in Bank Millennium.

The process included a thorough review of several options, some of them arising from offers received for the acquisition of the Bank's shareholding in Poland's Bank Millennium.

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.

Recent Developments in 2012

February 2012

On 1 February 2012, the Bank announced that, following a downgrade of the rating of the Republic of Portugal, 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 Banco Comercial Português, 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, Banco Comercial Português 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's 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 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, the Bank informed that following a revision of the rating of the Republic of Portugal, the rating for state guaranteed debt issued by the Bank 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 Sharesholder. 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.

March 2012

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. The 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's 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 26 March 2012, the Bank informed about the results of the offer launched on 15 March 2012 to repurchase three issues of covered bonds issued by the Bank. The investors have tendered up to Euro 918,650,000 (face value), which the Bank has decided to accept in full. The purpose of the offer was to proactively manage the Bank's outstanding liability and capital structure.

On 29 March 2012, the Bank 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, the Bank's 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).

4 June 2012

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 Recapitalisation Program for Credit Institutions established by Law Nr. 63-A/2008 of 24 November, 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 Portaria Nr. 150-A/2012 of 17 May;

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.

This capital plan was prepared considering the constitution of an additional provision of around Euro 450,000,000 for risks associated with the degradation of the economic and financial situation of Greece.

With the execution of the Plan, the Bank will be sufficiently capitalized, complying with the Core Tier 1 limits in accordance with the requirements defined by the Bank of Portugal in Advisory Nr. 3/2011 (9% at the end of December 2011 and 10% at the end of December 2012) and in Advisory Nr. 5/2012 (9% at the end of June 2012, calculated in accordance with the more demanding criteria, in order to create a temporary capital buffer).

25 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 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 decision of the ministry mentioned in that Law; (ii) accomplishment and development of measures to execute the plan, including resolving on the issue of 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 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.

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 unitlinked 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 December 2011, the Bank had a market share of 19.6% of loans to customers (gross) and 17.6% of deposits. 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 2007 to 31 December 2010:

	As at 31 December			
	2010	*2009*	*2008*	*2007*
Nr. of Banks[1]	37	41	40	40
Nr. of Branches	6.232	6.162	6.062	5.742
Population (thousands)	10.637	10.638	10.627	10.618
Inhabitants per branch	1.707	1.726	1.753	1.849
Branches per bank	168	150	152	144

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 35.9% of loans to customers and 33.7% of deposits in December 2011, according to data from the Bank of Mozambique. In relation to this market, it is foreseeable that competition from foreign banks, namely South African banks, will continue to increase.

In Angola, following the capital increase that has extended the scope of the strategic agreement with Sonangol and BPA, Banco Millennium Angola has the ambition of expanding its branch network to up 130 branches until 2015. The main competitors have ambitious plan of business expansion currently underway, some of which are based on the expansion of their branch network. Additionally, there was an increased number of players in retail, corporate and investment banking. For example, the strategic partnership between Banco Totta and Caixa Geral de Depósitos should be mentioned as well as the fact that three new licences were issued in 2008 for the following banks: Finibanco, Banco Quantum Capital, and Standard Bank. BMA's market share in Angola on December 2011, according to the data from the Bank of Angola, stood at 3.4% of loans to customers and 2.6% of deposits.

Poland and Greece significant opportunities have led to increased competition in recent years. Privatisation and consolidation in the Polish banking industry in the second half of the 1990s has also led to increased competition. In addition, in both Poland and Greece, European Union integration has created strong incentives for the cross-border provision of financial services without a local commercial presence, and for cross-border mergers, which have resulted in significantly increased competition from foreign banks. As at December 2011, the market share of Bank Millennium in Poland, according to the data released by the National Bank of Poland, stood at 5.0% of loans to customers (gross) and 4.9% of deposits. In Greece, according to the data released by the Bank of Greece, the market share in loans to customers and deposits, reached, respectively, 2.0% and 1.4% at the end of December 2011.

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 and the Eurostat 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 interaction between the sovereign debt risks, the financial system and the economy became more pronounced in 2011, both internationally and in Portugal, resulting in an even more challenging framework for the development of the banking activity. The sharpening of the funding difficulties of the Portuguese Republic in the international markets led the Government to formally request for assistance to the European Authorities and to the International Monetary Fund ("IMF"), which resulted in an economic and financial aid plan. Therefore, since May 2011, Portugal has undertaken to comply with a medium-term Programme of Economic and Financial Support, jointly negotiated and supported by the IMF and the European Union.

In a context of great uncertainty, in particular with regard to the mechanisms for overcoming the sovereign debts crisis in the Euro Zone, the challenges faced by the Portuguese economy and by the financial system have increased. The Portuguese banks are confronted with the increase of the difficulties to access funding in the international wholesale debt markets. This, together with the requirements to strengthen the capitalization levels, the need to carry out an ambitious deleveraging process and a particularly adverse macroeconomic and financial context, as a result of austerity and consolidation of public finances measures, affects the activity, the profitability, the quality of assets and the solvability of all Portuguese banks. Nevertheless, the Issuer and the main national banks have demonstrated their resilience by successfully overcoming the European stress tests to date and by fulfilling the requirements of the European regulations in terms of capital and liquidity.

A concern to implement regulatory reforms, aimed at contributing to financial stability, i.e., to protect depositors, to strengthen their confidence in the banking system, to increase the commitment of the shareholders and holders of hybrid instruments with loss absorption, to reduce the effort for taxpayers, to reduce system's risks by restraining leverage, by protecting the consumers and, at the same time, creating conditions for the banks to continue to granting credit to the economy (with more discretion and more targeted) was evident since the beginning of the international financial crisis.

Relevant regulatory changes, including those with regard to supervision bodies architecture (deposit guarantee schemes, Bail-in, CRD, Basel III, MiFID, EMIR, restrictions to CDS short selling, revision of the Market Abuse Directive, ESMA regulations regarding Rating Agencies, Solvency II, Remuneration of directors and members of the management and audit bodies, Corporate Governance, ESAs, SIFIs, among others matters) are already in the course of being approved and implemented, which may have a very significant impact on the dynamics and structure of the market in the coming years.

Since the beginning of the financial crisis in 2008, the Bank has been implementing a number of initiatives and measures aimed at strengthening its capital base, in particular with regard to the levels of share capital and own funds, liability management, asset management and transfer of liabilities of the Pension Fund to the Social Security.

Despite the fact that the Bank has currently reached historical highs levels of capitalization, the repeated increase of regulatory requirements (including the temporary requirement of even more demanding levels of own funds) imposed the need to increase Core Tier 1 in order to comply with the EBA requirements (higher than 9% on June 30, 2012, comprising a buffer for exposures to sovereign debt) and the Bank of Portugal (higher than 10% on December 31, 2012).

Several exogenous factors had a negative impact in the Core Tier 1, in particular:

i) downgrades of the sovereign ratings of Portugal and Greece in the risk weighted assets (equivalent to 151 million euros in Core Tier 1, having regard to a 9% ratio);

ii) impairments registered with the Greek public debt (409 million euros after taxes) which also affected the Core Tier 1 ratio in 2011;

iii) EBA sovereign buffer, with the exclusion of the Greek public debt provisioned in 2011 (848 million euros);

iv) all other deductions required by EBA, in order to anticipate the Basel III rules (724 million euros, which result from the estimated value in 2012 of 50% of deductions due to financial investments and of the shortfall impairment against the expected losses of the exposures treated by the IRB method);

v) capital losses related with the liabilities of the pension fund transferred to the Social Security on December 2011, including the value of the respective corridor, which the Bank of Portugal allowed to be neutralized up to June 2012 (439 million euros), and

vi) the need to establish a non-recurrent provision on June 2012, in the amount of 450 million euros, related with the expected need to strengthen the provisioning for the subsidiary in Greece, due to gradual deterioration of the local economic and financial situation.

The strengthening of Core Tier 1 also allows accommodating a set of endogenous factors, such as:

i) Bank's vulnerability to strategic and financial investments which have an impact on its performance and capital (e.g. exposure to Greece);

ii) sensitivity of the loan portfolio (given the greater exposure to SMEs, as well as real estate development and construction sectors) arising out of the deterioration of the economic environment, which led to a significant increase of overdue loans and of the effort to set up provisions for impairments;

iii) dispersion of the shareholders base and numerous share capital increases, which complicates further capital increases and may reduce the attractiveness of the investment for some qualified shareholders;

iv) refocus of the Bank in businesses with potential for value creation and growth, and

v) the need to reduce operating costs in a lasting and significant way.

The Bank's decision to participate in the recapitalization program of the credit institutions created by Law 63-A/2008, of 24 November (as recently amended by Law 4/2012, of 11 January) was carried out through the submission and approval of the recapitalization plan foreseen therein, which was subsequently amended as a result of the discussions held with the government and the Bank of Portugal and their respective determinations. This decision will allow the execution of public investment, which is expected to have the following components:

a) Potential subscription of shares by virtue of the underwriting of a share capital increase through new cash contributions, to be subscribed by its shareholders in the exercise of the legal right of preference, in a total expected amount of 500 million euros, to be completed until the end of the third quarter of 2012.

b) Subscription by the State of hybrid instruments eligible as Core Tier 1 capital (instruments which are fully redeemable 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 the total amount of 3,000 million euros, to be completed until the end of June 2012.

The public investment is associated to a set of additional requirements, some of which resulting from the law, which are common in public investment operations in financial institutions with State support in other European countries, including investment restrictions, management and corporate governance limitations and a set of conditions related to market mechanisms.

Regarding the Bank, we highlight the imposition a ban on:

i) buy backs on hybrid instruments and subordinated debt, without the consent of the Finance Minister;

ii) coupon and interest payments on hybrid instruments and subordinated debt, where there is no legal obligation to proceed with such payment;

iii) on the acquisition of equity stakes in other companies, unless previously authorised by the Commission, the Finance Minister and the Bank of Portugal.

The following conditions were also established for the recapitalization:

i) The Minister of Finance shall have the power to appoint a non-executive member of the management body and an additional non-executive member of the management body in its supervision functions, which will have a seat on the audit committee ("Appointed Members"). One of the Appointed Members will have a seat on the risk management and remuneration committees or similar.

ii) Remunerations and benefits of senior management will be subject to appropriate levels of transparency and scrutiny, in order to ensure it remains appropriate.

iii) The Finance Minister will be able to limit the commitment by the bank of further financial resources to any non-lending businesses, mergers or acquisitions by the bank.

iv) The bank is required to operate and maintain an internal specialized unit (or units) to be accountable for the management of problem and workout assets, in line with international best practices.

v) The bank will take reasonable steps to help enhance the effectiveness of the Mediador do Crédito such as: more actively referring customers to the Mediador do Crédito; providing appropriate data to the Mediador do Crédito etc.

vi) The Bank shall commit at least 30 million euros per year in a fund (that may be managed by itself) and which will invest in holdings in SMEs and mid-cap corporates.

The Bank undertook to perform and fulfill the Plan of Recapitalization agreed (particularly in relation to the original timing foreseen for disinvestment of public funds pursuant to letter h) of article 2.2 of Portaria no. 150-A/2012 of 17th May or as updated by the bank pursuant to article 13 of the same Portaria, the rescheduling of the timeline for accomplishing the reimbursement of public investment by the bank not corresponding to a default of any legal or contractual obligations of the bank, providing the maximum 5 year investment period is complied with) and to meet the interest payments on hybrid instruments eligible as Core Tier 1 (8.5% on year 1), which will represent 255 million euros in the first year.

The targets of the Recapitalization Plan are ambitious, but its implementation will allow the Bank to comply with the minimum limits of Core Tier 1 set by the Bank of Portugal in Notice no. 3/2011 (9% at the end of December 2011 and 10% at the end of December 2012) and Notice no. 5/2012 (9% at the end of June 2012, calculated in accordance with more stringent criteria, in order to create a temporary buffer of capital), as well as those that result from the Basel III proposals, with adoption scheduled for 2013 and the staged introduction of the impacts due to the application of the new criteria over a transitional period that is expected to end on 31 December 2018.

The BCP has a value franchise in Portugal, is the largest Portuguese private owned banking institution, with the largest branch network (Source: Associação Portuguesa de Bancos), the second largest loan and deposits portfolio (Source: based on data from Banco de Portugal), and has an international presence of a strategic nature in Europe (Portugal and Poland) and in Africa (Mozambique and Angola), operations considered as essential to maintain in order to create shareholder value.

The pillars of the shareholder vision of the Bank correspond to the current market and regulatory demands: i) to maintain the integrity and consistency of the Group, ii) to preserve its attractiveness, iii) to enhance, as soon as possible, the full access to the capital markets, and iv) to capitalize its competitive advantages. Taken together, these priorities are intended to ensure the profitability of the assets and the capital invested, creating conditions for the reimbursement of the public investment and the valorization of the Bank's shares.

The management agenda for 2012 consolidates these priorities around 5 lines of action: i) financial strength, ii) strengthening the risk management and recovery processes, iii) profitability of the business in Portugal, iv) optimization of the management of the business portfolio, and v) simplifying the organization and insuring efficiency and cost reductions.

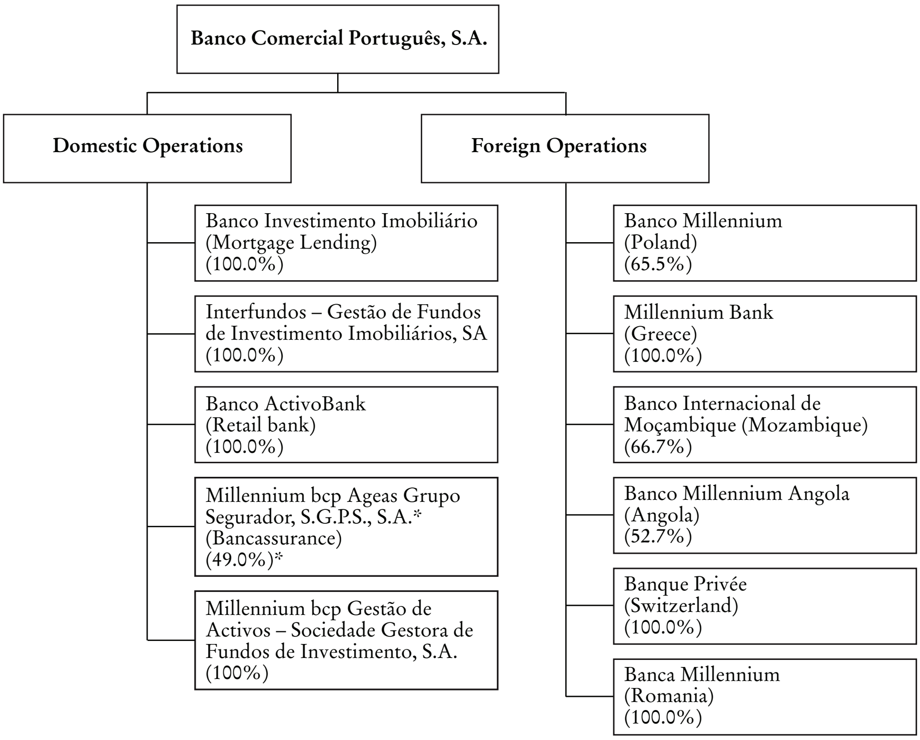
Until the end of November, BCP expects to present to the Government a restructuring plan required by Portuguese law and the relevant European rules on state aid. On that basis, the Government will submit to the European Commission a restructuring plan, intended to demonstrate the bank's long-term viability, its own contribution to the recapitalization and restructuring efforts and to introduce measures intended to mitigate any potential competition distortions that might result from the allocation of the public investment. To this extent, the restructuring plan may have to provide for an additional set of measures and conditions associated to the approval of the public investment by the European Commission, including any obligations of behavioral and / or structural nature.

BCP is confident that the conditions currently provided in the Plan of Recapitalization and respective annexes are balanced and proportionate, having regard in particular to the exogenous and transitory factors which justify the recourse to the public investment, to the management model and to the bank's investment strategy, as well as measures to enhance financial strength that the Bank adopted over the past few years, so it will endeavor to argue that structural measures are unnecessary (or, at least, to limit their impact). Nevertheless, it is not possible to ensure which will be the understanding of the European Commission in this regard.

E. Organisational Structure

The Bank and the Group

The following diagram summarises the organisational structure of the principal subsidiaries of the Bank on 31 December 2011:



Banco Comercial Português, S.A.
Domestic Operations
Foreign Operations
Banco Investimento Imobiliário (Mortgage Lending) (100.0%)
Interfundos – Gestão de Fundos de Investimento Imobiliários, SA (100.0%)
Banco ActivoBank (Retail bank) (100.0%)
Millennium bcp Ageas Grupo Segurador, S.G.P.S., S.A.* (Bancassurance) (49.0%)*
Millennium bcp Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A. (100%)
Banco Millennium (Poland) (65.5%)
Millennium Bank (Greece) (100.0%)
Banco Internacional de Moçambique (Mozambique) (66.7%)
Banco Millennium Angola (Angola) (52.7%)
Banque Privée (Switzerland) (100.0%)
Banca Millennium (Romania) (100.0%)

* 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, 2011:

	Country of Incorporation/ Residence	*% held by the Bank*	*% held by the Group*
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	52.7	52.7
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 2012*" section on pages 131 to 133 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 in 2011 and 1Q 2012*" section on page 145 to 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 3,000,000,000, divided into 7,207,167,060 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 Porto.

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.

H. Management, Audit Committee and Statutory Auditor

The Bank adopted on 28 February 2012, a new corporate governance model, with one Board of Directors within which there are an Executive Committee and an Audit Committee, plus a Statutory Auditor.

Board of Directors

According to the one-tier governance model adopted by the Bank, the Board of Directors is the corporate management body generally responsible for ensuring all operational activity not attributed to other bodies, in compliance with the strictest rules of good banking practice, and has the following members:

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

Positions held by Board of Directors Members:

Name	**Position**	**Company**
António Vítor Martins Monteiro In companies outside the Group	Chairman	Curators Board of 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	Faculdade de Ciências Sociais e Humanas da Universidade Nova de Lisboa
Carlos José da Silva In companies outside the Group	CEO	Banco Privado Atlântico S.A.
	Chairman	Banco Privado Atlântico Europa
	Chairman	Angola Management School
	Chairman	Interoceanico Capital SGPS, S.A.
	Vice-Chairman	Baía de Luanda
Nuno Manuel da Silva Amado In companies of the Group	Vice-Chairman of the Supervisory Board	Bank Millennium, S.A. (Poland)
	Member of the Management representing Banco Comercial Português, S.A.	APB- Associação Portuguesa de Bancos
Pedro Maria Calainho Teixeira Duarte In companies outside the Group	Chairman of the Board of Directors	Teixeira Duarte, S.A.
	Chairman of the Board of Directors	Teixeira Duarte – Engenharia e Construções, S.A.

Name	Position	Company
	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.
António Luís Guerra Nunes Mexia	Chairman of the Board of Directors	EDP – Energias de Portugal, S.A.
In companies outside the Group	Chairman of the Board of Directors	EDP – Energias do Brasil, S.A.
	Chairman of the Board of Directors	EDP Renováveis, S.A.
João Bernardo Bastos Mendes Rezende	Member of the Management Board	Instituto de Estudos Económicos
In companies outside the Group	Member of the Management Board	Banco Urquijo (Grupo Banco Sabadell)
	Member	Spanish Institute of Financial Advisors
	Member of the Management Board	Associação Espanhola do Mercado de Valores
Álvaro Roque de Pinho Bissaia Barreto	Chairman of the Board of Directors	Tejo Energia, S.A.
In companies outsider the Group	Non-executive Director	Nutrinveste – Sociedade Gestora de Participações Sociais, S.A.
	Non-executive Director	MELLO – 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.
António Henriques Pinho Cardão	Chairman of the Audit Board	Vila Galé, S.A.
In companies outside the Group	Member of the Audit Board	Monte & Monte, SGPS, S.A.
César Paxi Manuel João Pedro In companies outside the Group	General Counsel	Sonangol, E.P.
José Jacinto Iglésias Soares In companies of the Group	Chairman of the Board of Directors	Millennium bcp – Prestação de Serviços ACE
	Non-executive Director	SIBS, SGPS, S.A. and SIBS Forward Payment Solutions, S.A.
	Member of the Remunerations Committee	UNICRE – Instituição Financeira de Crédito, S.A.
André Luiz Gomes In companies outside the Group	Partner	Cuatrecasas, Gonçalves Pereira & Associados, Sociedade de Advogados, R.L.

Name	Position	Company
João Manuel de Matos Loureiro	Professor	Faculdade da Economia do Porto e da EGP-UPBS
In companies outside the Group	Researcher	Centro de Economia e Finanças da UP
José Guilherme Xavier de Basto	Member	Centro de Estudos da Câmara dos Técnicos Oficiais de Contas (CTOC)
In companies outside the Group	Non-executive Director	Portugal Telecom, SGPS, S.A.
	Member of the Audit Board	Portugal Telecom, SGPS, S.A.
Jaime de Macedo Santos Bastos	Member of the Board of Auditors	Chartered Accountants Association
In companies outside the Group	Member of the Audit Board in representation of Bastos, C. Sousa Góis & Associados, SROC	Cimpor
Maria da Conceição Mota Soares de Oliveira Callé Lucas	Chairwoman of the Board of Directors	Millennium bcp Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A.
In companies of the Group	Vice-Chairwoman of the Board of Directors and Chairwoman of the Board of Auditors	Millennium bcp Ageas Grupo Segurador, SGPS, S.A.
	Vice-Chairwoman of the Board of Directors and Chairwoman of the Board of Auditors	Médis- Companhia Portuguesa de Seguros de Saúde, S.A.
	Vice-Chairwoman of the Board of Directors and Chairwoman of the Board of Auditors	Ocidental – Companhia Portuguesa de Seguros, S.A.
	Vice-Chairwoman of the Board of Directors and Chairwoman of the Board of Auditors	Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
	Vice-Chairwoman of the Board of Directors and Chairwoman of the Board of Auditors	Pensões Gere – Sociedade Gestora de Fundos de Pensões, S.A.
	Member of the Board of Directors	BIM – Banco Internacional de Moçambique, S.A. (Mozambique)
	Member of the Supervisory Board	Bank Millennium, S.A. (Poland)
	Member of the Board of Directors	Banco Millennium Angola S.A. (Angola)
António Manuel Costeira Faustino	Lawyer (liberal professional)	
Miguel de Campos Pereira de Bragança	Manager	Millennium bcp Participações, SGPS, Sociedade Unipessoal, Lda.
In companies of the Group	Member of the Supervisory Board	Bank Millennium, S.A. (Poland)

Name	Position	Company
Miguel Maya Dias Pinheiro In companies of the Group	Chairman of the board of Directors	Banco de Investimento Imobiliário, S.A.
	Chairman of the Board of Directors	Interfundos – Gestão de Fundos de Investimento Imobiliário, S.A.
	Chairman of the board of Directors	Banco Millennium Angola, S.A. (Angola)
	Vice-chairman of the board of Directors	BIM – Banco Internacional de Moçambique, S.A. (Mozambique)
Luis Maria França de Castro Pereira Coutinho In companies of the Group	Chairman of the Board of Directors	Banco ActivoBank, S.A
	Chairman of the Board of Directors	Banque Privée BCP (Suisse), S.A.
	Member of the Board of Directors	Millennium Bank, S.A. (Greece)
	Member of the Supervisory Board	Bank Millennium , S.A. (Poland)
	Chairman of the Board of Directors	Banca Millennium, S.A. (Romania)
Rui Manuel da Silva Teixeira In companies of the Group	Member of the Supervisory Board	Bank Millennium, S.A. (Poland)
In companies outside the Group	Member of the Board of Directors, as representative of BCP	UNICRE – Instituição Financeira de Crédito, S.A.
	Member of the Remunerations and Welfare Board	SIBS, SGPS, S.A. and SIBS Forward Payment Solutions, S.A.

Executive Committee

In accordance with the articles of association of the Issuer, the bank has an Executive Committee, composed of a minimum of six and a maximum of nine directors, elected by the Board of Directors among its members.

On 1 March 2012, the Board of Directors of the Issuer appointed the Executive Committee of the Issuer for the term of office 2012-2014, which is composed of the following seven members:

Chairman:	Nuno Manuel da Silva Amado
Vice Chairmen:	Miguel Maya Dias Pinheiro Miguel de Campos Pereira de Bragança
Members:	Rui Manuel da Silva Teixeira Luís Maria França de Castro Pereira Coutinho Maria da Conceição Mota Soares de Oliveira Callé Lucas José Jacinto Iglésias Soares

There are no conflicts of interest or potential conflicts of interest between the duties of the members of the Board of Directors and of the Executive Committee towards the Bank and their private interests or duties. Under the terms of article 398 (3 and 4) of the Portuguese Companies Code, the General Meeting held on 28 February 2012 authorized the non-executive members of the Board of Directors to exercise functions on their own behalf and on behalf of third parties in activities that compete with the Bank, while maintaining the regime for accessing sensitive information adopted by the Bank.

Audit Committee

The Audit Committee was established in accordance with the number 1 of article 278 of the Portuguese Companies Code and, in accordance with article 39 of the by-laws of the Bank, is particularly responsible for:

a) Monitoring the Bank's management;

b) Verifying the compliance with the law and with 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, of the internal control system and of the internal audit system;

f) Receiving the communications on irregularities presented by shareholders, employees of the Bank and others;

g) Supervising the preparation and disclosure of the financial information process;

h) Proposing to the General Meeting the election of the chartered accountant and of the external auditor;

i) Supervising the review of the accounts and of the financial statements of the Bank;

j) Supervising the independence of the chartered accountant and of the external auditor, notably in what regards the provision of additional services;

k) Engaging the provision of services by experts to assist one or several, of its members in the exercise of his/her/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 duties foreseen in the law and in the articles of association.

The Audit Committee has the following members:

Chairman:	João Manuel Matos Loureiro
Members:	José Guilherme Xavier de Basto Jaime Macedo Pinto Bastos

There are no potential conflicts of interest between the duties to the Bank of the persons listed above and their private interests or duties.

The business address for each of the members of the Board of Directors of the Bank, including those of the Executive Committee and, for each of the members of the Audit Committee, is Tagus Park Edifício 1, Avenida Professor Doutor Cavaco Silva (Parque das Tecnologias), 2744-002, Porto Salvo, Portugal.

The Bank complies with the general provisions of Portuguese law on corporate governance.

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. In relation to 2010 financial statements, KPMG was represented by Vítor Manuel da Cunha Ribeirinho (ROC no 1081), as Statutory Auditor and Ana Cristina Valente Dourado (ROC no. 1011).

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 interests or duties.

Evolution of the Solvency Ratio in 2011 and 1Q 2012

Following the request submitted by the Bank, the Bank of Portugal formally 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 roll-out plan for the calculation of capital requirements for credit and counterparty risk under IRB approaches and following the request submitted by the Bank, the Bank of Portugal formally 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.

Core Tier I ratio came to 9.3%, above the minimum threshold set by the Bank of Portugal (9.0%) having increased 260 basis points compared to 6.7% as reported at the end of 2010.

The success of the operations to reinforce Core Tier I undertaken in 2011 and the reduction of risk-weighted assets, supported by deleveraging and the optimisation and reinforcement of the collateral, contributed positively to the evolution of Core Tier I ratio.

At the end of 2011, relative to the value determined at the end of 2010, Core Tier I increased by Euro 1,169 million, with emphasis on:

- The increase in the share capital of the Bank by Euro 990 million, concluded in June 2011 within the scope of the general public tender offer for perpetual subordinated debt securities with conditional coupons.
- The increase in the share capital by cash entries in June 2011, with preferential shareholder rights, in the amount of Euro 260 million.
- The exchange offer for holders of subordinated debt and preference shares, which took place in September and October 2011 and enabled Core Tier 1 to increase by Euro 539 million, of which Euro 98 million through profit and loss and the remainder in reserves.
- The positive effects as a result of, on the one hand, the decrease in prudential deduction associated to own credit risk of Euro 117 million, reflecting the acquisition of own debt recorded at fair value and, on the other hand, the increase in minority interests of Euro 49 million, supported by the higher level of results posted in the subsidiaries in Poland, Mozambique and Angola.Net income for the year which, in spite of having been negative by Euro 849 million, had a negative impact of only Euro 314 million on Core Tier 1 of 31 December 2011, since it includes a total of Euro 535 million which were not reflected in capital, in compliance with the rules laid down by the Bank of Portugal.
- The costs which were not reflected in core tier 1 of 31 December include: i) Euro 147 million related to the depreciation of goodwill of the subsidiary in Greece, which had no impact on capital since goodwill had already been deducted; and ii) Euro 388 million, net of taxes, relative to the partial transfer of pensions to the General Social Security Regime (Euro 117 million) and the Special Inspections Programme (Euro 271 million), which were subject to prudential neutralisation in December 2011 in compliance with Bank of Portugal Notice no. 1/2012.
- The component of the net income of 2011 which had a negative impact on Core Tier I (Euro 314 million) was determined by the gain of Euro 98 million recognised with the scope of the exchange offer previously mentioned and by the cost of Euro 409 million, after taxes, as a result of the recording of impairment losses corresponding to an average of 77.3% of exposure to Greek public debt.
- The negative impact of Euro 289 million related with the Pension Fund, calculated after the neutralization of the effects of the partial transfer of pensions to the General Social Security Regime and of the corridor due to the non-transferred liabilities, of which Euro -64 million resulted from the actuarial differences calculated in 2011, including the effects of the change in assumptions and the variation of the Pension Fund corridor, and Euro -225 million were due to the regulatory amortisation of the deferred adjustments related to the transition to IAS/IFRS, the change undertaken to the mortality table in 2005 and the actuarial losses recorded in 2008.
- The negative impacts associated to other prudential filters, namely the impairment shortfall relative to the regulatory provisions of exposures treated by the standardised approach (Euro -57 million), the deduction of 21% of the nominal value of Greek public debt not covered by impairment (Euro -16

million) and the deposits with high interest rates, pursuant to Bank of Portugal Instruction no. 28/2011 (Euro -10 million).

- The effects on consolidated reserves as a result of the variation in fair value reserves of Millenniumbcp Ageas, the change in the accounting policy of the Pension Fund, the payment of remunerations of hybrid products, exchange rate differences and other which, in aggregate terms, contributed to a decrease of Euro 2 million.

Risk-weighted assets registered, between the end of 2010 and December 2011, a decrease of Euro 4,109 million, essentially reflecting the following impacts:

- The reduction of Euro 4,649 million of credit risk-weighted assets and counterparty risk-weighted assets associated with the business, supported by deleveraging, reflected in the decrease of the value of consolidated assets by Euro 6,513 million, and in the optimisation and reinforcement of the collateral undertaken during 2011.
- The decrease of Euro 750 million resulting from the extension of the application of internal rating models (IRB) to "Retail Revolving Exposures" and "Other Retail Exposures" risk sub-classes in Portugal, formally authorised by the Bank of Portugal with effect from 31 December 2011 within the framework of the gradual adoption of IRB methodologies to calculate capital requirements for credit and counterparty risk.
- The regulatory changes imposed by the Bank of Portugal in 2011, influenced in particular by the reduction of the average weights of the regional and local governments and of the sovereign risks of Angola and Mozambique, whose total value resulted in a reduction of Euro 378 million.
- The reductions of market risk-weighted assets by Euro 41 million and of risk-weighted assets for operational risk coverage by Euro 294 million.
- The changes arising from the Special Inspections Programme, which led to an increase of Euro 664 million.
- The downgrades of the rating of the Portuguese Republic, which worsened the value of risk-weighted assets by Euro 1,340 million.

SOLVENCY

	31 Dec. 11 IRB	*31 Dec. 10 IRB*
	Euro million	
Own Funds		
Core Tier I	5,135	3,966
Preference shares and Perpetual subordinated debt securities with conditional coupons"	173	1,935
Other deduction[1]	(521)	(446)
Tier I Capital	4,787	5,455
Tier II Capital	613	774
Deductions to Total Regulatory Capital	(137)	(113)
Total Regulatory Capital	**5,263**	**6,116**
Risk Weighted Assests	**55,455**	**59,564**
Solvency Ratios		
Core Tier I	9.3%	6.7%
Tier I	8.6%	9.2%
Tier II	0.9%	1.1%
Total	9.5%	10.3%

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

Note: The Bank received authorisation from the Bank of Portugal to adopt IRB approaches for the calculation of capital requirements *for credit and counterparty risks, covering a substantial part of the risks from the activity in Portugal, as from31 December 2010. Estimates of the probability of default and the loss given default (IRB Advanced) were used for retail exposures to small companies and exposures collateralised by commercial and residential real state, and estimates of the probability of default (IRB Foundation) were used for corporate exposures, excluding property development loans and entities from the simplified rating system. In the scope of the Roll-Out Plan for the calculation of capital requirements for credit and counterparty risk under IRB approaches and following the request submitted by the Bank, the Bank of Portugal formally 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.*

The Core Tier I ratio reached 9.22% at the end of March 2012, standing roughly in line with at 31 December 2011 (9.26%), as the impact of the positive performance of Core Tier I offset the higher level of risk weighted assets.

The increase in Core Tier I by Euro 137 million was mostly boosted by organic capital generation, driven by the net income and the neutralisation of the effect of the Bank's own credit risk change, together with the increase in reserves and non-controlling interests, despite the amortisation of the deferred impacts authorized by the Bank of Portugal.

The increase in risk weighted assets by Euro 1,733 million was determined by the increase of the internal risk grade of customers exposures treated in accordance with the IRB approach, due to the worsening of the economic framework and following the annual revision that takes place in the first quarter, despite the benefit that resulted from the deleverage efforts during the period.

SOLVENCY

	31 Mar. 11 IRB	*31 Mar. 10 IRB*
	Euro million	
Own Funds		
Core Tier I	5,272	5,135
Preference shares and Perpetual subordinated debt securities with conditional coupons"	173	173
Other deduction (1)	(552)	(521)
Tier I Capital	4,894	4,787
Tier II Capital	594	613
Deductions to Total Regulatory Capital	(135)	(137)
Total Regulatory Capital	**5,353**	**5,263**
Risk Weighted Assests	**57,188**	**55,455**
Solvency Ratios		
Core Tier I	9.2%	9.3%
Tier I	8.6%	8.6%
Tier II	0.8%	0.9%
Total	9.4%	9.5%

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

Note: *The Bank received authorisation from the Bank of Portugal (BoP) to adopt IRB approaches for the calculation of capital requirements for credit risks, as from 31 December 2010. Estimates of the probability of default and the lost given default (IRB Advanced) were used for retail exposures to small companies and collateralised by commercial and residential real estate, and estimates of the probability of default (IRB Foundation) for corporate exposures, in Portugal, excluding property development loans and entities from the simplified rating system. In the scope of the Roll-Out Plan for the calculation of capital requirements for credit and counterparty risk under IRB approaches and following the request submitted by the Bank, the Bank of Portugal formally 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. 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 information regarding the 1Q 2012 is unaudited.

Reasons behind the need for additional capital

The international financial crisis and the impact on the financial condition of the sovereign nations were decisive factors driving the degradation of the business environment, profitability and financial strength of the banking sector in Portugal. This situation, as well as the new regulatory requirements of eminently temporary nature, determined the additional capital needs:

– The Financial and Economic Assistance Program ("FEAP") which imposed a minimum ratio for core tier I of 9% at the end of 2011 and 10% at the end of 2012;

– The European Banking Authority ("EBA"), which imposed a minimum ratio for core tier I of 9% at the end of June 2012, calculated on the basis of additional deductions, in particular a temporary buffer to cover sovereign risk and the anticipation of Basel III rules.

Quantification of the capital requirements

The amount of capital solicited is therefore aimed at satisfying the capital needs determined by what are primarily exogenous impacts, of which a substantial portion are of a temporary nature or designed to anticipate requirements expected under Basel III.

The aforementioned impacts are as follows:

1. Exogenous impacts

– Downgrades of the sovereign ratings for Portugal and Greece (151 million euros)

– Impairment of Greek public debt (409 million euros)

– The EBA's sovereign buffer, excluding Greek public debt (848 million euros)

– Other EBA deductions, in anticipation of the Basel III rules (724 million euros)

– Losses from the transfer of pensions to the National Social Security System (439 million euros)

2. Contingent risks related to the need to establish provisions of a non-recurring nature for our Greek subsidiary, as a result of the gradual deterioration of the economic and financial situation in that country (450 million euros)

3. Additional safety buffer against future uncertainty (479 million euros)

The recapitalization operation

After considering the risks, uncertainty and volatility associated with the expected development of BCP's activity, the estimated additional capital needed, to be realized through public investment, is 3.0 billion euros, complemented by an additional 500 million euros to be raised through private investment:

1. Issuance of hybrid instruments in the estimated total amount of 3.0 billion euros, eligible as Core tier I, to be subscribed by the Portuguese State, and which is expected to begin being paid back starting in 2014, with full amortization by the end of 2016 (500 million euros in 2014, 1.0 billion euros in 2015 and 1.5 billion euros in 2016), even though the bank has the right to complete the repayment in 2017;

2. Issuance of ordinary shares, in the estimated amount of 500 million euros, in exchange for new funds, to be subscribed by shareholders and fully underwritten by the State. For the underwriting agreement a price has been established of €0.04 a share.

THE PORTUGUESE MORTGAGE MARKET AND THE SERVICING OF THE COVER POOL

A. 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 EU15 average in 1986 to around 75% more recently[1].

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 on the short run. Recession set in 2011 (-1.6% in real GDP annual growth[2]) and is expected to endure in 2012, 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 25 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 (1.7% for the euro average)[3].

[1] Eurostat, 2011

[2] Portugal's National Statistics Institute and Bank of Portugal

[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. Adequate 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") 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.

A year passed and on the 3 quarterly reviews made 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 (roughly 60% of the total) up until the end of 2011 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 got around 80% of the votes. Government and opposition changed places. A center-right coalition took office being strongly committed on delivering on the targets. The main opposition party, the prior ruling government, is strongly committed on the measures as well.

This consensus goes beyond the political arena. A year after imposing extreme austerity measures, namely reducing public wages, the government still enjoys decent popular readings. Some of the most important unions also stand behind the structural reforms and have been strongly engaged in redesigning the labor laws and practices, together with government and employees, in order to make greater labor flexibility a facilitator for stronger employment in the future. Lower severance payments, cut in holidays, reduced unemployment benefits have all been agreed upon.

In 2011, the budget deficit reached 4.2% of GDP, a reading well below the target (5.9% of GDP) but benefitting from non-recurrent revenues – 3.5 p.p. of GDP from the transfer of bank's pension funds to Social Security – taken as a necessary measure to reach intended levels in a short period of time. Nevertheless, the structural deficit, that is excluding extraordinary items and the cycle effect, was reduced from more than 11% of GDP to less than 7% of GDP in 2011. A similar reduction is expected in 2012. The public debt reached 107% of GDP, a high level for any standard. However, debt sustainability analysis performed by the IMF, the EC or the European Central Bank ("ECB") draw similar conclusions: provided the program runs according to schedule, public debt is expected to start descending in a sustainable manner starting 2013/2014; long term pressures on public finances seem well below those faced by many advanced economies.

Though very early to assess the full impact of the adjustment program, two developments are worth highlighting: (i) the significant reduction of the external deficit and (ii) the resiliency of economic growth. The adjustment in domestic demand is advancing at a fast rate, with significant reductions in consumption and investment, as tight financing conditions, global uncertainty and austerity measures constrain the spending potential and incentivizes to higher savings. Despite these headwinds, the economic recession has been milder than expected. For 2011, GDP turned lower 1.6% against an initial expectation of 2.2% drop. During the first quarter of 2012, economic activity turned much stronger than expected (-2.2% yoy vs -3.2% yoy, on EC estimates). For the whole of 2012, GDP is expected to be weak (-2.8% to -3.5%, range of domestic official estimates), driven by significant retrenchment of domestic demand partly offset by good developments coming from net external demand.

In fact, a key factor for the resiliency on growth has been the evolution of exports, underscoring underlying gains in the degree of the competitiveness of Portuguese goods and services abroad and its progress in terms of both markets diversification and export content. By the end of 2011, Portugal current account posted a small surplus.

The better than expected developments and institutional support helped bringing down sovereign risk premiums. 2 year yields receded from high 20% towards the vicinity of 10%. Long term yields remain at high levels, though, both for a developed economy or when comparing to the historical low yields being charged on core European countries, demonstrating that investor's still remain weary on the country's success over the long run. Indeed, several risk factors stand in the way, of which: (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; from the domestic side, the significant increase in the unemployment rate (14,9% in first quarter 2012) constitutes a risk for bringing public finances according to plan, on economic potential and on the political and social backing on 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 down. Residential permits issued and new dwellings completed have been declining since 2002, contributing to some rebalancing of the residential property market. House prices are trending down but moderately. Credit delinquencies are rising as unemployment increases but mitigated somewhat by the low installments given historical low Euribor rates, the main indexer in Portuguese housing loans. The banking industry together with authorities are devising ways to lessen the impact on households of the current adverse economic conditions by redesigning loans conditions on targeted customers.

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. As loans 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. That is about to change. Rent liberalization, shorter contracts for high worth tenants are being sought in legislation expected soon, as announced by the government.

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 have already unilaterally adopted several actions, it is likely that measures will be envisaged 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 help keeping non performing loans at manageable levels counteracting for the lowering of social contributions and higher unemployment.

Most of the mortgage lending is done at a variable interest rate, usually indexed to the average three-month or six-month Euribor, with a one-month lag. Although available, fixed-rate lending or capped-rate alternatives have not been in demand, due to uncompetitive immediate monthly instalments. The spread charged over the benchmark interest rate is a function of several factors: the individual's credit assessment; the loan-to-value level; the banking relationship; other collateral arrangements; and global market conditions. The widespread use of contracts at variable interest rate makes households exposed to interest rate risk. However, during the current crisis this feature eased the debt servicing burden. Debt service capacity will continue to benefit from the 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 2010 when it peaked[4]. 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). Most of it is concentrated in the metropolitan areas of Lisbon and Porto. The six largest banking groups in Portugal originate most of the residential property loans.

[4] Bank of Portugal, 2012

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 then[5]. 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 the real assets.

The residential mortgage legal framework has changed over the years, from a highly regulated market with few qualified institutions 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 maximum prepayment penalty, 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 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 highly stringent capital requirements proposals 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, an electronic credit decision-making workflow and a 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*) that was established in July 2009; previously rating override was performed at the Credit Division (*Direção de Crédito*).

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 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.

[5] Bank of Portugal, 2011

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 25%, 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 49% for the years of 2012 and 2013. 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 30%, 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 25%, 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 49% for the years of 2012 and 2013. An exemption applies to resident individuals on the annual positive difference between gains and losses on shares and debt securities of up to Euro 500. Accrued interest qualifies as interest for tax purposes.

Stamp tax at 10% applies to the acquisition through gift or inheritance of Covered Bonds by an individual who is domiciled in Portugal. An exemption applies to transfers in 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 10,000,000 and at 5% on taxable profits in excess of Euro 10,000,000 for the years of 2012 and 2013. 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 (and other debt securities and shares held for more than 12 months) by investment funds created and operating under Portuguese legislation other than mixed or closed-ended private investment funds is exempt from tax; otherwise, tax applies at 21.5%.

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 10,000,000 and at 5% on taxable profits in excess of Euro 10,000,000 for the years of 2012 and 2013. 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 (individuals or legal persons) without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at 25%, which is the final tax on that income. The rate is 30% 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 30%, 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 25%. 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 das Finanças e da Administração Pública"), 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 e da Administração Pública*") and may be available for viewing and downloading atwww.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 atwww.portaldasfinancas.gov.pt. and within the general deadlines.

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).

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 SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement dated 29 June 2012, 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.

The following restrictions may be amended or supplemented in the relevant Final Terms.

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.

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 issue or the offer of securities in the Republic of Italy; and

(C) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

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, an each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not directly or indirectly taken any action or offered, advertised, marketed invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer ("*oferta pública*") of securities pursuant to the Portuguese Securities Code, 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.

Without prejudice to the above, on 4 May 2012, the CMVM launched a public consultation (*consulta pública*) on the preliminary draft of the decree-law that will transpose into the Portuguese legal framework the 2010 PD Amending Directive. Accordingly, rules in respect of public offerings of securities are likely to change in a near future, although it is at this stage uncertain the exact scope of those variations and when will the same enter into force.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive.

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. A description of the main terms of any such agreements and the names and addresses of the relevant Dealers or other persons who are party to such will be disclosed in the applicable Final Terms for the relevant Covered Bonds.

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 a resolution of the Executive Committee of the Issuer dated 19 June 2012 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. 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.

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

There has been no significant change in the financial or trading position of the Group since 31 March, 2012. Save as disclosed on page 133 under the heading "*25 June 2012*", in the section entitled "Recent Developments in 2012", there has been no material adverse change in the prospects of the Issuer since the date of the last audited accounts, 31 December, 2011.

Litigation

As mentioned in note 58 to the 2011 consolidated financial statements of the Bank, quoting:

"1. 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 Banco de Portugal against the Bank, "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 Banco de Portugal, in particular in what respects to the amount of own funds and breach of prudential obligations".

A press release issued by Banco de 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 Banco de 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 Banco de Portugal, in which this Authority charges the Bank 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 Banco de 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 Euro 750 and Euro 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 Euro 2,500 and Euro 2,494,000.

b) the (i) omission of information and communications to Banco de 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 Euro 750 and Euro 750,000. However, the (i) provision of false information or (ii) of incomplete information to Banco de 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 Euro 2,500 and Euro 2,494,000.

According to the charges, each offence is punishable by a fine between Euro 2,493.99 and Euro 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 Banco de Portugal, applying to it, as primary sanction, a single fine of Euro 5,000,000.

Different fines were applied to the remaining defendants as primary sanctions, globally amounting to Euro 4,470,000. The Board of Directors of Banco 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 the Banco of Portugal appealed this decision and the appeal and replies to the allegations made by the Bank and the other defendants have already been accepted.

The Bank is waiting for the process to go to Tribunal da Relação (Lisbon court of appeals) for appraisal.

2. On 12 December 2008, the Bank was notified by the CMVM of the accusation under the administrative proceedings no. 41/2008 wherein it was charged with seven administrative offences for the alleged violation of article 7 of the Securities Code (CVM) and of article 389 (1) (a) of that Code.

In accordance with article 7 of the CMVM the information relating to financial instruments, organised trading methods, the activities of financial intermediation, the settlement, clearing of operations, public offers of securities and issuers must be complete, true, updated, objective, clear and lawful.

The Bank did not accept the charges brought against it and has provided, on 27 January 2009, its defence under the administrative proceedings in question.

The Bank was notified on 26 June 2009 of CMVM's decision, within the scope of the administrative offence proceedings no. 41/2008, to apply a single fine of Euro 5,000,000 with the partial suspension of the sentence's execution for Euro 2,500,000 for a two-year term. The fine would be applied in its full amount if, during the suspension time the bank practiced any criminal or administrative offence, as foreseen in the Securities Code and it was timely disclosed.

The Bank did not accept this accusation and opposed it on 24 July 2009.

On 21 July 2010, the Tribunal de Pequena Instância de Lisboa (court of Lisbon for minor offences) pronounced the sentence on the proceedings partially approving the appeal regarding the suspension of Euro 2,500,000 for a two-year period and confirmed the CMVM's decision in all the remainder.

The Bank appealed to the Tribunal Constitucional (constitutional court) in April and the appeal was not accepted.

In April 2011, the Bank has appealed to the Tribunal Constitucional (constitutional court). On 15 February 2012, the judgment of the Tribunal Constitucional (constitutional court) dismissed the normative question of unconstitutionality alleged by the Bank. After the decision becomes final, the Bank will have to pay part of the fine which execution was not suspended, in the amount of Euro 2,500,000.

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4. 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 note 57, 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 8ª 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. The parties are waiting for a decision to be made thereon."

As at the date hereof, the administrative proceedings brought by Banco de Portugal under no. 24/07/CO are at appeal stage. Thus, following delivery of the court decision of 7 October 2011, which declared that the evidence was null and that therefore the entire process was also null, the Public Prosecutor and the Bank of Portugal appealed against this decision. The Bank and the other defendants presented their respective responses to these appeal allegations in due time. The trial court admitted such appeals, as well as the corresponding responses, and these have been submitted to the Lisbon court of appeals (Tribunal da Relação de Lisboa). In this instance, the Public Prosecutor gave a favorable opinion as regards the admissibility of the appeals. The Bank has already responded to such opinion, arguing that the appealed decision should be maintained, and hence the proceedings are pending a decision by the appeal court.

Also, on this date, the administrative proceedings brought by the CMVM under no. 41/2008 have already been decided by a final judgment. Indeed, the Constitutional Court decision of 15 February 2012, which dismissed the normative question of unconstitutionality alleged by the Bank, is now final and accordingly no further appeal is admissible.

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).

In October 2010, the SEC staff initiated a request to Banco Comercial Português, S.A. ("BCP") for certain information on accounts at BCP held by U.S. residents.

BCP is, within the respect of the legally applicable framework, responding to and cooperating with the request received in connection with the SEC's inquiry, which duration and outcome cannot be predicted with any degree of certainty.

Save as disclosed in the section entitled "Litigation" on pages 171 to 174 of this Base Prospectus 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, 2010 and 31 December, 2011 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, 2010 and 31 December, 2011 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, 2010 and 31 December, 2011 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 29 June 2012 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 (except for Final Terms relating to Covered Bonds which are not listed on any stock exchange), 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

Save as set out in the Final Terms, 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 Porto, 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 Edificio Monumental, Av. Praia da Vitória 71 – A, 11^{o}, 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 29 June 2012 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 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 Comerical 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 Edificio Monumental, Av. Praia da Vitória 71 – A, 11°, 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 depositary.

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

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

(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 Argricole Corporate and Investment Bank, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, HSBC Bank plc, J.P. Morgan Securities Ltd., 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 or Index Linked Interest 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:

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 and 29 June 2012 for the issuance of Covered Bonds by the Issuer as described in this Base Prospectus.

"**Programme Agreement**" means the agreement dated 29 June 2012 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.

"**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.

"**Receipts**" means the principal receipts related to the Definitive Bearer Covered Bonds.

"**Receiptholders**" means the persons who for the time being are holders of the Receipts.

"**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 any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms and references in Base Prospectus to the relevant Stock Exchange shall, in relation to any Covered Bonds, be references to the stock exchange or stock exchanges on which such Covered Bonds are from time to time, or are intended to be, listed.

“**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 Receipts and 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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