CAIXA ECONÓMICA MONTEPIO GERAL
CAIXA ECONÓMICA BANCÁRIA, S.A.

(a Savings Bank (caixa económica bancária) incorporated as a public limited liability company under the laws of the Portuguese Republic)

Registered Office: Rua Castilho, 5, 1250-066 Lisbon
Share Capital: €2,420,000,000
Registered with the Lisbon Commercial Registry Office under the sole commercial registration and taxpayer number 500 792 615

€5,000,000,000 CONDITIONAL PASS-THROUGH COVERED BONDS PROGRAMME
BASE PROSPECTUS

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (the "**Issuer**" or "**Banco Montepio**") is an authorised credit institution, savings bank (*caixa económica bancária*) under Portuguese Law, 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.

Under this €5,000,000,000 conditional pass-through covered bonds programme (the "**Programme**"), described in this Base Prospectus (the "**Base Prospectus**"), as further supplemented, the Issuer may from time to time issue conditional pass-through mortgage covered bonds (the "**Covered Bonds**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

"Covered Bond" means any conditional pass-through 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.

The Conditional Pass-Through structure will become relevant after an Issuer Event, upon which the maturity date of the affected outstanding Series is extended, as defined in the relevant Final Terms, and any Available Fund shall be applied on each Interest Payment Date in making the payments in the order of priority as set on Condition 6.9 (Pass-through Provision) of the Terms and Conditions, on a pro rata basis in the same priority line and the Hedging Counterparty shall be notified by the Cover Pool Monitor of the Available Funds ahead of such Interest Payment Date.

The circumstances that may or will trigger the Pass-Through mechaninsm (Issuer Event) are an Insolvency Event or a Default of Payment Event.

See *General Description of the Programme* and *Final Terms of the Covered Bonds* for further information to be considered in connection with an investment in the Covered Bonds.

The Programme was approved by the Issuer on 26 June 2008, as amended from time to time, following the approval of the amended Programme on Noteholder meetings held and subsequent signature of the relevant updated Programme Documents.

Covered Bonds will be represented in book-entry form with Interbolsa and in registered (*nominativas*) form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €5,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under *Overview of the Covered Bonds Programme* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Covered Bonds.

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

This document comprises a base prospectus for the purposes of the Programme and of Article 5.4 of Directive No. 2003/71/EC of the European Parliament and of the Council of 4 November 2003 as amended or superseded (the "**Prospectus Directive**"), to the extent implemented in the Relevant Member State) and of article 26 of the Commission Regulation (EC) No. 809/2004, as amended (the "**Prospectus Regulation**"). This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application will be made to the Irish Stock Exchange Plc trading as Euronext Dublin ("**Euronext Dublin**") for the Covered Bonds issued during the period of twelve months after the date of this Base Prospectus to be admitted to the official list (the "**Official List**") and to trading on its regulated market (the "**Market**"). Such approval relates only to the Covered Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU, as amended, in any Member State of the European Economic Area. 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 regulated market of Euronext Dublin or other regulated market. 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. Covered Bonds may, after notification by the Central Bank of Ireland to the supervision authority of the Relevant Member States of the European Union, in accordance with article 18 of the Prospectus Directive, be admitted to trading on the regulated Market(s) of and/or be admitted to listing on stock exchange(s) of any other Member States of the EEA. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Confirmation on whether or not each credit rating applied for in relation to or assigned to a relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) no. 1060/2009, as amended (the "**CRA Regulation**") will be given in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). A credit rating is not a recommendation to buy, sell or hold securities and may be lowered, withdrawn or qualified by the rating agency at any time.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined under Terms and Conditions of the Covered Bonds) of Covered Bonds will be set out in a final terms document (the "Final Terms") which will be delivered to the Central Bank of Ireland and, if admitted to trading on the regulated market, to Euronext Dublin. Copies of Final Terms in relation to Covered Bonds to be listed on Euronext Dublin will also be published on the website of Euronext Dublin (https:// www.ise.ie).

The date of this Base Prospectus for admission to trade on a regulated market is 15 March 2019.

Arranger
NatWest Markets

Dealers

Merrill Lynch International	**Citigroup**	**Commerzbank**
Crédit Agricole CIB	**Deutsche Bank**	**DZ BANK AG**
J.P. Morgan	**Landesbank Baden-Württemberg**	**Natixis**
NatWest Markets	**Société Générale Corporate & Investment Banking**	**UniCredit Bank**
	Citigroup Global Markets Europe AG	

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus following this page, and you are therefore required to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of the Representation: In order to be eligible to view this Base Prospectus or make an investment decision with respect to the securities, you must not be a U.S. Person (within the meaning of Regulation S under the Securities Act) and must be outside the United States. This Base Prospectus is being sent at your request and by accepting the e-mail and accessing this Base Prospectus, you will be deemed to have represented to us that you are not a U.S. Person, that you are outside the United States, the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions, and that you consent to delivery of this Base Prospectus by electronic transmission.

You are reminded that this Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person.

The materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a

licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, the potential offering will be deemed to be made by such underwriter or such affiliate on behalf of Caixa Económica Montepio Geral, caixa económica bancária, (the "**Issuer**") in such jurisdiction.

Under no circumstances will this Base Prospectus constitute an offer or invitation to sell or the solicitation of an offer to buy nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Base Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the final prospectus. This Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently the Dealers, any person who controls any of the Dealers, any director, officer, employee or agent of any of the Dealers or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version (if any) available to you on request from any of the Dealers.

IMPORTANT INFORMATION

This document comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to Banco Montepio and its subsidiaries and affiliates taken as a whole (the "CEMG Group" or the "Group") and the Covered Bonds which, according to the particular 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 and an investment in the Covered Bonds.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the applicable Final Terms of the Covered Bonds. 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.

This Base Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the EEA 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.

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference").

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus 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 or any of the Dealers or the Arranger (as defined in "*General Description of the Programme*"). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change in the financial position of the Issuer since 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 at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

IMPORTANT – EUROPEAN ECONOMIC AREA RETAIL INVESTORS

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

MiFID II PRODUCT GOVERNANCE / TARGET MARKET

The Final Terms in respect of any Covered Bonds will include a legend entitled "**MiFID II product governance / Professional investors and Eligible Counterparties only target market**" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking

its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

BENCHMARK REGULATION

Amounts payable under the Covered Bonds may be calculated by reference to the Euro Interbank Offered Rate ("**EURIBOR**") or the London Interbank Offered Rate ("**LIBOR**") which are provided by the European Money Markets Institute ("**EMMI**") and the ICE Benchmark Administration Limited ("**ICE**") respectively.

As at the date of this Base Prospectus, EMMI does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**BMR**"). As far as the Issuer is aware, the transitional provisions in Article 51, including its pars. (1) and (3), of the BMR apply such that EMMI is not currently required to obtain authorisation or registration.

The ICE has been included in the register of administrators established and maintained by ESMA pursuant to Article 36 of the BMR.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF COVERED BONDS GENERALLY

The distribution of this Base Prospectus and the offering or sale of the Covered Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restrictions. The Covered Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account of or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act ("**Regulation S**"). If TEFRA C is specified as "Applicable" in the relevant Final Terms, then the Covered Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder. For a description of certain restrictions on offers and sales of Covered Bonds and on distribution of this Base Prospectus, see "*Subscription and Sale*".

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arranger or the Dealers to subscribe for, or purchase, any Covered Bonds.

Save for Banco Montepio, no other person has separately verified the information contained herein. To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Covered Bonds. The Arranger and each Dealer accordingly disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Base Prospectus or any such statement.

Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Covered Bonds. Each potential purchaser of Covered Bonds should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Covered Bonds should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Covered Bonds of any information coming to the attention of any of the Dealers or the Arranger.

An investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer, which 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. 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. See "*Risk Factors*".

The Covered Bonds will not represent an obligation or be the responsibility of the Arranger or the Dealers or any person other than the Issuer.

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:

i) 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;

ii) 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;

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

iv) understand thoroughly the terms of the relevant Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

v) 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.

Investors generally purchase financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effects on the value of such Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

An investment in Covered Bonds is not equivalent to an investment in a bank deposit. Although an investment in Covered Bonds may give rise to higher yields than a bank deposit placed with the Issuer or with any other investment firm in the Group, an investment in Covered Bonds carries risks which are very different from the risk profile of such a deposit. Covered Bonds are expected to have greater liquidity than a bank deposit since bank deposits are generally not transferable. However, Covered Bonds may have no established trading market when issued, and one may never develop.

Investments in Covered Bonds do not benefit from any protection provided pursuant to Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes or any national implementing measures implementing this Directive in any jurisdiction. Therefore, if the Issuer becomes insolvent or defaults on its obligations, investors investing in Covered Bonds in a worst case scenario could lose their entire investment.

STABILISATION

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 stabilisation manager(s) (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation 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, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF INFORMATION

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "**€**" and "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time. Certain amounts that appear in this Base Prospectus have been subject to rounding adjustments. Accordingly, the figures shown as totals in certain tables may

not be an arithmetic aggregation of the figures that precede them and amounts expressed as percentages may not total 100 per cent. when aggregated.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Base Prospectus may contain forward-looking statements. Banco Montepio may also make written forward-looking statements in their audited annual financial statements, in their interim financial statements, in their offering circulars, in press releases and other written materials and in oral statements made by their officers, directors or employees to third parties. Statements that are not historical facts, including statements about Banco Montepio's beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections and such statements reflect Banco Montepio's judgement at the date of this document and are not intended to give any assurances as to future results. Forward-looking statements speak only as at the date they are made, and Banco Montepio undertakes no obligation to update publicly any of them in light of new information or future events. Banco Montepio will comply with their obligations to publish updated information as required by law or by any regulatory authority but assume no further obligation to publish additional information.

ALTERNATIVE PERFORMANCE MEASURES

This Base Prospectus and the documents incorporated by reference in this Base Prospectus contain certain management measures of performance or alternative performance measures ("**APMs**"), which are used by management to evaluate the Issuer's overall performance. These APMs are not audited, reviewed or subject to review by the Issuer's auditors and are not measurements required by, or presented in accordance with, International Financial Reporting Standards ("**IFRS**"). **Accordingly, these APMs should not be considered as alternatives to any performance measures prepared in accordance with IFRS.**

Many of these APMs are based on the Issuer's internal estimates, assumptions, calculations, and expectations of future results and there can be no guarantee that these results will actually be achieved. **Accordingly, investors are cautioned not to place undue reliance on these APMs.**

Furthermore, these APMs, as used by the Issuer, may not be comparable to other similarly-titled measures used by other companies. Investors should not consider such APMs in isolation, as alternatives to the information calculated in accordance with IFRS, as indications of operating performance or as measures of the Issuer's profitability or liquidity. Such APMs must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS and investors are advised to review these APMs in conjunction with the audited consolidated annual financial statements incorporated by reference in this Base Prospectus.

The descriptions (including definitions, explanations and reconciliations) of all APMs are set out in the Glossary at the back of this Base Prospectus.

The Issuer believes that the description of these management measures of performance in this Base Prospectus follows and complies with the ESMA Guidelines introduced on 3 July 2016 on Alternative Performance Measures.

SUPPLEMENT TO THE BASE PROSPECTUS

The Issuer has given an undertaking to the Arranger, the Dealers and to Euronext Dublin that if at any time during the duration of the Programme there is a significant new factor, mistake or material inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Base Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Covered Bonds, the Issuer shall prepare a supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Covered Bonds and shall supply to each Dealer and Euronext Dublin such number of copies of such supplement hereto as such Dealer and Euronext Dublin may reasonably request.

TABLE OF CONTENTS

RISK FACTORS 11

GENERAL DESCRIPTION OF THE PROGRAMME 61

OVERVIEW OF THE COVERED BONDS PROGRAMME 65

DOCUMENTS INCORPORATED BY REFERENCE 75

RESPONSIBILITY STATEMENTS 77

FORM OF THE COVERED BONDS AND SETTLEMENT 79

FINAL TERMS OF THE COVERED BONDS 82

TERMS AND CONDITIONS OF THE COVERED BONDS 99

CHARACTERISTICS OF THE COVER POOL 127

ISSUER EVENTS 135

COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS 137

COVER POOL MONITOR 138

DESCRIPTION OF THE ISSUER 144

BOARD OF DIRECTORS AND OTHER CORPORATE AND GOVERNING BODIES OF THE ISSUER 182

THE PORTUGUESE MORTGAGE MARKET 198

DESCRIPTION OF THE ISSUER'S RESIDENTIAL MORTGAGE BUSINESS 203

USE OF PROCEEDS 211

THE COVERED BONDS LAW 212

TAXATION 219

GENERAL INFORMATION 231

DEFINITIONS 234

RISK FACTORS´

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

The 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 the Definitions section shall have the same meaning in this section.

The impact of the financial and credit crisis

The capital and credit markets have experienced several periods of volatility and disruption since 2008. Market dislocations have led to the failure of several substantial financial institutions, causing widespread liquidation of assets and further constraining the credit markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, have driven down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation of many of the asset categories represented on the balance sheet of Banco Montepio, and reduces its ability to sell assets at prices deemed acceptable. Additionally, such market volatility produced downward pressure on stock prices and credit capacity for financial market participants generally.

In the beginning of 2018, there was a resurgence of volatility due to the increase of long-term interest rates and uncertainty regarding U.S. Trump Administration's protectionist policies.

Several constraints and challenges remain in the Euro Area. Some of these may result from political factors and other geopolitical developments. In addition to the uncertainties surrounding the United Kingdom's proposed exit from the European Union (the "**EU**") following the referendum of 23 June 2016, which saw the country vote to leave the European Union, the outcome of elections held in other EU countries may have unpredictable consequences in the international financial markets. The political developments in Italy and Spain surprised the market. News coming out of these two countries brought back the dichotomy between periphery and core countries in Europe, which sparked high levels of volatility in the capital markets. Moreover, the political turmoil in Italy triggered concerns about the stability of the euro zone.

The possibility of terrorist attacks may also disrupt international financial markets for undetermined periods of time.

If current levels of market volatility worsen significantly, Banco Montepio's ability to access the capital markets and obtain the necessary funding to support its business activities on acceptable terms may be adversely affected. Among other things, an inability to refinance assets on the balance sheet or maintain appropriate levels of capital to protect against deteriorations in their value could force Banco Montepio to liquidate assets held at depressed prices or on unfavourable terms.

These factors could have an adverse effect on the business, financial condition and operating results of Banco Montepio.

United Kingdom's Exit from the European Union

On 23 June 2016, the United Kingdom (the "**UK**") held a referendum, the result of which was to leave the EU ("**Brexit**"), which creates several uncertainties within the UK and regarding its relationship with the EU. On 29 March 2017, the UK served notice in accordance with article 50 of the Treaty on European Union of its intention to withdraw from the EU. The notification of withdrawal started a two-year process during which the terms of the UK's exit will be negotiated, although this period may be extended in certain circumstances.

The negotiation process is ongoing but there is a great amount of uncertainty on the specific terms to be agreed between the negotiating parties. Moreover, as the withdrawal date (29 March 2019) approaches, there is an increasing risk that the United Kingdom and the EU part ways without any agreement regarding such crucial matters as trade in goods and services, and security and immigration cooperation, in which case Brexit could become very problematic for both the United Kingdom and the EU member-states. If the so-called 'Hard-Brexit' scenario materialises, the implications to the European financial sector could be acute, especially in what concerns access to financial market infrastructures, the ability to perform contractual obligations under the existing contracts, access to funding markets, and the use of English law in issuances of minimum requirement for own funds and eligible liabilities ("**MREL**") eligible instruments.

The resulting negotiations are likely to generate further increased volatility in the markets and economic uncertainty which could adversely affect the Issuer. Until the terms and timing of the UK's exit from the EU are confirmed, it is not possible to determine the full impact that the referendum, the UK's departure from the EU and/or any related matters may have on general economic conditions in the UK and in the EU. Should international trade between the United Kingdom and the EU Member States become significantly restricted in the future, the Portuguese economy could be adversely affected, notably given the importance of the United Kingdom as a market for the export of goods, and as a source of tourism.

Given the current uncertainties and the range of possible outcomes, there can be no assurance that the Issuer's business, results of operations, financial condition and prospects will not be affected by market developments, notably the depreciation of the exchange rate of GBP against the euro and higher financial market volatility in general due to increased uncertainty surrounding the aforementioned factors. Furthermore, no assurance can be given that the matters described above would not adversely affect the rights of the Holders of the Covered Bonds, the market value of the Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

Economic activity in Portugal

As the Issuer currently conducts the majority of its business in Portugal, its performance is influenced by the level and cyclical nature of business activity in Portugal which is in turn affected by both domestic and international economic and political events. Thus, a decline in Portuguese economic activity may have a material effect on the Issuer's financial condition and on the results of its operations. A deterioration in Portugal's international economic performance and/or uncertainty regarding implemented political measures may also have a material effect on the Issuer's financial condition and on the results of its operations. In addition, following the recent events in Italy and France, continued political turmoil may have a negative impact on (i) the Issuer's cost of funding and its ability to issue Covered Bonds under the Programme; (ii) the yield of Portuguese Government bonds, impacting the capital position of the Issuer; and (iii) the Portuguese economy, which, in turn, would have a negative impact on the business of the Issuer.

The Issuer's business activities (including mortgage lending activities) are dependent on the level of banking and financial services required by its customers and borrowers in Portugal which are, in turn, influenced by the evolution of economic activity, saving levels, investment and employment. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, and the condition of the Portuguese economy and market interest rates.

Structural factors, such as the slow adaptation of some sectors to increasing external competition, as well as labour laws and the low levels of qualifications of a material portion of the workforce, combined with a period of very poor economic growth and the implementation of measures to reduce the public deficit in the

context of the Portuguese Financial Assistance Programme ("**FAP**"), have contributed to a rise in the unemployment rate. In fact, during Portugal's last recession, the unemployment rate reached a historical high level.

In May 2011, the FAP was agreed between the European Central Bank ("**ECB**"), the International Monetary Fund ("**IMF**") and the European Commission ("**EC**", and together with the prior two entities, the "**Troika**") and was implemented in 2012. The FAP comprised a total funding of €78 billion to be allocated during the period from 2011 to 2014. The FAP's main objectives were to return the Portuguese economy to a path of sustained growth within a framework of financial stability and to restore the confidence of participants in the international financial markets. To this end, the FAP focused its assistance in three main areas: (i) a set of significant structural reforms to increase potential growth, create jobs and improve the economy's competitiveness; (ii) a strategy for credible fiscal consolidation, based on measures of a structural nature and greater budgetary control over all obligations of the State; and (iii) a process of orderly deleveraging of the financial sector through market mechanisms and supported by a fund to finance the recapitalisation of banks.

On 17 May 2014, the FAP came to an end, which constituted an important moment for the evolution of the Portuguese economy. During its period of implementation, there was significant progress in the correction of certain macroeconomic imbalances and various structural measures were adopted where needed. Notwithstanding this progress, the return to normal market conditions in respect of funding to the Portuguese economy required sustained product growth. Such product growth was also crucial to bringing about a reduction in the high level of unemployment observed in the Portuguese economy (which in 2013 reached a maximum annual average of 16.2 per cent., having started a downward trajectory in 2014 reaching 8.9 per cent. in 2017).

Following its exit from the FAP, Portugal became subject to Post-Programme Surveillance by the EC and the ECB and to Post-Programme Monitoring by the IMF.

Portugal's debt-to-GDP ratio was 129.2 per cent. of gross domestic product ("**GDP**") in 2016, below the 130.1 per cent. registered in March 2017. The indicator resumed the downward trajectory, reaching 124.8 per cent. by the end of that year. In the Portuguese Government's State Budget for 2019 (the "**SB 2019**"), approved on 29 November 2018, the debt-to-GDP ratio was expected to reach 121.2 per cent. by the end of 2018, below the 122.2 per cent. previously forecasted in the Stability Programme 2018-2022 ("**SP 2018-2022**"), published on 13 April 2018. The level of public debt is projected to continue its gradual declining trend. Given the current high level of government debt, Portugal still appears to face high fiscal sustainability risks in the medium-term. However, in the long-term, Portugal faces low fiscal sustainability risks, particularly due to the positive structural primary balances since 2012.

In addition, Portugal's GDP grew by 2.8 per cent. in 2017, exceeding the government's projected growth of 2.6 per cent. presented in the SB 2018, accelerating from 1.9 per cent. in 2016 and representing the highest rate of growth since the beginning of the millennium. As expected, the economic growth registered in 2017 reflected the positive domestic demand contribution of 3.1 percentage points. The acceleration of this contribution (compared to 2.2 percentage points in 2016) mainly reflects the strong acceleration in investment ("**GFCF**"), but also the strong growth in private consumption. Private consumption expanded by 2.3 per cent. (compared to 2.4 per cent. in 2016), while GFCF rose by 9.2 per cent., strongly accelerating the growth of 2.3 per cent. in 2016. Public consumption rose slightly by 0.2 per cent. (compared with the expansion of 0.8 per cent. in 2016) and the change in inventories had a null contribution to GDP growth, which compares to a negative contribution of 0.1 percentage points in 2016. Meanwhile, net exports showed a negative contribution of 0.3 percentage points, penalising growth for the fourth consecutive year (-0.2 percentage points in 2016). The negative contribution of net exports in 2017 reflects increases of 7.8 per cent. in exports (compared to 4.4 per cent. in 2016) and 8.1 per cent. in imports (compared to 4.7 per cent. in 2016). Although net exports in 2017 have once again penalised growth, the economic recovery has continued to be sustained by exports, which at the end of 2017 were 47.5 per cent. higher than pre-adjustment programme levels (i.e. 2010). Exports of services, notably tourism, have continued to grow at a steady pace, as several Portuguese destinations consolidate their prestige in the international markets.

For 2018, the Bank of Portugal (18 December 2018) forecasts a deceleration in GDP growth to 2.1 per cent. (+2.8 per cent. in 2017), below the 2.3 per cent. projected by the IMF (on 9 October 2018) and by the Portuguese Government (in the SB 2019), and the 2.2 per cent. forecasted by the European Commission (on 8 November 2018) and by the OECD (on 21 November 2018). Bank of Portugal anticipates a stabilization of private consumption growth (2.3 per cent., compared with 2.3 per cent. in 2017), but a slowdown in GFCF (from 9.2 per cent. in 2017 to 3.9 per cent. in 2018). With lower investment growth, we also expect a slowdown in imports, but they are expected to advance more than exports, resulting in a new negative contribution from net exports. A further deceleration is anticipated in 2019 by Bank of Portugal, down to 1.8 per cent., also below the 2.2 per cent. projected in the SB 2019 and those 2.1 per cent. forecasted by OECD, and in line with the 1.8 per cent. projected by the European Commission and the IMF.

The following challenges facing the economy at the domestic level should be highlighted: (i) the still weak situation of the banking system; and (ii) the persistence of some political risks (a heterogeneous majority in the parliament supports a minority government) due to the possibility of a return to political instability (but which has been attenuated as the legislature moved forward), in a context in which the country should continue committed to the additional consolidation objectives with respect to public finances demanded by the EU for the medium-term and where such policies do not have the support of the left-leaning parties upholding the Portuguese Government. It should be noted, however, that this year Portugal will have the legislative elections on 6 October, with the most likely scenario being the maintenance of the current legislative solution (left party agreement). On the positive side, the labour market recovery may continue to exceed expectations, supporting higher growth in domestic demand. Externally, the economy remains vulnerable to the evolution of global demand, which as a central scenario is expected to continue to rise, but is also fraught with risks mainly due to: (i) the low oil price (although the average price of 2018 has been higher than that forecasted in the beginning of 2018), which should continue to favour the terms of trade; and (ii) the possibility of the world economy being able to grow more than anticipated. On the negative side, a few challenges should be highlighted: (i) the political uncertainty in the Eurozone (in particular, the parliamentary support to the governments of Spain and Germany and the recent political instability in France and in Italy, in this last case as a result of the fiscal policy that the current government with a matrix against the Euro and anti-immigration intends to implement); (ii) the possibility of renewed tensions in the financial markets, making the international environment less favourable than projections (recent events in Italy and the signs of contagion observed) and negatively affecting the financing conditions of the Portuguese economy; (iii) an appreciation of the euro could be a constraint on the competitiveness of the economy (risk now less pressing than at the beginning of 2018); (iv) the effects of the reduction of the ECB's monetary policy´s expansionary nature on Portuguese debt yields; (v) the increase of protectionism at the global level; and (vi) the high geopolitical risk arising from the following factors: (a) the uncertainty about the situation in Catalonia; (b) the uncertainty of the Brexit process; (c) the uncertainty regarding the economic and commercial policy that will be carried out by the US President ; (d) the geopolitical uncertainty in the Middle East (e.g. Syria), the Far East (e.g. North Korea, mitigated by the Singapore summit between the United States and North Korea), Eastern Europe (Russia / Ukraine) and the US / Russia relationship.

With respect to the labour market, the unemployment rate decreased from 11.1 per cent. in 2016 to 8.9 per cent. in 2017, continuing the trend of reduction from the historical peak reached at the beginning of 2013 (17.5 per cent.), with a further reduction being projected by Bank of Portugal for 2018, to 7.0 per cent., and for 2019, to 6.2 per cent., which compares with the 6.9 per cent. and 6.3 per cent. projected by the Government in the SB 2019.

On the other hand, the average rate of change of the Portuguese consumer price index ("**CPI**") was 1.0 per cent. in 2018, decelerating from the 1.4 per cent. observed in 2017 (and compared to 0.6 per cent in 2016, 0.5 per cent. in 2015 and -0.3 per cent. in 2014), with core inflation (excluding energy, food and tobacco prices) at 0.6 per cent. in 2018 (compared to +1.1 per cent. in 2017). When considering the harmonised consumer prices index ("**HCPI**"), a slight acceleration of inflation in 2019 is expected by the Bank of Portugal, to 1.4 per cent. (+1.2 per cent. in 2018 and +1.6 per cent. in 2017), in line with the 1.4 per cent. projected in the SB 2019.

In Portugal, 2017 was marked by a strong decrease in the country risk, reflected in the reduction of the spread of 10-year Portuguese bonds, a favourable trend that was maintained in 2018. The GDP has grown more than anticipated and the unemployment rate has fallen more than expected, with better prospects for meeting the budget targets. In recent years, Portugal has embarked on a process of fiscal adjustment, despite the sharp increase in the deficit observed in 2017, caused by the recapitalisation of Caixa Geral de Depósitos (CGD). Indeed, following the budget deficit of 2.0 per cent. of GDP in 2016, in decline from the 4.4 per cent. deficit in 2015 - a reduction which benefited from some extraordinary effects - the budget deficit in 2017 amounted to 3.0 per cent of GDP, representing an annual deterioration of the balance of 1.0 percentage points, reflecting an increase in expenditure of 6.2 per cent., mainly due to the impact of the recapitalisation of CGD, while revenue grew by 3.9 per cent. Excluding this impact, the budget deficit for the whole of 2017 was only 0.9 per cent., a figure well below that initially estimated by the Government in the SB 2018 (1.4 per cent.) and which would represent the lowest deficit of the entire democratic history of Portugal, given that the previous lower deficit was, according to longer annual series, in 1974, of 1.0 per cent. of GDP. Regarding 2018, the Portuguese Public Finance Council (on 20 September 2018) expects a budget deficit of 0.5 per cent. of GDP (3.0 per cent. in 2017), estimates that are slightly more favourable than the 0.7 per cent. of GDP projected by the Government in SB 2019, by the OECD (on 21 November 2018), the EC (on 8 November 2018) and the IMF (on 9 October 2018). For 2019, the Portuguese Public Finance Council expects a further reduction of the budget deficit to 0.2 per cent. of GDP, a forecast, in this case, in line with the 0.2 per cent. forecast by the Government in the SB 2019, and also by the OECD, being in turn below the 0.3 per cent. of GDP projected by the IMF and the 0.6 per cent. of GDP forecasted by the European Commission.

Other favourable developments contributed to the reduction of the country risk during 2017 and 2018, such as Portugal's exit from the Excessive Deficit Procedure ("**EDP**"), positive developments in unemployment, general economic growth and favourable prospects for the achievement of budgetary targets. On 9 September 2017, Standard & Poor's increased the Portuguese Republic's rating to the first level of investment grade with a favourable outlook, and, on 15 September 2018, maintained the rating but improved the outlook from stable to positive. In turn, on 15 December 2017, Fitch increased its rating to two levels above "junk" maintaining the positive outlook, and reiterated this rating on 1 June 2018. On 12 October 2018, Moody's upgraded the Portuguese Republic's domestic and foreign long-term issuer rating one level above "junk" from Ba1 to Baa3, whereas the outlook has been changed from positive to stable. This update was driven by (1) Portugal's high general government debt move to a sustainable, albeit gradual, downward trend, with limited risks of reversal; and (2) the increased economic resilience following the broadening of Portugal's growth drivers and a structurally improved external position.

The Issuer cannot foresee what impact any economic or related fiscal developments and policies, or other additional measures, may have on the Portuguese economy, Banco Montepio's activity and performance.

Several challenges persist as fiscal consolidation is still unfolding, and private and public debt levels remain high. It is still unclear whether the Portuguese economy will begin to recover in a sustainable way, particularly through an increase in investment.

The current economic environment is still a source of challenge for the Issuer, and may adversely affect its business, financial condition and operating results. The adverse macroeconomic conditions in Portugal have significantly affected, and may continue to adversely affect, the behaviour and the financial situation of the Issuer's clients, and consequently, the supply and demand of the products and services that the Issuer has to offer. In particular, limited growth in customer loans is expected in the coming years, which may make it difficult for the Issuer to generate enough interest income to maintain its net interest margin. Additionally, an environment of extremely low or even negative interest rates is expected to continue, which limits the Issuer's ability to increase net interest margin and profitability, given that the majority of the Issuer's loan portfolio is composed of floating interest rate loans.

Furthermore, the reduction in the profitability of companies and the increase in corporate and personal insolvencies have had, and may continue to have, a negative influence on the ability of the Issuer's clients to

pay back loans, and, consequently, could cause an increase in the ratio of overdue loans, reflecting a deterioration of the Issuer's quality of assets.

A negative development of any of the above factors may adversely affect the business and performance of the Issuer.

The Issuer's Strategic Plan includes targets that may not be achieved

The Issuer's strategic plan aims to ensure profitability, the strengthening of capital and the maintenance of comfortable liquidity levels, defining as priorities the increase of core net operating income and capital management, risk management reinforcement, platform efficiency, liquidity management, human resources management and the governance model (the "**Strategic Plan**").

The Board of Directors, which took up office on 21 March 2018, undertook the commitment to enhance the efficiency, profitability of the operation and adequacy of Banco Montepio's business model to the most modern and demanding forms of customer relations.

The Board of Directors launched a Transformation Plan aimed at producing a diagnosis of Banco Montepio's baseline position and defining a strategy with clear choices and specific business goals for the medium and long-term.

Banco Montepio's Transformation Plan will define the Issuer's strategy and business goals for the medium and long-term, aiming to achieve six critical goals: (i) A sustainable business model, through an economically profitable business model with adequate creation of value for the shareholder; (ii) Strengthen Banco Montepio's position as a reference financial institution, by supporting the social economy, working among the segments of the population that are least benefited by banking services; (iii) Develop new value propositions and service models, affirming itself as a reference bank for small and medium-sized enterprises (SMEs) and for the different segments of individual customers; (iv) Increase the efficiency of the commercial structures, developing new internal processes and new forms of working; (v) Enhance Banco Montepio's robustness as a bank of relations and proximity, whether personally or through technological innovation; (vi) Improve assets quality, focusing on the sustained improvement of credit quality ratios and the continuous reduction of concentration of risk in the activity sectors of construction and real estate development.

If any of the targets are not met, the Issuer will consequently seek to take additional measures in order to achieve them, but there is no guarantee that they will be met. They have not been set for the purpose of the offering of any Covered Bonds and are not, and should not be, regarded by potential investors as a forecast of future performance by Banco Montepio.

International Activity

The international activity of the CEMG Group is carried out by the subsidiaries Finibanco Angola, S.A. ("**Finibanco Angola**"), Banco MG Cabo Verde, Sociedade Unipessoal, S.A. and, until the end of 2018, BTM – Banco Terra, S.A. ("**BTM**") in Mozambique.

The total assets of international activity of CEMG Group's international business as at 30 June 2018 corresponded to €596.5 million, compared to €543.7 million as at 31 December 2017 (for comparative purposes, the December 2017 and June 2018 financial statements of Finibanco Angola and BTM were converted using the same exchange rates: AOA / EUR 288.872; MZN / EUR 69.145), which amounted to 3.5 per cent. and 2.8 per cent. of the total net assets as at 31 December 2017 and 30 June 2018, respectively.

For a further discussion of the potential exposure of the Issuer to CEMG Group´s international business, please refer to section "*International Activity*" in the chapter "*Description of the Issuer*".

The Issuer's operation in Angola, through Finibanco Angola, is exposed to the risk of adverse political, governmental or economic developments in Angola.

In April 2016, the Angolan authorities submitted a formal request to initiate discussions on an economic programme that could be supported by financial assistance from the IMF. The sharp decline in oil prices

since mid-2014 represented a major challenge for oil exporters, especially for those economies that have yet to become more diversified. On 30 June 2016, Angola's government called off the financial assistance talks and announced the intention to continue discussions only on technical assistance.

Angola's GDP and exports depend greatly on the oil market, and the sharp decline in oil prices since mid-2014 has had a significant impact on its economy. Reduced revenues made the government react by cutting expenditure and increasing non-oil revenue, as well as by devaluing the kwanza.

Angola struggles with high inflation (31.7 per cent. in 2017), current account and fiscal deficits, high public debt, and real negative interest rates. Angola has external imbalances, including forex shortages.

Private investments other than in the oil sector are constrained by infrastructure, skills weaknesses, and a challenging business climate.

Elections in August 2017 brought the first change of president in 38 years. Since the end of the war in 2002, Angola has made great economic and political progress, although it still faces massive development challenges, such as the reduction of its dependency on oil and the diversification of the economy; improving its infrastructure; and enhancing governance, public financial management systems, human development indicators, and the living conditions of its population.

A devaluation of the kwanza might adversely affect the stake of the Issuer in Finibanco Angola. The kwanza is not freely convertible and may not, except in limited circumstances, be exported from or imported into Angola. This means that cross-border payments and transfers need to be settled in foreign currency, which may result in an additional risk to the Issuer.

In addition, the Issuer's operations are subject to regulation in each jurisdiction in which it operates. Often, these regulations are complex and costly to comply with in terms of time and other resources. Breach of applicable regulations may lead to penalties, fines, compliance costs, reputational harm and even loss of licences to operate.

These factors could have a material adverse effect on the Issuer's financial condition, business and its operating results.

Legislation on management of default risks and procedures for collection of debt in default

Decree-Law no. 227/2012, of 25 October, establishes the principles and rules that credit institutions should adopt to monitor default risk situations and for the extrajudicial default settlement of any loans with individual customers. In particular, Decree-Law no. 227/2012, of 25 October, determines the creation of the Pre-arrears Action Plan ("**PARI**") and the extrajudicial settlement procedure for borrowers in default situations ("**PERSI**").

Regulatory Notice (*Aviso*) 17/2012 of the Bank of Portugal determines the public information disclosure duties related to the default of credit agreements, the extrajudicial support network, as well as the rules and criteria for contact with borrowers in risk of default or delay in the fulfilment of their obligations and for the evaluation of their financial capacity. In addition, rules and proceedings are set in respect of the PARI information report to the Bank of Portugal and the internal documentation prepared by credit institutions regarding the PERSI implementation.

In order to anticipate and prevent situations of potential indebtedness in mortgages, the Issuer identifies cases of potential default in order to act proactively by providing credit renegotiation solutions that will reduce the risk of default.

The Issuer has implemented the PARI, which includes new rules, procedures and measures which allow for:

- Early detection of signs of delinquency risk, implementing systems to identify default risk;
- Monitoring of borrowers who report financial difficulties;
- The adoption of measures to prevent arrears;

- Assessment of any evidence of default risk;
- Proposals for repayment solutions, whenever the risk of failure is caused by temporary and specific circumstances;
- Evaluation of the financial capacity of the client; and
- Proposals for restructuring or consolidation of credit agreements in cases where the risk of default is assumed to be permanent.

The Issuer has also created PERSI, with several measures intended to automatically detect customers in default and propose timely contractual changes and restructurings, including:

- The notification of customer arrears and amounts due to the borrower and guarantors;
- Registration of the reasons for non-compliance and assessment of the financial capacity of the client;
- Reporting clients about the evaluation of failure; and
- Proposals of contractual remedies adequate to the borrower's financial situation.

Under PERSI, as a general rule, credit institutions may not declare anticipated maturity or take any legal action before ninety days from the moment the customer is under PERSI, which may only occur if the customer failed to meet payment obligations when due. Therefore, PERSI may have a negative impact on the recovery of the loans in default.

Such legislation may therefore have a material adverse effect on the Issuer's business activities, financial condition and operating results.

Legislation for the protection of borrowers in a very difficult financial condition

Legislation intended to protect borrowers of residential mortgage loans that were in a very difficult financial condition was enacted in 2012, namely, Law no. 58/2012, of 9 November (further amended by Law no. 58/2014, of 25 August).

This legislation required credit institutions to adopt protective measures mainly in relation to residential mortgage loan borrowers from low income households in which one of the members was unemployed or whose gross annual income had suffered a reduction of 35 per cent. or more. The adoption of measures aimed at protecting this type of borrower was in some circumstances mandatory for the credit institutions. These measures included, inter alia, alternative repayment arrangements, postponement of instalment payments and the extension of the mortgage loan's term.

This law expired on 31 December 2015, but the Issuer is not in a position to anticipate whether the Portuguese Government will approve a new law to replace it, which could have a negative impact on the mortgage credit portfolio of the Issuer, since it would aim at safeguarding the position of certain borrowers facing serious financial difficulties.

The implementation of any such legislative measures and of any other regulatory or self-regulatory initiatives that may be passed in the future, could lead to limitations in the level of spreads and commissions charged, as well as to an increase in the Issuer's credit impairments. Any exception regime that may be adopted, including the possibility that any such rules may require that, in some cases, credit institutions be obliged to accept the repossession of assets as a means to settle clients' debts, could have a material adverse effect on the Issuer's business activities, financial condition and operating results.

Legislation on calculation of default interest

Decree-Law no. 58/2013, of 8 May, applies to credit institutions and established detailed rules on the calculation of default interest, compounding of interest, and charging of expenses and fees in connection with default under finance agreements. According to this regime, (i) accrued and unpaid interest cannot be compounded for periods of less than one month; (ii) credit institutions shall not charge default interest rates higher than an annual rate of 3 per cent. in addition to the applicable original interest (previously the maximum rate was 4 per cent.); (iii) fees for recovery of outstanding debt under credit agreements shall not be higher than 4 per cent. of the unpaid instalment (no limit was previously in force on this type of fee); and (iv) credit institutions shall only be entitled to request reimbursement of expenses, insofar as they have been incurred with third parties (e.g. land registries) for the account of the defaulting borrower and are duly documented.

Some of the provisions described in the preceding paragraph limit the rights of the Issuer, as well as credit institutions generally, in connection with a default of their clients, hence having a negative impact on the Issuer's business, financial condition and operating results and on the credit transferred to the cover pool.

Guidelines of the Bank of Portugal on the implications of negative Euribor

The Bank of Portugal has issued guidelines (*carta circular*) no. 26/2015/DSC, which address the matter of how the negative Euribor shall be reflected in existing finance agreements whose interest rate is calculated based on Euribor.

In those guidelines, the Bank of Portugal has disclosed the following understanding: (i) in relation to existing financing agreements which have not contemplated a regime applying in a scenario of negative Euribor, the credit institutions shall not construe their clauses as implicitly entitling them to limit the effects of such negative Euribor; (ii) in the future, credit institutions are prohibited from setting forth any floors in contracts entered into with the clients, with a view to limiting the effects of negative Euribor in the contractual interest rate; and (iii) nonetheless, credit institutions and their counterparties under the agreements are allowed to take certain (not defined in detail) precautionary measures in order to address the risk of negative Euribor.

The Bank of Portugal's guidelines are not mandatory in nature; however, they are usually followed by all regulated credit and financial entities, including in relation to all credit and financing agreements with consumers or other banking customers, including mortgage loans, financial leasing and factoring, being also likely to influence the decisions of courts.

More recently, the Portuguese Parliament approved a law under which banking institutions are obliged to reflect negative Euribor in the calculation of loan interest rates in consumer and residential loan agreements. Law 32/2018, of 18 July 2018 (the "**Negative Euribor Law**"), amends Decree-Law 74-A/2017, of 23 June 2017 (the "**Residential Real Estate Loans Law**"), which partially transposed EU Directive 2014/17 of the European Parliament and of the Council, of 4 February 2014, on credit agreements for consumers relating to residential immovable property.

The Negative Euribor Law establishes that negative Euribor must be deducted from the principal amounts of outstanding debts. This law also offers banks the possibility of attributing their clients a credit corresponding to the negative Euribor, which may subsequently be set-off against positive interest rates. The Issuer has decided to apply the first option.

This Negative Euribor Law applies to loans which are currently in place, irrespective of specific contractual clauses.

The above-mentioned guidelines and laws will have a negative impact in relation to the interest accruing on the mortgage loans forming part of the Issuer's loan portfolio, insofar as a variable interest rate has been agreed under such loans, and the relevant Euribor rate is below zero. This may negatively affect the Issuer's business activities, financial condition and operating results.

Regulation of Portuguese Financial Industry on Prudential Matters

The Issuer operates in a highly regulated industry. The banking activities of the Issuer are subject to extensive regulation by the Bank of Portugal and guidelines issued by the ECB and the European Banking Authority ("**EBA**"), mainly relating to liquidity levels, solvency and provisioning, as well as extensive regulation by the Portuguese Securities Market Commission (the "**CMVM**").

The Portuguese financial industry has been reacting to a steady stream of changes in the regulatory and legal framework since the early 1980s. Portugal implemented legislation bringing Portuguese banking regulations in line with EU legislative practice. In particular, the General Regime for Credit Institutions and Financial Companies ("**RGICSF**", enacted by Decree Law no. 298/92, of 31 December) made a noticeable impact on the Portuguese financial sector by introducing a comprehensive regulatory framework in Portugal in line with EU directives, abolishing the distinction between investment and commercial banks, establishing prudential and supervisory rules, revising the regulation of foreign banks operating in Portugal and Portuguese banks operating abroad and creating a deposit guarantee fund in order to protect depositors.

In order to adopt the Codified Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC), a new regulatory framework was implemented in 2007 with the publication of Decree Law no. 103/2007 and Decree Law no. 104/2007, each of 3 April, and a new set of Notices and Instructions from the Bank of Portugal were implemented to regulate the provisions laid down in those Decree Laws. This new regulatory framework came into full force and effect during 2007 and 2008.

This new set of regulation created the possibility of using two methods for the calculation of own funds requirements. The first method is the Standardised Approach, which is largely based on the credit ratings published by external credit assessment institutions (ECAI). It involves weighing the risks in accordance with the type of borrower and the type of exposure. The second method, which has two variations, is the Internal Ratings Based approach ("**IRB**"). The IRB approach allows the use of internal methodologies for the calculation of own funds requirements, where the calculation of risk weighted exposure considers the input parameters of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The Issuer applies the Standardised Approach method.

In December 2010, the Basel Committee on Banking Supervision published the Basel III rules text, providing for the details of global regulatory standards on bank capital adequacy and liquidity ratios, setting out higher and better-quality capital, better risk coverage, the introduction of a leverage ratio (please refer to section "*Leverage ratios: impact on funding and Issuer's activity*" below) and the establishment of two global liquidity standards.

On 20 July 2011, the European Commission published two proposals to amend and replace the existing capital requirement directives with two new legislative instruments: a regulation establishing prudential requirements that institutions need to respect and a directive governing access to deposit-taking activities which transpose into EU law the Basel III agreement. The new Basel III framework, which was subsequently implemented into national laws in stages, between 1 January 2013 and 1 January 2019, affected the real economy, the credit market and the banking system, with significant impact on economic players, and had an adverse impact in the capital resources and requirements of the Issuer.

In 2011, the European authorities approved a new set of supervision legislation for the banking sector, which includes the creation of the EBA with a mandate to develop a single rulebook for banks in the EU, while national authorities remain responsible for the supervision of financial institutions.

In Portugal, as a consequence of the financial and sovereign crisis and the Portuguese FAP, in April 2011 the national authorities imposed a new set of legislation and activity requirements on the Portuguese financial sector.

The FAP set targets for deleveraging and increasing capital and liquidity in the financial system in general, and the banking sector in particular. In order to achieve these targets, the eight largest banking groups were required by the Bank of Portugal, to draw up a Funding & Capital Plan ("**FCP**") and to update it regularly. Regarding the system's liquidity, the Bank of Portugal has promoted an orderly deleveraging of the banking sector and reduction of banks' funding from the ECB aimed at more stable and sustainable funding models

in the long-term. Regarding solvency, since 2010 the Bank of Portugal has adopted several measures towards preserving adequate capital ratios, which included recommending the sale of assets, imposing capital increases, limiting the distribution of dividends and setting more stringent capital requirements, which anticipated some of the main Basel III recommendations.

In 2013, the European authorities approved a new legislative package to strengthen the regulation of the banking sector and to implement the Basel III agreement into the EU legal framework, replacing the former Capital Requirements Directives (2006/48/EC and 2006/49/EC): Regulation 575/2013 of the European Parliament and of the Council, of 26 June, establishing new and detailed prudential requirements that institutions need to respect (the Capital Requirements Regulation or "**CRR**") and Directive 2013/36/EU of the European Parliament and of the Council, of 27 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions (the Capital Requirements Directive IV or "**CRD IV**"). The package entered into force on 1 January 2014, while some of the new provisions are continuing to be phased-in.

To ensure a smooth transition to the new Basel III rules, instruments that do not meet the new rules must be phased out over a 10-year period, provided they were issued prior to 12 September 2010. The CRR set the cut-off date at 31 December 2011 (except for instruments used for the recapitalisation of banks by Member States, where special rules apply). Under Basel III, capital instruments that do not meet the stricter eligibility criteria will be phased out over an eight-year period (starting in 2014).

By 31 December 2013, EU Member States were required to adopt and publish the laws, regulations and administrative provisions necessary to comply with CRD IV. The provisions of the CRD IV have already been implemented in Portugal.

The CRR includes provisions regarding, for instance, own funds requirements, minimum capital ratios and liquidity ratios.

With reference to liquidity risks, the Basel III recommendations transposed into CRD IV imply the implementation of the liquidity coverage ratios known as Liquidity Coverage Ratio ("**LCR**") (short-term ratio in a severe stress scenario) and Net Stable Funding Ratio ("**NSFR**") (medium-term) - please refer to section "*Requisites related to liquidity ratios and its potential impact on profitability (LCR and NSFR)*" below.

Banks' strategies had to change with respect to liquidity compliance and a more sustainable balance sheet. In order to meet the requirements, some adjustments have been made or are in progress and negative effects on banks' profitability, namely the Issuer, may be expected in order to benefit liquidity.

Liquidity regulation ensures banks maintain a certain level of highly liquid assets, which may imply lower profitability. At the same time, financing costs may increase, since long-term financing is favoured in relation to short-term financing.

These changes may have a negative impact on the Issuer's operating results, business activities and financial condition.

The CRD IV/CRR requirements adopted in Portugal may change, whether as a result of further changes to the CRD IV/CRR agreed by EU legislators, binding regulatory technical standards to be developed by the EBA, or changes to the way in which these requirements apply to Portuguese banks. On 23 November 2016, the European Commission presented a proposal with a comprehensive package of reforms to further strengthen the resilience of EU banks. These proposals aim to complete the reform of the financial regulatory system, to bring back financial stability and market confidence by implementing some outstanding elements, which are essential to further reinforce banks' ability to withstand potential shocks. The proposals also fine-tune some aspects of the new regulatory framework, where necessary, to make it more growth-friendly and proportionate to banks' complexity, size and business profile. It also includes measures that will support SMEs and investment in infrastructure.

This proposal amends the following pieces of legislation:

a) the CRR and the CRD IV, adopted in 2013 and which set out prudential requirements for credit institutions and investment firms, and rules on governance and supervision; and

b) the Bank Recovery and Resolution Directive ("**BRRD**") and the Single Resolution Mechanism Regulation ("**SRM Regulation**"), adopted in 2014 and which spell out the rules on the recovery and resolution of failing institutions, and establish the Single Resolution Mechanism.

The proposal also includes phase-in arrangements for the regulatory capital impact of IFRS 9 and the ongoing interaction of IFRS 9 with the regulatory framework, including potential changes to relevant accounting standards, which may in turn result in changes to the methodologies which the Issuer is required to adopt for the valuation of financial instruments. The adoption of IFRS 9 requires an increase in the level of impairments and changes in the fair values and impairments of financial instruments resulting from the above could have a material adverse effect on the Issuer's financial condition, operating results and, if such changes are significant, also on its prospects.

In addition, the Bank of Portugal has established minimum provisioning requirements regarding current loans, non-performing loans, overdue loans, impairment for securities and equity holdings, sovereign risk and other contingencies. Therefore, any change in these requirements could have an adverse impact on the results and operations of the Issuer.

Such proposals are to be considered by the European Parliament and the Council of the EU and therefore remain subject to change. The final package of new legislation may not include all elements of the proposals and new or amended elements may be introduced through the course of the legislative process.

Regarding capital ratios, according to the CRR and the Bank of Portugal Regulations, banks are subject to a minimum compliance (Common Equity Tier 1 (CET1) of 4.5 per cent., Tier 1 of 6 per cent. and a Total Capital Ratio of 8 per cent.) with gradually increasing buffers until 1 January 2021.

The CRD IV includes general rules and supervision powers, wages, governance and disclosure requirements, as well as an introduction of five additional capital buffers:

- A capital conservation buffer 2.5 per cent. of risk-weighted assets, comprised of CET1 Capital;
- A countercyclical capital buffer between 0 and 2.5 per cent. of risk-weighted assets, comprised of CET1 Capital, pursuant to the conditions to be established by the competent authorities;
- A macro prudential systemic risk buffer of up to 5 per cent. of risk-weighted assets, depending on the economic outlook, to address systemic risks of a long-term, non-cyclical nature that are not covered by the CRR; and
- A systemic institutions risk buffer: i) applicable to the institutions with a global systemic importance: between 1 and 3.5 per cent. of risk-weighted assets; and ii) applicable to other institutions with a systemic importance ("**O-SII**"): between 0 and 2 per cent. of risk-weighted assets. These buffers shall consist of CET1 Capital. The Issuer has been classified as an O-SII.

These buffers, apart from the macro prudential systemic risk, have been gradually applied since 2016.

As regards Portuguese banks, the Bank of Portugal decided that the capital conservation buffer would be phased-in. In September 2015, the Bank of Portugal determined a conservation buffer of 2.5 per cent. (Regulatory Notice (*Aviso*) 1/2015) to be applied from January 2016, whereas the applicable minimum capital ratios were 7 per cent. for CET1, 8.5 per cent. for Tier 1 and 10.5 per cent. for Total Capital. On 31 May 2016, the Bank of Portugal issued Notice 6/2016 revoking Notice 1/2015, which determined the conservation buffer to be 0.625 per cent. in 2016, with an increase of 0.625 per cent. per year until 2019. As of January 2017, the buffer was set at 1.25 per cent., as of 1 January 2018 it was set at 1.875 per cent., and as of 1 January 2019 at 2.5 per cent.

The Bank of Portugal has also decided to set the counter-cyclical buffer rate at 0 per cent. of the total risk-weighted assets. This buffer applies to all credit exposures to the domestic private non-financial sector of credit institutions and investments firms in Portugal subject to the supervision of the Bank of Portugal or the ECB, as applicable. The Bank of Portugal will review this decision on a quarterly basis. At its most recent revision, on 20 December 2018, the Bank of Portugal determined a countercyclical capital buffer rate of 0 per cent.

The Bank of Portugal, after having duly notified the ECB under Article 5 of Council Regulation (EU) no. 1024/2013, of 15 October 2013, which did not object to the Bank of Portugal's decision, and after having also consulted with the National Council of Financial Supervisors, under Article 2(3)(c) of Decree-Law no. 143/2013, of 18 October, decided to impose capital buffers on credit institutions identified as other systemically important institutions ("**O-SIIs**"). For that purpose, on 29 July 2016 the Bank of Portugal published a table with the names of the banking groups identified as O-SIIs and the respective capital buffers, as a percentage of the total risk-weighted assets. These buffers shall consist of CET1 capital on a consolidated basis and shall be applicable in phases, from 1 January 2018 to 1 January 2021 and thereafter. The Bank of Portugal determined a systemic risk buffer for Banco Montepio of 0.0625 per cent., 0.125 per cent., 0.1875 per cent. and 0.250 per cent. to be accomplished by 1 January 2018, 2019, 2020 and 2021, respectively. See further "*Issuer as an O-SII*" below.

As at the date of this Base Prospectus, Banco Montepio's minimum capital ratio requirements under Pillar 1, on a consolidated basis, are: 4.5 per cent. for CET1, 6.0 per cent. for Tier 1 and 8.0 per cent. for Total Capital. Under the Supervisory Review and Evaluation Process ("**SREP**"), the Bank of Portugal determined for Banco Montepio an additional 3 per cent. Pillar 2 requirement to be met from 1 July 2018 onwards, on a consolidated basis. Including the applicable buffers, Banco Montepio was required to comply with the capital ratio requirements (on a consolidated basis and on a phasing-in basis) of 9.4 per cent. for CET1, 10.9 per cent. for Tier 1 and 12.9 per cent. for Total Capital, from 1 July 2018 to 31 December 2018, and it will also be required to comply with the capital ratios of 10.1 per cent. for CET1, 11.6 per cent. for Tier 1 and 13.6 per cent. for Total Capital from 1 January 2019.

As of 30 September 2018, the Total Capital ratio of the Issuer, on a consolidated basis (phasing-in), stood at 13.5 per cent. (13.3 per cent. as at 31 December 2017) and the CET1 ratio was 13.4 per cent. (13.2 per cent. as at 31 December 2017). Considering the full implementation of CRD IV/CRR, as at 30 September 2018, the Total Capital ratio stood at 11.3 per cent. (11.9 per cent. as at 31 December 2017) and CET1 was 11.2 per cent. (11.6 per cent. as at 31 December 2017).

Activity, liquidity and capital adequacy requirements applicable to the Issuer limit its ability to grant loans to customers and may require it to issue additional capital in the future. This may affect the Issuer's future activities, its results and the cost and ability to obtain funds that could be classified as own funds, and the repayment of the existing subordinated debt.

Pressure to comply with activity, liquidity and capital adequacy requirements applicable to the Issuer could force the Issuer to liquidate assets held at depressed prices or on unfavourable terms, thus leading to a materially adverse impact on its business, financial condition and results.

The regulatory laws governing banking activity may change at any time in ways which may have an adverse effect on the business of the Issuer. A potential further alignment by the Bank of Portugal with the ECB's regulations and recommendations may harden its stance in certain areas, such as capital requirements and acceleration of Non-Performing Loan ("**NPL**") disposals, which may, in turn, have an adverse impact on the Issuer and/or the Group's results and financial position.

It is not possible to predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which the Issuer conducts its business, the products and services it can offer and the value of its assets.

Regulators monitoring the activity of the Issuer

The Issuer is subject to supervision by the Bank of Portugal and the CMVM, as well as by other competent regulators of jurisdictions in which it operates, and is duly authorised by the Portuguese Insurance and Pension Funds Supervisory Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões* - "**ASF**") to provide insurance brokerage services.

Changes to supervisory rules and regulations in respect of the Issuer's activities, in particular in Portugal, may have a negative impact on the Issuer's business, its offer of services and/or the value of its assets. Although the Issuer cooperates closely with the regulators and continuously monitors the evolution of the regulatory rules to which it is subject, future regulatory changes, changes in tax laws or other alterations may be unpredictable and are outside the Issuer's control.

Legislation on Bank Recovery and Resolution

On 10 February 2012, Decree-Law no. 31-A/2012 introduced the legal framework for the adoption of resolution measures into the RGICSF.

Such resolution framework has been further amended by Decree Law no. 114-A/2014, of 1 August, Decree Law no. 114-B/2014, of 4 August, and Law no. 23-A/2015, of 26 March, which have transposed the Directives 2014/49/EU of 16 April on deposit guarantee schemes and the BRRD.

A Single Resolution Mechanism ("**SRM**") has been introduced, including a single resolution board ("**SRB**") and a single fund for the resolution of banks. The requirements of the SRM are set out in the SRM Regulation and the BRRD.

The SRM Regulation, subject to some exceptions, applied from 1 January 2016. The SRB has been fully operational since from January 2016. The BRRD has been implemented in Portugal pursuant to the European Union (Bank Recovery and Resolution) Regulations 2015 (the "**BRRD Regulations**").

The BRRD Regulations, other than regulations 79 to 94, came into effect on 15 July 2015. Regulations 79 to 94 of the BRRD Regulations came into effect on 1 January 2016. The establishment of the SRM is designed to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the Single Supervisory Mechanism (the "**SSM**"). The single resolution fund is financed by bank levies raised at the national level.

In 2015, following the establishment of the European Resolution Fund, the Issuer had to make an initial contribution in the amount of €8.5 million. The European Resolution Fund does not cover undergoing situations with the National Resolution Fund as at 31 December 2015. See further "*The resolution measure applied to Banco Espírito Santo S.A. (BES)*" and "*The resolution measure applied to Banif*" below.

The overarching goal of the new bank recovery and resolution framework established by the BRRD/SRM package is to break the linkages between national banking systems and sovereigns. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. Among other provisions, the BRRD requires banks to produce a full recovery plan that sets out detailed measures to be taken in different scenarios when the viability of the institution is at risk. Furthermore, the national regulator may require the Issuer to make changes to the legal structure pursuant to its implementation of requirements under the SRM Regulation, the BRRD or other applicable law or regulation. Therefore, the Issuer cannot anticipate if additional costs might be due and in which proportion, as well as if there could be an impact on the Issuer's results and financial position.

Banks subject to the BRRD may be required to contribute to ex ante funds and in particular to the European Resolution Fund. The periodic contributions of the participating institutions in the European Resolution Fund should be (i) distributed proportionally among participating institutions, according to the respective level of financial liabilities, excluding own funds and deducting deposits guaranteed by the Deposit Guarantee Fund (*Fundo de Garantia de Depósitos*) (the "**Reserve Base**"), adjusted according to the institution's risk profile and considering the economic outlook as well as the contribution's impact on the institution; and (ii) determined by the application of a contributory rate (proposed by the European Resolution Fund and

established by the Bank of Portugal) to the Reserve Base. The Fund will be built up during its first eight years (2016-2023) and shall reach at least 1 per cent. of deposits guaranteed by the Deposit Guarantee Fund (approx. €55 billion in 2024). Where ex ante contributions are insufficient to cover the losses or costs incurred by use of the Fund, additional ex post contributions should be collected, which, therefore, may have adverse effects on the Issuer's results, business activity and financial condition.

The reorganisation regime previously in force that governed credit institutions was extensively reviewed and was replaced with a new approach by the Bank of Portugal as regards intervention on credit institutions and investment firms in financial distress. The measures set out in the new regime aim at recovering or preparing the orderly winding-up of credit institutions and certain financial companies in situations of financial distress. The new toolbox includes three stages of intervention by the Bank of Portugal: preparatory and preventive measures, prior supervisory intervention, and instruments and powers of resolution. The implementation of these measures and the exercise of these powers will directly affect the rights of shareholders and creditors.

Credit institutions are required to produce suitable recovery plans to resolve problems of liquidity, solvency, or overall exposure to risk, and to keep such plans up-to-date. To complement the resolution plans, the Bank of Portugal has been given preventive powers, including the powers to limit or modify exposure to risk, require additional information, set restrictions or prohibitions on certain activities and changes to group structures.

Within the scope of preventive interventions, the Bank of Portugal has been given powers to prohibit the distribution of dividends to shareholders, to replace managers or directors, and to require credit institutions to transfer assets that constitute an excessive or undesirable risk to the soundness of the institution. These actions may have a direct effect on shareholders and the Issuer's expected returns and additional indirect impacts through changes to such institutions' business activities.

Article 145-D of the RGICSF implemented Article 34 of the BRRD and determines as general principles applying to the resolution measures that (i) the shareholders of the institution bear losses with priority in relation to other creditors; (ii) creditors of the institution other than the shareholders under resolution bear losses in accordance with the order of priority of their claims; (iii) no shareholder or creditor of the institution shall, as a result of the resolution measures, bear losses higher than the ones that would arise should the institution be subject to liquidation; and (iv) the depositors shall not suffer losses in relation to deposits covered by the Deposit Guarantee Fund.

Further, pursuant to Article 145-E of the RGICSF, resolution measures may be applied if the following cumulative conditions are met: (a) a credit institution or an investment firm covered by the resolution regime has been declared by the Bank of Portugal as being insolvent, or at a risk of becoming insolvent; (b) it is not foreseeable that the insolvency situation of such institution can be remedied through measures adopted by the institution, or by corrective intervention measures or other measures aimed at the conversion or reduction of own funds instruments; (c) the implementation of such measures is considered necessary and proportional for the pursuance of at least one of the following objectives: (i) ensure the continuity of essential financial services, (ii) prevent systemic risk, (iii) safeguard public funds and taxpayers' interests, (iv) safeguard depositors' confidence, (v) protection of other funds and assets held by institutions for the account of their clients; and (d) the winding up of the institution is not capable of achieving the goals described in (c) more effectively than the resolution measures.

An institution is deemed to be failing, for the purposes of adoption of resolution measures, if one of the following situations occurs, or when sufficient reasons exist to suggest that they may occur in the short run: (i) the institution ceases to comply with the requirements for preserving the banking licence, including if it incurs losses capable of significantly absorbing its own funds; (ii) the institution's assets have become less than its liabilities; (iii) the institution is unable to meet its obligations; (iv) the institution is in need of extraordinary public funding, save when such assistance is aimed at preventing or containing a serious economic crisis and preserving financial stability, and fulfils certain other criteria (Article 145-E of the RGICSF).

There are four types of resolution measures (Article 145-E of the RGICSF), namely: (i) the total or partial sale of the assets, liabilities, off-balance items and assets under management, as well as shares representing the share capital of the distressed financial institution to one or more financial institutions authorised to operate in the market; (ii) the creation of a bridge bank and the transfer of all or part of the assets and liabilities of the institution in financial distress to that bank; (iii) asset segregation tool, whereby all or part of the distressed institution's activity is transferred to an asset management vehicle; and (iv) bail-in through an internal recapitalisation of such institution. Along with these measures, by default the members of the institutions' corporate bodies and chartered accountant shall be replaced by members and a chartered accountant designated by the Bank of Portugal.

The powers granted to resolution authorities under the BRRD include (but are not limited to) the introduction of a statutory "write-down and conversion power" and a "bail-in power", which will give the relevant Portuguese resolution authority the power to cancel all, or a portion of, the principal amount of, or interest on, certain unsecured liabilities of a failing financial institution and/or to convert certain debt claims into another security, including ordinary shares of the surviving entity, if any.

The measures described above may be wholly or partially funded through the Resolution Fund, in accordance with the relevant provisions of the RGICSF.

Within its powers as authority in charge of resolution measures, the Bank of Portugal is also entitled to adopt, individually or jointly with the above mentioned resolution measures, other measures aimed at reducing or eliminating the insufficiency of own funds in the credit institution, including (a) reduction of its share capital (amortisation or reduction of nominal value of shares); (b) removal of nominal value of shares; (c) reduction of nominal value of credits attached to other financial instruments or contracts which are eligible for own funds purposes according to the legislation and regulation in force; and (d) increase of share capital via the conversion of credits referred to in (c) into share capital. In order to adopt the measures described in this paragraph, certain conditions must be met, as described in Article 145-I of the RGICSF. In its decision to adopt resolution measures, the Bank of Portugal shall abide by the rules on creditors´ ranking set forth in the Portuguese Insolvency Code, thus not being allowed to affect a class of creditors which rank above another class that are not wholly or substantially affected.

Furthermore, to the extent necessary to ensure the effectiveness of a resolution measure, the Bank of Portugal may exercise, inter alia, the following powers: (i) suspension of payment or delivery obligations of the institution under existing agreements; (ii) suspension of enforcement rights benefiting holders of any security over assets of the institution; (iii) suspension of the rights to accelerate, terminate, or otherwise decide the termination under existing agreements; (iv) closing of agencies of the institution; (v) exercise of rights attached to shares and other instruments representing share capital of the affected institution; (vi) amendment of terms applicable to unsecured debt instruments and other eligible claims held vis-à-vis the institution, such as clauses on maturity dates and payable interest; (vii) liquidation and termination of financial agreements and derivative agreements; and (viii) suspension of the negotiation of a financial instrument (Article 145-AB of the RGICSF).

The Bank of Portugal and the Resolution Fund also have the right to recover their expenses resulting from the resolution measures through either a deduction of the consideration payable by any transferee in relation to the acquisition of the institution's assets, share capital or other instruments representative of debt or equity, from the institution itself, or from the profits generated by it or the vehicle managing its assets (a legal privilege is attached to the claim held by the Bank of Portugal and the Resolution Fund).

According to Article 145-AC of the RGICSF, when the Bank of Portugal decides on the partial transfer of the rights and obligations of a distressed institution, transition bank or asset management vehicle in favour of another entity, or when such regulator decides to amend the terms and conditions of a contract to which such institution is a party (or transfer the rights and obligations thereunder to a third party), such regulator is not allowed to (a) partially transfer the rights and obligations under covered notes and structured financing arrangements to which the credit institution is a party, which involve the creation of security by a party under the agreement or third party, including securitisation transactions and transactions where a cover pool is used

with a view to securing the whole debt until the maturity date of the notes, and a legal privilege is attached to the asset pool in order to secure the claims in relation to payment of principal and interest; (b) modify or extinguish the rights and obligations in relation to the notes and contracts described in (a).

The aforesaid is without prejudice to the powers of the Bank of Portugal under Article 145-AB of the RGICSF, as well as the derogation of certain terms and conditions of the relevant contracts and notes (e.g. in respect of cross default or enforcement of security) in connection with the adoption of the recovery measures, as set forth in Article 145-AV of the RGICSF. In addition, the relevant contracts and notes may, by way of exception, be amended or transferred, insofar as necessary in order to ensure the availability of the deposits covered by the Deposits Guarantee Fund.

The Resolution Fund is a public-law legal person designed to provide financial support to the application of the resolution measures ordered by the Bank of Portugal. It is fully funded by the financial sector through initial and periodical contributions from member institutions, including the Issuer, whose amount shall be fixed on an annual basis, as set out in Decree Law no. 24/2013, of 19 February, as amended, and the revenue arising from the contribution over the banking sector. These institutions may also be requested to make extraordinary contributions, if necessary in connection with the adoption of any resolution measures. The financial assistance provided by the Resolution Fund may include, among others, the transfer of cash to the acquirer bank or to the bridge bank, the provision of guarantees, the granting of loans, and the paying-up of the capital stock of bridge banks.

Bank of Portugal Notice (*Aviso*) 1/2013 (as amended) sets forth the methodology to calculate periodic contributions to the Resolution Fund. Such methodology consists of the application of a contribution rate to the end of month outstanding balance of liabilities, deducted by own funds and deposits already included in the Deposit Guarantee Fund.

The rate to be applied is set by a regulatory instruction (*Instrução*) issued by the Bank of Portugal. The rate was 0.02 per cent. in 2016, 0.0291 per cent. in 2017 and 0.0459 per cent. in 2018 and 0.057 per cent. in 2019, as defined in instruction 19/2015, instruction 21/2016, instruction 20/2017 and instruction 32/2018, respectively, issued by the Bank of Portugal.

Pursuant to Decree-Law 24/2013, of 19 February, which establishes the calculation method of the initial, periodic and special contributions of the participating institutions to the Resolution Fund, the Issuer estimates, as at 31 December 2016, that its participation in the Resolution Fund should be of around 9 per cent. This is only an estimation, seeing as the determination of its exact participation is influenced by a number of factors which render a more accurate estimate impossible. The participation of the Issuer in the €700 million loan corresponded to 10 per cent.

Funds available to the Resolution Fund arise from the following sources: (a) contributions from the banking sector; (b) initial, periodic and special contributions from institutions participating in the Resolution Fund and collected before the implementation of the BRRD in Portugal; (c) initial, periodic and special contributions from institutions participating in the Resolution Fund collected pursuant to Decree-Law no. 24/2013, of 19 February, and due under the transitional regime provided for in Law no. 23-A/2015, of 26 March (aimed at enabling compliance with the obligations undertaken by the Resolution Fund in the context of the application of resolution measures applied before 31 December 2014); (d) initial, periodic and special contributions from the investment firms not subject to the ECB's supervision, branches of credit institutions of third countries, entities relevant for the payments system not subject to the ECB's supervision; (e) proceeds derived from investment applications and from the Resolution Fund activity; (f) donations; (g) loans; and (h) other proceeds legally or contractually allocated to the Resolution Fund.

The Issuer's pro rata share in the Resolution Fund will vary, and may increase, from time to time according to the Issuer's liabilities and own funds. Contribution to the Resolution Fund is adjusted to the risk profile and the systemic relevance of each participating institution considering its solvency situation. Also, banks (including the Issuer) may be required to contribute to the deposit guarantee systems in amounts that are higher than the current contributions.

The Deposit Guarantee Fund may also provide financial assistance for the implementation of resolution measures, but only in the case of transfer of deposits placed with the institution in distress to another credit institution authorised to take deposits or to a bridge bank, and only in the amount needed to cover the difference between the amount of covered deposits and the value of the assets sold or transferred. Moreover, funding by the Deposit Guarantee Fund shall in no circumstances exceed the cost of a direct reimbursement to the depositors.

The implementation of resolution measures is not subject to the prior consent of the credit institution's shareholders nor of the contractual parties related to assets, liabilities, off-balance-sheet items and assets under management to be sold or transferred.

Hence, if the Issuer is subject to a resolution measure, the Bank of Portugal may:

a) require the full transfer of all the assets, liabilities and off-balance sheet items of the Issuer, in which case the entirety of the rights and obligations under the Programme (including the Programme Documents) and any Covered Bonds shall be transferred to another duly licensed entity or a bridge institution, or segregated and transferred to an asset management vehicle;

b) require the partial transfer of all the assets, liabilities and off-balance sheet items of the Issuer, in connection with such partial transfer, and that the obligations and liabilities under the Programme (including the Programme Documents) and any Covered Bonds remain as a liability of the Issuer: in such instance, depending on the financial condition and other factors relating to the Issuer, the Bank of Portugal may additionally revoke the licence of, and determine the opening of liquidation proceedings against, the Issuer.

c) determine that the creditors of the Issuer are subject to bail-in measures: in such case, it is expressly referred in the RGICSF that the adoption of such type of resolution tool shall not encompass obligations having the benefit of security ("*garantia real*") over the assets of the Issuer up to the amount of the security assets; conversely, if such amount of such obligations exceeds the value of the assets charged as security thereof, then such excess may be affected by the relevant bail-in measures. The Bank of Portugal may cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing financial institution or its holding company, convert certain debt claims into another security, including ordinary shares of the surviving entity, if any and/or amend or alter the terms of such claims, including the maturity of the unsecured liabilities or amendment of the amount of interest payable on the unsecured liabilities, or the date on which interest becomes payable, including by suspending payment for a temporary period.

In addition to the measures set out above, to prevent bank institutions from structuring their liabilities in a way which may compromise the efficiency of the bail-in or of other resolution tools and to avoid the contagion risk or a bank run, the BRRD also requires that all institutions should meet the minimum requirement for own funds and eligible liabilities ("**MREL**"), calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities".

The MREL regime, which became effective during 2016, involves a transition period and should have implications on the issue of debt by bank institutions, implying the introduction of alterations in the liability structure through the issue of new senior debt with some subordination structure or strengthening Tier 2.

In accordance with Article 145-Y of the RGICSF, financial institutions will be required to meet a MREL requirement. The actual size of the Issuer´s MREL has not yet been set. Banco Montepio expects that the Bank of Portugal will decide and notify it, during 2019, of what its MREL should be, as well as the timing for its implementation. The expectation is that Banco Montepio will be granted a period of several years (to be confirmed by the Bank of Portugal once its MREL requirement is known) to comply with its MREL requirement. In order to meet MREL requirements, the Issuer may need to issue MREL-eligible instruments, affecting its funding structure and financing costs. Such mechanisms and procedures, besides having the capacity to restrain the Issuer's strategy, could increase the average cost of the Issuer's liabilities, in particular,

without limitation, the cost of additional Tier 1 and Tier 2, instruments and thus negatively affect the Issuer's earnings. Tier 1 instruments may also result in a potential dilution of the percentage of ownership of existing shareholders, if they include convertibility features.

These proposals and/or requirements could have an adverse effect on the business, financial condition and operating results of Banco Montepio.

In any of the aforementioned scenarios, if the assets constituting the Cover Pool are insufficient to satisfy the obligations of the Issuer under the Covered Bonds, the holders of the Covered Bonds will be treated in respect of such possible shortfall as common unsecured creditors of the Issuer in relation to the remaining uncovered liabilities and potentially subject to bail-in measures. In case resolution measures are applied by the Bank of Portugal, the outcome of the Cover Pool is not foreseen in the resolution measures legal framework mentioned above.

For a further discussion of the potential exposure of the Covered Bonds' holders to the Issuer, please refer to the section "*Exposure to the Issuer's credit risk*" below.

The Issuer will have to meet the cost of all levies that are imposed on it in relation to funding the bank resolution fund established under the SRM or that are imposed on it under other applicable compensation schemes relating to banks or other financial institutions in financial difficulties, which will vary, and may increase, from time to time. In addition, the challenge of meeting this degree of regulatory change will place a strain on the Issuer's resources. The challenge of meeting tight implementation deadlines while balancing competing resource priorities and demands increases the regulatory risk of the Issuer. These may also affect significantly the Issuer's future product range, distribution channels, funding sources, capital requirements and consequently, reported results and financing requirements.

The resolution measure applied to Banco Espírito Santo S.A. may prejudice investors' and economic agents' positive perception of the Portuguese financial system and the Issuer as a participant thereto

On 4 August 2014, the Governor of the Bank of Portugal announced the imposition of a resolution measure on Banco Espírito Santo, S.A. ("**BES**"), consisting of a transfer of business to a bridge bank, Novo Banco, S.A. ("**Novo Banco**"), which was specifically set up for this purpose with management appointed by the Bank of Portugal.

The share capital of Novo Banco, in the amount of €4.9 billion, was fully underwritten by the Resolution Fund. Of this, €3.9 billion originated from a loan granted by the Portuguese State to be repaid and remunerated by the Resolution Fund. The remaining amount was funded by the own funds of the Resolution Fund and from loans granted by the credit institutions participating in the Resolution Fund, including the Issuer, in the total amount of €700 million. The Issuer's share of this loan was €70 million.

On 29 December 2015, the Bank of Portugal approved a number of decisions that completed the resolution measure applied to BES.

The Bank of Portugal decided to confer again on BES the liability for certain issues of non-subordinated bonds that had been initially transferred to Novo Banco. The nominal amount of the bonds retransferred to BES totalled €1,941 million and corresponded to a balance-sheet amount of €1,985 million. These bonds were originally issued by BES and were specifically placed with qualified investors, with a minimum denomination of €100,000.

There is no estimate on the amount of potential losses arising from the potential litigations associated with the resolution decision. According to publicly available information, the volume of litigation associated with this process is high, and the amount of losses the Resolution Fund may incur as a result of litigation has not been disclosed. It is impossible to predict the extent of potential consequences to the Issuer arising therefrom; an adverse outcome might negatively affect the Issuer's results, business activity and financial condition.

The Issuer's share in the Resolution Fund will vary from time to time, and may increase, according to its own liabilities and funds.

On 28 September 2016, the Resolution Fund announced that it had agreed with the Ministry of Finance to review the loan of €3.9 billion originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the maturity extension of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Minister of Finance announced that increases in liabilities arising from the materialisation of future contingencies will determine the maturity adjustment of Portuguese State and bank loans to the Resolution Fund in order to maintain the required contribution to the banking sector at current levels.

On 21 March 2017, the Resolution Fund announced the completion of an amendment agreement between the parties to the 2014 Portuguese State loan, the 2015 Portuguese State loan and the Participants' loan (the "**Loans**") whereby (i) the maturity dates of the Loans have been extended to 31 December 2046, the date on which the Resolution Fund is required to pay the full principal amount of the Loans, (ii) the parties have agreed that the new maturity dates of the Loans would be further adjusted in the future to the extent required to ensure that the Resolution Fund would be able to perform its payment obligations under the Loans based only on the proceeds from the regular revenues of the Resolution Fund, (iii) the parties have further agreed that the Loans would rank pari passu without any preference among themselves and (iv) the Resolution Fund has undertaken that, before the full payment of any amounts due and payable in respect of the Loans, it would not make any payments of principal or interest under any other loans obtained by it after 31 December 2016 to fund any contingent liabilities arising in connection with the resolution measures applied to BES and Banco Internacional do Funchal, S.A. ("**Banif**"). A press release confirming completion of this amendment agreement was also published by the Ministry of Finance on the same date.

On 20 February 2017, the Bank of Portugal announced that it had selected Lone Star for the final stage of exclusive negotiations with a view to agreeing the final terms and conditions for the sale of Novo Banco. The Bank of Portugal then conducted the second sale process of Novo Banco after the application of the resolution measure to BES in August 2014. On 31 March 2017, the Bank of Portugal announced that a share purchase and subscription agreement relating to the share capital of Novo Banco was entered into between the Resolution Fund and the Lone Star Fund, which was pending completion based on compliance with several conditions precedent.

The sale of 75 per cent. of the capital share of Novo Banco to the Lone Star Fund was completed on 18 October 2017, with the remaining 25 per cent. of its share capital being owned by the Resolution Fund. The sale contract imposes some obligations on the buyer, namely concerning the capitalisation and liquidity of Novo Banco, either by capital increase or by debt issuance, to be accomplished in the next few years.

In this context, the Issuer cannot anticipate the effects on the Resolution Fund arising from: (i) the partial sale of Novo Banco shareholding to Lone Star; (ii) the application of the principle that no creditor of the credit institution under resolution may incur greater loss one it would have assumed had that institution entered into liquidation; (iii) additional liabilities or contingencies for Novo Banco that have to be neutralised by the Resolution Fund; (iv) legal proceedings against the Resolution Fund, including the so-called "Bad Bank" (BES process); and (v) the guarantee given to the bonds issued by Oitante, S.A., in the context of the resolution measure applied to Banif as referred below.

The resolution measure applied to Banco Internacional do Funchal, S.A. may prejudice investors' and economic agents´ positive perception of the Portuguese financial system and the Issuer as a participant thereto

On 20 December 2015, the Bank of Portugal applied a resolution measure to Banif which notably resulted in the acquisition by Banco Santander Totta, S.A. of a set of rights and obligations, constituted by assets, liabilities, off-balance sheet items and assets under the management of Banif, as listed in the resolution passed by the Bank of Portugal in that respect. This operation involved an estimated public support of €2,255 million to cover future contingencies, of which €489 million are supported by the Resolution Fund and €1,766 million directly by the Portuguese State, as a result of the definition of the perimeter of assets, liabilities, off-balance

sheet items and assets under the management of Banif agreed by and between the Portuguese and European authorities and Banco Santander Totta, S.A. to be sold in this context.

The Resolution Fund is ultimately financed by the banking system, and thus the outcome of any disposals to be made by or on behalf of the Resolution Fund will ultimately be borne by the institutions which are required to fund the Resolution Fund, including the Issuer. No details can yet be anticipated on the potential impact which the resolution of Banif, as described above, may have on the Issuer.

The resolution measure applied to Banif may prejudice investors' and economic agents' positive perception of the Portuguese financial system and the Issuer as a participant thereto.

Montepio Geral Associação Mutualista ceasing to own 100 per cent. of the Issuer's share capital

On 30 June 2017, MGAM disclosed the terms of a Memorandum of Understanding ("**MoU**") signed with Santa Casa da Misericórdia de Lisboa (a non-profit Portuguese organisation, operating under the strict control of the Portuguese Government, which has the mandate to finance causes in the public interest) for the national development of the social economy (*economia social*).

MGAM announced the intention of having other institutions of the so-called social economy (*economia social*) (i.e. charities (*misericórdias*) or beneficence institutions) enter into Banco Montepio's share capital with a small share and, in December 2018, sold a minor participation (less than 0.01 per cent.) to circa thirty entities operating in this sector. As far as the Issuer is aware, it is not certain if there will be other institutions entering into Banco Montepio's share capital and to what extent within the defined threshold, or if MGAM plans to sell additional shares to the current shareholders.

The Issuer cannot predict the negative consequences, if any, that may arise from MGAM ceasing to own 100 per cent. of the Issuer's share capital and corresponding voting rights.

Issuer as an O-SII

On 29 July 2016, and as subsequently confirmed on 30 November 2016, the Bank of Portugal decided to apply a two-year phase-in regime of the O-SII buffer published on 29 December 2015 to the identified Portuguese O-SIIs. The timeline for the phase-in of the O-SII buffer was 50 per cent. as at 1 January 2018 and 100 per cent. as at 1 January 2019.

The Bank of Portugal has taken this decision after having duly notified the ECB, under Article 5 of Council Regulation (EU) No. 1024/2013, of 15 October 2013, and after having also consulted the National Council of Financial Supervisors, under Article 2 (3) (c) of Decree-Law no. 143/2013, of 18 October.

The application of a two-year phase-in regime of the O-SII buffer had the main purpose of ensuring a level playing field in terms of the decisions on the O-SII buffer between Portuguese institutions and their European peers operating in similar macroeconomic environments.

In a press release dated 30 November 2018, the Bank of Portugal announced the annual revision of the identification of O-SIIs and the imposition of capital buffers, pursuant to Article 138-R (2) of the RGICSF and in the exercise of the Bank of Portugal's powers as national macro prudential authority. For this purpose, the Bank of Portugal notified the European Central Bank, in accordance with Article 5 of Council Regulation (EU) No. 1024/2013, of 15 October 2013, which did not object to the draft decision, and consulted with the National Council of Financial Supervisors, under Article 2 (3) (c) of Decree-Law no. 143/2013, of 18 October 2013. The Bank of Portugal kept both the methodology and the O-SII capital buffer levels unchanged, but decided to extend the phase-in period – the initial two-year period was converted into a four-year period – taking into consideration the challenges facing the Portuguese banking system, in a context where interest rates remained very low.

The most important challenges were:

(i) banks´ need to continue to reduce the non-performing assets on their balance sheets;

(ii) the impact of the implementation of a new accounting standard, specifically the IFRS 9, from January 2018;

(iii) banking groups´ need to access the capital market to meet the new MREL requirements on own funds; and

(iv) the end of the phase-out period (in 2018) of some instruments which have hitherto been included in regulatory own funds.

As set out in the legal and regulatory provisions, the Bank of Portugal published the table with the names of the banking groups identified as O-SIIs in 2018 and the respective capital buffers as a percentage of the total risk exposure amount. These buffers shall consist of CET1 on a consolidated basis and shall be met as follows: 25 per cent. on 1 January 2018, 50 per cent. on 1 January 2019, 75 per cent. on 1 January 2020 and 100 per cent. on 1 January 2021. The O-SII buffer identified for the Issuer is 0.0625 per cent. as at 1 January 2018, 0.125 per cent. as at 1 January 2019, 0.1875 per cent. as at 1 January 2020 and 0.250 per cent. as at 1 January 2021. These buffers will be revised annually or if a significant restructuring process occurs, such as a merger or acquisition.

Capital requirements are calculated in accordance with gross exposures net of specific provisions – i.e. net exposure. The adoption of IFRS 9 is expected to increase the losses associated with individual assets, and therefore net exposure and capital requirements will decrease. However, this reduction in capital requirements will be offset in capital by the one-for-one deductions from the increase in impairment losses under IFRS 9. The capital impact assessment of the IFRS 9 adoption (phased-in) was a reduction in CET1 of approximately 0.06 percentage points as at 1 January 2018. If Banco Montepio had chosen the alternative option (fully implemented), the impact would have been a reduction in CET1 of 0.95 percentage points as at 31 January 2018.

Reliance on Montepio Geral Associação Mutualista as equity provider

Banco Montepio was established by Montepio Geral Associação Mutualista ("**MGAM**") in 1844, as an affiliated entity (*entidade anexa*) of MGAM, aiming to support MGAM in the pursuit of its goals. MGAM is a private institution of social support (i.e. a mutual benefits association) whose principal purpose is to promote and develop initiatives designed to ensure the social protection and welfare of its members, their families and other beneficiaries nominated by them.

Banco Montepio is a credit institution of the savings bank type (*caixa económica bancária*) operating in the social economy, which takes the form of a public limited liability company and is governed by the applicable legal provisions and its Articles of Association. MGAM is the shareholder institution (*instituição titular*) of Banco Montepio, pursuant to article 6, no. 2 of the Savings Banks Law. As such, the 625,419 members of MGAM (as at 31 December 2017) are Banco Montepio's customers, corresponding to 46 per cent. of the Issuer's individuals customer base.

Following Banco Montepio's transformation into a public limited liability company (please refer to section "*Change in legal framework of the Issuer*" below), concluded on 14 September 2017, other potential shareholders may participate in Banco Montepio's capital. Presently, Banco Montepio continues to rely on MGAM as the major equity provider, which owns almost 100 per cent. of Banco Montepio's total share capital of €2,420,000,000.

If MGAM is not in a position to capitalise Banco Montepio and/or the entry of other shareholders in Banco Montepio's capital is not sufficient to overcome capital requirements, the occurrence of any of these events may have a material adverse effect on the Issuer's condition, the ability to pursue its business and the results of its operations.

MGAM's main source of funds is membership revenues and the subscribed members' savings plans. These funds are invested by MGAM in a diversified set of financial and non-financial assets, including different types of securities, equity participations (including its interest in Banco Montepio) and real estate. Among

these investments, and as at 31 December 2017, MGAM held €386.3 million of notes issued by Banco Montepio, which represented approximately 2.1 per cent. of Banco Montepio's liabilities.

The deterioration of MGAM's performance, either financial or reputational, may adversely affect Banco Montepio's activity and profitability.

Change in the supervisory entity and rules applicable to Montepio Geral Associação Mutualista

Until 27 November 2018, MGAM was supervised by the Portuguese Ministry of Solidarity, Employment and Social Security in accordance with the provisions set forth in the previous Mutual Associations Code (*Código das Associações Mutualistas*).

According to the rules set forth in the recently approved Mutual Associations Code (*Código das Associações Mutualistas*), enacted by Decree-Law no. 59/2018, of 2 August, MGAM became subject to the supervision of the Portuguese insurance and pension funds authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões* - ASF).

The Issuer cannot predict how the new supervision rules will affect MGAM's organisation and performance and, in particular, its relationship with the Issuer. Notwithstanding the foregoing, the imposition of concentration ratios on MGAM could lead to the sale of a participation in the Issuer's capital to third parties. Such a sale has become possible because the Issuer has, since 14 September 2017, been incorporated as a Portuguese public limited liability company (*sociedade anónima*), which allows for its shares to be sold off by MGAM.

Please refer to the section "*Change in legal framework of the Issuer*" for a description of the possible consequences arising from the change of Banco Montepio's legal nature into a public limited liability company.

Deferred Tax Assets Regime

The CRR requires that Deferred Tax Assets ("**DTA**") be deducted from CET1 capital.

However, Article 39 of the CRR contains an exception for DTA that do not rely on future profitability, foreseeing that such DTA are not deducted from CET1 capital. For such purposes, DTA are deemed not to rely on future profitability when:

a. They are automatically and mandatorily replaced without delay with a tax credit, in the event that the institution reports a loss when its annual financial statements are formally approved, or in the event of its liquidation or insolvency;

b. The abovementioned tax credit may, under national tax law, be offset against any tax liability of the institution or any other undertaking included in the same consolidation as the institution for tax purposes under that law or any other undertaking subject to supervision on a consolidated basis; and

c. Where the amount of tax credits referred to in point (b) above exceeds the tax liabilities referred to in that same point, any such excess is replaced without delay with a direct claim on the central government of the Member State in which the institution is incorporated.

The deduction of DTA from CET1 capital, as at 1 January 2014, would thus have a negative impact on the capital levels of credit institutions established in Member States where national tax law imposes a time mismatch between the accounting and tax recognition of certain gains and losses – namely, Italy, Spain and Portugal.

In view of the above, the Portuguese Parliament approved Law no. 61/2014, of 26 August, as amended from time to time, which implements a special regime with the aim of fulfilling the requirements for non-deductibility of DTA from CET1 capital of resident credit institutions, allowing Corporate Income Taxpayers to convert DTA arising from loan impairment losses and from post-employment and long-term employment benefits into tax credits (the "**DTA Special Regime**").

This Law foresees that any DTA arising from the abovementioned items, accounted in taxable periods starting on or after 1 January 2015, or registered in the taxpayer's accounts in the last taxable period prior to that date, may be converted into tax credits when the taxpayer: (i) reports an annual accounting loss when the institution's annual financial statements are formally approved by the competent corporate bodies; or (ii) enters into a liquidation procedure, as a result of voluntary dissolution, court-ordered insolvency or, if applicable, cancellation of authorisation by the regulator or supervisory body. The amount of DTA to be converted into tax credits corresponds to the ratio between (i) the amount of the annual accounting loss, and (ii) the total amount of equity minus the amount in (i) above, and is declared by the Corporate Income Taxpayers in their annual Corporate Income Tax return, to be submitted within the five-month period after the year-end. The amount of the declared tax credit must subsequently be confirmed by the tax authorities through a tax audit procedure to be initiated within the three-month period following the expiry of the abovementioned annual corporate income tax return submission deadline. The tax credits obtained with the conversion of DTA may be offset against any State taxes on income and on assets payable by the taxpayer or by any companies included in the same tax group or in the same group for purposes of prudential consolidation under the CRR.

However, the conversion of DTA entails the constitution of a special non-distributable reserve, equivalent to the amount of the tax credit obtained increased by 10 per cent., and conversely, the issuance of symmetric warrants to the Portuguese Republic. The warrants entitle the Portuguese Republic (i) to demand the increase of the issuer's share capital through conversion of the special reserve and subsequent issue and delivery of ordinary shares representing the issuer's share capital; or (ii) to freely dispose of them, including by sale to third parties, which may subsequently demand such increase of the issuer's share capital. To mitigate the effects of the possible shareholding dilution resulting thereof, this Law grants that, at the date of issuance of the warrants, existing shareholders are automatically vested statutory entitlements that allow them to purchase the warrants from the Portuguese Republic.

The DTA Special Regime was amended through Law no. 23/2016, of 19 August 2016, which introduced a phasing out scheme. Under this phasing out scheme, the special regime will no longer apply to DTAs computed on costs and negative net worth variations arising from credit impairment losses and post-employment or long-term employment benefits recorded in 2016 onwards, without precluding its applicability to DTA generated with respect to the previous fiscal years.

The DTA related to reported losses are deducted from regulatory capital, and the DTA related to temporary mismatches that depend on future profitability are partially deducted from capital (the portion that exceeds the threshold of 10 per cent. of CET1) and partially weighed at 250 per cent. Finally, the DTA related to temporary mismatches protected by the Portuguese fiscal regime are weighed at 100 per cent. Eventual changes to the Portuguese fiscal regime could negatively affect the protected DTA (that would eventually be converted into DTA related to temporary mismatches that depend on future profitability).

In its capacity as a savings bank (*caixa económica bancária*), and before the Issuer's incorporation as a public limited liability company, the Issuer could not benefit from the DTA Special Regime approved by Law no. 61/2014, of 26 August. Nevertheless, after its transformation into a public limited liability company, effective from 14 September 2017, and in accordance with a resolution approved at the Extraordinary General Meeting held on 6 July 2016, Banco Montepio approved the adherence to the special regime applicable to deferred tax assets, set out in Law no. 61/2014, of 26 August.

On completion of the Issuer's transformation into a public limited liability company, the formal request and application of Banco Montepio to adhere to the DTA Special Regime was immediately sent to the Finance Ministry.

In prudential terms, the first reports made with regards to the adhesion to the DTA Special Regime were made with reference to 30 June 2018. As at 30 June 2018, the Issuer had registered DTAs of €514.4 million (as at 31 December 2017: €466.0 million), of which €78.5 million were not dependent on future profitability (as at 31 December 2017: €91.3 million).

According to the current legislation, if the Issuer incurs losses, there is the risk that the Portuguese Government will become a shareholder of Banco Montepio by virtue of the DTA conversion into ordinary shares.

The Issuer may not generate enough future profits to allow for the deduction of the DTAs and hence the DTA could have a material adverse effect on the Issuer's financial condition, business and its operating results.

Banking Markets and Competition

Over the last few years, owing to the FAP, the Portuguese banking system undertook deep adjustments with regards to the size and composition of its balance sheet, as well as its cost structure.

The Portuguese banking system´s funding structure changed together with the balance sheet decrease and the decline in the reliance on wholesale funding supported through other stable funding sources, particularly customer deposits, allowing Portuguese banks to reduce their dependence on international financial markets.

At the same time, credit to customers continued to reduce in the Portuguese banking system, although at a slower pace, and the debt securities portfolio increased, leading to a growth in the exposure to the domestic public sector.

The Portuguese banking system's liquidity position recorded a level of 190 per cent. in June 2018, it was higher than registered at the end of 2017 (of 174 per cent.), higher than at the end of 2016 (of 151 per cent.) and well above the 100 per cent. regulatory minimum required as from 1 January 2018.

The sharp decline in the Portuguese banking system's profitability between 2012 and 2014 was attributable to the decrease in the results of financial operations associated with an increase in impairments and provisions for non-credit assets. Nonetheless, in 2017 and 2018 the Portuguese banking system witnessed a steady reestablishment of the profitability of recurrent nature, reflecting a significant reduction in the flow of impairments and an increase in total operating income.

Despite the progress made recently, the Portuguese banking system continues to face challenges. These challenges are linked not only to its intrinsic vulnerabilities, but also to the need to adapt to expected developments, both in terms of regulation and in terms of operations and competition. Competition is expected to increase in some of the banks' activity segments due to the product offering incorporating technological innovation, following the entry into force of the new Payment Services Directive 2 ("**PSD2**").

The increasingly demanding regulatory framework and adverse economic conditions, associated with weak profitability in the banking system, and the ongoing elimination of transitional provisions for eligibility of own funds, in the scope of the CRR/CRD IV implementation process, has put pressure on Portuguese banks' solvency levels.

The above vulnerabilities and risks of the banking and financial sector could have a negative impact on the Issuer's results and on the value of the assets comprising the Issuer's portfolio, which could have a negative impact on the ability to raise adequate funds for the development of its business activity.

Credit Risk

Risks arising from changes in credit quality and the repayment of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Issuer's businesses. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in Portuguese or global economic conditions, or arising from systemic risks in financial systems, could affect recovery and, accordingly, the value of the Issuer's assets and require an increase in the Issuer's provision for loan impairment and other related provisions, and accordingly would have a material adverse effect on the financial condition and capital position of the Issuer and/or the Group and on the results of the Issuer and/or the Group's operations.

Banco Montepio is exposed to many different counterparties in the normal course of its business, namely, an exposure to counterparties in the financial services industry. This exposure can arise through trading, lending, deposit-taking, clearance and settlement, and numerous other activities and relationships. These

counterparties include institutional clients, brokers and dealers, commercial banks and investment banks. Many of these relationships expose Banco Montepio to credit risk in the event of default of a counterparty or client. In addition, Banco Montepio's credit risk may be exacerbated when the collateral it holds cannot be realised, or liquidated, at prices sufficient to recover the full amount of the loan or derivative exposure it is due to cover. Many of the hedging and other risk management strategies utilised by Banco Montepio also involve transactions with financial services counterparties. The insolvency of these counterparties may impair the effectiveness of Banco Montepio's hedging and other risk management strategies, which could in turn have a material adverse effect on the Issuer's financial condition and operating results.

Although the Issuer regularly reviews its exposure to its clients and other counterparties, as well as its exposure to certain economic sectors and regions which the Issuer believes to be particularly critical, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, the collateral and security provided to the Issuer may be insufficient to cover the exposure or the obligations of others towards it, for example, due to sudden market declines that reduce the value of the collateral. Accordingly, if a major client or other significant counterparty were to default on its obligations, this could have a material adverse effect on the Issuer's financial condition and operating results.

The Issuer actively manages credit risk and analyses credit transactions. Expectations about future credit losses may, however, be incorrect for a variety of reasons. An unexpected decline in general economic conditions, unanticipated political events or a lack of liquidity in the economy may result in credit losses which exceed the amount of the Issuer's provisions or the maximum probable losses envisaged by its risk management models. As Banco Montepio's operations are mostly concentrated in Portugal, it is particularly exposed to the risk of a general economic downturn or other events which affect default rates in Portugal. An increase in Banco Montepio's impairment for loan losses, or any loan losses in excess of these impairments, could have a material adverse effect on Banco Montepio's financial condition and operating results.

As at 30 June 2018, the Issuer’s total credit risk exposure was €15,825 million (€16,522 million as at 31 December 2017) (gross exposure, in accordance with the prudential consolidation perimeter, including securitisation positions).

An increase in NPLs would deteriorate the Issuer’s asset quality metrics and negatively affect the planned reduction in non-performing loans.

The Issuer cannot assure potential investors that its level of provisions for possible impairments and other reserves will be adequate or that the Issuer will not have to take additional provisions for possible impairment losses in future periods. Amongst other aspects, failure by the Issuer to have an adequate level of provisions and other reserves, or the Issuer’s need to take additional provisions for possible impairment losses in future periods, may have a material adverse effect on the Issuer’s business activities, financial condition and operating results.

Market risk

Market risk reflects the potential loss that can be registered in a given asset portfolio as a result of changes in the market interest and exchange rates and/or in the market prices of the various financial instruments which comprise that asset portfolio, taking into account the correlation and volatilities between those assets.

The risk analysis and management is performed on an integrated basis, involving the whole Group, by Banco Montepio’s risk division (*Direção de Risco* - DRI).

Notwithstanding the existence of these risk management and monitoring mechanisms, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effect that such changes could have on the Issuer’s financial condition and on the results of its operations.

The most significant market risks faced by the Issuer are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Banco Montepio is exposed to changes in the spread between the interest rates payable by it on deposits or its wholesale funding costs, and the interest rates that it charges

on loans to customers and other banks. While both the interest rates payable by Banco Montepio on deposits, as well as the interest rates that it charges on loans to customers and credit institutions, are in each case mainly floating rates or swapped into floating rates, there is a risk that Banco Montepio will not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short or medium-term. Banco Montepio is also subject to intense competition for customer deposits and the current low interest rate environment puts pressure on Banco Montepio's deposit spreads. Banco Montepio may not be able to lower its funding costs, whether relating to deposits or wholesale funding, in line with decreases in interest rates on its interest-bearing assets.

Interest rates are sensitive to several factors that are out of Banco Montepio's control, including fiscal and monetary policies of governments and central banks, as well as domestic and international political conditions. An increase in interest rates could reduce the demand for credit, as well as contribute to an increase in defaults by Banco Montepio's customers. Conversely, a reduction in the level of interest rates may adversely affect Banco Montepio through, among other things, a decrease in the demand for deposits and increased competition in deposit-taking and lending to customers. As a result of these factors, significant changes or volatility in the interest rates could have a material adverse impact on the business, financial condition or operating results of Banco Montepio.

Although Banco Montepio undertakes hedging operations in order to reduce its exposure to interest rate risk, it does not hedge its entire risk exposure and cannot ensure that its hedging strategies will be successful. If Banco Montepio is unable to adjust the interest rate payable on deposits in line with the changes in market interest rates receivable by it on loans, or if Banco Montepio's monitoring procedures are unable to adequately manage the interest rate risk, its interest income could increase less or decline more than its interest expense, in which case Banco Montepio's operating results and financial condition or prospects could be negatively affected.

The impact of the change in interest rates could have an adverse effect on the Issuer's profit and loss and/or net interest income. As at 30 June 2018, a shift in interest rates by 1 percentage point would have led to a variation in the expected economic value of the bank portfolio of approximately -€28.4 million (as at 31 December 2017: €11.6 million).

Changes in exchange rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios.

As far as exchange rate risk is concerned, this stems essentially from any existing mismatches between the maturities of investments and those of resources, given that, as a rule, resources attracted in any foreign currency are invested in that same currency.

The Issuer's balance sheet management also involves the Assets and Liabilities Committee, where an assessment of the interest rate, exchange rate and liquidity risks is made, in particular regarding the Issuer's compliance with internal limits for the static and dynamic gaps of interest rate, exchange rate and liquidity risks (static gap meaning the difference between assets and liabilities elements of the current portfolio considering only contractual reimbursements and maturities, not taking into account projections for new business, and assuming a run-off level for current deposits; the dynamic gap also incorporates the projections for new business).

For interest rate risk measurement purposes, assets and liabilities´ sensitivity to interest rate changes are aggregated by time bands according to their respective repricing dates, and the balance-sheet interest rate mismatch is calculated. As at 30 June 2018, the interest rate gap was €2,974 million (as at 31 December 2017: -€1,034 million).

The Issuer also performs, on a regular basis, an assets and liabilities sensitivity analysis with respect to changes in the levels of market interest rates. The impacts of parallel shifts on the yield curve on own funds and on net interest income are assessed and reported for internal management purposes, on a monthly basis and every six months, to the Bank of Portugal (according to the Bank of Portugal Notice (*Instrução*) 19/2005).

A significant downward movement in global capital markets could have an adverse impact on the Issuer´s activity and results, and on the value of the assets comprising its investment portfolio, as well as on the value of the assets that comprise its pension fund portfolio, which could have a negative impact on the need to shore-up the latter and, consequently, on the Issuer's ability to allocate its net profit to the development of its business activity.

The Group's investment portfolio is mainly concentrated in bonds and, as of 30 June 2018, represented 69.9% (31 December 2017: 76.6%) of the total portfolio, maintaining its dominant position in bonds of sovereign issuers, essentially of the Portuguese, Italian and Spanish Republics. Please refer to the risk factor headed "*Sovereign Debt and Sovereign Risk*" for additional information.

Liquidity risk

The Issuer's liquidity risk reflects the risk of the Issuer being incapable to fulfil its obligation upon maturity without significant losses arising from a deterioration of the financing conditions (financing risk) and/or from the sale of its assets for a value below market values (market liquidity risk).

The Issuer seeks the preservation of the necessary liquidity balance, especially focusing on the basic function of intermediation. The Issuer's practices reflect the utilisation of diversified financing sources, favouring the stability of resources and the encouragement of savings, as well as the maintenance of highly liquid assets, which comply with the ECB's Eligibility Criteria.

The focus on retail deposits growth, encouraging resources stability, as well as on tighter underwriting policies has allowed mitigation of the commercial gap (difference between deposits and granted loans) and the improvement of the structural liquidity position ratios – i.e., the levels of conversion of deposits and clients' resources (including securities placed in clients) into credit. The Issuer carried out a deleveraging process that began in 2008 by increasing customers' deposits, especially small and medium savings, while also reducing its credit portfolio, in a process that benefited the commercial gap, which was sustainably reduced.

The maintenance of sufficient customer deposits to fund Banco Montepio's loan portfolio is subject to certain factors outside Banco Montepio's control, such as depositors' concerns relating to the economy in general, the financial services industry or Banco Montepio in particular, rating downgrades (including any downgrade of other financial institutions or of the Portuguese Republic), significant further deterioration in economic conditions in the Portuguese Republic and the existence and extent of deposit guarantees. Any of these factors, on their own or combined, could lead to a reduction in Banco Montepio's ability to access customer deposit funding on appropriate terms in the future and could result in deposit outflows, both of which would have an impact on Banco Montepio's ability to fund its operations and meet its minimum liquidity requirements, and may require Banco Montepio to increase its use of sources other than deposits, if available, to fund its loan portfolio.

The Loans to Deposits ratio decreased to 101.5 per cent. as at 30 June 2018, from 107.3 per cent. as at 31 December 2017. If the Issuer's debt sold to retail clients is added to clients' total deposits (resulting in clients' total resources), the conversion ratio was, as at 30 June 2018, 92.0 per cent. (92.4 per cent. as at 31 December 2017).

Banco Montepio's liquidity could also be impaired by an inability to access debt markets, to sell assets or redeem its investments, as well as other outflows of cash or collateral deterioration. These situations may arise due to circumstances that Banco Montepio is unable to control, such as continued general market disruption, loss in confidence in the financial markets, uncertainty and speculation regarding the solvency of market participants, credit rating downgrades or operational problems that affect third parties. Access to the financial markets has been limited since the 2007 disruptions in the credit markets. Funding in the interbank markets or via the capital markets has been very difficult, especially since 2010, for banks from EU periphery economies. Even a perception among market participants that a financial institution is experiencing greater liquidity risk can cause significant damage to the Issuer.

Banco Montepio also borrows from the ECB. Thus, any adverse change to the ECB's lending policy or any changes to the funding requirements set by the ECB, including changes to collateral requirements (particularly those with retroactive effects), could significantly affect Banco Montepio's operating results, business and financial condition.

The ECB establishes the valuation and eligibility criteria that eligible securities must meet in order to be used on repo transactions. Downgrades of Portugal's sovereign credit rating or of Portuguese companies, or changes to the alluded valuations or eligibility criteria, can have a negative impact on the portfolio of securities eligible for that purpose and reduce the liquidity lines available from the ECB. Additionally, downgrades of Portugal's sovereign credit rating or of Portuguese companies can result in an increase in haircuts to any eligible collateral (meaning a reduction of the value of the pool of assets eligible for discount operations with the ECB, in particular with respect to securitisations and covered bonds) or in the non-eligibility of such assets, thereby decreasing the total amount of eligible portfolio.

The limitation, restriction or termination of liquidity operations by the ECB, including the end of the ECB's longer-term refinancing operations programme without a substitute or transitional measure, would force Banco Montepio to substitute its financing with the ECB with alternative sources of funding which may only be available, if at all, at unfavourable conditions or force Banco Montepio to dispose of its assets, potentially with a high discount to their book values, in order to comply with its obligations and could significantly increase its funding costs.

The improvement of the balance liquidity profile has triggered an increase in the enlarged liquidity indicator, which associates the coverage of financial liability and cash availability added to assets that may be discounted with the ECB.

The control of liquidity levels has as a goal the maintenance of a satisfactory level of available funds to face financial needs in the short, medium and long term. Scheduled cash flows during a relevant time frame are carefully monitored by the Assets and Liabilities Committee.

The Issuer has been demonstrating positive liquidity dynamic gaps (algebraic difference between cash flows arising out of the existing assets and liabilities, added to the projection of the granting of new credits and of the constitution of new deposits and respective amortisation profiles), with accumulated positive mismatches for the different time lags until 12 months.

The Issuer's core activity is retail banking, representing 59.7 per cent. of the Issuer's total liabilities as at 30 June 2018 (as opposed to 55.7 per cent. as at 31 December 2017). The progressively reduced weight of capital markets resources in the funding of the Issuer, together with a potential decrease of clients' resources, driven by highly competitive fund-raising in the retail market, may bring an adverse impact on the Issuer's liquidity.

Since the Issuer relies on the aforementioned sources for funding, there is no assurance that, in the event of a sudden or unexpected shortage of funds in the market in which the Issuer operates, the Issuer will be able to maintain its levels of funding without incurring higher funding costs or the liquidation of certain assets. Additionally, as the Issuer is impacted by any changes that may occur in the requirements set by the ECB in its refinancing operations, if the Issuer is unable to borrow sufficient funds to meet its obligations to its customers and other investors, the Issuer's business activities, financial condition and operating results will be materially adversely affected.

Although Banco Montepio puts significant efforts in its liquidity risk management and focuses on maintaining a liquidity surplus in the short term, Banco Montepio is exposed to the general risk of liquidity shortfalls and cannot ensure that the procedures in place to manage such risks will be suitable to eliminate liquidity risk.

Operational Risk

The Issuer's business is dependent on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory

requirements and the conduct of business rules, equipment failures, natural disasters or the failure of external systems such as, for example, those of the Issuer's suppliers or counterparties. Although the Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

The Issuer adopts the standard approach to quantify its own fund requirements for operational risk, supported by an implemented operational risk management system that is based on identifying, assessing, monitoring, measuring, mitigating and reporting this type of risk.

According to the standard method and on a consolidated basis, own funds requirements to hedge operational risk was at €57.7 million as at 30 June 2018 (€57.7 million as at 31 December 2017). Increases to this amount may have a negative impact on the Issuer's capital ratios.

Infrastructure Risk

The Issuer faces the risk that computer or telecommunications systems could fail, despite its efforts to maintain these systems in good working order. Given the high volume of transactions the Issuer processes, on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Shortcomings or failures in the Issuer's internal processes, employees or systems, including any of the Issuer's financial, accounting or other data processing systems, could lead to financial loss and damage to the Issuer's reputation. In addition, despite the contingency plans the Issuer has in place, the Issuer's ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its operations and the communities in which it does business.

Impact of regulatory changes generally

The Issuer is subject to financial services laws, regulations, administrative actions and policies in each location where it operates. Changes in supervision and regulation, in particular in Portugal, could materially affect the Issuer's business, the products and services it offers or the value of its assets. Although the Issuer works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Issuer.

Regulators' audit

Pursuant to article 116, no. 2, of the RGICSF, the Bank of Portugal may designate independent entities to conduct special audits to credit institutions generally. The Issuer, in its capacity as a credit institution, may be subject to such audits.

The result of such audits, which are subject to the Bank of Portugal's discretion, may, *inter alia*, result in corrections to the Issuer's accounts together with ancillary penalties applicable both to the Issuer and its board members resulting in material adverse consequences on the Issuer's financial and reputational condition.

European Central Bank – Single Supervisory Mechanism

Council Regulation (EU) No. 1024/2013 established the Single Supervisory Mechanism ("**SSM**") composed of the ECB and the national competent authorities ("**NCAs**") of participating Member States. The SSM is further regulated by Regulation (EU) No 468/2014, of the European Central Bank, dated 16 April 2014.

The SSM may apply to the Issuer, if the Issuer is considered of significant relevance with regards to the Portuguese domestic economy and should therefore be supervised by the ECB, or is considered within the scope of less significant institutions ("**LSIs**") specified in a framework adopted and published by the ECB in consultation with NCAs.

The Issuer is subject to compliance risk, which may lead to claims of non-compliance with regulations and lawsuits by regulatory agencies, in particular the Bank of Portugal, the CMVM, and other parties

The Issuer is subject to claims of non-compliance with regulations and lawsuits by regulatory agencies, in particular the Bank of Portugal and the CMVM, and other parties.

Banco Montepio's regulators, in particular the Bank of Portugal and the CMVM, frequently conduct inspections and request information in respect of Banco Montepio's or its clients' activities and transactions. Any inspections or other proceedings that are unfavourable to Banco Montepio may result in sanctions, limitations on its business opportunities, or a reduction of its growth potential, and may have an adverse effect on Banco Montepio's ability to comply with certain contractual obligations or retain certain commercial relationships.

Banco Montepio is also subject to rules and regulations related to the prevention of money laundering, bribery and terrorism financing. Compliance with anti-money laundering ("**AML**"), anti-bribery and counter-terrorist financing rules entails significant cost and effort. Non-compliance with these rules may have serious consequences, including adverse legal and reputational outcomes and negative effects on Banco Montepio's relationship with its clients, partners, service providers and other third parties. Although Banco Montepio believes that its current AML, anti-bribery and counterterrorism financing policies and procedures are adequate to ensure compliance with applicable legislation, Banco Montepio cannot guarantee that it has always complied in the past or will comply, at all times, with all applicable rules or that its regulations for fighting money laundering, bribery and terrorism financing are duly applied by its employees under all circumstances.

In November 2016, Banco Montepio was notified by the Bank of Portugal of an accusation under an administrative proceeding related to alleged violations of certain AML procedures (administrative proceeding (*processo de contraordenação*) no. 84/14/CO). This administrative proceeding relates to events that occurred prior to 12 August 2016 and concerns alleged non-compliance by Banco Montepio with certain duties pertaining to the implementation of certain required mechanisms to allow for: the identification and the knowledge of the ownership and control of corporate entities; information on the origin of funds; information update relating with banking entities; extension to affiliates of measures equivalent to those foreseen in Law no. 25/2008; system parameters for high risk operations; information report to the Procuradoria Geral da República of operations potentially related to AML. Banco Montepio presented its defence in January 2017. The potential applicable penalty applicable to Banco Montepio ranges from €10,000 (ten thousand euros) to €5,000,000 (five million euros).

An unfavourable decision in the administrative proceedings brought against the Issuer by the Bank of Portugal may have reputational risks which could result in material adverse consequences on the Issuer's financial condition.

The Issuer is subject to the risk of internal and external fraud, crime, cybercrime, or other types of misconduct by employees or third parties which could have a material adverse effect on the Issuer

The Issuer is subject to the risk of fraud, crime, money laundering, cybercrime and other types of misconduct by employees and third parties, as well as to unauthorised transactions by employees, third party service providers and external staff, including "rogue trading". This type of risk could result in breaches of law, rules, regulations and internal policies, losses, claims, fines, regulatory action, legal proceedings or reputational damage.

The Issuer may be subject to disruptions of its operating or information systems, arising from criminal acts by individuals and groups via cyberspace, which may interrupt the service to clients.

The Issuer remains potentially exposed to the risk that the procedures implemented and the measures adopted with respect to the storage and processing of personal data relating to its customers may prove to be inadequate and/or not in compliance with the laws and regulations in force from time to time and/or may not be promptly or properly implemented by employees and associates, especially considering the entry into force on 25 May 2018 of the "**General Data Protection Regulation**" (Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27 April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC). Thus, data could be subject to damage, loss, theft, disclosure or processing for purposes other than those authorised by the customers, or even use by unauthorised parties (whether third parties or employees of companies of the Issuer). If any of these circumstances occur, there could be a material adverse effect on the Issuer's business, including its reputation, financial condition, results of operation or prospects.

Failure of the Issuer's information technology systems could lead to a breach of regulations and (contractual) obligations and have a material adverse effect on the Issuer's reputation, operating results, financial condition and prospects. The continuous efforts of individuals and groups, including organised crime, via cyberspace, to commit fraud through electronic channels or to gain access to information technology systems used by the Issuer (including with respect to clients' and Issuer information held on those systems and transactions processed through these systems) are a growing threat to the Issuer. The manifestations of risks to technology—including cyber security—change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential attacks via cyberspace, it is possible that future attacks may lead to significant breaches of security and loss of (personal) data. In addition, the Issuer may as a result not be able to access data or operate its systems, it may not be able to recover data, or establishing that data is not compromised may be very time consuming and costly.

There is a risk that the cyber-security risk is not adequately managed or, even if adequately managed, a cyber-attack can take place and be successful, which could lead to breach of regulations, investigations and administrative enforcement by supervisory authorities and claims that may materially and adversely affect the Issuer's business, reputation, operating results, financial condition, prospects and its position in legal proceedings.

The Issuer's activity is subject to reputational risk

The Issuer is exposed to reputational risk understood as the probability of occurrence of negative impacts on the Issuer resulting from an unfavourable perception of its public image, whether proven or not, among customers, suppliers, analysts, employees, investors, media and any other bodies with which the Issuer may be related, or even public opinion in general.

The Issuer continually monitors this risk but it cannot assure potential investors that it will be able to foresee and mitigate the impacts of this risk if the same occurs and should that be the case any failure to execute the Issuer's reputational risk policies successfully could materially adversely affect the Issuer's business

activities, financial condition and operating results.

Litigation and Conduct risks

Banco Montepio faces various issues that may give rise to the risk of loss from legal and regulatory proceedings. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, and conduct by companies in which Banco Montepio holds strategic investments or joint venture partnerships, which could increase the number of litigation claims and the amount of damages asserted against Banco Montepio, or subject Banco Montepio to regulatory enforcement actions, fines and penalties. Any material legal proceedings, or publicity surrounding such legal or regulatory proceedings, may adversely impact on Banco Montepio's business, reputation and operating results.

Change in legal framework of the Issuer

Following the approval of the new savings banks act by Decree-Law no. 190/2015, of 10 September ("**Savings Banks Act**"), which entered into force on 10 October 2015, savings banks (*caixas económicas*) with assets equal to or greater than €50 million were classified as full service savings banks (*caixas económicas bancárias*) (as opposed to affiliated savings banks (*caixas económicas anexas*)) and were required to adopt the form of public limited liability companies (*sociedades anónimas*) with a public ownership structure.

In relation to full service savings banks, the Savings Banks Act further requires that the majority of the share capital or voting rights be held by the respective owner institutions. Such owner institutions may only be mutual associations (as is the case, in relation to the Issuer, of MGAM), charities (*misericórdias*) or charitable institutions.

Insofar as the governing bodies of full service savings banks (*caixas económicas bancárias*) are concerned, it is expressly determined that the Portuguese Companies Code will apply. The Savings Banks Act further requires that the management and supervisory boards of full service savings banks be separate and independent from their respective owner institution, specifically prohibiting ex officio appointments. As to the separation and independence of the Issuer's management and supervisory boards and the related governing bodies of its owners, namely MGAM, please refer to the section headed "*Board of Directors and other Corporate and Governing Bodies of the Issuer*").

In accordance with the above, the Issuer is now characterised as a full service savings bank (*caixa económica bancária*) since the entry into force of the Savings Banks Act. The Savings Banks Act provides that, unless otherwise determined at any time by the Bank of Portugal, full service savings banks already in existence upon the entry into force of the new legislation shall not be automatically required to arrange for their conversion into public limited liability companies.

An Extraordinary General Meeting of Banco Montepio was convened for 22 November 2016, to deliberate on the transformation of Banco Montepio into a public limited liability company and the consequent amendment of its Articles of Association.

The General Meeting was held on the referred date, within the scope of a determination from the Bank of Portugal, dated 21 November 2016, pursuant to which Banco Montepio should be transformed from a savings bank annexed to MGAM into a full service savings bank (*caixa económica bancária*) adopting the form of a public limited liability company in accordance with number 2 of article 6 of Decree-Law no. 190/2015 of 10 September, which approved the regulatory framework of the Savings Banks (*Regime Jurídico das Caixas Económicas*).

The participants in the Extraordinary General Meeting approved by majority to transform Banco Montepio into a public limited liability company and to amend the Articles of Association.

The project for the amended Articles of Association was approved in its entirety, without prejudice to the reconsideration of some matters depending on the recommendations or decisions conveyed by the

supervising authorities. As knowledge of such recommendations or decisions was key to the conclusion of the matters being discussed, the session was suspended until 13 December 2016.

The Extraordinary General Meeting was resumed on 13 December 2016. The Bank of Portugal's recommendations and decisions were acknowledged and accepted without reservations, and therefore the General Meeting agreed to said transformation. In addition, it was approved that Banco Montepio should take all the necessary procedures to ensure the fulfilment of the aforementioned determination.

These resolutions were later ratified at the Extraordinary General Meeting of MGAM, under the provisions of article 6 no. 4 g) of Decree-Law no. 190/2015 of 10 September, combined with articles 33 and 32 from Banco Montepio's Articles of Association and article 23 no. 1, 1b) and 2, and article 25 g) of MGAM's Articles of Association.

This Extraordinary General Meeting of MGAM was suspended and resumed on 6 January 2017.

The results of the Extraordinary General Meeting (resumed on 6 January 2017) were as follows:

a. recommendations of the Bank of Portugal were included for the modification of the Issuer's new Articles of Association, which was approved, by majority, at the General Meeting held on 22 November 2016; and

b. it was resolved, with only one abstention vote, that the Executive Board of Directors of the Issuer should formalise the process of its transformation into a public limited liability company.

An Extraordinary General Meeting of Banco Montepio was convened on 4 April 2017. At this Extraordinary General Meeting, the following proposals were approved:

1. the information report (*Relatório Informativo*) and the Issuer's draft Articles of Association, on their exact terms agreed and previously approved by the Bank of Portugal, and the related approval of the Issuer's transformation into a public limited liability company;

2. the Executive Board of Directors of the Issuer should carry out all necessary actions towards the implementation of said transformation of the Issuer into a public limited liability company, without prejudice to the assignments granted to MGAM; and

3. to request from MGAM, through its Board of Directors, the necessary cooperation towards the expeditious completion of the ratification of the resolution to transform the Issuer into a public limited liability company.

On the same date, the Issuer further informed that:

1. the Bank of Portugal had given a favourable opinion regarding the compliance of the information report (*Relatório Informativo*) and the Issuer's draft Articles of Association leading to the transformation of this full-service savings bank (*caixa económica bancária*) into a public limited liability company, as had been proposed by the Issuer's Executive Board of Directors; and

2. the Bank of Portugal had approved the amendments to Banco Montepio's draft Articles of Association arising from the aforementioned transformation.

The effectiveness of the resolutions approved in the Extraordinary General Meeting regarding the transformation into a public limited liability company were conditional on (i) ratification by the General Meeting of MGAM, to be held no later than 9 May 2017; and (ii) their respective registration. Upon these conditions being met, Banco Montepio's capital should be represented in full by ordinary shares. These two conditions were met, respectively, on 9 May 2017 and 14 September 2017.

Consequently, Banco Montepio's total share capital, in the amount of €2,420,000,000 is now fully represented by ordinary shares.

Following the tender offer announced on 4 July 2017 and the subsequent permanent order effective from 15 September 2017 to buy the outstanding shares, MGAM became the holder of 100 per cent. of the total share capital of Banco Montepio.

The transformation of Banco Montepio from a savings bank annexed to MGAM into a full service savings bank (*caixa económica bancária*), adopting the form of a public limited liability company, under the Savings Bank Act has never been tested and its implementation, even if in accordance with all Bank of Portugal and CMVM approvals, may raise legal and regulatory issues which the Issuer is not in a position to anticipate, but which may have material adverse consequences on the Issuer's ability to operate and its financial condition.

If the amendment of Banco Montepio's legal framework into a public limited liability company is not in line with the expectations of the market, investors and clients, this may have a material adverse effect on the Issuer's financial condition, ability to pursue its business and results of its operations.

Other than as stated above, the Issuer is not in a position to anticipate, or to make any assessment of, the implications, adverse or not, that may arise for itself, for the owners of its share capital, for the holders of the Covered Bonds and for its creditors generally as a result of its conversion into a public limited liability company, or of the need to comply with any other aspects of the new legislation.

Sovereign Debt and Sovereign Risk

Despite a strong improvement in the interest of international investors in Portuguese sovereign debt, as evidenced by the narrowing of the spread between the respective yield and those of the German public debt with equivalent maturities, there is no guarantee that this trend will be maintained. The high level of indebtedness of the Portuguese Republic, the possibility of failure to meet fiscal targets, combined with uncertainty regarding the long-term growth potential of the domestic economy may result in a deterioration of the sovereign risk premium for Portuguese public debt securities in access to the secondary debt markets and access of the Portuguese Republic to primary debt markets. Such risk could be exacerbated by a reduced confidence in international financial markets or be triggered by a weak performance of the domestic economy or disturbances in the local political environment.

Additionally, there might be downgrades of the long term rating assigned to Portuguese sovereign debt in the future, namely, in the case of, a deterioration of the public finance situation arising from weaker economic performance, caused by the austerity measures adopted internally or induced by contagion as a consequence of the slowdown in the economic activity of Portugal’s main trading partners, particularly Spain, or if the market perceives these measures as insufficient or as a result of the lack of success of structural reforms, of the simplification of State administration and streamlining of the Portuguese justice system. Under these circumstances, Portugal’s perceived credit risk will increase, with resulting negative effects on the credit risk of Portuguese banks (including Banco Montepio) and, consequently, on their profit levels.

Should the foregoing occur, the resulting substantial worsening of sovereign debt risk could negatively impact the Issuer’s liquidity position, both through funding difficulties and the reduction of the pool of assets eligible for discount at the ECB, in addition to funding costs and the Issuer’s capacity to increase its loan and asset portfolio with a negative impact on the financial condition, credit quality and operating results of the Issuer. This scenario could be further aggravated by persistent volatility in the financial sector and capital markets or by financial difficulties, including the possible default of one or more financial institutions or sovereigns, which could lead to significant liquidity problems in the market in general, and to losses and defaults by other institutions.

The Issuer maintains trading and investment positions in debt securities, foreign exchange, equity and other markets. The most relevant exposure of the Issuer is in relation to Portuguese sovereign debt, comprised in its own portfolio. As at 30 June 2018, the exposure of the Issuer to Portuguese sovereign debt was of around €749.6 million, €6.9 million of which in the trading portfolio, €372.9 million in the financial assets at fair value through other comprehensive income portfolio and € 369.8 million in the other financial assets at amortised cost (as at 31 December 2017: €743.7 million, €28.3 million of which in the trading portfolio and

€715.4 million in the assets at fair value through other comprehensive income). These positions could be adversely affected by volatility in Portuguese sovereign debt creating a risk of substantial losses.

As at 30 June 2018, the gains of the trading and investment portfolios of fixed income securities, namely in Portuguese public debt, had reached €6.5 million (€73.4 million as at 31 December 2017). There is a risk that these capital gains may not be repeated in the future or even that losses may be recognised in the next quarters if market appetite for Portuguese securities becomes subdued compared to other peripheral economies.

Real Estate market

The Issuer is exposed to a contraction of the real estate market given its high exposure to the Portuguese real estate market through mortgage loans, loans granted to construction companies, assets obtained in lieu of payment (the "**Non-current Assets Held for Sale**" as disclosed in the balance sheet), properties for securing loans or related to its operations, funding of real estate development projects, and exposure to real estate funds majority owned by the Issuer (disclosed in the Issuer's balance sheet as "**Investment Properties**"), and to real estate fund units held in its own securities portfolio.

The Investment Properties in a total outstanding amount of €285.6 million as at 30 June 2018 (€538.6 million as at 31 December 2017) includes the real estate properties owned by "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular" and "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto" which are fully consolidated, and the real estate held by Ssagincentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A..

The Non-current Assets Held for Sale arising from recovered loans amounted to € 740.4 million as at 30 June 2018 (€742.2 million as at 31 December 2017) and include buildings and other assets resulting from the foreclosure of loans to customers, originated by (i) delivery of the assets, with option to repurchase or leasing, accounted with the celebration of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer in the name of the Issuer; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment pro-solvency). According to the Issuer's expectation, these assets are available for sale in a period of less than one year and the Issuer has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline.

The participation units representative of real estate funds held in the securities portfolio amounted to €297.7 million as at 30 June 2018 (€213.5 million as at 31 December 2017).

Although Portugal did not experience a housing bubble during recent years as in other European countries, namely Ireland and Spain, the economic and financial crisis still had an impact on the real estate market. Portuguese banks have refrained from granting new mortgage loans with very low spreads, and real estate developers have encountered a difficult market for sellers. Moreover, there was a reduction in public works activity, which severely affected construction companies, which had to redirect their activities to foreign markets. All of the abovementioned effects have increased delinquency among construction companies and real estate developers, impacting the Issuer's non-performing loans and contributing to the increase in impairment charges.

A significant devaluation of prices in the Portuguese real estate market may lead to impairment losses in the assets held directly by Banco Montepio and increased exposure in counterparty risk for loans guaranteed by real estate collateral. Accordingly, the Issuer is vulnerable to a contraction in the real estate market and any of the foregoing could have a materially adverse effect on the Issuer's business, financial condition and

operating results.

Banco Montepio is exposed to Pension Fund risk

Pension Fund risk arises from the potential devaluation of the fund's portfolio of assets or from the decrease of the corresponding expected returns. When faced with scenarios of this type, Banco Montepio is required to make unforeseen contributions, so as to maintain the benefits defined by the Fund.

The Pension Fund Monitoring Commission is responsible for the regular analysis and monitoring of the management of Banco Montepio's Pension Fund. In addition, the Risk Department produces monthly reports on the evolution of the market value of the Pension Fund portfolio and associated risk indicators.

As at 30 June 2018, the accumulated negative actuarial deviation of the Pension Fund stood at €188 million.

In the event of a shortfall in its pension liabilities, Banco Montepio may be required or may choose to make additional payments to Banco Montepio's pension schemes which, depending on the amount, could have a material adverse effect on Banco Montepio's financial condition, operating results and prospects.

Banco Montepio is exposed to the risks associated with the value of certain financial instruments being determined using financial models that incorporate assumptions, judgments and estimates that may change over time

Banco Montepio uses internally developed models to support some of its activities, including, but not limited to, scoring models used to assess clients' (individuals and corporates) capacity to repay loans granted by the Group. Even though Banco Montepio works continually to upgrade its internal models and to adapt them to constantly changing market conditions, these models do not exclude the possibility of Banco Montepio incurring losses associated with factors not foreseen or contemplated in the model's respective parameters or methodology.

Basel Committee: potential impact of Basel IV requirements

In 2014, the Basel Committee issued a final regulatory text for a new standardised approach for measuring counterparty credit risk exposures. Moreover, in January 2016, the Basel Committee completed the Fundamental Review of the Trading Book, a comprehensive revision of the capital adequacy standard for market risk. The new standard entails substantial revisions to both the standardised approach and the internal model's approach. Furthermore, in March 2016, the Basel Committee published a proposal for a new standardised measurement approach for operational risk, which would replace all existing approaches for operational risks, including the Advanced Measurement Approach, which is the internal model-based approach for measuring operational risk in the current framework. In March 2016, the Basel Committee proposed constraints on the use of internal model approaches for credit risk. In particular, the Basel Committee proposed to remove the option of using the IRB approaches for certain exposures; to adopt exposure-level, model-parameter floors and to provide greater specification of parameter estimation practices.

In December 2017, the Basel Committee on Banking Supervision ("**BCBS**") published a package of proposed reforms for the international regulatory framework for the banking industry which is frequently referred to as Basel IV. The BCBS's aim is to make the capital framework more robust and to improve confidence in the system.

The BCBS has proposed reforms designed to make banks more resilient and to increase confidence in the banking system. The Basel IV proposals announced recently include updates to the ways banks calculate their capital requirements with the aim of making outcomes more comparable across banks globally.

The framework will now be considered by lawmakers in national jurisdictions and at the EU level. As part of this process, national or EU authorities must decide on the use of a limited number of alternative calculations allowed under the BCBS proposal, so called "national options and discretions".

The BCBS proposes a nine-year implementation timetable, which allows considerable time for preparation. A five-year phase-in period would commence on 1 January 2022, with full implementation foreseen from 1 January 2027.

There is still a high degree of uncertainty with regards to the Basel IV implementation, and subsequently how and when it will be implemented in the EU. It is thus too early to draw conclusions regarding the impact on the future capital requirements of the Issuer.

Requisites related to liquidity ratios and its potential impact on profitability (LCR and NSFR)

Basel III recommendations endorse the implementation of liquidity coverage ratios of short and Basel III recommendations endorse the implementation of liquidity coverage ratios of short and medium/long term, known as LCR and NSFR.

The LCR addresses the sufficiency of high quality liquidity assets to meet short-term liquidity needs under a severe stress scenario. The LCR was introduced gradually starting from October 2015 with a minimum level of 60 per cent. and was fully implemented in January 2018 comprising the minimum required ratio of 100 per cent., one year earlier than the Basel Committee had recommended. As at 30 September 2018, the Issuer's LCR stood at 167.8 per cent. (153.2 per cent. as at 31 December 2017), above the 100% minimum regulatory requirement in force since 1 January 2018.

The NSFR, which was to be implemented in 2018 but is expected to be delayed until 2021, subject to the approval of the relevant regulation, will seek to establish a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over one year period.

The fulfilment of these ratios by the Issuer may lead to the constitution of portfolios with high liquidity assets but low profitability. Additionally, it may lead to an increase in the financing costs, since the ratios increase favours the long-term financing over the short-term. Such changes may have a negative impact on the Issuer's results.

Leverage ratios: impact on funding and Issuer's activity

The banking activities of the Issuer are subject to extensive regulation by the ECB, the EBA and the Bank of Portugal, mainly relating to liquidity levels, solvency and provisioning. These various regulations can significantly increase the costs of the Issuer's structure and limits its possibilities for increasing its income.

The regulatory package known as CRD IV/CRR, comprising Regulation (EU) No 575/2013, as amended, and Directive 2013/36/EU of the European Parliament and of the Council, of 26 June, as amended, has implemented the prudential regulatory framework known as Basel III at the level of the EU and establishes new minimum requirements on capital, new rules on the type of capital instruments that are eligible for own funds and new liquidity and leverage requirements. These rules will be applied gradually until January 2024.

CRD IV/CRR also introduces a leverage ratio aimed at monitoring possible under-estimations of risk-weighted assets and avoids excess leverage through a simple calculation. This ratio is calculated by dividing the total Tier 1 capital by total exposure as defined in CRD IV. In addition to the balance sheet assets, the denominator includes other off-balance sheet items.

The regulatory laws governing banking activity may change at any time in ways which may have an adverse effect on the business of the Issuer. It is not possible to predict the timing or form of any future regulatory initiatives. Changes in existing regulatory laws may materially affect the way in which Issuer conducts its business, the products and services it can offer and the value of its assets.

In addition, the Issuer's operations are subject to regulation in each jurisdiction in which it operates. Often, these regulations are complex and costly to comply with in terms of time and other resources. Breach of applicable regulations may lead to penalties, fines, compliance costs, reputational harm and even loss of licenses to operate.

Concentration Risks

The Issuer has significant credit exposure to certain groups of clients. The Issuer has a well-diversified loan portfolio, with the top 10 exposures representing 6.4% as of 30 June 2018. However, in the event that any of these groups defaults, such defaults may lead to a material increase in impairment charges, which could have an adverse effect on the Issuer's results and asset quality.

Although the Issuer believes it is in a strong position to continue to compete in the markets in which it operates, there can be no assurance that it will be able to compete effectively in these markets in the future.

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 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.

Covered Bonds are obligations of the Issuer only

The Covered Bonds will constitute unsubordinated obligations of the Issuer secured by a special creditor privilege (*privilégio creditório especial*) created under the Covered Bonds Law over the Cover Pool (as defined in Terms and Conditions of the Covered Bonds) maintained by the Issuer. Although primarily based and secured by the credits comprised in the Cover Pool, an investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer, which 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. 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.

The Covered Bonds will not represent an obligation or be the responsibility of the Arrangers or the Dealers or any person other than the Issuer.

Exposure to the Issuer's credit risk

As discussed, the Covered Bonds are unsubordinated obligations of the Issuer secured by a special creditor privilege created under the Covered Bonds Law over the Cover Pool maintained by the Issuer. In case of insufficiency of the assets constituting the Cover Pool, the holders of the Covered Bonds will be treated as common creditors of the Issuer and will have to rely, for the performance by the Issuer of its obligations under the Covered Bonds, on the sufficiency of the assets of the Issuer available to common creditors. Accordingly, the holders of Covered Bonds will become exposed to the credit risk of the Issuer, in case of insufficiency of the assets constituting the Cover Pool to meet the obligations of the Issuer under the Covered Bonds.

As at the date hereof, the Issuer has been rated B3 with a positive outlook (long-term rating and senior unsecured) / Caa2 (senior subordinated) / Caa3 (junior subordinated) / NP (short-term) by Moody's Investor Service España, S.A. ("**Moody's**"), B+ with a stable outlook (long-term issuer default rating) / B (short-term) by Fitch Ratings Ltd. ("**Fitch**") and BB with a negative rating trend(senior long-term debt and deposit) / B (high) with a negative rating trend (subordinated debt) / R-4 with a stable rating trend (short-term debt and deposit) by DBRS Ratings Limited. ("**DBRS**").

Information on the ratings granted to the Issuer (including any changes to the ratings as described in the preceding paragraph), as well as on any update to the Issuer's rating, is available on CMVM's website (www.cmvm.pt) and on the Issuer's website (www.bancomontepio.pt).

Any further downgrading of the ratings of the Issuer may adversely affect its funding and therefore its financial performance.

Portuguese Mortgage Covered Bonds Legislation Untested

The Covered Bonds Law came into effect on 20 March 2006 and the Bank of Portugal Regulatory Notices came into effect on 11 October 2006. The protection afforded to the holders of Covered Bonds by means of the special creditor privilege on the Cover Pool is based only on the Covered Bonds Law, which has not yet been challenged judicially. The covered bonds in the form of conditional pass-through mortgage covered bonds under the Covered Bonds Law have not been previously adopted and therefore have not been challenged judicially.

Obligations under the Covered Bonds

The Covered Bonds will not represent an obligation or be the responsibility of the Arranger, 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.

Issuer's Repurchase Commitment

The Issuer may provide a Repurchase Commitment to purchase a Series of Covered Bonds on its Repurchase Date. Such Repurchase Commitment will be an unsecured obligation of the Issuer only and, for the avoidance of doubt, it will not be secured on the Assets comprised in the Cover Pool. Failure by the Issuer to comply with its Repurchase Commitment will not constitute an event of default under the Terms and Conditions of the corresponding Series of Covered Bonds. The Repurchase Commitment will only apply to certain Series of Covered Bonds, as per the applicable Final Terms, and will be given solely for the benefit of Qualified Investors (as defined below). Accordingly, non-qualified investors or Qualified Investors of Series of Covered Bonds that do not benefit from the Repurchase Commitment should be aware that they will not benefit from the Repurchase Commitment and are therefore subject to extension risk.

For the purposes of this commitment, "**Qualified Investor**" shall mean any qualified investor in accordance with and for the purposes of the Portuguese Securities Code ("*investidor qualificado*") and/or in accordance with and for the purposes of other applicable laws, to whom an offer can be lawfully made under circumstances which are not deemed to be a public offer in any relevant jurisdiction.

As described under the section "*Legislation on Bank Recovery and Resolution*", under national and EU law, the Issuer may be subject to resolution measures. If the Issuer is subject to such measures, the impact thereof on repurchase commitments that benefit holders of Series of Covered Bonds cannot be anticipated, as the application and exact content of such measures is determined by the resolution authority, at the time of resolution. For instance, such repurchase commitment may remain a liability of the Issuer or subject to bail-in, whilst covered bond assets and liabilities are transferred to a bridge institution or another credit institution.

Extended Maturity of the Covered Bonds

An Extended Maturity Date will be specified in the relevant Final Terms for each Series of Covered Bonds issued under the Programme. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall

any later than 50 (fifty) years after the Issue Date of such Series. If an Issuer Event occurs, the maturity of the Covered Bonds issued under the Programme will automatically be extended to the Extended Maturity Date, as defined 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 any 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, unless otherwise established in the Terms and Conditions (see Terms and Conditions of the Covered Bonds) as amended by the applicable Final Terms.

Risks relating to all outstanding Covered Bonds of the Programme upon occurrence of an Insolvency Event in respect of the Issuer

If an Insolvency Event has occurred in respect of the Issuer, all outstanding Covered Bonds of the Programme will assume the form of pass-through covered bonds. If, as a result of the occurrence of such event triggering the pass-through condition, all covered bonds become pass-through Covered Bonds, there is a risk that holders of Covered Bonds of the Programme with a Maturity Date after such date receive principal repayments prior to the Maturity Date and therefore earlier than expected, which may result in a lower yield than expected on such holder of Covered Bonds' investment.

Risks relating to some but not all Covered Bonds of the Programme upon occurrence of an Issuer Default of Payment

In the case of an Issuer Default of Payment Event on one Series of Covered Bonds of the Programme, such Covered Bonds of that Series shall be considered and will assume the form of pass-through covered bonds and will be due on their Extended Maturity Date, which may result in a lower yield than expected for such holder of Covered Bonds' investment.

Risks relating to any termination payments due to the relevant Hedge Counterparty as a result of any such early termination

If an Issuer Event has occurred and any Covered Bonds are redeemed early on an Interest Payment Date following that Issuer Event, then the Hedging Contracts relating to such Covered Bonds (if any) will terminate early (in whole or in part) on such Interest Payment Date. In the event of an early termination of the Hedging Contracts, a termination payment may be due from the Hedge Counterparty to the Issuer or from the Issuer to the Hedge Counterparty. Any termination payments due to the Issuer as a result of any such early termination will result in greater amounts being available to the holders of such Covered Bonds; however, any termination payments due to the relevant Hedge Counterparty as a result of any such early termination will be paid ahead of any amounts due to the holders of such Covered Bonds and, accordingly, less funds will be available for distribution to those holders on such Interest Payment Date.

Risks relating to the increase in the margin payable by the Issuer to the Hedge Counterparty in any relevant Hedging Contract so as to account for any extension in the Maturity Date of any Covered Bonds

If an Issuer Event has occurred, then the margin payable by the Issuer to the Hedge Counterparty in any relevant Hedging Contract may be increased so as to account for any extension in its term and, as a consequence, greater amounts may become due from the Issuer to Hedge Counterparties on subsequent Interest Payment Dates. Payments to the Hedge Counterparties rank ahead of payments to holders and, accordingly, any increase in payments to the Hedge Counterparties will result in less funds being available for distribution to holders on subsequent Interest Payment Dates.

Mismatch risk and Market risk - distinction between standard and conditional pass-through covered bonds

Under a pass-through structure, the mismatch risk between the maturity of the underlying assets and the maturity of the covered bonds is transferred to the investor in the covered bond, as the repayment of the covered bonds, in case the pass-through mechanism is triggered, will rely on the collections of the Cover Pool, up until the extended maturity date. At the same time, the market risk owing to potential fire sales of the underlying assets (losses resulting from the fire sale of the mortgage loans at a higher discount) is reduced in the case of a pass-through covered bond, thus reducing potential losses.

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

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 especial*) over all assets forming 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 especial*). None of the assets comprised in the Cover Pool is 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, on 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 and the Bank of Portugal Regulatory Notices. 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 and the Bank of Portugal Regulatory Notices. 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*. The inclusion of other eligible assets and hedging contracts as mentioned above can affect the performance of the Cover Pool and the value of and amounts ultimately payable under the Covered Bonds, as compared to a situation where no such inclusion was made, or was made at different levels.

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 exchange rate risk coverage. At the date of this Base Prospectus it is intended that the Hedging Contracts will hedge the interest rate exposure with respect to the Mortgage Credits comprised in the Cover Pool, as well as the interest rate exposure with respect to the Covered Bonds. See *Characteristics of the Cover Pool – Hedging Contracts*. The entering into of hedging contracts, or the absence of entering into of hedging contracts, where the Issuer is entitled to enter into the same, can impact the performance of the Cover Pool and the value of, and amounts ultimately payable under, the Covered Bonds, as compared to a situation where the opposite decision has been taken by the Issuer.

Value of security over residential property

As described above, the holders of Covered Bonds benefit from a special creditor privilege (*privilégio creditório especial*) 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 others, 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 circumstances, 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. The enforcement of a mortgage to pay the holders of Covered Bonds is, however, highly unlikely given that the Covered Bonds Law establishes that any mortgage credits which are delinquent for over 90 days must be immediately substituted. See *The Covered Bonds Law*. Notwithstanding, variation in the value of the mortgaged properties securing mortgage credits that are part of the Cover Pool can impact the performance of the Cover Pool and the value of and amounts ultimately payable under the Covered Bonds.

Amortisation of Mortgage Credits

Mortgage credits included in the Cover Pool are and generally will be subject to amortisation of principal and payment of interest on a monthly basis. They are also subject to early repayment of principal by the relevant borrowers, whether in whole or in part. Early repayments of principal on mortgage credits may result in the Issuer being required to include further mortgage credits and/or substitute assets in the Cover Pool in order for the Issuer to comply with financial matching requirements under the Covered Bonds Law. If the Issuer is not able to properly include or substitute assets as aforesaid, this may cause the Issuer to not comply with the financial matching requirements under the Covered Bonds Law and can impact the performance of the Cover Pool, and the value of and amounts ultimately payable under the Covered Bonds.

No due diligence

None of the Arranger 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. If such representations and warranties are inaccurate in any way, this may impact the quality of the Cover Pool, which secures the payments of amounts due under the Covered Bonds.

Future discontinuance of EURIBOR, LIBOR (or any other benchmark) may adversely affect the value of Floating Rate Covered Bonds which reference EURIBOR (or such other benchmark)

So-called benchmarks, such as the Euro Interbank Offered Rate ("**EURIBOR**") or the London Interbank Offered Rate ("**LIBOR**") and other indices which are deemed "benchmarks", to which the interest on Floating Rate Covered Bonds may be linked, have become the subject of regulatory scrutiny and recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause the relevant benchmarks to perform differently than in the past, or have other consequences which may have a material adverse effect on the value of and the amount payable under the Covered Bonds.

Investors should be aware that, if EURIBOR, LIBOR or any other benchmark were discontinued or otherwise unavailable, the rate of interest on Floating Rate Covered Bonds which reference EURIBOR or LIBOR (or such other benchmark) will be determined for the relevant period by the fall-back provisions applicable to such Covered Bonds. Depending on the manner in which the EURIBOR or LIBOR (or such other benchmark) is to be determined under the Terms and Conditions of the Covered Bonds, this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the relevant benchmark which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, ultimately result in the effective application of a fixed rate based on the rate which applied in the previous period when relevant benchmark was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Covered Bonds which reference EURIBOR or LIBOR (or such other benchmark).

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 risk 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.

Covered Bonds may be subject to Financial Transaction Tax ("FTT")

On 14 February 2013, the European Commission published a proposal for a Directive for a common financial transaction tax (FTT) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States). However, Estonia has since stated that it will not participate.

The proposed FTT has a very broad scope and could, if adopted in its current form, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

In relation to many secondary market transactions in bonds and shares, the FTT would be charged at a minimum rate of 0.1 per cent. on each financial institution which is party to the transaction. The issuance and subscription of the Covered Bonds should, however, be exempt. There are no broad exemptions for financial intermediaries or market makers. Therefore, the effective cumulative rate applicable to some dealings in bonds or shares (for instance, cleared transactions) could be greatly in excess of 0.1 per cent..

The Issuer is incorporated in Portugal and, therefore, investors worldwide would be subject to the FTT when dealing in Covered Bonds. A person transacting with a financial institution which fails to account for FTT would be jointly and severally liable for that tax.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

Administrative cooperation in the field of taxation

The regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the EU Council Directive 2003/48/EC.

Under Council Directive 2014/107/EU, financial institutions are required to report to the Tax Authorities of their respective Member State (for the exchange of information with the State of Residence) information

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

Portugal has implemented Directive 2011/16/EU through Decree-Law No. 61/2013, of 10 May.

Also, Council Directive 2014/107/EU was implemented through Decree-Law No. 64/2016, of 11 October. Under such law, the Issuer will be required to collect information regarding certain accountholders and report such information to Portuguese Tax Authorities which, in turn, will report such information to the relevant Tax Authorities of EU Member States or States which have signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information for the Common Reporting Standard.

In view of the abovementioned regimes, all information regarding the registration of the financial institution, the procedures to comply with the reporting obligations and the forms to use for that end were provided by the Ministry of Finance, through Order No. 302- B/2016, of 2 December 2016, Order No. 302-C/2016, of 2 December 2016, Order No. 302-D/2016, of 2 December 2016 and Order No. 302-E/2016, of 2 December 2016, all as amended from time to time.

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 per cent. 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 2013 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 2014 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. Portugal has implemented, through Law 82-B/2014, of 31 December 2014 and Decree Law 64/2016, of 11 of October, as amended from time to time,

the legislation based on the reciprocal exchange of information with the United States of America on financial accounts subject to disclosure (the "**Financial Reporting Regime**") in order to comply with Sections 1471 through 1474 of FATCA. Under such legislation, the Issuer will be required to obtain information regarding certain accountholders and report such information to the Portuguese tax authorities which, in turn, would report such information to the Inland Revenue Service of the United States of America. In addition, Portugal has signed the Intergovernmental Agreement with the U.S. on 6 August 2015. The Intergovernmental Agreement was ratified by Portugal on 5 August 2016 and, pursuant to Notice (Aviso) no. 101/2016, entered into force on 10 August 2016. This is named a Model 1 IGA. 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.

Prospective investors should refer to the section Taxation – Foreign Account Tax Compliance Act, and should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds.

Change of law

The Terms and Conditions of the Covered Bonds are governed by Portuguese law in effect as at the date of issue of the relevant Covered Bonds. No assurance can be given as to the impact of any potential judicial decision or change to Portuguese law, including the Covered Bonds Law, the Bank of Portugal Regulatory Notices or administrative practice following the issue date of the relevant Covered Bonds.

The new covered bonds Directive

On 12 March 2018, the European Commission published a "Proposal for a Directive of the European Parliament and of the Council on the Issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU" (the "**CBD**"). The proposed CBD will specify the core elements of covered bonds and provide a common definition as a consistent and sufficiently detailed point of reference for prudential regulation purposes, applicable across financial sectors. It will establish the structural features of the instrument, a covered bond specific public supervision, rules allowing use of the 'European Covered Bonds' label and competent authorities' publication obligations in the field of covered bonds. The proposed Regulation will mainly amend Article 129 of Regulation (EU) No 575/2013 (Capital Requirements Regulation (CRR)). The amendments build on the current prudential treatment but add requirements on minimum overcollateralisation and substitution assets. They would strengthen the requirements for covered bonds being granted preferential capital treatment. The proposed CBD defines extendable maturity structures as a mechanism providing for the possibility to extend the scheduled maturity of covered bonds for a certain period of time and in the event that a specific trigger occurs. Article 17 of the proposed CBD lays down the conditions for extendable maturity structures.

The CBD is expected to be adopted this year. Following the adoption, the principle-based directive will then have to be transposed into national law, which leaves scope for limited national discretion.

Once adopted and published, the CBD may trigger the need to make some adjustments on the Programme to make it fully compliant with the Directive. In this context, the Issuer cannot anticipate the potential impact this may have on the liquidity, pricing or marketability of the covered bonds.

Implementation of legislation relating to taxation could have a material adverse effect on Covered Bonds

Potential purchasers and sellers of the Covered Bonds should be aware that they may be required to pay taxes or documentary charges or duties in accordance with the laws and practices of the jurisdiction where the Covered Bonds are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for financial instruments such as the Covered Bonds. Potential investors are advised not to rely upon the tax section contained in this Base Prospectus but should ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, disposal and redemption of the Covered Bonds. Only these advisors are in a position to duly consider the specific

situation of the potential investor. This investment consideration has to be read in connection with the taxation sections of this Base Prospectus.

The secondary market risk for Covered Bonds

When issued, there may not exist an established trading market for Covered Bonds, and such a market may potentially 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 do so at prices that will provide a yield comparable to similar investments that benefit from a developed secondary market. This is particularly true for the case for Covered Bonds that are especially sensitive to interest rates, currency or market risks and those that 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 would generally 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.

Credit ratings may not reflect all risks

One or multiple independent credit rating agencies may assign credit ratings to the Covered Bonds. The Issuer has no obligation to maintain any rating for itself or for the Covered Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, or any 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 lowered, withdrawn or qualified by the rating agency at any time. In case any credit rating initially assigned to the Covered Bonds is subsequently lowered, withdrawn or qualified for any reason, no person will be obliged to provide any credit facilities or credit enhancement to the Issuer for the original rating to be restored, nor will the Issuer have any obligation to restore the original rating. Any such lowering, withdrawal or qualification of a rating may have an adverse effect on the liquidity and market value of the Covered Bonds.

European regulated investors are in general restricted from using credit ratings for regulatory purposes under Regulation (EC) No. 1060/2009 (as amended by Regulation (EU) No. 513/2011 of the European Parliament and the Council and by Regulation (EU) 462/2013 of the European Parliament and the Council, the "**CRA Regulation**"), 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), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. 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).

Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus and/or will be disclosed in the Final Terms.

A reduction in the Issuer's credit ratings would increase its costs of funding and could have a materially adverse effect on the Issuer and/or the Group's financial condition, business and its operating results.

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 or not, 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.

Reliance upon Interbolsa procedures and Portuguese law

Investments in Covered Bonds will be subject to Interbolsa procedures and Portuguese law with respect to the following:

(a) Form and Transfer of the Covered Bonds

Covered Bonds held through accounts of Affiliate Members of Interbolsa will be represented in dematerialised book-entry form ("*forma escritural*") and are registered Covered Bonds ("*nominativas*").

Covered Bonds will be registered in the relevant issue account opened by the Issuer with Interbolsa and will be held in control accounts by the Affiliate Members of Interbolsa on behalf of the relevant holders. Such control accounts will reflect at all times the aggregate number of Covered Bonds held in the individual securities accounts opened by the clients of the Affiliate Members of Interbolsa (which may include Euroclear and Clearstream, Luxembourg, thus becoming indirect Participants in Interbolsa). The transfer of Covered Bonds and their beneficial interests will be made through Interbolsa.

(b) Payments on Covered Bonds

All payments on Covered Bonds (including without limitation the payment of accrued interest, coupons and principal) will be (i) made by the Issuer to the Agent, (ii) transferred, in accordance with the procedures and regulations of Interbolsa, from the account held by the Agent with the Bank of Portugal to the accounts of the Affiliate Members of Interbolsa who hold control accounts on behalf of the holders of Covered Bonds and, thereafter, (iii) transferred by the Affiliate Members of Interbolsa from their accounts to the accounts of their clients (which may include Euroclear Bank and Clearstream, Luxembourg).

The holders of Covered Bonds must rely on the procedures of Interbolsa to receive payment under the Covered Bonds. The records relating to payments made in respect of beneficial interests in the Covered Bonds are maintained by the Affiliate Members of Interbolsa and the Issuer accepts no responsibility for, and will not be liable in respect of, the maintenance of such records.

(c) Risks related to withholding tax applicable on the Covered Bonds

Pursuant to Decree-Law 193/2005, of 7th November 2005, as amended from time to time, investment income paid to non-resident beneficial owners of Covered Bonds, and capital gains derived from a sale or other disposition of such Bonds, will be exempt from Portuguese income tax only if certain documentation requirements are duly complied with.

It is expected that the direct registering entities (entidades registadoras directas), the participants and the clearing systems will follow certain procedures to facilitate the collection from the effective beneficiary of the Covered Bonds (the "beneficial owner") of the information referred to in "Risks related to withholding tax" above required to comply with the procedures and certifications required by Decree-Law no. 193/2005. Under Decree-Law no. 193/2005, the obligation of collecting from the beneficiaries' proof of their non-Portuguese resident status and of the fulfilment of the other requirements for the exemption rests with the direct registering entities (entidades registadoras directas), the participants and the entities managing the international clearing systems. Details of those procedures are set out in "Special Debt securities tax regime" under "Taxation" chapter. Such procedures may be revised from time to time in accordance with applicable Portuguese laws and regulations, further clarification from the Portuguese tax authorities, regarding such laws and regulations, and the operational procedures of the clearing systems. While the Covered Bonds are registered by Interbolsa. Beneficiaries must comply with such procedures in order to receive payments under the Covered Bonds free of any withholding, if applicable. Beneficiaries must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Covered Bonds.

The Issuer will not gross up payments in respect of any such withholding tax in case the conditions described in detail in Taxation below are not fully met, including failure to deliver or incorrect filling of the certificate or declaration referred to above. Accordingly, beneficial owners of Covered Bonds must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Covered Bonds.

None of the Issuer, the Arranger, the Dealers, the paying agents or the clearing systems assume any responsibility therefore.

Other Risks

The past performance of Covered Bonds or other securities issued by the Issuer may not be a reliable guide to future performance of the Covered Bonds.

The value of Covered Bonds may fall as well as rise.

Income or gains from Covered Bonds may fluctuate in accordance with market conditions and taxation arrangements.

Where Covered Bonds are denominated in a currency other than the reference currency used by the investor, changes in currency exchange rates may have an adverse effect on the value, price or income of the Covered Bonds.

Other than as set out in this Base Prospectus, it may be difficult for investors in Covered Bonds to sell or realise the Covered Bonds and/or obtain reliable information about their value or the extent of the risks to which they are exposed

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.

Risks relating to Fixed Rate Covered Bonds

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

A holder of a Floating Rate Covered Bonds is exposed to the risk of fluctuating interest rate levels which make it impossible to determine the yield of Floating Rate Covered Bonds in advance and to the risk of uncertain interest income

Floating Rate Covered Bonds bear a variable interest income. A holder of a Floating Rate Covered Bond is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of Floating Rate Covered Bonds in advance. Interest on Floating Rate Covered Bonds may be payable plus or minus a margin.

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

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

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Covered Bonds from a fixed rate to a floating rate or vice versa, this may affect the secondary market and the market value of the Covered Bonds concerned

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds tends to be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate tends to be lower than then prevailing market rates.

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

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

Relationship with the Dealers

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 may 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 positions in securities, including potentially the Covered Bonds issued under the Programme. Any such positions could adversely affect future trading prices of the 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.

Appointment of a Dealer as Calculation Agent

The Issuer may appoint a Dealer as Calculation Agent in respect of an issuance of Covered Bonds under the Programme. In such case, the Calculation Agent is likely to be a member of an international financial group that is involved, in the ordinary course of its business, in a wide range of banking activities out of which conflicting interests may arise. Whilst such Calculation Agent will, where relevant, have information barriers and procedures in place to manage conflicts of interest, it may in its other banking activities from time to time be engaged in transactions involving an index or related derivatives which may affect amounts receivable by holders of Covered Bonds during the term and on the maturity of the Notes or the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the holders of Covered Bonds

GENERAL DESCRIPTION OF THE PROGRAMME

The Programme was approved by the Issuer on 26 June 2008, as amended from time to time, following the approval of the amended Programme on Noteholder meetings held and subsequent signature of the relevant updated Programme Documents.

The amendments of the Covered Bond Programme into a Conditional Pass-through Covered Bond Programme are summarized below:

Overview	Amendment of the Issuer's former covered bond programme to a conditional pass-through covered bond structure whereby an Issuer Event in relation to one or more Series of Covered Bonds results in a move into Pass Through format.
Issuer Events	Issuer Events are the following: (i) Issuer Insolvency Event; and (ii) Issuer Default of Payment Event. The process upon the occurrence of each Issuer Event shall be as follows: a) In the case of an Issuer Insolvency Event, all series of Covered Bonds (which up to that point are not yet in Pass-Through format) shall become Pass Through and be due on their respective Extended Maturity Date. A Substitute Credit Institution ("**SCI**") will be appointed in line with the Covered Bond Law. The Cover Pool shall be separated from the Issuer's insolvency estate and the SCI shall manage the Cover Pool in the place of the Issuer. b) In the case of an Issuer Default of Payment Event on a Series of Covered Bonds, that Series shall become Pass Through and be due on their Extended Maturity Date. Should an Issuer Event occur, or should a breach of the obligation of compliance of the Overcollateralisation Percentage occur, a Programme Account shall be set up and the cash received in relation to the Cover Pool will be swept to the Programme Account on a daily basis.
Issuer Default of Payment Event	The Issuer, fails to pay: (i) any principal due on a Maturity Date (although a failure to pay on the Maturity Date of a Series of Covered Bonds shall not constitute an Event of Default) or on the following two Business Days; or (ii) any interest due on an Interest Payment Date (subject to any applicable grace period or the availability of any Reserve Amount) or on the following five Business Days. For the sake of clarity, a Default of Payment Event will only occur if the relevant repayment (or interest payment, as applicable) is not done by the end of the following two (or five, as applicable) Business Days mentioned above.
Extended Maturity Date	Up to 50 years after the issuance date of any Covered Bond (the date in relation to each series to be defined in the applicable final terms).

Overcollateralisation Percentage	The Value of the Cover Pool as a percentage of the aggregate Value of all outstanding Covered Bonds shall equal or exceed the greater of: (i) 109.0% (the "**Overcollateralisation Test**"), and; (ii) 1 divided by the Asset Percentage (the "**Contractual Asset Cover Test**"). 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 with the overcollateralisation percentage requirements.
Contractual Asset Cover Test and Asset Percentage	The Issuer contractually commits to maintaining overcollateralisation at a level greater than that required by law (as covered separately in the Overcollateralisation Test). The size of the commitment is determined by the Asset Percentage. "Asset Percentage" means the lower of 100 per cent. and any other percentage determined by the Issuer from time to time. As of 30 November 2018, the Asset Percentage was 84.13 per cent.. The Issuer may at any time reduce the Asset Percentage but it may only increase the Asset Percentage above 84.75 per cent. subject to obtaining the Hedging Counterparty's consent and to the extent that the Rating Agencies confirm that the increase would not result in the reduction, removal, suspension or placement on credit watch of the credit ratings currently assigned to each of the outstanding Covered Bonds under the Programme. The Asset Percentage will be notified to holders of Covered Bonds as part of the regular reporting.
Reserve Account	On any date, an amount equal to the interest due on the Covered Bonds (plus certain Expenses and Owed Hedging Payments) during the following 3 (three) months shall be held in the Reserve Account. The Reserve Account shall be maintained with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, and in any case not lower than the minimum rating required by law (currently, "A-"). The amount deposited in the Reserve Account shall be available on any interest payment date towards the payment of interest due on the Covered Bonds that have been extended to their respective Extended Maturity Date and certain Expenses and Owed Hedging Payments, to the extent that there are otherwise insufficient available funds or towards the payment of principal due on the Covered Bonds if all Series of Covered Bonds can be fully redeemed on such payment date if the Reserve Account funds are made available. The Reserve Account required level shall be monitored by the Cover Pool Monitor on a monthly basis. If the Cover Pool Monitor identifies that the funds available in the Reserve Account do not meet the Total Target Reserve Amount, it shall report that fact in the next quarterly report to be delivered to the Issuer, in accordance with agreed upon procedures as foreseen in the Cover Pool Monitor Agreement.

	The Issuer may replace the Reserve Account with a liquidity facility of an equivalent size. This liquidity facility will be subject to confirmation that the credit ratings assigned to the Covered Bonds by the Rating Agencies will not be reduced, removed, suspended or placed on credit watch and in any case the relevant liquidity facility provider's credit rating shall meet the minimum rating required by law (currently, "A-").
Priority of Payments	Following any Covered Bonds becoming Pass Through, the available funds shall be applied on each payment date in the following order of priority: 1. Expenses, Common Representative and any hedging payments; 2. Interest due; 3. Replenish Reserve Amount up to the Total Target Reserve Amount; 4. Principal due to the extent that the Issuer or the SCI will not breach the Overcollateralisation Percentage; 5. Remaining amounts to be retained as part of the Cover Pool until all series of Covered Bonds have been repaid in full, should there be any excess cash; and 6. Any remainder to the Issuer.
Programme Account	Upon the occurrence of an Issuer Event, or upon the occurrence of a breach of the obligation of compliance of the Overcollateralisation Percentage, the Programme Account shall be established with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, and in any case not lower than the minimum rating required by law (currently, "A-").
Sale of Assets	In order to redeem, to the extent possible and at pari passu, the Covered Bonds that have been extended to their Extended Maturity Date, prior to such date, the Issuer and/or the SCI (as applicable) shall undertake on a best efforts basis to sell randomly selected Assets of the Cover Pool, on every sixth Interest Payment Date following an Issuer Event, in an amount sufficient to redeem, *pari passu*, the Series of Covered Bonds under such a format, in whole or in part, covering all outstanding Covered Bonds that have been extended to their respective Extended Maturity Date. For the avoidance of doubt, the Sale of Assets comprised in the Cover Pool shall be done in commercial acceptable terms, provided that such sale and subsequent redemption of the respective Covered Bonds will not result in a breach of the Overcolateralisation Percentage on and between any Interest Payment Date.
Interest Payment Date	Interest Payment Date means the date specified as interest payment date in the Final Terms of a Series of Covered Bonds and, upon the occurrence of an Issuer Event, the first Business Day of each month, following such occurrence, for all the outstanding Series or for all the applicable Series in case of a Default of Payment Event.

Early Redemption	The Issuer, or the SCI on its behalf, as applicable, may redeem Pass Through bonds via a Sale of Assets. For the avoidance of doubt, the Issuer may elect to participate as a purchaser in the Sale of Assets if it is willing and able to do so and must abide by the terms outlined in the above mentioned Sale of Assets section.

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 of the Covered Bonds* below.

This Base Prospectus was prepared for the purposes of the Programme and will be valid for a period of 12 months from the date this Base Prospectus is approved by the Central Bank of Ireland (completed by any supplement in accordance with article 16 of the Prospectus Directive) for admitting Covered Bonds to trading on Euronext Dublin's regulated market or any other regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments, as amended, until no more Covered Bonds concerned with this Programme are issued in a continuous or repeated manner 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 €5,000,000,000 (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 of the 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 Business Day, in each case, on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the Lisbon foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation; and

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

This overview must be read as an introduction to this Base Prospectus and any decision to invest in any Covered Bonds should be based on a consideration of this Base Prospectus as a whole, including any documents incorporated by reference.

This Overview constitutes a general description of the Programme for the purposes of article 22.5(3) of Commission Regulation (EC) 809/2004, as amended, implementing the Prospects Directive.

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, no civil liability will attach to the persons who have responsibility for this overview in any such member state solely on the basis of this overview, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a member state of the EEA, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.

This overview is qualified in its entirety by the rest of this Base Prospectus.

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: Conditional Pass-through Covered Bonds Programme.

PROGRAMME SIZE: Up to €5,000,000,000 (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: Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("**Banco Montepio**") (see *Description of the Issuer*).

AUDITOR: The Issuer's auditor is KPMG & Associados - SROC, S.A., member of the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), registered with the CMVM with registration number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória n.º 17A, 11th floor, 1069-006 Lisboa.

ARRANGER: NatWest Markets Plc, in its capacity as Arranger acting through its office at 250 Bishopsgate, London, EC2M 4AA.

DEALERS: Citigroup Global Markets Limited, Citigroup Global Markets Europe AG, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, J.P. Morgan Securities plc, Landesbank Baden-Württemberg, Merrill Lynch International, Natixis, NatWest Markets Plc, Société Générale 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:	Citicorp Trustee Company Limited acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom**,** 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.
AGENT:	Banco Montepio, in its capacity as Agent, with head office at Rua Castilho, 5, in Lisbon**.**
PAYING AGENT:	Banco Montepio, in its capacity as Paying Agent, with head office at Rua Castilho, 5, 1250-066 Lisbon, and any other Paying Agent appointed from time to time by the Issuer in accordance with the Programme Documents.
COVER POOL MONITOR:	PRICEWATERHOUSECOOPERS & Associados, Sociedade de Revisores Oficiais de Contas, S.A., a company incorporated under the laws of Portugal, member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), with its registered office at Palácio SottoMayor, Rua Sousa Martins, n. º1, 3º, 1069-316, in Lisbon. See *Cover Pool Monitor*.
RESERVE ACCOUNT BANK:	Elavon Financial Services Limited, a limited liability company registered in Ireland with the Companies Registration Office (registered number 418442), with its registered office at Block E, Cherrywood Business Park, Loughlinstown, Dublin, Ireland acting through its UK Branch (registered number BR009373) from its offices at 125 Old Broad Street, London, EC2N 1AR under the trade name U.S. Bank Global Corporate Trust Services, acting in its capacity as bank at which the Reserve Account is held**.** See *Reserve Account Bank*.
ACCOUNTS BANK:	Banco Montepio, in its capacity as Accounts Bank, with head office at Rua Castilho, 5, 1250-066 Lisbon.
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* 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* 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.

Where Covered Bonds are denominated in a currency other than the reference currency used by the investor, changes in currency exchange rates may have an adverse effect on the value, price or income of the 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 at least by one rating agency which has applied to be registered with the European Securities and Markets Authority 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 amended by Regulation (EU) no. 513/2011 of the European Parliament and of the Council of 11 May 2011 and by Regulation (EU) 462/2013 of the European Parliament and the Council.

A rating addresses the likelihood that the holders of Covered Bonds will receive ultimate repayment of principal and interest.

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 any of the assigning rating organizations.

European regulated investors should be aware that in general they are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation, unless the rating is provided by a credit rating agency established in the European Union and registered in accordance with the CRA Regulation (and such registration has not been withdrawn or suspended).

LISTING AND ADMISSION TO TRADING: Application has been made to the Central Bank of Ireland to approve this document as a Base Prospectus and further application has been made to Euronext Dublin for the admission of Covered Bonds issued under the Programme to the Official List of Euronext Dublin and trading on the Market. Covered Bonds may, after notification by the Central Bank of Ireland to the

supervision authority of the relevant member state(s) of the EU in accordance with Article 18 of the Prospectus Directive, be admitted to trading on the regulated market(s) of and/or be admitted to listing on stock exchange(s) of any other member states of the EEA. 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, Japan, the EEA, the United Kingdom, Italy and Portugal as set out in *Subscription 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. 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 ("*obrigações hipotecárias*") 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:	The clearing systems in which Interbolsa participates in order to ensure the clearing of the securities settled through it (together the "**Clearing Systems**" and, each, a "**Clearing System**"). See *Form of the Covered Bonds and Settlement*.
FORM OF THE COVERED BONDS:	The Covered Bonds held through Interbolsa will be in book-entry form and in registered (*nominativas*) form and thus title to such Covered Bonds will be evidenced by book entries in accordance with the provisions of Decree-Law 486/99 of 13 November 1999 (as amended, 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. See *Form of the Covered Bonds and Settlement*.

TRANSFER OF COVERED BONDS: The Covered Bonds may be transferred in accordance with the provisions of Interbolsa and the Portuguese legislation. 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.

INSOLVENCY EVENT: 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.
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, respectively 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:	An Extended Maturity Date will be specified in the relevant Final Terms for each Series of Covered Bonds issued under the Programme. Pursuant to the Covered Bonds Law, the Extended Maturity Date may not fall later than 50 years after the Issue Date of such Series. Such Extended Maturity Date, as defined in the Final Terms of each Series of Covered Bonds, will apply if an Issuer Event occurs. In this case the maturity of the principal amount outstanding of all Covered Bonds issued under the programme will be automatically extended to the relevant Extended Maturity Date. In that event, the Issuer and/or any entity managing the Cover Pool may redeem all or any part of the principal amount outstanding of all or (in case of a default of Payment Event) the relevant Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date in accordance with Condition 6.9 (*Pass-through provision*) of the Terms and Conditions of the Covered Bonds. The Issuer, or if applicable the SCI, shall give to the holders of Covered Bonds (in accordance with Condition 11 (*Notices*) of the Terms and Conditions of the Covered Bonds), 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, or the SCI, to notify such persons shall not affect the validity or effectiveness of any redemption by of the Issuer Covered Bonds on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person. Following the occurrence of an Issuer Event, 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 or the Extended Maturity Date. Interest will be payable on each Interest Payment Date following the Maturity Date in respect of the Interest Period ending immediately prior to such Interest Payment Date in arrear or as otherwise provided for in the applicable Final Terms 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 in respect of the period from the Issue Date to (and including) the Maturity Date;

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

In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date, for the purposes of Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) of the Terms and Conditions of the Covered Bonds the principal amount outstanding shall be the amount calculated in accordance with Condition 6.7 (*Late payment on Zero Coupon Covered Bonds*) of the Terms and Conditions of the Covered Bonds.

PASS-THROUGH COVERED BONDS

Upon an Issuer Event occurring, the maturity of all outstanding Series of Covered Bonds issued under the Programme is deferred until the Extended Maturity Date, as defined in the relevant Final Terms, and any Available Fund shall be applied on each Interest Payment Date in making the payments in the order of priority as set on Condition 6.9 (*Pass-through Provision*) of the Terms and Conditions, on a pro rata basis in the same priority line.

PASS-THROUGH REDEMPTION UNDERTAKINGS:

In order to redeem, to the extent possible and at *pari passu*, the Covered Bonds that have been extended to their Extended Maturity Date to such date, the Issuer and/or the SCI shall use and employ its best efforts to sell an amount sufficient to redeem, in whole or in part, all outstanding Covered Bonds that have been extended to their respective Extended Maturity Date, on each sixth Interest Payment Date following an Issuer Event, the assets comprised in the Cover Pool along commercial acceptable terms, provided that such sale and subsequent redemption of the respective Covered Bonds will not result in a breach of the Overcollateralisation Percentage, outlined in Condition 14.1 (*Maintenance of overcollateralisation*), on and between any Interest Payment Dates. Failure by the Issuer and/or any entity managing the Cover Pool to sell or refinance the assets comprised in the Cover Pool will not constitute an event of default. Moreover, provided that (if required) relevant procedures are put in place (including Chinese walls and appropriate disclosures) to properly manage any potential conflict of interest and/or asymmetries of information, the Issuer may participate as purchaser in a sale of Cover Pool assets as outlined above. The disposals of Cover Pool assets after an Issuer Event shall be disclosed by the Issuer or on its behalf as part of the regular reporting on the Covered Bonds.

COVERED BONDS WITH A REPURCHASE COMMITMENT:

If a Repurchase Commitment is specified in the applicable Final Terms for a particular Series of Covered Bonds, the Issuer will irrevocably and unconditionally undertake to repurchase such Series of Covered Bonds on the Repurchase Date at par plus accrued interest (or any other repurchase amount as specified in, or determined in the manner specified in, the applicable Final Terms for such Series of Covered Bonds), if so requested by the holders of such Series of Covered Bonds which are Qualified Investors and subject to such Series of Covered Bonds not being redeemed up to ten Business Days after the Maturity Date. Holders who are not Qualified Investors will not be eligible for this Repurchase Commitment. This undertaking does not form part of the Terms and Conditions of the Covered Bonds and, accordingly, non-

compliance by the Issuer with such undertaking will not constitute an event of default under such Terms and Conditions. See "*Repurchase Commitment*".

DENOMINATION OF THE COVERED BONDS: Covered Bonds will be issued in such denominations 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 Covered Bonds to be issued on or after the date hereof will be issued in denomination per unit not lower than €100,000 (or its equivalent in another currency, all calculated as described under *General Description of the Programme*) as specified in the relevant Final Terms, unless the Covered Bonds will not be distributed to the public or admitted to trading on a regulated market, in which case lower denominations per unit may apply

RESERVE ACCOUNT: While Covered Bonds are outstanding, the Covered Bonds will have the benefit of a Reserve Account held by the Issuer with the Reserve Account Bank in respect of the Programme and the Reserve Account and any balances standing to the credit thereof will form part of the Cover Pool and be subject to the same legal regime as any Other Assets which are part of the Cover Pool. The Issuer shall ensure that the legal requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool are met at all times. The Issuer will be required to maintain at all times in the Reserve Account funds in an amount equal to or in excess of the Total Target Reserve Amount. As long as the funds in the Reserve Account equal or exceed the Total Target Reserve Amount, the Issuer will not be required to transfer any additional amounts to the Reserve Account. If the amounts standing in the Reserve Account exceed the Total Target Reserve Amount, the Issuer may, in case no Issuer Event has occurred, release the excess amounts, without prejudice to the obligation of compliance with the maintenance of the Overcollateralisation Percentage. The funds available in the Reserve Account and the Total Target Reserve Amount shall be monitored by the Cover Pool Monitor on a monthly basis. If the Cover Pool Monitor identifies that the funds available in the Reserve Account do not meet the Total Target Reserve Amount, it shall report that fact in the next quarterly report to be delivered to the Issuer, in accordance with agreed upon procedures as foreseen in the Cover Pool Monitor Agreement.

The Reserve Account Bank will at all times have the minimum rating and comply with other requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool. The Reserve Account will form part of the Cover Pool associated with the Programme, provided that the amounts standing to the credit of such Reserve Account (together with the remaining Other Assets) do not at any time exceed 20 per cent. of the value of the mortgage loans and other eligible assets allocated to the Cover Pool.

Funds held in the Reserve Account, given their nature of Cover Pool assets, are available to meet amounts due in relation to the Covered Bonds and shall not be applied towards a partial principal redemption of the Covered Bonds prior to their Extended Maturity Date, subject to Conditions 6.8 (*Extension of Maturity up to Extended Maturity Date*) and 6.9 (*Pass-through Provision*). See

Terms and Conditions of the Covered Bonds.

Upon redemption of all Series of Covered Bonds, any funds remaining to the credit of the Reserve Account will be paid to the Issuer.

At the Issuer's option, the Reserve Account may be replaced by a liquidity facility, through a Liquidity Facility Agreement to be agreed with a Liquidity Facility Provider pursuant to which the Issuer, or the SCI, will be entitled to make liquidity drawings equal to the interest payable on the Covered Bonds on any Interest Payment Dates following the occurrence of a Liquidity Event up to a maximum amount equal to Total Target Reserve Amount. This replacement will be subject to obtaining the Hedging Counterparty's consent and one of the following: (i) prior confirmation from the Rating Agencies that such replacement would not result in the reduction, removal, suspension or placement on credit watch of the credit ratings assigned to each such Covered Bonds; or (ii) a written indication by the Rating Agencies that it does not have any comments to said replacement; or (iii) a written communication by the Rating Agencies that, having concluded the review of said replacement, it does not consider a confirmation to be due; or (iv) within 30 days after each of the Rating Agencies has been notified, no additional information or additional period to analyse have been requested, nor has the Issuer received any other written communication from the Rating Agencies.

LIQUIDITY FACILITY PROVIDER: An eligible entity the short-term unsecured debt obligations of which are rated as required by the Covered Bonds Law for liquidity facility providers or such other rating that will not result in a reduction or qualification of the ratings then assigned to the Covered Bonds or is otherwise approved by these rating agencies for the purposes of entering into any Liquidity Facility Agreement, in any case in compliance with the Covered Bonds Law.

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*. In order for withholding tax not to apply the holders of the Covered Bonds must, *inter alia*, deliver certain tax certifications.

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 for the purpose of 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 (*privilégio creditório especial*).

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 shall apply in the event of insolvency of the Issuer. The Covered Bonds Law and the Bank of Portugal Regulatory Notices 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*, *Cover Pool Monitor, 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 ("*obrigações hipotecárias*") 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: Except for the Hedging Contracts, which are governed by, and will be construed in accordance with, English 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 Central Bank of Ireland or are published simultaneously with this Base Prospectus, shall be incorporated in, and form part of, this Base Prospectus:

(a) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2017 (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/cemg-annual-report-2017.pdf), and 31 December 2016 (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/cemg-annual-report-2016.pdf), as approved by the General Meeting of the Issuer, available in Portuguese and English languages, in each case together with the auditors' reports prepared in connection therewith, which appear in the annual report of the issuer for the relevant year;

(b) the audited non-consolidated annual financial statements of the Issuer for the financial years ended 31 December 2017 (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/cemg-annual-report-2017.pdf) and 31 December 2016 (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/cemg-annual-report-2016.pdf), as approved by the General Meeting of the Issuer, in each case together with the auditors' reports prepared in connection therewith, which appear in the annual report of the Issuer for relevant year;

(c) the unaudited consolidated results of the Issuer for the first half of 2018 (available at https://www.bancomontepio.pt/iwov-resources/SitePublico/documentos/en_GB/investor-relations/cemg-first-half-report-2018.pdf);

(d) the earnings release of the Issuer for the first nine months of 2018 (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/cemg-consolidated-results-3rd-quarter-2018.pdf);

(e) the earnings release of the Issuer for in respect of the financial years ended 31 December 2018 (available at https://www.bancomontepio.pt/resources/SiteMontepio/documentos/en_GB/banco-montepio-consolidated-results-2018.pdf); and

(f) the Terms and Conditions of the Covered Bonds included in the Base Prospectus (pages 79 to 104) relating to this Programme dated 27 April 2017 (available at https://www.bancomontepio.pt/iwov-resources/SitePublico/documentos/pt_PT/informacao-financeira-montepio/funding-programes/covered-bond/conditional-pass-through-base-prospectus-27-abril-17.pdf).

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with article 16 of the Prospectus Directive.

Any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Base Prospectus to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 and Article 5.4 of the Prospectus Directive, Article 28 of the Prospectus Regulation modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). 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 of the Agent at Rua Castilho, 5, 1250-066 Lisbon**.**

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.

RESPONSIBILITY STATEMENTS

In respect of the Issuer, this Base Prospectus comprises a base prospectus for the purposes of article 5.4 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 Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account of or benefit of, U.S. persons (see *Subscription and Sale and Secondary Market Arrangements* below). The format and contents of this Base Prospectus comply with the relevant provisions of the Prospectus Directive and all laws and regulations applicable thereto, including the Prospectus Regulation.

Each of the Issuer, the members of the Board of Directors and the Audit Committee of the Issuer (see *Board of Directors and Other Corporate and Governing Bodies of the Issuer*), are responsible for the information contained in this Base Prospectus and hereby declare that, to the best of its knowledge (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 contains no omissions likely to affect its import. The Auditor has responsibility for the financial information that has been certified by it and that is included in this Base Prospectus. KPMG & Associados - SROC, S.A., registered with the CMVM with number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória n.º 17A, 11th floor, 1069-006 Lisboa has audited and certified the financial statements of the Issuer for the financial years ended 31 December 2016 and 31 December 2017.The consolidated and non-consolidated financial statements for such financial years give a true and fair view of the financial position of the Issuer as at 31 December 2016 and 31 December 2017, as applicable, and of the results of the Issuer's operations and cash flows for the years then ended (see *General Information*). This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see *Documents Incorporated by Reference*). Any decision to invest in the Covered Bonds should be based on a consideration of this Base Prospectus as a whole, including those documents incorporated by reference.

No person has been authorised to give any information or to make any representation not contained in, or not consistent with, this Base Prospectus 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 Arranger (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 any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change in the financial position of the Issuer since 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 on which it is supplied or, if different, the date indicated in the document containing the same.

This Base Prospectus or any Final Terms (as defined below) does not constitute an offer to sell or a solicitation of an offer to buy any securities other than Covered Bonds or an offer to sell or a solicitation of any offer to buy any Covered Bonds in any circumstance in which such offer or solicitation is not authorised or unlawful. 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 Arranger 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 Arranger or the Dealers (save for

application for approval by the Central Bank of Ireland 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 outside the European Economic Area ("**EEA**") or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or distributed or published in any jurisdiction and neither this Base Prospectus nor any advertisement or other offering material may be distributed in any jurisdiction, except under circumstances that would result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of 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 United Kingdom, the EEA, Japan, Republic of Italy, and the Portuguese Republic. See *Subscription and Sale and Secondary Market Arrangements*.

The Arranger, the Common Representative and the Dealers have not separately verified the information contained or incorporated in this Base Prospectus. None of the Arranger, the Common Representative or the Dealers makes any representation to any investor in the Covered Bonds, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arranger, the Common Representative or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Covered Bonds. Each potential purchaser of Covered Bonds should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Covered Bonds should be based upon its own independent investigation as it deems necessary (namely of the financial condition, affairs and creditworthiness of the Issuer and the advantages and risks of investing in Covered Bonds). None of the Arranger, the Common Representative or the Dealers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in Covered Bonds of any information coming to the attention of the Arranger, the Common Representative or any of the Dealers.

Neither the Dealers nor the Issuer make any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

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

FORM OF THE COVERED BONDS AND SETTLEMENT

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

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

Interbolsa renders the services of centralized registration of securities registered in favour of its participants, and facilitates the settlement of securities transactions by electronic book-entry transfer between their respective participants. Interbolsa also provides various other financial services, including settlement of domestically and internationally traded securities.

The address of Interbolsa is Avenida da Boavista, 3433, 4100-138 Porto, Portugal.

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.

General

Interbolsa manages a centralised system ("*sistema centralizado*") composed by interconnected securities accounts, through which such securities (and inherent rights) are created, held and transferred, and which allows Interbolsa to control at all times the amount of securities so created, held and transferred. 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 LCH.Clearnet, S.A., as well as through the clearing systems operated by Euroclear and Clearstream, Luxembourg and settled by Interbolsa's settlement system. Under the procedures of Interbolsa's settlement system, settlement of trades executed through Euronext Dublin takes place on the third Business Day after the trade date and is provisional until the financial settlement that takes place at the Bank of Portugal on the settlement date.

Form of the Covered Bonds

The Covered Bonds of each Series will be in book-entry form (*escriturais*) 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 must be registered Covered Bonds ("*nominativas*").

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 Covered Bonds recorded therein, and accordingly the rights and obligations attached thereto.

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

Payment of principal and interest in respect of Covered Bonds

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (i) 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 held in TARGET2 by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (ii) 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 their participants, who act as custodian banks 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.

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 TARGET2 current account of the Paying Agent must be apportioned pro-rata between the accounts of the affiliate members of Interbolsa. After a payment has been processed, whether in full or in part, the Paying Agent must confirm that fact to Interbolsa.

Transfer of Covered Bonds

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.

FINAL TERMS OF THE 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 [•] March 2019

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS**

The Covered Bonds (and beneficial interests therein) are not intended to be offered, sold or otherwise made available to (and, with effect from such date, should not be offered, sold or otherwise made available to) any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, the "**MiFID II**"), (b) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, or (c) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds (and beneficial interests therein) or otherwise making them available to retail investors in the EEA has been prepared and, therefore, offering or selling the Covered Bonds (and beneficial interests therein) or otherwise making them available to any retail investor in the EEA might be unlawful under the PRIIPs Regulation.]

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET

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

Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Issue of **[*Aggregate Nominal Amount of Tranche*] [[●]** per cent. /Floating Rate/Zero Coupon**]** Covered Bonds due **[●]**

under the €5,000,000,000 Conditional Pass-through 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 15 March 2019, [as supplemented on [●]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**"), as amended or superseded (which includes the amendments made by Directive 2010/73/EU of the European Parliament and of the Council of 4 November 2003, to the extent that such amendments have been implemented in a Member State), by the Commission Regulation (EC) No. 809/2004, as amended (the "**Prospectus Regulation**").[1] [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].][2] 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, as supplemented from time to time. The Base Prospectus and the supplements to the Base Prospectus are available for viewing at Caixa Económica Montepio Geral, caixa económica bancária, S.A., Rua Castilho, 5, 1250-066 Lisbon, at www.bancomontepio.pt and at www.ise.ie and copies may be obtained from the same addresses.]

[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 27 April 2017. 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 15 March 2019 [as supplemented on [●]] which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Terms and Conditions which are extracted from the Base Prospectus dated 27 April 2017 [and are attached hereto]. 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, the Terms and Conditions and the Base Prospectus dated 15 March 2019 [as supplemented on [●]]. The Base Prospectus and the supplements to the Base Prospectus are available for viewing at Caixa Económica Montepio Geral, caixa económica bancária, S.A., Rua Castilho, 5, 1250-066 Lisbon, at www.bancomontepio.pt and at www.ise.ie 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.]

1	Issuer:	Caixa Económica Montepio Geral, caixa económica bancária, 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.*)]

[1] References to the Prospectus Directive shall be removed when the Final Terms are used as a pricing supplement, in the scope of exempt offers.

[2] Include for listed Covered Bonds only.

3	Specified Currency or Currencies:	[●]
4	(i) Aggregate Nominal Amount of Covered Bonds:	
	A. Series:	[●]
	B. [Tranche:	[●]]
	(ii) Specify whether Covered Bonds are 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*] (*in the case of fungible issues only, if applicable*)]
	(ii) [Net Proceeds	[●]]
	(Required only for listed issues)]	
6	Specified Denominations:	[●][any Covered Bonds, distributed to the public or admitted to trading on a regulated market, will always be issued in a denomination per unit not lower than €100,000]
7	(i) Issue Date:	[●]
	(ii) [Interest Commencement Date (if different from the Issue Date):	[●]]
8	Maturity Date:	[*specify date or (for Floating Rate Covered Bonds) Interest Payment Date falling in or nearest to the relevant month and year*]
9	Extended Maturity Date:	[insert date] [*The Extended Maturity Date should not fall later than 50 years after the Issue Date of such Series*].
10	Interest Basis	
	(i) Period to (and including) Maturity Date:	[Fixed Rate Covered Bonds] [[●] per cent.] / [Floating Rate Covered Bonds] [[Euribor/Libor] +/- Margin Margin = [●] per cent.] [Zero Coupon] (further particulars specified in [17/18/19] below) / [Not Applicable]
	(ii) Period from (but excluding) Maturity Date up to (and including) Extended Maturity Date:	[[●] per cent. Fixed Rate] [[Euribor/Libor] +/- Margin Margin = [●] per cent.] (further particulars specified in [17/18/19] below) [Insert "Not Applicable" only if Extended Maturity Date does not apply]

11	Redemption/Payment Basis:	[Redemption at par] [Instalment] If the maturity of the Covered Bonds is extended pursuant to Condition 6.8, redemption will be made in accordance with Condition 6.9.
12	Change of Interest or Redemption/Payment Basis	[*Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 17 and 18 below and identify there* [Not Applicable]]
13	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified in [20/21] below)]
14	(i) Status of the Covered Bonds:	The Covered Bonds will be direct, unconditional and senior obligations of the Issuer and rank *pari passu* 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, which are secured by the Cover Pool maintained by the Issuer in accordance with the terms 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 Market	**[**Euronext Dublin/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] in arrears], or following an Issuer Event payable monthly in arrears
• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/ [●] per cent per annum. payable monthly in arrears [*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 (or any other date in which an Issuer Event has occurred):	[[●] in each year up to and including the Maturity Date]
• From Maturity Date (or any other date in which an Issuer Event has occurred) up to Extended Maturity Date:	[Not Applicable] [The first Business Day in each month up to and including the Extended Maturity Date] [*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, except if an Issuer Event has occurred, in which case it shall be [[•] 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), *in accordance with Condition 4*]
• From Maturity Date up to Extended Maturity Date:	[Not *Applicable*] [30/360 or Actual/Actual (ICMA)*, in accordance with Condition 4*] [*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 (or any other date in which the Issuer Event has occurred):	[*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 (or any other date in which the Issuer Event has occurred) up to Extended Maturity Date:	[Not *Applicable*] [The first Business Day in each month up to and including the Extended Maturity Date] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Fixed Rate Covered Bonds after the Maturity Date*.]

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 paragraph.*) [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	(i) Specified Period(s)/Specified Interest Payment Dates:	
	• To Maturity Date (or any other date in which the Issuer Event has occurred):	[●]
	• From Maturity Date (or any other date in which the Issuer Event has occurred) up to Extended Maturity Date:	[Not Applicable]/[The first Business Day in each month up to and including the Extended Maturity Date] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	(ii) Business Day Convention:	
	• To Maturity Date:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention]
	• From Maturity Date up to Extended Maturity Date:	[Not Applicable]/[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention] [*State "Not Applicable" unless Extended Maturity Date applies and the Covered Bonds are Floating Rate Covered Bonds after the Maturity Date.*]
	(iii) Additional Business Centre(s):	
	• To Maturity Date:	[●]

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

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

(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:

- To Maturity Date: [Screen Rate Determination/ISDA Determination]
- From Maturity Date up to Extended Maturity Date: [Not Applicable]/ [Screen Rate Determination/ISDA Determination]

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

(v) Party responsible 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: [Euribor / LIBOR]
- 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 of 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 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:	[Euribor / LIBOR]
• 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 of 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 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*/365

Actual/365 (Fixed)

Actual/365 (Sterling)

Actual/360

30/360

30E/360]

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

- From Maturity Date up to Extended Maturity Date:

[Not Applicable]/

[*Actual*/365

Actual/365 (Fixed)

Actual/365 (Sterling)

Actual/360

30/360

30E/360] (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 and denominator relating to the interest on Floating Rate Covered Bonds:	
	• 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	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	[●]
	(iv) Day Count Fraction in relation to late payment:	[Condition 6.7 applies] (*consider applicable day count fraction if not U.S. dollar denominated*)

PROVISIONS RELATING TO REDEMPTION

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

21	Put Option	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Covered Bond:	[●] per Covered Bond of [●] Specified Denomination
	(iii) Notice period:	[●] (*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	Final Redemption Amount of each Covered Bond	[[●] per Covered Bond of [●] Specified Denomination/Other] (*NB – It shall correspond to the nominal amount*)
23	[Early Redemption Amount of each Covered Bond payable on an event of default]	[Applicable/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

24	Form of Covered Bonds:	Book-entry with Interbolsa settlement system. Registered (*nominativas*) covered bonds
25	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 17 (iii) relates*)
26	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*]

27	Details relating to Instalment Covered Bonds:	
	(i) Instalment Amount(s):	[Not Applicable/*give details*]
	(ii) Instalment Date(s):	[Not Applicable/*give details*]
28	Redenomination applicable:	[Applicable/Not Applicable] (*if Redenomination is applicable, specify the terms of the redenomination in an Annex to the Final Terms*)

DISTRIBUTION

30	(i) If syndicated, names of Dealers:	[Not Applicable/*give names and date of relevant agreement*]
	(ii) Date of [Subscription] Agreement:	[●]
	(iii) Stabilising Manager (if any):	[Not Applicable/*give names*]
	(iv) If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name and date of relevant agreement*]
31	(i) Prohibition of Sales to EEA Retail Investors	[Applicable/Not Applicable] (*If Covered Bonds offered may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified*)
	(ii) Prohibition of Sales to Belgian Consumers	[Applicable/Not Applicable]
	(iii) [U.S. Selling Restrictions:	[Regulation S Compliance Category 2/TEFRA not applicable/ Provide details]
	(iv) Other Selling Restrictions	[Not Applicable/Provide details] *(NB – Consideration to be given for possible supplement in case of such further details in result of article 16 of the Prospectus Directive.)*

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list the issue of the Covered Bonds described herein pursuant to the €5,000,000,000 Covered Bonds Programme of Caixa Económica Montepio Geral, caixa económica bancária, S.A.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [Relevant third party information] has been extracted from [specify source]. The Issuer confirms that such

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

Signed on behalf of the Issuer:

By: ....
Duly authorized   Duly authorized

PART B – OTHER INFORMATION

1 Listing

(i) Listing:	[Euronext Dublin/ None]
(ii) Admission to trading:	[Application has been made for the Covered Bonds to be admitted to trading on [Euronext Dublin / None] with effect from [●].] [Not Applicable.] (*Where documenting a fungible issue need to indicate that original securities are already admitted to trading*.)
(iii) Estimate of total expenses related to admission to trading	[●]

2. Ratings

Ratings:	The Covered Bonds to be issued have been Rated *[insert legal name and defined term]*: [Moody's: [●]] and/or [Fitch: [●]]and/or [DBRS: [●]]and/or [Other RA: [●]] (The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.) Each credit rating agency is established in the European Union and is registered under Regulation (EC) no. 1060/2009, as amended.

3. [Notification

[Not Applicable.] or [The Central Bank of Ireland [has been requested to provide/has provided - *include first alternative for an issue which is contemporaneous with the update of the Programme and the second alternative for subsequent issues*] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

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

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer." – *amend as appropriate if there are other interests*]

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

[(i)	Reasons for the offer	[●] *(See USE OF PROCEEDS] wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*
[(ii)	Estimated Net Proceeds	[●]]
[(iii)	Total Expenses	[●]]

6. YIELD

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. *[The yield for Floating Rate Covered Bonds is an estimation only and calculated with reference to the Rate of Interest that would be payable if the Issue Date would be an Interest Payment Date and on the assumption that such Rate of Interest (comprising the relevant rate + margin) would not change in the future. Investors should be aware that the Rate of Interest payable on each Interest Payment Date will be subject to variation of the relevant Reference Rate. The index used to calculate the yield was [●]]*

7. Operational Information

ISIN Code:	[●]
Common Code:	[●]
CFI:	[Not Applicable/Not Available/[●]]

FISN:	[Not Applicable/Not Available/[●]]
	(*If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable*")
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[●]

8. Repurchase Commitment

(i) Applicability of the Repurchase Commitment:	[Yes] [No]
(ii) Repurchase Amount:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date]] [Other]

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 the Covered Bonds. 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 to each Covered Bond. Reference should be made to "Final Terms of the 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 IN THESE TERMS AND CONDITIONS). THE ISSUER (AS DEFINED IN THESE TERMS AND CONDITIONS) IS A SAVINGS BANK (*CAIXA ECONÓMICA BANCÁRIA*) 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 Caixa Económica Montepio Geral, caixa económica bancária, S.A. (the "**Issuer**") in accordance with the procedures set out in the Agency and Payments Procedures (as defined below).

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

The Covered Bonds have the benefit of a set of agency and payments procedures (such agency and payments procedures as amended and/or supplemented and/or restated from time to time, the "**Agency and Payments Procedures**") dated 27 April 2017 and made and agreed by Caixa Económica Montepio Geral, caixa económica bancária, S.A. (acting in its capacity as Agent, which expression shall include any successor) and by any subsequent agent, paying agent, transfer agent and agent bank appointed by the Issuer.

Any reference to "**Holders of Covered Bonds**" shall mean the person or entity registered as such in the relevant securities' account.

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 Agency and Payments Procedures are available for inspection during normal business hours at the specified office of each of the Paying Agents (such Paying Agents 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 and at Euronext Dublin's website – www.ise.ie - 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 Holders of Covered Bonds are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency and Payments 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 Agency and Payments Procedures.

Words and expressions defined in the Agency and Payments 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 Agency and Payments 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 Agency and Payments Procedures (and, where appropriate, notice to that effect has been given to the Holders of Covered Bonds in accordance with these Terms and Conditions) and remain available for payment against presentation of the relevant Covered Bonds;

(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.

1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in registered form (*nominativas*). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

The Covered Bonds will be in book-entry form in Interbolsa's systems and title to the Covered Bonds will be evidenced by book entries in accordance with the provisions of the Portuguese Securities Code (*Código dos Valores Mobiliários*) 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 Covered Bonds recorded therein as well as its attached obligations and liabilities.

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

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.

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

Without prejudice to the foregoing, a Covered Bond may also be an Instalment Covered Bond depending upon the Redemption/Payment Basis shown in the applicable Final Terms, in which case, for the avoidance of doubt, the relevant Extended Maturity Date will apply (under a Default of Payment Event) if the Issuer fails to pay any applicable instalment, irrespectively of such failure applying on the Covered Bond's Maturity Date or on a prior Interest Payment Date.

The Covered Bonds to be issued on or after the date hereof will be issued in denomination per unit not lower than €100,000 (or its equivalent in another currency) as specified in the relevant Final Terms, unless the Covered Bonds will not be distributed to the public or admitted to trading on a regulated market, in

which case lower denominations per unit may apply.

2. TRANSFERS OF COVERED BONDS

The transferability of the Covered Bonds is not restricted.

Covered Bonds may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Covered Bond, in accordance with Portuguese Law and with the applicable procedures of Interbolsa, which requires that the transfers are *prima facie* made via the global accounts held by the participants in such system.

Covered Bonds may be held through Euroclear and/or Clearstream, as long as these entities become indirect participants in Interbolsa. In such scenario, indirect holders of the Covered Bond will be able to transfer such interest in accordance with the applicable procedures set forth in Portuguese Law and the Interbolsa's regulations (as applicable to Euroclear and/or Clearstream as indirect participants of this system) and the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

3. STATUS OF THE COVERED BONDS

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

4. INTEREST

4.1 Interest on Fixed Rate Covered Bonds

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

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

As used in these Terms and Conditions, **"Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

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

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

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

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

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

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

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

In these Terms and Conditions:

(i) "**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

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

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

4.2 Interest on Floating Rate Covered Bonds

(A) Interest Payment Dates

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrears 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 on 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 inter-bank 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-condition 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 Agency and Payments 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.

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

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

For the avoidance of doubt, if no Minimum Rate of Interest is specified in the applicable Final Terms, then the minimum rate of interest due under the relevant Covered Bonds shall be zero.

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

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

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

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

(i) if "**Actual/365"** 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 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(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 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

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

(F) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Agent or the Calculation Agent (if applicable) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer (and the SCI, when appointed), 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 Rate and Payments from the Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date*), 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 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) An Extended Maturity Date will be specified in the applicable Final Terms for the relevant Series of Covered Bonds, and if the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), 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 (*Accrual of Interest*). 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 arrears 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) An Extended Maturity Date will be specified in the applicable Final Terms for the relevant Series of Covered Bonds, and if the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), 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) An Extended Maturity Date will be specified in the applicable Final Terms for the relevant Series of Covered Bonds, in the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date. In case such Covered Bonds are extended to their respective Extended Maturity Date and such extension takes place after their respective Maturity Date, then, for the purposes of this Condition 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*), the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date; in case such extension occurs before such Maturity Date, then the principal amount outstanding shall be the Final Redemption Amount in accordance with Condition 6.7 (*Late payment on Zero Coupon Covered Bonds*). Furthermore, upon such an extension to their respective Extended Maturity Date, interest will be due on the relevant principal amount outstanding (as it may be reduced by reimbursements from time to time) at the interest rate provided for in the applicable Final Terms until those Covered Bonds are fully redeemed.

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 (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) 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 State, and 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 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 in relation to Covered Bonds

Payments of principal and interest in respect of Covered Bonds held through Interbolsa may only be made in euro or in such other currencies accepted by Interbolsa for registration and clearing.

Whilst the Covered Bonds are held through Interbolsa, payment of principal and interest in respect of the Covered Bonds will be (i) 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 held in TARGET2 by the Interbolsa Participants whose control accounts with Interbolsa are credited with such Covered Bonds and thereafter (ii) 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.

5.3 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.

5.4 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.

5.5 Reserve Account

(i) While Covered Bonds are outstanding, the Covered Bonds will have the benefit of a Reserve Account held by the Issuer with the Reserve Account Bank in respect of the Programme and the Reserve Account and any balances standing to the credit thereof will form part of the Cover Pool and be subject to the same legal regime as any Other Assets which are part of the Cover Pool. The Issuer shall ensure that the legal requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool are met at all times.

(ii) The Issuer will be required to maintain at all times in the Reserve Account funds in an amount equal to or in excess of Expenses, Owed Hedging Payments and interest on the Covered Bonds (i.e. items (i) and (ii) of the payments priority provided for in Condition 6.9 (*Pass-through Provision*)), due and payable in the following 3 (three) months, including Expenses, Owed Hedging Payments and interest due assuming that, for each Covered Bond series, either (a) it is already pass-through if there are no scheduled payments in the next 3 (three) months, or (b) otherwise it becomes pass-through immediately after its next scheduled interest payment ("**Total Target Reserve Amount**"). The Total Target Reserve Amount shall be available on any Interest Payment Date towards the payment of interest due on the Covered Bonds that have been extended to their Extended Maturity Date to the extent that there are otherwise insufficient available funds or towards the payment of principal due on the Covered Bonds if all Series of Covered Bonds can be fully redeemed on such payment date if the Reserve Account funds are made available. As long as the funds in the Reserve Account equal or exceed the Total Target Reserve Amount, the Issuer will not be required to transfer any additional amounts to the Reserve Account. If the amounts standing in the Reserve Account exceed the Total Target Reserve Amount, the Issuer may, in case no Issuer Event has occurred, release the excess amounts, without prejudice to the obligation of compliance with the maintenance of the Overcollateralisation Percentage.

(iii) The funds available in the Reserve Account and the Total Target Reserve Amount shall be monitored by the Cover Pool Monitor on a monthly basis. If the Cover Pool Monitor identifies that the funds available in the Reserve Account do not meet the Total Target Reserve Amount, it shall report that fact in the next quarterly report to be delivered to the Issuer, in accordance with agreed upon procedures as foreseen in the Cover Pool Monitor Agreement.

(iv) Upon redemption of all Series of Covered Bonds, any funds remaining to the credit of the Reserve Account will be paid to the Issuer.

(v) At the Issuer's option, the Reserve Account may be replaced by a liquidity facility, through a Liquidity Facility Agreement to be agreed with a Liquidity Facility Provider pursuant to which the Issuer, or the SCI, will be entitled to make liquidity drawings equal to the interest payable on the Covered Bonds on any Interest Payment Dates following the occurrence of a Liquidity Event up to a maximum amount equal to Total Target Reserve Amount. This replacement will be subject to obtaining the Hedging Counterparty's consent and one of the following: (i) prior confirmation from the Rating Agencies that such replacement would not result in the reduction, removal, suspension or placement on credit watch of the credit ratings assigned to each such Covered Bonds; or (ii) a written indication by the Rating Agencies that it does not have any comments to said replacement; or (iii) a written communication by the Rating Agencies that, having concluded the review of said replacement, it does not consider a confirmation to be due; or (iv) within 30 days after each of the Rating Agencies has been notified, no additional information or additional period to analyse have been requested, nor has the Issuer received any other written communication from the Rating Agencies.

6. REDEMPTION AND PURCHASE

6.1 Final redemption

Subject to Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), 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 (thirty) nor more than 60 (sixty) 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, the nominal amount of all outstanding Covered Bonds will be redeemed proportionally. For the avoidance of doubt, the exercise and/or settlement of any such call option right is subject to no Issuer Event (other than a Default of Payment Event not affecting the relevant Series) having occurred prior to such exercise or settlement, and in case such event has occurred prior to the settlement date that exercise shall be of no effect. For the purpose of verifying the occurrence of a Default of Payment Event in respect of the relevant Series of Covered Bonds, failure by the Issuer to repay principal on the relevant Issuer Call Option settlement date will be regarded as a failure to pay on the respective Maturity Date. For the sake of clarity, no principal may be repaid following the redemption resulting from the exercise of the Issuer Call Option established in this Condition until Series governed by Conditions 6.9 (*Pass-through Provision*) have been fully redeemed.

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 (thirty) nor more than 60 (sixty) 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 at any time during normal business hours of such Paying Agent , a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a Put Notice) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition. Any Put Notice given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable. The right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent. For the avoidance of doubt, the exercise and settlement of any Investor Put Option is subject to no Issuer Event (other than a Default of Payment Event not affecting the relevant Series) having occurred prior to such exercise or settlement, and in case such event has occurred prior to the settlement date that exercise shall be of no effect. For the purpose of verifying the occurrence of a Default of Payment Event in respect of the relevant Series of Covered Bonds, failure by the Issuer to repay principal on the relevant Investor Put Option settlement date will be regarded as a failure to pay on the respective Maturity Date. For the sake of clarity, no principal may be repaid

following the redemption resulting from the exercise of the Put Option established in this Condition, until Series governed by Conditions 6.9 (*Pass-through Provision*) have been fully redeemed.

6.4 Instalments

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates, provided that a failure by the Issuer to pay an Instalment Amount on an Instalment Date other than the Maturity Date will be regarded as a failure to pay on the relevant Maturity Date for the purposes of verifying a Default of Payment Event in respect of the relevant Series of Instalment Covered Bonds, thereby having as its consequence the application of Condition 6.8 (*Extended of Maturity Date up to Extended Maturity Date*) to the entire relevant Series and to all future Instalments Amounts due under such Series.

6.5 Purchases

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

6.6 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled. All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.5 (*Purchases*) above shall be cancelled by Interbolsa 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 (*Extension of Maturity up to Extended Maturity Date*) does not apply, upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 6.1 (*Final redemption*), 6.2 (*Redemption at the option of the Issuer (Call Option)*) or 6.3 *(Redemption at the option of the Holders of Covered Bonds (Put Option)*) above or upon its becoming due and repayable as provided in Condition 9 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated according to the following formula:

$$RP \times (1 + AY)^{y}$$

where:

RP means the Reference Price; and

AY means the Accrual Yield expressed as a decimal; and

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

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

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

The same formula above will apply following the occurrence of an Issuer Event affecting the relevant Zero Coupon Covered Bonds, to calculate the amount due and repayable in respect of such Zero Coupon Covered Bond, provided that for the purposes of determining the Final Redemption Amount, the relevant date shall be the Maturity Date.

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, provided that the Extended Maturity Date may not fall later than 50 (fifty) years after the Issue Date of such Series.

(B) Such Extended Maturity Date, defined in the applicable Final Terms as applying to each Series of Covered Bonds, will apply if any of the following events (each, an "**Issuer Event**") takes place:

(i) Insolvency Event, in result of which all Series (which would otherwise be due on their respective Maturity Date) become due on their respective Extended Maturity Date, without prejudice to Condition 9 (*Events of Default and Enforcement*); and

(ii) Default of Payment Event, in result of which the Series where such default in payment occurred become due on its respective Extended Maturity Date.

Upon the occurrence of any of the above Issuer Events, the Issuer shall forthwith notify the Common Representative and the Programme Account shall be set up by the Issuer (or the SCI), as soon as reasonably practicable, within 30 (thirty) calendar days of that event. Without prejudice to the foregoing, the Common Representative shall be notified in case of an Issuer Event occurring as a result of a Default of Payment Event, by the Agent upon so becoming aware.

Without prejudice to the foregoing, once the Programme Account has been set up, all cash proceeds arising under, or otherwise existing in, the Cover Pool shall be transferred, on each Business Day, by the Issuer (or the SCI) to the Programme Account. For the sake of clarity, in case the relevant Issuer Event was a Default of Payment Event, then, when all the Covered Bonds which have been extended to their respective Extended Maturity Date thereunder have been fully reimbursed and no other Issuer Event has taken place, this proceeds transfer obligation will no longer apply and any balance then existing in the Programme Account shall be released to the Issuer.

Upon an Insolvency Event, the Issuer (or the SCI) shall, as soon as reasonably practicable, within 45 (forty-five) calendar days of that event notify the borrowers under any Mortgage Credits to make any due payments directly into the Programme Account.

(C) After an Issuer Event, the Issuer may redeem all or any part of the principal amount outstanding of all or (in case of a Default of Payment Event) the relevant Covered Bonds on an Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date, in accordance with Condition 6.9 (*Pass-through provision*) below. The Issuer, or if applicable the SCI, 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 5 (five) Business Days prior to the relevant Interest Payment Date or, as applicable, the Extended Maturity Date. Any failure by the Issuer, or the SCI, to notify such persons shall not affect the validity or effectiveness of any redemption of the Covered Bonds on the relevant Interest Payment Date or as applicable, the Extended Maturity Date or give rise to rights in any such person.

(D) In the case of Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Maturity Date, for the purposes of this Condition 6.8 (*Extension of Maturity up to Extended*

Maturity Date) the principal amount outstanding shall be the amount calculated in accordance with Condition 6.7 (*Late payment on Zero Coupon Covered Bonds*).

(E) Any extension of the maturity of Covered Bonds under this Condition 6.8 shall be irrevocable. Where this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*) 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 (*Extension of Maturity up to Extended Maturity Date*) 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.

(F) In the event of the extension of the maturity of Covered Bonds under this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), 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 (*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*).

(G) 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 that were extended to the Extended Maturity Date and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption.

(H) If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further mortgage covered bonds.

6.9 Pass-through Provision

Upon an Issuer Event occurring, any Available Funds shall be applied on each Interest Payment Date in making the following payments in the following order of priority, on a *pro rata* basis in the same priority line, and the Hedging Counterparty shall be notified by the Cover Pool Monitor of the Available Funds ahead of such Interest Payment Date:

(i) Expenses and Owed Hedging Payments due on such date;

(ii) Amounts of Interest due on such date;

(iii) Replenishment of the Reserve Account up to the Total Target Reserve Amount;

(iv) Redemption of principal across all Series that have been subject to an Extended Maturity Date, if applicable, or, redemption of all Series that have not been subject to an Extended Maturity Date in the relevant Interest Payment Date, if principal is due on this Interest Payment Date;

(v) Crediting the Programme Account or, if this has not yet been set-up, otherwise retained in the Cover Pool, provided that:

(a) Any payments under item (iv) above, while some but not all Covered Bonds have been extended to their respective Extended Maturity Date, may only be made to the extent that, once made, the Issuer or the SCI will not breach the Overcollateralisation Percentage;

(b) No funds debited from the Reserve Account may be used to make payments of Amounts of Interest due on such date, under (ii) above, in respect of Covered Bonds that have not been extended to their respective Extended Maturity Date;

(c) Funds may be debited from the Reserve Account immediately following the occurrence of a Default of Payment Event resulting from non-payment of interest;

(d) While any Covered Bonds have been extended to their respective Extended Maturity Date, any Cover Pool monies or assets may only be used in making payments in accordance with the above payments priority (without prejudice to the best-efforts sale obligation below and the accumulation of any such sale proceeds in the Programme Account or, if this has not yet been set-up, otherwise accumulated in the Cover Pool);

(e) In case the relevant Issuer Event was a Default of Payment Event, then, when all the Covered Bonds which have been extended to their respective Extended Maturity Date thereunder have been fully reimbursed and no other Issuer Event has taken place, this Condition 6.9 (*Pass-through Provision*) will no longer apply, and

(f) Once all Series of Covered Bonds have been redeemed in full, any remaining funds shall be paid to the Issuer.

(g) For the sake of clarity, upon the application of this Condition 6.9 (*Pass-through Provision*) following the occurrence of a Default of Payment Event, payment by the Issuer of the defaulted payment does not grant the Issuer the possibility of, nor has as its consequence the, reversion of the application of Condition 6.9 (*Pass-through Provision*) as regards the Series where such default occurred and the pass-through provision set forth therein.

In order to redeem, to the extent possible and at *pari passu*, the Covered Bonds that have been extended to their Extended Maturity Date prior to such date, the Issuer and/or the SCI shall use and employ its best efforts to sell an amount sufficient to redeem, in whole or in part, all outstanding Covered Bonds that have been extended to their respective Extended Maturity Date, on each sixth Interest Payment Date following an Issuer Event, the assets comprised in the Cover Pool along commercial acceptable terms, provided that such sale and subsequent redemption of the respective Covered Bonds will not result in a breach of the Overcolateralisation Percentage on and between any Interest Payment Dates.

For the avoidance of doubt, (i) failure by the Issuer and/or the SCI to sell or refinance the assets comprised in the Cover Pool will not constitute an event of default; and (ii) subject to the above terms and provided that (if required) relevant procedures are put in place (including Chinese walls and appropriate disclosures) to properly manage any potential conflict of interest and/or assimetries of information, the Issuer may participate as purchaser in a sale of Cover Pool assets as outlined above.

The disposals of Cover Pool assets after an Issuer Event shall be disclosed by the Issuer or on its behalf as part of the regular reporting on the Covered Bonds, or by the SCI.

7. TAXATION

7.1. Payments free of taxes

All payments of principal and interest in respect of the Covered Bonds shall be made free and clear of, and without withholding or deduction for, any Taxes (for which purpose investors are required in any case to comply with their obligations detailed under the *Taxation* section) 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 (*Payments free of taxes*) above.

7.3 Taxing Jurisdiction

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

7.4 Tax Deduction not Event of Default

Notwithstanding that the Issuer or any Paying Agent is required to make a Tax Deduction in accordance with Condition 7.1 (*Payments free of taxes*) above, this shall not constitute an Event of Default.

8. PRESCRIPTION

The Covered Bonds will become void unless presented for payment within 20 (twenty) years (in the case of principal) and 5 (five) years (in the case of interest) in each case from the Relevant Date therefore, subject in each case to the provisions of Condition 5 (*Payments*). As used in these Terms and Conditions, "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Holders of Covered Bonds in accordance with Condition 11 (*Notices*). Also, following the occurrence of the above mentioned prescription terms (20 (twenty) years in the case of principal and 5 (five) years in the case of interest), such principal and interest, as applicable, will be considered abandoned in favour of the Portuguese State and will be handed over to the Portuguese State, in accordance with Decree-law no. 187/70, of 30 April, as amended.

9. EVENTS OF DEFAULT AND ENFORCEMENT

9.1 Insolvency Event

Pursuant to the Covered Bonds Law, if an Insolvency Event in respect of the Issuer occurs, Conditions 6.8 (*Extension of Maturity up to Extended Maturity Date*) and 6.9 (*Pass-through Provision*) will apply. Notwithstanding the foregoing, pursuant to the Covered Bonds Law, the holders of Covered Bonds may approve a Resolution, by a majority of 2/3 (two thirds) 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 at their Early Redemption Amount together with accrued interest. For the sake of clarity, the serving of an Acceleration Notice will supersede the provisions of Conditions 6.8 (*Extension of Maturity up to Extended Maturity Date*) and 6.9 (*Pass-through Provision*), the Covered Bonds becoming immediately due and payable as aforementioned.

If an Insolvency Event in respect of the Issuer occurs, the Holders of Covered Bonds enjoy, under the Covered Bonds Law, a special creditor privilege (*privilégio creditório especial*) 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, the Common Representative and the Hedge Counterparties also benefit from this special creditor privilege (*privilégio creditório especial*), which is not subject to registration.

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, the Credit Institutions General Regime and/or (if applicable) under the Code for the Insolvency and Recovery of Companies approved by Decree-law 53/2004, of 18 March 2004), all as amended. Investors should see the *Insolvency of the Issuer* section.

9.2 Enforcement

(A) Following the approval of a Resolution as described in Condition 9.1 (I*nsolvency Event*), the holders of the Covered Bonds (or the Common Representative on their behalf, provided it has been indemnified and/or secured to its satisfaction) may at any time after service of an Acceleration Notice, at its discretion and without further notice, take such proceedings against the Issuer, and/or any other person as it may deem fit to enforce the provisions of the Covered Bonds.

(B) In exercising any of its powers and discretions the Common Representative shall only have regard to the interests of the Holders of Covered Bonds of all Series.

(C) No holder of Covered Bonds shall be entitled to proceed directly against the Issuer or to take any action with respect to the Common Representative Appointment Agreement, the Covered Bonds or any other Programme Document unless the Common Representative, having become bound so to proceed, fails so to do within a reasonable time and such failure shall be continuing.

10. AGENT AND PAYING AGENTS

(A) The names of the Agent, the Paying Agent 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 and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

   (i) there will at all times be an Agent;

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

   (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 Council Directive (EU) 2015/2060 of 10 November 2015, as amended, on the taxation and savings income or any other Directive 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 published in a manner which complies with the

applicable listing rules of Euronext Dublin and also 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 shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

All notices regarding the Covered Bonds shall comply with the applicable Portuguese law requirements, namely CMVM Regulation 5/2008, as amended.

12. MEETINGS OF HOLDERS OF COVERED BONDS

(A) The Portuguese Companies Code expressly applicable to Covered Bonds, pursuant to the Covered Bonds Law, 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 part of 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 (fifty) 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.

(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 (fifty) per cent. of the Principal Amount Outstanding of the Covered Bonds then outstanding or, at any adjourned meeting, 2/3 (two thirds) 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, or the conversion of such Covered Bonds into bonds or other obligations or securities of the Issuer or shares, bonds or other obligations or securities of 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; or (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*. A Written Resolution shall take effect as if it were a Resolution.

(E) Notwithstanding the provisions of the immediately preceding paragraph, any Resolution to direct the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of*

Default 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 Issuer or the Common Representative or by Holders of Covered Bonds of any Series.

(G) A Programme Resolution passed at any meeting of the Holders of Covered Bonds of all Series shall be binding on all Holders of Covered Bonds of all Series, whether or not they are present at the meeting.

(H) In connection with any meeting of the Holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in euro, the nominal amount of the Covered Bonds of any Series not denominated in euro shall be converted into euro at the relevant exchange rate at the date of the meeting.

13. INDEMNIFICATION OF THE COMMON REPRESENTATIVE CONTRACTING WITH THE ISSUER

(A) If, in connection with the exercise of its powers and discretions, the Common Representative is of the opinion that the interests of the Holders of Covered Bonds of any one or more Series would be materially prejudiced thereby, the Common Representative shall not exercise such powers and discretions without the approval of such Holders of Covered Bonds by a Resolution or by a Written Resolution of such Holders of Covered Bonds of at least the majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

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

14. OVERCOLLATERALISATION, VALUATION OF COVER POOL AND ISSUER COVENANTS

14.1 Maintenance of overcollateralisation

For so long as the Covered Bonds are outstanding, and regardless of the time of issue of the Covered Bonds, the Value (determined in accordance with the Covered Bonds Law and the Bank of Portugal Regulatory Notices) of the Cover Pool maintained by the Issuer (the "**Overcollateralisation Percentage**") shall at all times be a minimum of the higher of (i) 109.0 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, no.2 of the Covered Bonds Law and not cancelled (or such other minimum legal overcollateralisation percentage established in the law), and (ii) 1 divided by the Asset Percentage.

The 109.0 per cent. referred to in (i) above is higher than the statutory limit of 105.26 per cent. set forth in the Covered Bonds Law (see *Covered Bonds Law*).

For the purposes above, the "**Asset Percentage**" means the lower of 100 per cent. and any other percentage determined by the Issuer from time to time.

As of 30 November 2018, the Asset Percentage was 84.13 per cent.. The Issuer may at any time reduce the Asset Percentage but it may only increase the Asset Percentage above 84.75 per cent. subject to obtaining the Hedging Counterparty's consent and one of the following: (i) prior confirmation from the Rating Agencies that such increase would not result in the reduction, removal, suspension or placement on credit watch of the credit ratings assigned to each such Covered Bonds; or (ii) a written indication by the Rating Agencies that it does not have any comments to said increase; or (iii) a written communication by the Rating Agencies that, having concluded the review of said increase, it does not consider a confirmation to be due; or (iv) within 30 (thirty) days after each of the Rating Agencies has been notified, no additional information or additional period to analyse have been requested, nor has the Issuer received any other written communication from the Rating Agencies. Without prejudice to the above, and for the avoidance of doubt, the Asset Percentage increase will always require Moody's prior confirmation, whilst the alternatives indicated above in items (ii) to (iv) will only be available regarding the remaining Rating Agencies. Any change to the Asset Percentage shall be disclosed by the Issuer on the website of Euronext Dublin and of the CMVM and the Asset Percentage shall be disclosed by the Issuer or on its behalf as part of the regular reporting on the Covered Bonds.

Should a breach of the Overcollateralisation Percentage occur for 2 (two) consecutive monthly reporting dates, the Issuer shall forthwith notify the Common Representative and the Programme Account shall be set up by the Issuer, as soon as reasonably practicable, within 30 (thirty) calendar days of such breach. Once the Programme Account has been set up, all cash proceeds arising under, or otherwise existing in, the Cover Pool shall be transferred, on each Business Day, by the Issuer to the Programme Account.

Any such Cover Pool cash proceeds shall only be used by the Issuer in making payments owed by it in its capacity as Issuer of Covered Bonds (including any interest or redemption amounts due under the Covered Bonds, any Expenses and any Owed Hedging Payments). For the sake of clarity, in case an Issuer Event has occurred, the terms of Condition 6.9 (*Pass-through Provision*) prevail over the foregoing terms in this paragraph.

While the breach of the Overcollateralisation Percentage persists, the Issuer shall not issue further Covered Bonds.

Upon remedy and compliance of the obligation to maintain the Overcollateralisation Percentage, and provided that no Issuer Event has occurred (which would require the Programme Account to remain open pursuant to Condition 6.8 (*Extension of Maturity up to Extended Maturity Date*), the Issuer shall notify the Common Representative and its obligation to keep the Programme Account open and to transfer any Cover Pool proceeds to the Programme Account will no longer apply and any balance then existing in the Programme Account shall be released to the Issuer.

14.2 Issuer Covenants

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

(A) *Loan to Value*: the Value of a Mortgage Credit granted by the Issuer may not exceed either 80 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) *Valuation*s: 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 Regulatory Notices (in particular Regulatory Notice 5/2006

and Regulatory Notice 6/2006);

(F) *Cover Pool Monitor*: the Cover Pool Monitor will be provided with all necessary elements and information to monitor compliance by the Issuer of this Condition 14 *(Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) in accordance with the Covered Bonds Law and the applicable Bank of Portugal Regulatory Notices, as well as with all necessary elements and information relating to any other matters which the Cover Pool Monitor shall monitor in accordance with these Terms and Conditions;

(G) *Mortgage Credits*: the Mortgage Credits as of the date when they are included in the Cover Pool are not Non-Performing Mortgage Credits; and

(H) *Liabilities*: The net present value of the liabilities arising from issues of Covered Bonds cannot exceed the net present value of the Cover Pool, including any Hedging Contracts. This ratio must also be met for 200 basis points parallel shifts of the yield curve.

15. FURTHER ISSUES

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

16. GOVERNING LAW AND JURISDICTION

Except for the Hedging Contracts and the Reserve Account Agrement, which are governed by, and will be construed in accordance with, English Law, the Common Representative Appointment Agreement, the Agency and Payments Procedures, the Covered Bonds and the other Programme Documents (including any non-contractual obligations arising out of, or in connection with said documents) are governed by, and shall be construed in accordance with, Portuguese law unless specifically stated to the contrary.

The courts of Lisbon (or of England in case of the Hedging Contracts and of the Reserve Account Agreement) shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Common Representative Appointment Agreement, the Agency and Payments Procedures, the Covered Bonds and the other Programme Documents (including any non-contractual obligations arising out of, or in connection with said documents).

17. DEFINITIONS

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

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

"**Agency and Payments Procedures**" means the set of agency and payments procedures (such agency and payments procedures as amended and/or supplemented and/or restated from time to time) dated 27 April 2017 and made and agreed by Caixa Económica Montepio Geral, caixa económica bancária, S.A. and by any subsequent agent, paying agent, transfer agent and agent bank appointed by the Issuer.

"**Agent**" means Caixa Económica Montepio Geral, caixa económica bancária, S.A., with head office at Rua Castilho, 5, 1250-066 Lisbon and any successor agent appointed by the Issuer in accordance with the Agency and Payments Procedures.

"**Amount of Interest**" means, following an Issuer Event, and in respect of an Interest Payment Date, the interest amount payable in respect of each Series of Covered Bonds.

"**Asset Percentage**" has the meaning given to it in Condition 14.1 (*Maintenance of overcollateralisation*).

"**Available Funds**" means any funds arising under the Cover Pool, including in result of any interest and

principal payments under Mortgage Credits or any other assets that are part of the Cover Pool, any sale proceeds of any Mortgage Credits or other assets that are part of the Cover Pool, any hedging payment amounts paid by the hedging counterparty under the Hedging Contracts (for the avoidance of doubt, such amounts do not include any collateral that may transferred under the Hedging Contracts), any balances standing to the credit of the Reserve Account and the Programme Account, in all cases which are received by the Issuer or the SCI or transferred to the Programme Account between, and including, the sixth Business Day prior to the Interest Payment Date immediately preceding the relevant Interest Payment Date up to, but excluding, the sixth Business Day prior to the relevant Interest Payment Date, as calculated by the Agent pursuant to the Agency and Payment Procedures.

"**Bank of Portugal Regulatory Notices**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, Regulatory Notice 5/2006, Regulatory Notice 6/2006, Instruction 13/2006 and Regulatory Notice 8/2006.

"**Clearstream, Luxembourg**" means Clearstream Banking S.A..

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

"**Common Representative**" means **Citicorp Trustee Company Limited** acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom 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 or any successor common representative appointed by a Meeting of the Holders of Covered Bonds.

"**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 PRICEWATERHOUSECOOPERS & Associados, Sociedade de Revisores Oficiais de Contas, S.A., a company incorporated under the laws of Portugal, member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), with its registered office at Palácio SottoMayor, Rua Sousa Martins, n. º1, 3º, 1069-316, in Lisbon.

"**Covered Bond**" means any conditional pass-through 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.

"**DBRS**" means DBRS Ratings Limited, which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such, DBRS Ratings Limited is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with such Regulation.

"**Default of Payment Event**" means, in respect a Series of Covered Bonds, if such Series has not been repaid in full on its Maturity Date or on the following two Business Days, or if interest due under that Series has not been paid on any Interest Payment Date or on the following five Business Days. For the sake of clarity, a Default of Payment Event will only occur if the relevant repayment (or interest payment, as applicable) is not done by the end of the following two (or five, as applicable) Business Days mentioned above.

"**Euroclear**" means Euroclear Bank SA/NV.

"**Expenses**" means the fees of and expenses due to the Common Representative, the fees of and expenses due to the SCI, including any expenses incurred by the SCI in connection with any actual or prospective disposals of Cover Pool assets, the fees of and expenses to cover for the maintenance and operating of the Reserve Account and the Programme Account, the fees and expenses of the Cover Pool Monitor, Covered Bonds listing costs and other costs that may be agreed and defined as "**Expenses**" for this purpose in the agreements entered into in connection with the Programme.

"**Extended Maturity Date**" has the meaning given in the relevant Final Terms.

"**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, which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such Fitch Ratings Limited is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with such Regulation.

"**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.

"**Hedging Contracts**" means the hedging contracts entered into by the Issuer in accordance with the Covered Bonds Law for the purpose of hedging interest rates, 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.

"**Insolvency Event**" has the meaning given to it under Condition 9.1 (*Insolvency Event*).

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

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

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

"**Interest Payment Date**" means the date specified as interest payment date in the Final Terms of a Series of Covered Bonds and, upon the occurrence of an Issuer Event, the first Business Day of each month, following such occurrence, for all the outstanding Series or for all the applicable Series in case of a Default of Payment Event.

"**Issuer Event**" means an Insolvency Event or a Default of Payment Event.

"**Liquidity Event**" means the delivery by the Issuer of a 5 (five) day prior notice to the Liquidity Facility Provider of not having enough available funds to make the payment of the Amounts of Interest due on the Covered Bonds in the Interest Payment Date of any Covered Bond.

"**Liquidity Facility Agreement**" means a liquidity facility agreement entered into in replacement of the Reserve Account, in accordance with Condition 5.4, with a Liquidity Facility Provider.

"**Liquidity Facility Provider**" means a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies (and in any case not lower than the minimum rating required by the Covered Bonds Law).

“**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;

“**Maturity Date**” has the meaning given in the relevant Final Terms.

“**Moody's**” means Moody's Investors Service Ltd, which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such, Moody’s Investors Service Ltd is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with such Regulation.

“**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 forming the Cover Pool and which complies with the following eligibility criteria established in the Covered Bonds Law:

(a) pecuniary receivables not yet matured, which are neither subject to conditions nor encumbered, judicially seized or apprehended and which are secured by first ranking mortgages over residential or commercial real estate located in an EU member state;

(b) mortgage credits secured by junior mortgages provided all Mortgage Credits secured by senior mortgages on the same property are held by the Issuer and allocated to the Cover Pool;

(c) receivables secured by a personal guarantee granted by a credit institution or 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 which will include, for the avoidance of doubt, any funds standing to the credit of the Reserve Account and the Programme Account and which are subject to the same legal requirements and regime as such other deposits (and which compliance at all times the Issuer shall ensure); and

(c) other assets complying simultaneously with the requisites of low risk and high liquidity as defined by the Bank of Portugal;

For the avoidance of doubt, the Other Assets do not include any cash collateral that may be transferred under the Hedging Contracts.

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

"**Overcollateralisation Percentage**" has the meaning given in Condition 14.1 (*Maintenance of overcollateralisation*).

"**Owed Hedging Payments**" means any payments owed by the Issuer due to the relevant hedge counterparties under the Hedging Contracts.

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

"Programme" means the €5,000,000,000 Conditional Pass-through Covered Bonds Programme of the Issuer.

"Programme Account" means the cash account to be held with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, an in any case not lower than the minimum rating required by the Covered Bonds Law. The Programme Account, and any balance to the credit thereof, will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which are part of the Cover Pool.

"**Programme Resolution**" means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default 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 or properties 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 Regulatory Notice 5/2006; and

(b) the amount determined by resorting to the use of adequate and recognized indexes or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulatory Notice 5/2006.

"**Rating Agencies**" means Moody's, Fitch and DBRS.

"**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 Regulatory Notices;

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

"**Regulatory Notice 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.

"Regulatory Notice 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.

"**Regulatory Notice 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.

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

"**Reserve Account**" means the cash account held with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, and in any case not lower than the minimum rating required by the Covered Bonds Law, being the Accounts Bank, and the operation of which shall be governed by Conditions 5.5 (*Reserve Account*) and 6.9 (*Pass-through Provision*) and the Reserve Account Agreement. The Reserve Account, and any balance to the credit thereof, will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which are part of the Cover Pool.

"**Reserve Account Agreement**" means the agreement so designated entered into between the Issuer and the Reserve Account Bank in relation to the creation, operation and maintenance of the Reserve Account, on or about 1 July 2016, as amended and/or supplemented and/or restated from time to time.

"**Reserve Account Bank**" means Elavon Financial Services Limited, a limited liability company registered in Ireland with the Companies Registration Office (registered number 418442), with its registered office at Block E, Cherrywood Business Park, Loughlinstown, Dublin, Ireland acting through its UK Branch (registered number BR009373) from its offices at 125 Old Broad Street, London, EC2N 1AR under the trade name U.S. Bank Global Corporate Trust Services.

"**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, or the conversion of such Covered Bonds into, shares, bonds or other obligations or securities of the Issuer or shares, bonds or other obligations or securities of 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; or (vi) to amend this definition.

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

"**SCI**" means a substitute credit institution appointed, in case of an Insolvency Event, by the Bank of Portugal to manage in the place of the Issuer the Cover Pool, which shall be separated from the Issuer's insolvency estate, all in accordance with the Covered Bonds Law;

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

"**Stock Exchange**" means the Irish Stock Exchange Plc trading as Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms. "**TARGET Day**" means any day on which the TARGET2 System is open.

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

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

"**Tax Authority**" means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise

function including the Irish Revenue Commissioners and H.M. Revenue and Customs.

"**Tax Deduction**" means any deduction or withholding on account of Tax.

"**Terms and Conditions**" means in relation to the Covered Bonds, the terms and conditions to be endorsed on the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"**Total Target Reserve Amount**" has the meaning given in Condition 5.5 (*Reserve Account*).

"**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 credit institutions allowed by law to grant mortgage loans, and having own funds not lower than €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 may contain 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 Regulatory Notices (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, take all possible steps to prevent the contravention from continuing or being repeated.

ELIGIBILITY CRITERIA FOR ASSETS FORMING 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

(a) pecuniary receivables not yet matured, which are neither subject to conditions, nor encumbered, judicially seized or apprehended and which are secured by first ranking mortgages over residential or commercial real estate located in an EU member state;

(b) mortgage credits secured by junior mortgages provided all mortgage credits secured by senior mortgages on the same property are held by the Issuer and allocated to the Cover Pool;

(c) receivables secured by a personal guarantee granted by a credit institution or an appropriate insurance policy, in each case together with a mortgage counter guarantee evidencing (a) or (b) 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 ECB 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 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 which will include, for the avoidance of doubt, any

funds standing to the credit of the Reserve Account and the Programme Account and which are subject to the same legal requirements and regime as such other deposits (and which compliance at all times the Issuer shall ensure); 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 the Cover Pool 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 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 obtaining (in each case for so long as the Covered Bonds are rated by such rating agency) from Moody's and/or Fitch a confirmation that 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, foreign 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 the terms of the Hedging Contracts entered into with the Hedge Counterparty, if the rating of the Hedge Counterparty falls below the relevant applicable ratings as set out in such Hedging Contracts, the Hedge Counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Hedging Contract; (ii) arranging for its obligations under the Hedging Contracts to be transferred to an entity with the ratings required by the relevant rating agency; (iii) procuring another entity with the ratings required by the relevant rating agency to become co-obligor in respect of its obligations under the Hedging Contracts; or (iv) taking such other action so that, in respect of the relevant rating agency, the then ratings of the Covered Bonds following such action are not lower than the ratings immediately prior to the downgrade of the Hedge Counterparty. A failure to take such steps will allow the Issuer to terminate the Hedging Contracts.

In addition, certain other termination events and/or events of default may apply under the terms of the proposed Hedging Contracts, which may entitle the Hedge Counterparty and/or the Issuer to terminate the Hedging Contracts.

Upon any termination in whole or in part of the Hedging Contracts, the Issuer may be required to make (or be entitled to receive) a termination payment to (or from) the Hedge Counterparty.

The Hedging Contracts will be governed by English law.

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 cannot 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.

Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*) requires the Issuer to guarantee that the Value of the Cover Pool maintained by the Issuer shall at all times be a minimum of the higher of (i) 109.0 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 and (ii) 1 divided by the Asset Percentage. For the purposes above, the "Asset Percentage" means the lower of 100 per cent. and any other percentage determined by the Issuer from time to time. As of 30 November 2018, the Asset Percentage was 84.13 per cent.. The Issuer may at any time reduce the Asset Percentage but it may only increase the Asset Percentage above 84.75 per cent. subject to obtaining the Hedging Counterparty's consent and one of the following: (i) prior confirmation from the Rating Agencies that such increase would not result in the reduction, removal, suspension or placement on credit watch of the credit ratings assigned to each such Covered Bonds; or (ii) a written indication by the Rating Agencies that it does not have any comments to said increase; or (iii) a written communication by the Rating Agencies that, having concluded the review of said increase, it does not consider a confirmation to be due; or (iv) within 30 days after each of the Rating Agencies has been notified, no additional information or additional period to analyse have been requested, nor has the Issuer received any other written communication from the Rating Agencies. Any change to the Asset Percentage shall be disclosed by the Issuer on the website of Euronext Dublin and the CMVM and the Asset Percentage shall be disclosed by the Issuer or on its behalf as part of the regular reporting on the Covered Bonds.

The 109.00 per cent. referred to in (i) above is higher than the statutory limit of 105.26 per cent. set forth in the Covered Bonds Law.

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 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, including matured and accrued interest;

(c) in relation to any Other Assets:

  (i) deposits shall be accounted for according to their aggregate amount together with any accrued but unpaid interest; and

  (ii) securities eligible for Eurosystem credit transactions shall be accounted for a value which is obtained in accordance with 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 foreign exchange rates published by the ECB 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 Regulatory Notices 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 summarized 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 within the limits set out in the Covered Bonds Law; 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 matter 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 form the Cover Pool. These requirements are set out in Regulatory Notice 6/2006.

Valuation of Properties

General Overview

The value of each Property associated with a Mortgage Credit comprised in the Cover Pool should be determined in accordance with the rules and criteria set out in Regulatory Notice 5/2006 of the Bank of Portugal. Such value 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 Regulatory Notice 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 Regulatory Notice 5/2006 may, however, be used by the Issuer provided that:

(a) the valuations were carried out by a valuation expert who is independent from the credit analysis and credit decision process within the Group;

(b) the valuations were subject to a written report from the valuation expert;

(c) the Properties had been valued in light of the corresponding market value, or in light of the value of the mortgaged asset value, as established by Regulatory Notice 5/2006; and

(d) there has been no evidence that the relevant Property was 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 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, with reference to 31 December of the previous year, indicating, if applicable, any changes made to such list from the list submitted the previous year.

Under Regulatory Notice 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.

Valuation experts are required to comply with the terms and conditions set forth in Law no. 153/2015, of 14 September.

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 Credit 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 Regulatory Notices;

(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) €500,000, in the case of residential Properties, or €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 an internal review of the value of each of the Properties at least once every three years, for residential Properties, and at least once a year for commercial Properties.

The Issuer may be required to conduct Property valuations whenever there is relevant information that indicates that a substantial decrease of the Property value has taken place or that the property value may have suffered a material decline in relation to standard market prices.

For the purpose of conducting an update of the valuation of the Properties, the Issuer may resort to recognised indexes or statistical methods. In this case, the Issuer shall send the Bank of Portugal a report with the detailed description of such indexes and statistical methods, as well as the grounds for their use, together with an opinion on the adequacy of such indexes 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

Regulatory Notice 5/2006 relating to the valuation of the Properties securing the Mortgage Credits comprised in the Cover Pool.

Valuation of Other Assets

Pursuant to Regulatory Notice 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 valued for by the value resulting from the rules regarding evaluation and margin calculation 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 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;

(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 provided by the Bank of Portugal. The key to such code is deposited with the Bank of Portugal, which has set out in Regulatory Notice 8/2006 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 creditors, 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 (*privilégio creditório especial*) 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.

INFORMATION ON THE COVER POOL

The Issuer publishes quarterly investor reports on the outstanding Covered Bonds, including key information regarding characteristics of the Cover Pool, outstanding Covered Bonds and other Assets (including the Reserve Account), as at the last business day of each calendar quarter and the applicable Overcollateralisation. The Investor Report is produced and distributed by the end of the calendar month following each calendar quarter, and distributed to the Rating Agencies and Cover Pool Monitor, via electronic mail. Such reports are available at: http://www.bancomontepio.pt

ISSUER EVENTS

INSOLVENCY EVENT

The following is a brief overview of the legal provisions regarding the impact on the Covered Bonds of a possible insolvency or winding-up of the Issuer. Prospective investors should seek their own independent legal advice.

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. 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 2/3 (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 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 Regulatory Notice (*Aviso*) 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, 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 all other acts and administrative services in connection with such Mortgage Credits 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 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.

In the event of insolvency of the Issuer, 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 has been made. In any case, and even if the Issuer 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.

DEFAULT OF PAYMENT EVENT

The Default of Payment Event shall occur if i) a Series of Covered Bonds has not been repaid in full on its Maturity Date or on the following two Business Days, or ii) if interest due under that Series has not been paid on any Interest Payment Date (subject to any applicable grace period or the availability of any Reserve Amount) or on the following five Business Days, and therefore, the affected Covered Bonds shall be treated and will assume the form of pass-through covered bonds. For the sake of clarity, a Default of Payment Event will only occur if the relevant repayment (or interest payment, as applicable) is not done by the end of the following two (or five, as applicable) Business Days mentioned above.

COMMON REPRESENTATIVE OF THE HOLDERS OF COVERED BONDS

Citicorp Trustee Company Limited, acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom, 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 of the Covered Bonds and the terms of the Common Representative Appointment Agreement.

According to the Covered Bonds Law and to the relevant provisions of the Portuguese Commercial Companies Code, the Common Representative is entitled, at its discretion, 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 Common Representative should be independent and may not be associated with a group of specific interests in the company nor in any circumstance which is likely to affect their impartiality when analysing or making decisions, including by virtue of: a) it being the holder or acting on behalf of the holder of holdings equal to or greater than 2 per cent. of the share capital of the Issuer; b) being in a controlling or group relationship with the Issuer; c) providing services of financial or legal nature to the Issuer, for the issue of securities, or to other financial intermediaries or promoters related with the issue; d) benefiting from any advantages from the company; e) serving as directors in the Issuer and in any entity controlling or having a group relation with the Issuer; f) rendering services or having a significant commercial relationship with the Issuer; g) exercising functions in competing entities, or that act on their behalf or represent any interests of such entities; h) being relative to a person prevented from exercising these functions or with a person with a significant commercial relationship with the company.

The holders of the Covered Bonds may at any time, by means of resolutions passed in accordance with the Terms and Conditions of the Covered Bonds 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 Regulatory Notices.

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 interests within the Issuer and is not in a position that hinders its independent analysis and decision making process. In particular, such independent auditor shall not (i) either directly or on behalf of a third party, hold 2 per cent. or more of the share capital of the Issuer, or (ii) have been re-elected a member of the Issuer's audit bodies for more than two terms (either consecutive or not). For this purpose, a term corresponds to a period of 4 (four) years.

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 12 December 2018, the Issuer appointed PRICEWATERHOUSECOOPERS & Associados, Sociedade de Revisores Oficiais de Contas, S.A. registered with the CMVM under registration number 20161485 as the Programme Cover Pool Monitor.

The Cover Pool Monitor Agreement reflects the requirements of the Covered Bonds Law in relation to the appointment of a monitor in respect of the requirements (namely, financial requirements and the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*)) concerning the Cover Pool and the Covered Bonds. The Cover Pool Monitor Agreement provides for certain matters such as overcollateralisation (see *Characteristics of the Cover Pool*), valuation of assets comprised in the Cover Pool, the payment of fees and expenses by the Issuer to the Cover Pool Monitor, the resignation of the Cover Pool Monitor and the replacement by the Issuer of 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 Regulatory Notices in respect of the Cover Pool. In particular, the Cover Pool Monitor shall be engaged to assess compliance by the Issuer with the requirements set forth in Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenant*), including in respect of the operation of the Reserve Account. The Cover Pool Monitor is also required to monitor the Reserve Account required level, on a monthly basis. If the Cover Pool Monitor identifies that the funds available in the Reserve Account do not meet the Total Target Reserve Amount, it shall report that fact in the next quarterly report to be delivered to the Issuer, in accordance with agreed upon procedures as foreseen in the Cover Pool Monitor Agreement.

Pursuant to the Covered Bonds Law and the Bank of Portugal Regulatory Notices, 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 Regulatory Notices, 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 will prepare a quarterly report to be delivered to the Issuer, in accordance with agreed upon procedures as foreseen in the Cover Pool Monitor Agreement.

If, during the carrying out of any work for the preparation of the above quarterly reports, the Cover Pool Monitor becomes aware that the Issuer has not complied with any of the provisions of the Covered Bonds Law and/or of any of the Requirements of the Cover Pool, including in respect of the operation of the Reserve Account, it must notify the Issuer, as soon as reasonably practicable, of such event. If the situation remains unremedied within 10 (ten) business days after such notification, the Cover Pool Monitor will notify the Arranger, the Common Representative and the relevant Dealers of the non-compliance.

The Covered Bonds Law empowers the Bank of Portugal to promulgate, by regulatory notice ("*Aviso*"), after consultation with the CMVM and the Portuguese Association of the Chartered Accountants (*Ordem dos Revisores Oficiais de Contas*), the requirements applicable to the content, format and disclosure of any reports of the Cover Pool Monitor. Until the present date the Bank of Portugal has not issued any notice on these matters.

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, with a fifteen days prior notice, 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.

RESERVE ACCOUNT BANK

APPOINTMENT OF A RESERVE ACCOUNT BANK

The Programme requires that the Issuer appoints a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, and in any case not lower than the minimum rating required by law (currently, “A-”).

ROLE OF THE RESERVE ACCOUNT BANK

Pursuant to the Reserve Account Agreement, dated 7 July 2016 the Issuer appointed Elavon Financial Services Limited, a limited liability company registered in Ireland with the Companies Registration Office (registered number 418442), with its registered office at Block E, Cherrywood Business Park, Loughlinstown, Dublin, Ireland acting through its UK Branch (registered number BR009373) from its offices at 125 Old Broad Street, London, EC2N 1AR under the trade name U.S. Bank Global Corporate Trust Services.

The Reserve Account Agreement rules the creation, operation and maintenance of the Reserve Account, on or about 7 July 2016, as amended and/or supplemented and/or restated from time to time.

DUTIES OF THE RESERVE ACCOUNT BANK AND RESERVE ACCOUNT

The Reserve Account Bank will at all times have the minimum rating and comply with other requirements as required by the Covered Bonds Law for the Reserve Account to qualify as Other Assets of the Cover Pool. The Reserve Account will form part of the Cover Pool associated with the Programme, provided that the amounts standing to the credit of such Reserve Account (together with the remaining Other Assets) do not at any time exceed 20 per cent. of the value of the mortgage loans and other eligible assets allocated to the Cover Pool.

The amount deposited in the Reserve Account shall be available on any interest payment date towards the payment of interest due on the Pass Through bonds to the extent that there are insufficient available funds.

REMUNERATION AND RESERVE ACCOUNT REPLACEMENT

In accordance with the Reserve Account Agreement, the Reserve Account Bank shall be remunerated by the Issuer for its services as Reserve Account Bank, in terms of fees and commissions, separately agreed between the Issuer and the Reserve Account Bank.

The Issuer may replace the Reserve Account with a liquidity facility of an equivalent size. This liquidity facility will be subject to confirmation that the credit ratings assigned to the Covered Bonds by the Rating Agencies will not be reduced, removed, suspended or placed on credit watch and in any case the relevant liquidity facility provider’s credit rating shall meet the minimum rating required by law (currently, “A-“).

REPURCHASE COMMITMENT

If the repurchase commitment is specified as applicable in the Final Terms relating to a particular Series of Covered Bonds, the Issuer will irrevocably and unconditionally undertake to repurchase such Series of Covered Bonds on its Repurchase Date at par plus accrued interest, or at such other repurchase amount as specified in, or determined in the manner specified in, the relevant Final Terms of such particular Series of Covered Bonds (the "**Repurchase Price**"), if so requested by any holders of such Series which are Qualified Investors and subject to such Series of Covered Bonds not being redeemed up to ten Business Days after the Maturity Date (the "**Repurchase Commitment**").

The Repurchase Commitment shall be provided at the Issue Date in a letter issued to the benefit of the holders of certain Series of Covered Bonds, which will be acknowledged on behalf of all such holders by the Common Representative, in the form attached hereto. For the sake of clarity, this acknowledgment creates only obligations on the Issuer and no liability whatsoever shall attach to the Common Representative as a result of having acknowledged this document.

The Repurchase Commitment does not form part of the Terms and Conditions of the Covered Bonds and, accordingly, non-compliance by the Issuer with the Repurchase Commitment will not constitute an event of default under the Terms and Conditions. The Repurchase Commitment is a senior unsecured obligation of the Issuer and noncompliance by the Issuer with this undertaking will, nonetheless, constitute a default in respect of the Issuer's senior unsecured obligations *vis-à-vis* the Qualified Investors holding the relevant Series of Covered Bonds who have exercised their right to request the Issuer to buy the relevant Covered Bonds. Such Qualified Investors holding the relevant Series of Covered Bonds will have recourse to the general legal remedies applicable to breach of obligations under Portuguese law. For the avoidance of doubt, a breach of the Repurchase Commitment will not in itself result in an acceleration of the Covered Bonds or a realisation of the Cover Pool assets.

The right of the Qualified Investors holding the relevant Series of Covered Bonds to request the Issuer to buy the Covered Bonds they hold pursuant to the Repurchase Commitment shall be exercised individually by each Qualified Investor holding the relevant Series of Covered Bonds, by delivering to the Affiliate Member of Interbolsa through which it holds the Covered Bonds a written notice, in the form available from any specified office of any Paying Agent or in another form accepted by such Affiliate Member of Interbolsa for such purpose (a "**Repurchase Notice**"), no less than 10 (ten) and no more than 60 (sixty) days after the Maturity Date. Each such Qualified Investor holding the relevant Series of the Covered Bonds shall so submit irrevocable sale instructions to the relevant Affiliate Member of Interbolsa for the transfer of its Covered Bonds to the Issuer against payment of the applicable Repurchase Price (in the form and according to the procedures of Interbolsa). Such Qualified Investor holding the relevant Series of Covered Bonds shall also represent and warrant (in the Repurchase Notice), as a condition for exercising its repurchase request, its capacity as a Qualified Investor (as defined below). If Qualified Investors hold the Covered Bonds through Euroclear and Clearstream, Luxembourg (or otherwise indirectly), they shall comply with the applicable Clearing System procedures.

For purposes of this commitment, "**Qualified Investor**" ("investidor qualificado") shall mean any qualified investor in accordance with and for the purposes of article 30 of the Portuguese Securities Code (*Código dos Valores Mobiliários*) and/or in accordance with and for the purposes of other applicable laws, to whom an offer of securities can be lawfully made under circumstances which are not deemed to be a public offer in any relevant jurisdiction. For the sake of clarity, holders who are not Qualified Investors will not be eligible for this Repurchase Commitment.

For purposes of this commitment, Repurchase Date will be the date which falls on the 90th (ninetieth) day after the Maturity Date of the relevant Series of Covered Bonds.

The Repurchase Commitment and any non-contractual obligation in connection therewith, shall be governed by and shall be construed in accordance with, Portuguese law. The courts of Lisbon shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Repurchase Commitment (including any non-contractual obligations arising out of, or in connection with said

document).

From:

Caixa Económica Montepio Geral,
caixa económica bancária, S.A.
[Address]
(the "**Issuer**")

To:

Citicorp Trustee Company Limited

[Address]
(the "**Common Representative**")

[Lisbon], [Date][3]

Ref.: **€5,000,000,000 Conditional Pass-Through Covered Bonds Programme – Repurchase Commitment – Series with ISIN no. [●]**

Dear Sirs,

We make reference to our €5,000,000,000 Conditional Pass-Through Covered Bonds Programme and the Covered Bonds issued thereunder with ISIN no. [●] (hereinafter, the "**Series**") and hereby commit to repurchase the Covered Bonds of the Series in accordance with the terms and conditions set forth in the Base Prospectus dated [●] 2019 approved in connection with this Programme and the Final Terms of the Series.

Accordingly, we irrevocably and unconditionally undertake to repurchase the Covered Bonds of the Series on its Repurchase Date [at par plus accrued interest, or at such other repurchase amount as specified in, or determined in the manner specified in, the relevant Final Terms] (the "**Repurchase Price**"), if so requested by any holders of the Series which are Qualified Investors and subject to this Series of Covered Bonds not being redeemed up to 10 (ten) Business Days after the Maturity Date (the "**Repurchase Commitment**").

The right of Qualified Investors holding Covered Bonds of the Series to request the Issuer to buy the Covered Bonds they hold pursuant to this Issuer's undertaking shall be exercised individually by each Qualified Investor, by delivering to the Affiliate Member of Interbolsa through which it holds the Covered Bonds a written notice, in the form available from any specified office of any Paying Agent or in another form accepted by such Affiliate Member of Interbolsa for such purpose (a "**Repurchase Notice**"), no less than 10 (ten) and no more than 60 (sixty) days after the Maturity Date. Each such Qualified Investor holding Covered Bonds of the Series shall submit irrevocable sale instructions to the relevant Affiliate Member of Interbolsa for the transfer of its Covered Bonds to the Issuer against payment of the applicable Repurchase Price (in the form and according to the procedures of Interbolsa). Such Qualified Investor holding Covered Bond of the Series shall, as a condition for exercising its repurchase request, represent and warrant (in the Repurchase Notice) its capacity as Qualified Investor (as defined herein). If Qualified Investors hold the Covered Bonds through Euroclear and Clearstream, Luxembourg (or otherwise indirectly), they shall comply with the applicable Clearing System procedures.

For purposes of the Repurchase Commitment, "**Qualified Investor**" ("investidor qualificado") shall mean any qualified investor in accordance with and for the purposes of article 30 of the Portuguese Securities Code (*Código dos Valores Mobiliários*) and/or in accordance with and for the purposes of other applicable laws, to whom an offer of securities can be lawfully made under circumstances which are not deemed to be a public offer in any relevant jurisdiction. For the sake of clarity, holders who are not Qualified Investors will not be eligible for this Repurchase Commitment.

For purposes of this the Repurchase Commitment, Repurchase Date shall be the date which falls on the 90th

[3] Note: to be dated the same date as the relevant Final Terms.

(ninetieth) day after the Maturity Date of the relevant Series of Covered Bonds.

The Repurchase Commitment does not form part of the Terms and Conditions of the Covered Bonds. It will be an unsecured obligation of the Issuer only and, for the avoidance of doubt, it will not be secured by the Assets comprised in the Cover Pool. Failure by the Issuer to comply with the Repurchase Commitment will not constitute an event of default under the Terms and Conditions and will not in itself result in an acceleration of the Covered Bonds or a realisation of the Cover Pool assets.

This Repurchase Commitment is provided solely for the benefit of Qualified Investors, while non-qualified investors should be aware that they will not benefit from this Repurchase Commitment.

This Repurchase Commitment and any non-contractual obligation in connection therewith, shall be governed by and shall be construed in accordance with, Portuguese law. The courts of Lisbon shall have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Repurchase Commitment (including any non-contractual obligations arising out of, or in connection with said document).

Terms and expressions used in this document and not otherwise defined shall have the meaning ascribed to them, directly or by reference, in the Base Prospectus referred to above.

Best Regards,

For and on behalf of Caixa Económica Montepio Geral, caixa económica bancária, S.A.

____________________________	____________________________
Name:	*Name:*
Duly Authorised	*Duly Authorised*

We hereby acknowledge receipt of this document.

For and on behalf of Citicorp Trustee Company Limited

____________________________	____________________________
Name:	*Name:*
Duly Authorised	*Duly Authorised*

For the sake of clarity, this acknowledgment creates only obligations on the Issuer and no liability whatsoever shall attach to the Common Representative as a result of having acknowledged this document.

DESCRIPTION OF THE ISSUER

Introduction to Banco Montepio

Caixa Económica Montepio Geral, caixa económica bancária, S.A. ("**Banco Montepio**" or the "**Issuer**") was created on 24 March 1844 for an indefinite period and currently has a total share capital of €2,420,000,000 the majority of which owned by its founder Montepio Geral – Associação Mutualista ("**MGAM**"). MGAM and its subsidiaries are together referred to in this Base Prospectus as "**MGAM Group**".

Following the Extraordinary General Meeting of the Issuer held on 22 November 2016 and resumed on 13 December 2016 and 6 January 2017, the procedures aiming the transformation of Banco Montepio from a savings bank annexed to MGAM into a full service savings bank (*caixa económica bancária*), adopting the legal status of a public limited liability company (*sociedade anónima*) (pursuant to the provisions of article 6 of Decree-Law no. 190/2015) have been initiated.

The transformation of the Issuer into a public limited liability company was further discussed in an Extraordinary General Meeting of the Issuer held on 4 April 2017. At such Extraordinary General Meeting, the Executive Board of Directors of the Issuer was granted all necessary powers to carry out all the required actions towards the implementation of such transformation into a public limited liability company. The Issuer further informed the Extraordinary General Meeting that it had been notified that the Bank of Portugal had given a favourable opinion regarding the compliance of the information report (*Relatório Informativo*) and the Issuer's draft Articles of Association leading to the transformation of this full-service savings bank (*caixa económica bancária*) into a public limited liability company.

The aforementioned Extraordinary General Meeting concurrently approved (in the context of the capital breakdown as at the meeting date) i) the full scope of the new Articles of Association; and ii) that the share capital amounting to €2,170,000,000 of the transformed entity would comprise 2,170,000,000 nominative, book-entry shares, with a nominal value of €1 (one euro) each; €1,770,000,000 would be converted from the institutional capital and registered to MGAM, whereas €400,000,000 would result from the termination of the Participation Fund (*Fundo de Participação*) and the respective transformation into common shares registered on behalf of the Participation Fund's holders.

MGAM is a private institution of social support (i.e. a mutual benefits association) whose principal purposes are to promote and develop initiatives designed to ensure the social protection and welfare of its 625,419 mutual members as at 31 December 2017, their families and other beneficiaries nominated by them. The welfare schemes MGAM offers include pensions and other retirement benefits, disability benefits, death grants, guarantees of the payment of housing charges, life annuities, study schemes and other schemes for young people and a wide variety of collective schemes. It also has co-operation agreements with a variety of organisations in health and welfare. Other activities include the organisation of members' social functions, publication of a members' magazine, sponsorship of cultural, artistic and social events and the awarding of prizes and scholarships.

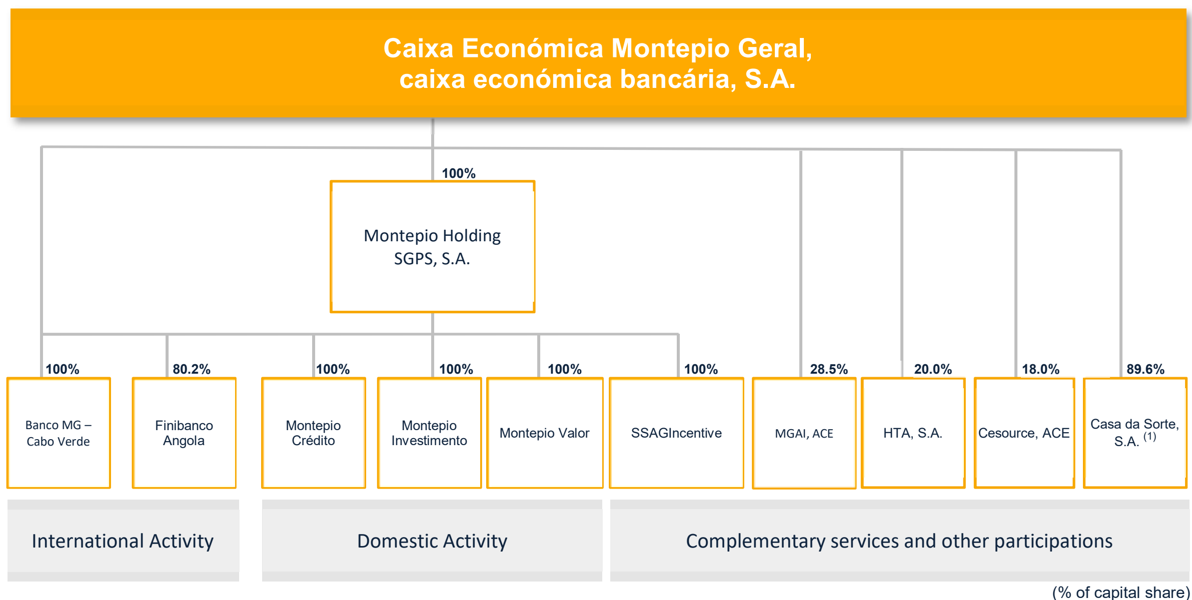
Banco Montepio is a credit institution, authorised to operate as a "universal bank", in accordance with Decree-Law 136/79, of 18 May (as amended) and, as at 30 June 2018, it ranks sixth in the Portuguese banking system as far as total net assets are concerned (source: *Boletim Estatístico da Associação Portuguesa de Bancos*). Following the entry into force of the Savings Banks Act, Banco Montepio is characterised as a savings bank (*caixa económica bancária*), authorised in such capacity to pursue all the businesses permitted to banks in Portugal.

The Issuer will be managed in accordance with its Articles of Association and with the provisions of the Portuguese Companies Code. Moreover, it should be noted that pursuant to the transformation of the Issuer into a public limited liability company, MGAM, as the major holder of the Issuer's share capital (99.99 per cent.) is the major holder of voting rights in Banco Montepio and it has its rights governed under and subject to Banco Montepio's Articles of Association and Portuguese law.

Banco Montepio is integrated in the CEMG Group owned in 99.99 per cent. by MGAM. Collectively, these entities not only offer a broad and diversified range of banking and financial products and services, but also contribute with their earnings to the mutualist goals.

Banco Montepio has stakes in a series of institutions whose management it controls. These entities complement Banco Montepio's financial products and services and contribute via their earnings to the creation of value for the shareholders (being MGAM Banco Montepio's share capital major owner) and for mutual purposes, as well as promoting high ethical standards and principles of social sustainability.

CEMG Group structure as at 31 December 2018:



(1) Group Casa da Sorte, S.A. includes the companies: Herdeiros de Manuel Martins Travassos, Lda (100%), Pataca da Sorte- Bingos e Animação Unipessoal, Lda (100%), Augusto da Silva Carvalho, Lda (100%), Bingamimus – Bingos e animações S.A. (100%), Carlos Augusto Lança e Filhos, Lda (100%) e Torre da Sorte, Lda (100%).

In addition to Banco Montepio, the following three domestic entities comprise the CEMG Group: Montepio Crédito, Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A.; and Montepio Valor, Sociedade Gestora de Fundos de Investimento, S.A. Each incorporated under Montepio Holding, SGPS, S.A. ("**Montepio Holding**") (previously Finibanco Holding, SGPS, S.A.) and fully owned by Banco Montepio. Still in the domestic market, Banco Montepio has a small qualified holding in HTA-Hotéis, Turismo e Animação dos Açores, S.A. and in Montepio Gestão de Ativos Imobiliários, ACE, whose accounts are consolidated by the equity method, as well as a 100 per cent. capital participation in SSAGINCENTIVE, S.A. At an international level, Banco Montepio holds majority holdings in Banco MG Cabo Verde, S.A., Sociedade Unipessoal, S.A. and in Finibanco Angola and from December 2014 until December 2018, Banco Montepio held management control in BTM in Mozambique (the sale of the 45.78 per cent. stake held by CEMG Group in the share capital of Banco Terra, S.A. in Mozambique ("**BTM**") was accomplished at the end of December of 2018 – for further information, refer to section "*Recent Developments*").

As at 30 June 2018, the consolidation perimeter of the CEMG Group also included entities, consolidated by the "full consolidation" method, as follows:

- Montepio Arrendamento I, Montepio Arrendamento II and Montepio Arrendamento III – Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional (Closed-end Real Estate Investment Funds for Housing Rental);
- Polaris – Fundo de Investimento Imobiliário Fechado (Closed-end Real Estate Investment Fund);

- Portugal Estates Fund (PEF) - Fundo de Investimento Imobiliário Fechado (Closed-end Real Estate Investment Fund); and
- Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (Open-end Special Real Estate Investment Fund).

Banco Montepio takes a major role in the implementation of the CEMG Group's business strategy, as it uses its nationwide branch network comprising 324 branches in Portugal as at 30 June 2018 (324 branches in Portugal as at 31 December 2017). Banco Montepio's commercial network is further complemented by a network of electronic channels, together with its presence in various overseas Portuguese communities (including five representative offices outside of Portugal). Banco Montepio is also present in Angola, through Finibanco Angola (Banco Montepio holds an effective stake of 80.2 per cent. in Finibanco Angola), which had a retail network of 24 branches as at 30 June 2018. At the end of 2014, under its growth and geographical expansion strategy, Banco Montepio acquired a qualifying holding of 44.5 per cent. (45.78 per cent. as at 30 June 2018), in the share capital of BTM, adding 10 more branches to Banco Montepio's international presence, which was fully sold in the end of December 2018 – for further information, refer to section "*Recent Developments*".

Banco Montepio is a Savings Bank (*caixa económica bancária*) incorporated as a public limited liability company (*sociedade anónima*) under the laws of the Portuguese Republic and is registered at the Lisbon Commercial Registry Office (1st Section) under the single registration and tax identification number 500 792 615 and is domiciled in Portugal, having its registered office at Rua Castilho, 5, 1250-066 Lisbon, Portugal, with telephone number +351 213 248 000.

History

In 1840, Francisco Manuel Alvares Botelho established Montepio dos Empregados Públicos, a mutual benefit association intended to assist its members through periods of unforeseen financial hardship, caused by illness, disability or death. Its name was changed twice, firstly to Montepio Geral, Associação de Socorros Mútuos and in 1844 it was changed to Montepio Geral – Associação Mutualista, the name that MGAM still bears today.

In 1844, MGAM created Caixa Económica de Lisboa, (which was renamed Caixa Económica Montepio Geral on 23 April 1991) with the aim of attracting small-scale savings and providing credit facilities. MGAM and its subsidiaries and affiliates offer a wide variety of banking, insurance and fund management products from Banco Montepio's branches throughout Portugal. Originally, Banco Montepio was run as a division of MGAM but, by the late 1930s, the two organisations had become separate legal entities. In accordance with Decree-Law no. 460/77, of 7 November 1977 (as last amended by Decree-Law 391/2007, of 13 December 2007), MGAM is a "collective person of public interest".

In order to broaden the offer of financial services to its customer base, in 1986, MGAM decided to found Lusitania Companhia de Seguros, S.A. ("**Lusitania**"). Lusitania is a general insurance company whose products are sold through Banco Montepio's branches and through its own network. Lusitania Vida, Companhia de Seguros, S.A. ("**Lusitania Vida**"), which offers life insurance products, was incorporated in 1987.

Pursuing its strategy of broadening its commercial offer and the diversification of its income sources, in 1988, MGAM established Futuro – Sociedade Gestora de Fundos de Pensões, S.A. ("**Futuro**"), enabling the MGAM Group to expand into the pension fund management business.

As part of its investment management business, the MGAM Group holds Montepio Gestão de Activos, S.A., a company specialised in the management of mutual funds and wealth management, and Montepio Gestão de Activos Imobiliários, ACE, a company specialised in the management of real estate funds.

In 1995, Banco Montepio acquired certain limited assets and liabilities from a small savings bank in the Azores, Caixa Económica Açoreana. S.A. This acquisition allowed Banco Montepio to establish its presence in the Azores Autonomous Region.

Additionally, in January 1997, Banco Montepio acquired certain assets and liabilities of another small savings bank, Caixa Económica Comercial e Industrial ("**CECI**"). In 2009, Lusitania Companhia de Seguros, S.A. acquired the insurance companies Real and Mutuamar, doubling its market share in the real insurance business, thereby achieving a market share in line with the MGAM Group's objectives.

In 2010, MGAM acquired the whole of Finibanco-Holding, SGPS, S.A. through a friendly public takeover bid. The main goals of the transaction were the expansion of the CEMG Group's mutualism activities and the diversification of its business activities.

In order to take the necessary steps to achieve consolidation, on 31 March 2011, Banco Montepio acquired from MGAM, through a share purchase agreement, 100 per cent. of the share capital and of the voting rights of Finibanco-Holding, SGPS, S.A. (now Montepio Holding, SGPS, S.A.) and, indirectly, all of the share capital and the voting rights of Finibanco, S.A. ("**Finibanco**", now Montepio Investimento, S.A.), as well as those of Finicrédito – Instituição Financeira de Crédito, S.A. (now Montepio Crédito, Instituição Financeira de Crédito, S.A.) and those of Finivalor – Sociedade Gestora de Fundos Mobiliários, S.A (now Montepio Valor – Sociedade Gestora de Fundos, S.A.).

Finibanco Holding. SGPS, S.A., the holding company of the Portuguese financial group "Finibanco" (the "**Finibanco Group**"), comprised a number of subsidiaries which included, among others, a bank (Finibanco), an Angolan bank (Finibanco Angola), a credit financial institution (Finicrédito, Instituição Financeira de Crédito, S.A.) and an asset management company (Finivalor – Sociedade Gestora de Fundos Mobiliários, S.A.).

Under the share purchase agreement, Banco Montepio indirectly acquired 81.6 per cent. of the share capital and the voting rights of Finibanco Angola. As a result of these acquisitions, Banco Montepio's consolidated supervision perimeter now encompasses all the aforementioned companies.

As at December 2013, in the context of its restructuring, the MGAM Group undertook a reorganisation of its financial investments associated with the insurance and pension sectors. In this context, on 27 December 2013 Montepio Seguros, S.G.P.S., S.A. ("**Montepio Seguros**") was created in order to manage the equity of such sectors. Banco Montepio sold the shares directly held in Futuro, Lusitania Vida and Lusitania to Montepio Seguros. Additionally, Banco Montepio acquired 33.65 per cent. of the capital of Montepio Seguros. On 30 December 2015, Banco Montepio sold its shareholding in Montepio Seguros.

In 2013, some of Banco Montepio's capital became open to public investment for the first time. On 25 November 2013, Banco Montepio launched an initial public offer ("**IPO**") of €200 million securities (*Unidades de Participação*) representative of its participation fund (*Fundo de Participação*) ("**Participation Fund**"). On 17 December 2013, the securities were admitted to listing on Euronext Lisbon after the Regulated Market Special Session.

On 2 December 2014, Montepio Holding SGPS, S.A. acquired a stake of 44.6 per cent. in Banco Terra's share capital, acquiring management control following an agreement with the remaining shareholders of the bank (Rabobank, based in the Netherlands, holding identical equity participation as the CEMG Group; Norfund, also known as the Norwegian Investment Fund for Developing Countries, with an equity participation of 8.4 per cent.; and GAPI-SI, S.A., a financial institution that has the aim of contributing to economic and social development of Mozambique, with an equity participation of 2.5 per cent.). Pursuant to the strategic redefinition of its international investments, at the end of December 2018 the sale of the 45.78 per cent. stake held by CEMG Group in the share capital of BTM was accomplished – for further information, refer to section "*Recent Developments*".

Current Activities

The Issuer operates as an universal bank offering a wide range of banking and financial products and services, such as mutual, real estate and pension funds, insurance (life and non-life), investment management services and the provision of credit cards, aimed at catering to all its customers' financial needs. The Issuer has also been developing international operations, especially by the provision of foreign currency to its Portuguese customers, documentary credits and payment orders, focusing mainly on

attracting deposits from non-resident Portuguese nationals. To this end, CEMG Group currently has also five representative offices in Paris, Toronto, Geneva, Frankfurt and Newark.

Since December 2014 and until the end of December 2018, the CEMG Group has extended its geographical presence to Mozambique, following the acquisition of a stake of 44.5 per cent. (45.78 per cent. as at 30 June 2018) in the share capital of BTM. The CEMG Group acquired control of BTM following an agreement with the strategic shareholders of BTM. BTM is set to become an important agent in the development and economic growth of Mozambique, targeting the retail and corporate areas, in particular agri-business customers, mortgage loans and small and medium-sized enterprises ("**SMEs**"). As a result, since the end of 2014, the international activity of the CEMG Group has been represented by three entities – Banco MG Cabo Verde, S.A., Finibanco Angola and BTM (the latter, until the end of 2018).

The Issuer's international activity is undergoing a reorganisation and resizing process with a view to seizing strategic complementarity. Along with the implementation of strategic action measures that will allow it to refocus and reposition the institution in its natural market, it will offer a wide range of products and services and a differentiated customer relationship, acknowledged by its stakeholders.

The Issuer's strategic plan aims to ensure profitability, the strengthening of capital and the maintenance of comfortable liquidity levels, defining as priorities the increase of the core net operating income and the capital management, the risk management reinforcement, the platform efficiency, the liquidity management, the human resources management and the governance model (the "**Strategic Plan**").

The Board of Directors, which took up office on 21 March 2018, undertook the commitment to enhance the efficiency, profitability of the operation and adequacy of Banco Montepio's business model to the most modern and demanding forms of customer relations.

The Board of Directors launched a Transformation Plan aimed at producing a diagnosis of Banco Montepio's baseline position and defining a vision with clear choices and specific business goals for the medium and long term.

Banco Montepio's Transformation Plan will define the Issuer's vision and business goals for the medium and long term, aiming to achieve six critical goals:

1. A sustainable business model, through an economically profitable business model with adequate creation of value for the shareholder;
2. Strengthen Banco Montepio's position as a reference financial institution, by supporting the social economy, working among the segments of the population that are least benefited by banking services;
3. Develop new value propositions and service models, affirming itself as a reference bank for small and medium-sized enterprises (SMEs) and for the different segments of individual customers;
4. Increase the efficiency of the commercial structures, developing new internal processes and new forms of working;
5. Enhance Banco Montepio's robustness as a bank of relations and proximity, whether personally or through technological innovation;
6. Improve assets quality, focusing on the sustained improvement of credit quality ratios and the continuous reduction of concentration of risk in the activity sectors of construction and real estate development.

The CEMG Group is one of the main Portuguese financial groups in retail banking, with its core business being based on the domestic market, while also developing activities abroad.

CEMG, as a comprehensive and diversified group, places at the disposal of its individual customers, corporates (focused on SMEs and middle market companies), and the Social Economy a universal offer of complementary products and services through its domestic distribution network. Its international activity

has been developed through the stakes held in Finibanco Angola, Banco MG Cabo Verde, BTM (until the end of 2018) and several representation offices.

Analysis of Issuer's financial performance

The Strategic Plan adopted by Banco Montepio since 2016 led to the enactment and completion of several initiatives aimed at the development and implementation of an economically sustainable business model, accomplished with the Banco Montepio's balance sheet deleveraging, driven by the reductions of non-performing loans and real estate exposure, and enhanced liquidity through customer deposits retaining and collection.

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Cash and deposits at central banks and OCI	852	2,096	2,092	1,240	>100
Loans to customers	13,698	13,029	12,626	(1,072)	(7.8)
Securities portfolio and other financial assets*	2,930	2,385	2,155	(775)	(26.5)
Non-current assets held for sale and investment properties	1,297	1,281	1,026	(271)	(20.9)
Non-current assets held for sale - Discontinuing operations	446	474	355	(91)	(20.3)
Current and deferred tax assets	497	473	520	23	4.7
Other	486	462	475	(11)	(2.3)
Total assets	**20,206**	**20,200**	**19,249**	**(957)**	**(4.7)**
Deposits from central banks and OCI	4,880	3,345	3,263	(1,617)	(33.1)
Customers' resources	11,628	12,561	12,483	855	7.4
Issued debt	1,314	1,780	1,357	43	3.2
Non-current liabilities held for sale - Discontinuing operations	320	330	257	(63)	(19.6)
Other	291	421	260	(31)	(10.5)
Total liabilities	**18,433**	**18,437**	**17,620**	**(813)**	**(4.4)**
Share capital**	2,420	2,420	2,420	-	0.0
Reserves, retained earnings and other	(660)	(663)	(806)	(146)	(22.2)
Net income	13	6	16	3	21.1
Total equity	**1,773**	**1,763**	**1,630**	**(143)**	**(8.1)**
Total liabilities and equity	**20,206**	**20,200**	**19,249**	**(957)**	**(4.7)**

* In June 2018 includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest).

** Includes in June 2017 the Capital and the Banco Montepio Participation Fund.

Capital

Banco Montepio's share capital, which is fully paid, amounts to Euro 2,420,000 thousand, approximately 100 per cent. of which belonging to MGAM.

As of 14 September 2017, Banco Montepio was transformed into a public limited liability company with Banco Montepio's Participation Fund, in the amount of Euro 400,000 thousand, becoming extinct, by conversion into share capital and its participation units were converted into common shares.

On 30 June 2017, there was a capital increase fully subscribed by Montepio Geral Associação Mutualista. This capital increase in the amount of Euro 250,000 thousand was fully paid-up in cash.

In the first half of 2018, Banco Montepio recorded a favourable evolution in its capital ratios in relation to the same period of the previous year and in relation to the end of 2017. As of 30 June 2018, the Common Equity Tier 1 (CET1) ratio pursuant to the phasing-in rules reached 13.5% and the Total Capital ratio reached 13.6%, comparing favourably with 13.2% and 13.3% as of 31 December 2017, respectively. This evolution reflected the reduction of risk-weighted assets by 616 million euros compared to 31 December 2017 (-5.2%), as a result of the of the non-core assets deleveraging process and the loans and debt securities portfolios risk management, as well as the positive impact of having endorsed the Special Regime for Deferred Tax Assets and the positive net income for the period.

The reduction of risk-weighted assets reflects the deleveraging effort in non-core assets that has progressively been accomplished, namely in non-performing loans and real estate properties, alongside the improvements made in the process of loan approval and granting of loans with low risk and associated guarantees.

CAPITAL AND CAPITAL REQUIREMENTS

(EUR million)

	Jun-17	Dec-17	Jun-18 (1)	YoY Change		YTD	
				Amount	%	Amount	%
Total Capital	**1,578**	**1,580**	**1,534**	**(44)**	**(2.8)**	**(46)**	**(2.9)**
Share Capital (2)	2,417	2,420	2,420	3	0.1	-	0.0
Reserves and Net Income	(679)	(696)	(825)	(146)	(21.5)	(129)	(18.5)
Minority Interests eligible for CET1	12	12	10	(2)	(19.5)	(2)	(18.4)
Regulatory deductions	(211)	(164)	(84)	**127**	**60.3**	**80**	**48.8**
Common Equity Tier I Capital	**1,540**	**1,572**	**1,521**	(19)	(1.2)	(51)	(3.2)
Tier I Capital Instruments	0	0	0	-	-	-	-
Minority Interests eligible for Tier I	2	3	4	2	78.7	1	28.8
Tier I Deductions	(2)	(3)	0	2	-	3	-
Tier I Capital	**1,540**	**1,572**	**1,525**	**(15)**	**(0.9)**	**(47)**	**(3.0)**
Tier II capital	49	24	8	(41)	(83.0)	(16)	(65.4)
Minority Interests eligible for Tier II	0	0	0	-	-	-	-
Other deductions	(11)	(16)	0	11	-	16	-
Minimum own funds requirements	**976**	**950**	**901**	**(75)**	**(7.7)**	**(49)**	**(5.2)**
Risk-weighted assets	**12,197**	**11,875**	**11,259**	**(938)**	**(7.7)**	**(616)**	**(5.2)**
CRD IV Prudential Ratios - Phasing-in							
Common Equity Tier 1	12.6%	13.2%	13.5%	90	pb	30	pb
Tier 1	12.6%	13.2%	13.5%	90	pb	30	pb
Total Capital	12.9%	13.3%	13.6%	70	pb	30	pb
CRD IV Prudential Ratios - Fully Implemented							
Common Equity Tier 1	11.2%	11.6%	11.4%	20	pb	(20)	pb
Tier 1	11.2%	11.7%	11.4%	20	pb	(30)	pb
Total Capital	11.6%	11.9%	11.5%	(10)	pb	(40)	pb
Leverage ratio - Phasing-In	7.5%	7.6%	7.8%	30	pb	20	pb
Leverage ratio - Fully Implemented	6.7%	6.8%	6.6%	(10)	pb	(20)	pb

According to the phasing-in rules in force at the reference date.

(1) Ratios as of 30 June 2018 include net income for the period and the adherence to the special deferred tax assets regime.

(2) In June 2017 includes the Capital and the Banco Montepio Participation Fund.

Funding

Throughout the first half 2018, Banco Montepio developed a series of initiatives related to the attraction and retention of customer funds, with an adequate management aimed at diversifying the funding sources.

Total customers' resources amounted to €13,516 million, of which €12,814 million correspond to on-balance customer resources', of which 97.4% refer to customer deposits.

As of 30 June 2018, Customer deposits stood at €12,483 million, essentially concentrated in individual customers, a segment that maintained its predominance in representing 75% of total deposits.

Customer deposits at the end of the first half of 2018 showed a year-on-year growth of 7.4%, reflecting the imprinted commercial dynamics, despite the circumstances of interest rates at historically low levels and an increased competition environment.

As at 30 June 2018, the Securities placed with customers stood at €331 million (€863 million as at 30 June 2017, and €617 million as at 31 December 2017), representing a year-on-year reduction of 61.7% as a result of the debt securities maturities in the last year.

Off-balance sheet resources, disintermediation resources in which the CEMG Group operates as depositary bank, amounted to €702 million as at 30 June 2018, compared to €709 million as at 31 December 2017 and in the same period of 2017 primarily due to the year-on-year decrease in capitalisation insurance (Bancassurance) and in Real estate investment funds.

CUSTOMERS' RESOURCES

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Customer Deposits (by segment)	**11,628**	**12,561**	**12,483**	**855**	**7.4**
Individuals	9,164	9,215	9,360	196	2.1
Companies and Institutionals	2,464	3,346	3,123	659	26.7
Customer Deposits (by type)	**11,628**	**12,561**	**12,483**	**855**	**7.4**
Sight Deposits	3,238	3,509	3,917	679	21.0
Term Deposits	8,390	9,052	8,566	176	2.1
Securities placed with Customers	863	617	331	(532)	(61.7)
Total On-Balance sheet resources	**12,491**	**13,178**	**12,814**	**323**	**2.6**
Off-Balance sheet resources	709	709	702	(7)	(1.0)
Total Customers' resources	**13,200**	**13,887**	**13,516**	**316**	**2.4**

At the end of the first half of 2018 the amount of Issued debt decreased in comparison to 31 December 2017 by 23.8%, from €1,780 million to €1,357 million as of 30 June 2018 (+3.2% year-on-year), showing the reductions of Liabilities represented by securities (-19.9%) and Other subordinated debt (-48.9%). The reduction in issued debt of €424 million in relation to 31 December 2017 reflects the repayment upon maturity of senior and subordinated debt.

Liquidity

During the first half of 2018, Banco Montepio continued to develop a series of initiatives aimed at the continuous strengthening of its liquidity position, contributing to ensure comfortable levels, *vis-à-vis* the regulatory requirement levels in force.

The management of Banco Montepio's balance sheet enabled the Liquidity Coverage Ratio (LCR) to stand at 152.0% as at 30 June 2018, above the 2018 minimum regulatory requirement of 100%.

The performance of Customer deposits on the one hand, and of Loans to customers on the other hand, led to a favourable evolution of the Loans to Deposits ratio. The loan-to-deposits ratio, calculated in accordance with Bank of Portugal Instruction number 16/2004, reached 101.5% as at 30 June 2018, compared to 107.3% as at 31 December 2017.

LIQUIDITY RATIOS

	Jun-17	**Dec-17**	**Jun-18**	YoY Change (%)
Loans to customers (net) / Customers' deposits (a)	117.9	107.3	101.5	(16.4 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources (b)	107.9	92.4	92.0	(15.9 p.p.)

(a) Pursuant to Bank of Portugal Instruction No. 16/2004, in its current version.

(b) Total On-Balance Sheet Customers' Resources = Customers' resources + debt securities issued. Computed in accordance with the Financial Statements annexed to this report.

Throughout the first half of 2018, Banco Montepio's liquidity position continued to evolve favourably, reflected in the increased amount of deposits at the European Central Bank (ECB), with the amount taken from the ECB under the long-term funding programme TLTRO-II standing at €1,547 million, considering the related interest amount.

Considering that the interest rate of the amounts taken from the ECB was established at -0.40%, the amount due to ECB is lower than Banco Montepio's deposit balance at the Central Bank. It should be noted that this value represents approximately 17 times the amount of minimum cash reserve requirements that Banco Montepio is obliged to meet, showing a favourable evolution of the liquidity situation.

The optimisation of the operations on Banco Montepio's own assets portfolio, namely assets that are eligible for monetary policy operations, was reflected in the improvement of the ratio of the encumbered assets to the total pool of eligible assets, when compared to the same period of 2017. In the first half of 2017, this ratio stood at 73%, having fallen to 58% at the end of June 2018, reflecting the positive evolution of the repayment of €1,153 million euros to the ECB between June 2017 and June 2018.

The funding obtained from the ECB amounted to €1,558 million euros as at 30 June 2018, standing at €1,547 million considering the value of the related interest amount, which compares with a similar value stated in December of the previous year and with €2,700 million registered in June 2017. The total amount of the pool of eligible assets increased in relation to the end of 2017 by €76 million, and decreased by €1,031 million in relation to the first half of the previous year. This positive balance between the reduction of the pool and the funding reduction from the ECB is a result of Banco Montepio's policy on investment portfolio management, which focused on reducing the stock of assets, through their divestment. Moreover, assets not eligible for operations with the Eurosystem were also divested, with reference to the sale of securities related to the EVORA securitization operation.

The use of Eurosystem monetary policy operations, namely long-term lines embodied in TLTRO-II, is in line with the logic of supporting the economy, in order to optimize long-term funding, taking advantage of the Quantitative Easing program by the ECB. Indeed, it was precisely this positioning of support to the

economy that enabled Banco Montepio to benefit from the lowest rate disclosed by the ECB for these operations.

Thus, in terms of collateral available for obtaining liquidity, the value of eligible assets shifted from €3,702 million at the end of the first half of 2017 to €2,671 million as at 30 June 2018, including the pool of unencumbered assets used as eligible collateral in the MIC (Italian collateralized interbank market), which, at the end of the first half of 2018 amounted to €42 million in comparison to €36 million euros as at 31 December 31 and €276 million at the end of the first half of the previous year.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Pool of eligible assets [a]	3,702	2,595	2,671	(1,031)	(27.9)
Use of the pool	2,700	1,558	1,547	(1,153)	(42.7)
Pool of available assets	**1,002**	**1,037**	**1,124**	**122**	**12.2**

(a) Includes eligible assets, free of charge, for operations in the MIC (Collateralized Interbank Market).

Repurchase agreement operations ("**Repos**") showed a reduction of €384 million between the end of June 2017 and the first half of 2018, having shifted from €1,579 million as at 30 June 2017 to €1,195 million as at 30 June 2018. As at 31 December 2017, the Repo operations stood at €1,623 million. This reduction was due to Banco Montepio's increased liquidity, as a result of the process of sale of assets that were used as collateral in repo transactions, releasing the haircut value on the one hand, and accomplishing financial gains on the other hand.

In the euro interbank money market, Banco Montepio recorded at the end of the first half of 2018 funding in an amount of €32 million at an average rate of -0.31%. In the foreign exchange interbank market, Banco Montepio showed a position of USD10 million at an average rate of 2.2%.

Asset Quality

As at 30 June 2018, Loans to customers (gross) amounted to €13,727 million, corresponding to a reduction of 7.8% compared to €14,890 million recorded as at 30 June 2017.

In the first half of 2018, Banco Montepio continued to fine-tune the process of approval and granting of loans with a view to accomplishing the goals of improving asset quality and, in this way, drive an improvement in credit quality indicators, based on a reduction of concentration risk, in particular in the construction and real estate development sectors, leading to a reduction in the cost of credit risk.

The net loan portfolio as at 30 June 2018, recorded a year-on-year reduction of €1,072 million as a consequence of the decrease in credit granted to companies, in particular the decrease in gross credit granted to the sectors of Trade (-22.6%), Construction and public works and real estate activities (-10.4%) and Financial activities (-22.5%), and to individuals, namely mortgage loans (-7.9%), which continues to show a higher level of amortizations in relation to new originations.

In the context of Banco Montepio's Transformation Plan, credit recovery is based on a more effective and integrated management of non-performing loans (NPLs) by maximising recoveries and investment banking solutions, benefiting from the strategic focus on the segments of individuals and companies, with an emphasis on SMEs and Social Economy entities.

LOANS TO CUSTOMERS
(By sector of activity)

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Housing loans	7,059	6,739	6,498	(561)	(7.9)
Construction and Public works, and Real estate activities	1,817	1,774	1,627	(190)	(10.4)
Wholesale and retail trade	1,225	1,063	948	(277)	(22.6)
Financial Activities	743	641	576	(167)	(22.5)
Services provided to companies	637	630	440	(197)	(30.9)
Tourism	507	497	452	(55)	(10.8)
Transports	500	476	425	(75)	(14.9)
Manufacture of food products, beverages and tobacco	253	228	228	(25)	(10.1)
Basic metallurgic industries and metallic products	179	172	163	(16)	(8.7)
Electricity, gas and water	160	153	144	(16)	(10.0)
Agriculture, forestry and fishing	164	145	83	(81)	(49.2)
Others	1,646	1,545	2,143	497	30.2
Gross loans	**14,890**	**14,063**	**13,727**	**(1,163)**	**(7.8)**
Loan impairments	**1,192**	**1,034**	**1,101**	**(91)**	**(7.6)**
Net loans	**13,698**	**13,029**	**12,626**	**(1,072)**	**(7.8)**

Throughout the first half of 2018, Banco Montepio carried out a series of initiatives aimed at reducing exposures in non-performing loans, to which contributed the write-off of credits amounting to €113 million, carried out in June 2018, in activity sectors identified as non-core, as well as the efforts developed in the credit recovery area.

During the first half of 2018, the weight of non-performing exposures (NPE) in Gross loans to customers fell in relation to the same period of 2017 by 3.0 p.p., standing at 15.8%, compared to 18.8% in the same period of the previous year.

The coverage of NPE by loan impairment in the balance sheet and associated collateral and financial guarantees reached 88.3% as at 30 June 2018, compared to 88.7% in the same period of the previous year and 87.0% at the end of 2017, while the coverage by balance sheet impairment stood at 50.8%.

The total amount of impairment for credit risk reached €1,101 million at the end of the first half of 2018, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 7.5%.

LOAN QUALITY INDICATORS

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Gross loans to customers	14,890	14,063	13,727	(1,163)	(7.8)
Loans and interest overdue by more than 90 days	1,371	1,146	1,025	(346)	(25.3)
Loans impairment	1,192	1,034	1,101	(91)	(7.6)
Ratios (%)					
Cost of credit risk	0.9	1.1	0.7	(0.2 p.p.)	
Loans and interest overdue by more than 90 days	9.2	8.2	7.5	(1.7 p.p.)	
Non-performing exposures (NPE) (a) / Gross loans to customers	18.8	16.4	15.8	(3.0 p.p.)	
Forborne exposures (a) / Gross customer loans	8.8	8.2	7.6	(1.2 p.p.)	
Coverage by Impairments for balance sheet loans (%)					
Loans and interest overdue by more than 90 days	86.9	90.2	107.4	20.5 p.p.	
Non-performing exposures (NPE) (a)	42.7	44.9	50.8	8.1 p.p.	
Non-performing exposures (NPE), also including associated collaterals and financial guarantees (a)	88.7	87.0	88.3	(0.4 p.p.)	

(a) EBA definition.

The Group's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Loans and advances to credit institutions repayable on demand	54 018	50 205
Other loans and advances to credit institutions	317 203	312 203
Loans and advances to customers	12 625 830	13 029 318
Financial assets held for trading	43 358	174 175
Financial assets not held for trading mandatorily at fair value through profit or loss	22 059	-
Financial assets at fair value through other comprehensive income	833 185	1 658 409
Hedging derivatives	5 611	-
Other financial assets at amortised cost	620 891	-
Investments in associates	3 967	4 097
Other assets	194 216	184 245
Guarantees granted	512 107	500 063
Irrevocable credit lines	592 723	609 515
	15 825 168	16 522 230

Pursuing the strategy of rebalancing the asset structure, throughout the first half of 2018, Banco Montepio continued to identify and implement measures aimed at improving the liquidity levels and active management of the securities and other financial assets portfolio.

With regard to credit risk, the financial assets portfolio predominantly maintains its position in bonds of sovereign issuers, mainly from the Portuguese Republic. As at 30 June 2018, the portfolio of securities and other financial assets amounted to €2,155 million, compared to the €2,930 million in the same period of 2017 and to €2,385 million as at 31 December 2017. The evolution of the portfolio of securities and other financial assets in relation to the end of 2017 shows, on the one hand, the divestment of public debt securities throughout the first half of 2018, and on the other hand, the constitution of a portfolio of Other financial assets at amortised cost of public debt, as well as the accounting reclassification of the participation units from the portfolio of Financial assets at fair value through other comprehensive income to Financial assets not held for trading mandatorily at fair value through profit or loss amounting to €463 million.

As at 30 June 2018, €1,114.3 million or 8.1 per cent. of the Issuer's loan portfolio, including past due interest, was in default compared with €1,227.6 million or 8.7 per cent. of the Issuer's loan portfolio, including past due interest, as at 31 December 2017.

The analysis of overdue loans and interest during the 6 (six) month period ending on 30 June 2018 and the 12 (twelve) month period ending on 31 December 2017, by type of customer and purpose, is as follows:

	(Thousands of Euro)	
	Jun 2018	**Dec 2017**
Corporate		
Construction / Production	230 717	267 222
Investments	417 799	490 234
Treasury	198 494	212 935
Other loans	48 798	47 514
Retail		
Mortgage loans	98 557	92 744
Consumer credit	61 773	59 444
Other loans	58 195	57 479
	1 114 333	1 227 572

The following table sets forth the default period of time for non-performing loans during the 6 (six) month period ending on 30 June 2018 and the 12 (twelve) month period ending on 31 December 2017:

	(Thousands of Euro)	
	Jun 2018	**Dec 2017**
Overdue loans and interest		
Below 90 days	89 608	81 350
Above 90 days	1 024 725	1 146 222
	1 114 333	1 227 572

As at 30 June 2018, the Loans and advances to customers balance includes de amount of €2,732,796 thousand (31 December 2017: €2,726,854 thousand) which are segregated into the cover pool of the Issuer's Covered Bond Programme.

Earnings

In the first half of 2018, Banco Montepio recorded a net income of €15.8 million, compared to €13.0 million in the same period of 2017.

The net income in the first half of 2018 reflects (i) the evolution in the core business, driven by a decrease in the net interest income, partially offset by the net fees and commissions increase alongside the operating costs reduction, (ii) the lower results from financial operations and other operating income given the extraordinary gains recorded in the first half of 2017 related to the public debt portfolios divestment, and (iii) the lower allocations for impairment and provisions in the period.

SYNTHETIC INCOME STATEMENT

(EUR million)

	Jun-17	Jun-18	YoY Change	
			Amount	%
Net interest income	**143.3**	**134.2**	**(9.1)**	**(6.3)**
Commercial net interest income	*143.5*	*134.7*	*(8.8)*	*(6.1)*
Net fees and commissions	55.2	57.4	2.2	3.9
Core total operating income	**198.5**	**191.6**	**(6.9)**	**(3.5)**
Income from equity instruments	7.7	7.9	0.2	2.5
Results from financial operations	26.6	5.2	(21.4)	(80.5)
Other operating income	15.8	(4.0)	(19.8)	(<100)
Total operating income	**248.6**	**200.7**	**(47.9)**	**(19.3)**
Staff Costs	84.7	84.2	(0.5)	(0.5)
General and administrative expenses	40.0	36.4	(3.6)	(8.9)
Depreciation and amortization	12.5	12.1	(0.4)	(3.0)
Operating costs	**137.2**	**132.7**	**(4.5)**	**(3.3)**
Net operating income before provisions and impairments	**111.4**	**68.0**	**(43.4)**	**(39.0)**
Net provisions and impairments	89.1	59.5	(29.6)	(33.2)
Share of profit of associates under the equity method	(0.1)	(0.1)	0.0	(15.6)
Net income before income tax	**22.1**	**8.4**	**(13.7)**	**(62.0)**
Income tax	(13.1)	(2.2)	10.9	83.2
Net income after income tax from continuing operations	**9.0**	**6.2**	**(2.8)**	**(31.1)**
Income from discontinuing operations	5.4	11.9	6.5	>100
Non-controlling interests	1.3	2.3	1.0	69.6
Net Income	**13.0**	**15.8**	**2.8**	**21.1**

The earnings from the commercial activity, which considers the sum of the commercial net interest income from net fees and commissions minus operating costs, recorded a 3.5% reduction year-on-year, by evolving from €61.5 million in the first half of 2017 to €59.4 million in the first half of 2018. This reduction of €2.1 million in the earnings of the commercial activity was due to the combined effect of the reduction in Commercial net interest income (-6.1%) not offset by the increased Net fees and commissions (+3.9%) and the reduction of Operating costs (-3.3%).

Core total operating income, calculated by the sum of the net interest income and net fees and commissions, fell by €6.9 million in shifting from €198.5 million in the first half of 2017 to €191.6 million in the first half of 2018, penalised by the unfavourable performance of net interest income (-6.3%) notwithstanding the positive evolution of net fees and commissions (+3.9%).

Total operating income in the first half of 2018 amounted to €200.7 million, compared to the €248.6 million recorded in the first half of 2017, reflecting the lower net interest income (interest from loans and securities) and results from financial operations, in this case reflecting the impact of the divestment of securities in 2017.

Net interest income in the first half of 2018 stood at €134.2 million, compared to €143.3 million recorded in the first half of 2017. The evolution of net interest income was adversely influenced by the lower interest from the loan portfolio and securities portfolio, and favourably influenced by the reduction observed in interest paid on customer deposits and issued debt.

The decrease in the first half of 2018 of the interest of the loan and securities portfolios, in relation to the same period of 2017 was €19.0 million and €23.4 million respectively. This decrease was determined by the volume effect and price effect, reflecting in the evolution of interest from the securities portfolio the impact of the sale of securities made during the first half of 2017.

In the first half of 2018 and compared to the same period of the previous year the interest paid for customer deposits fell by €10.2 million, benefiting from the reduction of the average deposits rate, and the interest paid by the debt issued fell by €11.5 million, both via the price effect and the volume effect.

As a result of this performance, net interest margin in the first half of 2018 stood at 1.54%, in line with the rate recorded in the first half of 2017.

BREAKDOWN OF NET INTEREST INCOME

(EUR million)

	1st Half 2017			1st Half 2018		
	Avg. amount	**Avg. rate (%)**	**Interest**	**Avg. amount**	**Avg. rate (%)**	**Interest**
Assets						
Cash and deposits	207	0.12	0.1	1 187	1.82	10.9
Loans and advances to OCI	473	0.95	2.3	340	1.38	2.3
Loans to customers	14,973	2.48	186.5	13,944	2.39	167.5
Securities portfolio	2,829	2.14	30.4	1,911	0.72	7.0
Other (includes derivatives)	-	-	34.9	-	-	9.6
subtotal	18,482	2.74	254.2	17,382	2.26	197.4
Liabilities						
Resources from central banks	2,574	0.01	0.2	1,556	0.27	2.1
Resources from OCI	2,311	0.40	4.6	1,767	0.95	8.4
Customers' deposits	11,839	0.72	43.1	12,297	0.53	32.9
Senior debt	1,677	2.62	22.1	1,392	1.51	10.6
Subordinated debt	251	1.27	1.6	156	1.22	1.0
Other (includes derivatives)	-	-	39.4			8.2
subtotal	18,652	1.18	110.9	17,168	0.73	63.1
Net interest income		**1.54**	**143.3**		**1.54**	**134.2**

Net fees and commissions related to services provided to customers reached €57.4 million in the first half of 2018, representing an increase of 3.9%, compared to €55.2 million recorded in the first half of 2017, reflecting the favourable impact associated to the initiatives to adjust the pricing to the value proposition offered by Banco Montepio. Special note should be made to the fees and commissions related to payment services (namely on deposits, maintenance of accounts and cards).

	Jun 2018	Jun 2017
		(Thousands of Euro)
Interest and similar income		
Interest from loans and advances to customers	167 533	186 538
Interest from deposits and other investments	13 220	2 384
Interest from financial assets held for trading	8 101	34 875
Interest from financial assets at fair value through other comprehensive income	5 076	17 626
Interest from hedging derivatives	3 254	-
Other financial assets at amortised cost	158	12 504
Other interest and similar income	21	243
	197 363	254 170
Interest and similar expense		
Interest from deposits of customers	32 872	43 054
Interest from securities issued	10 575	22 067
Interest from loans of central banks and other financial institutions	10 544	4 758
Interest from financial liabilities held for trading	6 348	35 540
Interest from hedging derivatives	1 822	-
Interest from subordinated liabilities	959	1 599
Other interest and similar expense	5	3 845
	63 125	110 863
Net interest income	134 238	143 307

The Results from financial operations amounted to €5.2 million in the first half of 2018, compared to €26.6 million recorded in the first half of 2017, as a result of the lower gains from the divestment of public debt, namely Portuguese public debt securities (€6.5 million in the first half of 2018 compared to €16.0 million in the first half of 2017).

RESULTS FROM FINANCIAL OPERATIONS

(EUR million)

	Jun-17	Jun-18	YoY Change	
			Amount	%
Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	4.0	2.0	(2.0)	(50.8)
Net gains / (losses) from financial assets at fair value through other comprehensive income	21.5	4.0	(17.5)	(81.4)
Net gains / (losses) from foreign exchange differences	1.1	(0.8)	(1.9)	(<100)
Results from financial operations	**26.6**	**5.2**	**(21.4)**	**(80.5)**

of which: Results from the sale of Portuguese sovereign debt	*16.0*	*6.5*	*(9.5)*	*(59.6)*

In the first half of 2018, Operating costs amounted to €132.7 million representing a reduction of €4.5 million (-3.3%) compared to the end of the first half of 2017, underpinned by the reduction of general and administrative expenses by €3.6 million (-8.9%) and staff costs by €0.5 million (-0.5%).

Staff costs amounted to €84.2 million in the first half of 2018 and include the impact of the indemnities paid to the former Management and Supervisory Bodies, while at the same time having benefited from the lower costs of the Pension Fund in comparison to the same period of 2017, which offset the increased number of staff, reflected in the increased level of remunerations and compulsory social security charges.

General and administrative expenses stood at €36.4 million in the first half of 2018, compared to €40.0 million in the same period of 2017, having benefited from the lower costs recorded in the real estate investment funds that are included in the consolidation perimeter.

Depreciation and amortisation stood at €12.1 million in the first half of 2018, having fallen by 3.0% in relation to the same period of 2017.

In the first half of 2018, the Cost-to-income ratio, excluding the results from financial operations and other operating results, reached 66.5%, standing in line with the ratio recorded in the same period of 2017.

OPERATING COSTS

(EUR million)

	Jun-17	**Jun-18**	YoY Change	
			Amount	%
Staff Costs	84.7	84.2	(0.5)	(0.5)
General and administrative expenses	40.0	36.4	(3.6)	(8.9)
Depreciation and amortisation	12.5	12.1	(0.4)	(3.0)
Operating costs	**137.2**	**132.7**	**(4.5)**	**(3.3)**
Efficiency ratios				
Cost-to-income (Operating costs / Total operating income) (a)	55.2%	66.1%	10.9 p.p.	
Cost-to-income, excluding specific impacts (b)	66.5%	66.5%	0.0 p.p.	

(a) Pursuant to Bank of Portugal Instruction No. 16/2004, in its current version.
(b) Excludes results from financial operations and Other income (proceeds from the sale of other assets and other operating income).

The allocations for Impairment and provisions, in the first half of 2018, calculated in accordance with IFRS 9, amounted to €59.5 million, compared to €89.1 million recorded in the same period of 2017, determining the favourable evolution of the cost of credit risk from 0.9% in the first half of 2017 to 0.7% in the first half of 2018. Furthermore, €157.1 million were recorded under IFRS 9 adjustment transitions related to impairment and provisions for loans, securities, investments in credit institutions and other assets.

The allocations for Loan impairment incorporate the result of the individual analysis made to significant exposures and which showed signs of impairment, on the one hand, and the value derived from the

impairment model used to calculate the impairment associated to homogeneous populations, on the other hand, pursuant to accounting policy 1. c) described in the Notes to the Financial Statements.

The impairments constituted in the first half of 2018 for other financial assets stood at €2.6 million, having fallen by €2.3 million in relation to the value recorded in the same period of 2017.

In relation to the Impairment of other assets, the value stated for the first half of 2018 stood at €9.4 million, showing a decrease of 8.0% in relation to the value recorded in the same period of 2017. Other provisions recorded allocations of €1.7 million, compared to €10.5 million in the same period of 2017.

IMPAIRMENT AND PROVISIONS

(EUR million)

	Jun-17	**Jun-18**	YoY Change	
			Amount	%
Loan impairment	63.5	45.8	(17.7)	(27.9)
Other financial assets impairment	4.9	2.6	(2.3)	(47.1)
Other assets impairment	10.2	9.4	(0.8)	(8.0)
Other provisions	10.5	1.7	(8.8)	(83.8)
Total impairment and provisions	**89.1**	**59.5**	**(29.6)**	**(33.2)**

International activity

Until December 2018 the international activity of the CEMG Group was carried out by the subsidiaries Finibanco Angola, S.A., Banco MG Cabo Verde, Sociedade Unipessoal, S.A. and Banco Terra, S.A. (pursuant to the strategic redefinition of its international investments, the sale of the 45.78 per cent. stake held by CEMG Group in the share capital of BTM was accomplished at the end of December of 2018 – for further information, refer to section "*Recent Developments*").

Finibanco Angola, S.A., 80.2% held by Banco Montepio, is a universal bank supporting small and medium-sized enterprises, individuals and Angolan foreign trade which seeks to leverage its competitive advantage on the quality of its service with a view to achieving high customer satisfaction indices.

Under its strategy, Finibanco Angola seeks to finance and promote individual customers and micro-enterprises with viable business initiatives that would otherwise not have access to credit.

Finibanco Angola celebrated 10 years of activity at the end of the first half of 2018, having been incorporated on 4 September 2007, and starting its activity in the city of Luanda on 9 June 2008. Over these years, Finibanco Angola has grown, modernised, created employment and been recognised as an active part in the support to the development of the Angolan economy. Today, it is a more solid institution, but also more agile, flexible and suited to the requirements and needs of its target segments.

The expansion of the distribution network, levered on experience and the favourable evolution of its activity, has been accomplished through own funding, in the perspective of proximity to its customers, which include a total of 24 branches and business centres at the end of the first half of 2018.

As of 30 June 2018, Banco Montepio consolidated Banco Terra, S.A. ("**BTM**") through a 45.78% stake in its share capital. BTM is a commercial bank that aims to offer a full range of financial services and solutions in the areas of retail, business and the social economy. It was created with the purpose of contributing to poverty reduction in Mozambique, by offering loans to the sectors of industry, trade, agriculture and services, providing financial services to the rural and suburban populations in a viable and sustainable form.

BTM's distribution network, at the end of the first half of 2018, covered 10 branches, distributed over locations in Maputo and Matola (Maputo), Maxixe (Inhambane), Chimoio (Manica), Beira (Sofala), Tete and Ulóngué (Tete), and Nampula and Malema (Nampula).

During the first half of 2018, BTM pursued the process of modernisation of the information systems and policy on cost containment and proximity, aimed at strengthening the commitment undertaken before its customers. In this context, BTM continued to promote the development of financial solutions of international standard, the digitalisation of the banking processes and compliance with the rules and ratios established by the regulator, Banco de Moçambique.

In order to accomplish its strategy, and with a view to improving BTM's activity and results, BTM defined its main operational challenges as: i) the restructuring of human resources and their qualification and permanent training, focusing on the implementation of measures leading to the harmonisation of skills, aimed at aligning them with the offer of products and services provided; ii) the recovery of bad debt and reduction of loans in arrears; iii) the development of new products and services, with a view to meeting the needs of its customers; iv) the strengthening of the marketing and communication strategy; and v) the strengthening and improvement of the operational area, namely in the sphere of information technologies, electronic banking, operation reports, administration services and organisation and methods (the sale of the 45.78 per cent. stake held by CEMG Group in the share capital of BTM was accomplished at the end of December of 2018).

Banco MG Cabo Verde, S.A., 100% held by Banco Montepio, provides a broad offer of specialised financial products and services for the segments of individuals, institutions or companies with international vocation, diversified investment and saving solutions, as well as capital and liquidity management solutions.

The table below presents key indicators on the activity and results of the CEMG Group’s international business.

Activity and Results (EUR million)

	Jun-17*	Dec-17*	Jun-18*	YoY Change
Total assets	533.0	543.7	596.5	11.9%
Loans to customers (net)	123.1	113.5	99.9	(18.8%)
Customers' deposits	412.3	406.6	442.4	7.3%
Total operating income	17.4	30.7	28.8	65.4%
Operating costs	9.3	20.8	10.5	13.0%
Cost to Income	53.4%	67.9%	36.5%	(16.9 p.p.)
Net income	4.6	4.6	10.2	>100%

* For comparison purposes the financial statements of Finibanco Angola and BTM, relative to Jun-17, Dec-17 and Jun-18 of Finibanco Angola and BTM were restated using the same exchange rate: AOA/EUR 288,872; MZN/EUR 69,145.

The performance of the international activity of the CEMG Group in the first half of 2018, revealed the macroeconomic context of the main geographic areas in which it operates. In Angola, the economy continued to face enormous macroeconomic imbalances, following the previous sharp drop in the price of oil, with gross domestic product (GDP) contracting by 2.5% in 2017. In Mozambique, GDP grew by 3.7% in 2017, slowing down slightly in relation to 2016 (+3.8%). In Cape Verde, the GDP growth rate slowed down after the international crisis, recording a growth of 4.0% in 2017, decelerating in relation to the growth of 4.7% of 2016, the strongest growth rate since 2008 (+6.7%).

The total Assets of the international activity of the CEMG Group reached €596.5 million as at 30 June 2018, compared to €543.7 million at the end of December 2017, representing an increase of 9.7% (+11.9% compared to 30 June 2017). This evolution was influenced by the reduction in the total Assets of Banco MG Cabo Verde and BTM, of -3.7% and -6.7% respectively, compared to the end of 2017, while the total Assets of Finibanco Angola increased by 21.5% compared to the value at the end of 2017.

The Loans granted to customers of the international activity fell by 11.9% in relation to the end of 2017, by evolving from €113.5 million as at 31 December 2017, to €99.9 million at the end of the first half of 2018 (18.8% compared to 30 June 2017). This evolution was caused by the 13.5% decrease in loans granted by Finibanco Angola compared to the end of 2017, which amounted to €68.1 million at the end of the first half of 2018 (€78.7 million as at 31 December 2017), and by the reduction of loans granted to customers by BTM, which reached €31.8 million at the end of the first half of 2018 (-8.4% compared to the end of 2017).

Customer deposits captured by the subsidiaries forming the international activity of the CEMG Group reached €442.4 million as at 30 June 2018, having increased by 8.8% in relation to 31 December 2017, and 7.3% in relation to the same period of 2017. The Customer deposits of Finibanco Angola reached €243.0 million as at 30 June 2018, reflecting an increase of 22.4% compared to 31 December 2017, and 27.9% in relation to the same period of 2017, representing 54.9% of the total deposits of the international activity. The Customer deposits of Banco MG Cabo Verde stood at €174.9 million as at 30 June 2018, indicating a reduction of 3.6% compared to 31 December 2017, and 11.2% in relation to the same period of 2017. As at 30 June 2018, the Customer deposits of BTM amounted to €24.4 million, corresponding to a reduction of 8.2% compared to the value as at 31 December 2017, and 3.8% in relation to the same period of 2017.

The Total operating income of the international activity in the first half of 2018 grew by 65.4%, standing at €28.8 million, compared to €17.4 million recorded in the same period of 2017. The favourable evolution of total operating income in the first half of 2018 was underpinned by the increased net interest income which reached €14.3 million (+8%), the net fees and commissions which amounted to €6.0 million (+88.7%) and the results arising from foreign exchange differences, which reached €9.3 million, compared to the values of the same period of 2017.

At Finibanco Angola, total operating income for the first half of 2018 increased by 84.7% in relation to the same period of 2017, standing at €25.7 million. This outcome essentially reflects the positive evolution of net interest income which increased by €1.4 million, net fees and commissions which grew by €2.9 million, and the results from foreign exchange differences which increased by €7.8 million, respectively, compared to the same period of 2017.

At BTM, total operating income amounted to €3.1 million in the first half of 2018, corresponding to a 4.8% reduction in comparison to the value recorded in the same period of 2017. This was especially influenced by the lower net interest income (-€0.3 million), results from foreign exchange differences (-€0.3 million) and other operating income (-€0.2 million), compared to the same period of 2017.

At Banco MG Cabo Verde, total operating income for the first half of 2018 amounted to €0.1 million, representing a reduction of €0.2 million (-61.7%) compared to the value of the same period of 2017. The progression of total operating income at Banco MG Cabo Verde was influenced by the adverse evolution of net interest income (-€0.1 million) and results from foreign exchange differences (-€0.1 million) in relation to the same period of 2017.

The total operating costs of the international activity increased by 13.0% in the first half of 2018, amounting to €10.5 million (compared to €9.3 million in the same period of 2017). This growth was determined by the increased staff costs (+21.2% compared to the first half of 2017), general and administrative expenses (+5.5%) and depreciation and amortisation (+7.3%).

At Finibanco Angola and BTM, operating costs increased in the first half of 2018 compared to the value of the same period of 2017, by +20.4% and +2.3% respectively, while at Banco MG Cabo Verde they fell

by 6.1%, reflecting the evolution of the activity developed and the features of the corresponding markets. At Finibanco Angola the increase registered in operating costs in the first half of 2018 was transversal to all its components: +31.5% in staff costs, +12.0% in general and administrative expenses and +5.4% in depreciation and amortisation, compared to the value of the same period of 2017. At BTM the year-on-year growth in operating costs in the first half of 2018 was the result of the increase recorded in the three components of staff costs (+0.6%), general and administrative expenses (+2.6%), and depreciation and amortisation (+11.7%).

At Banco MG Cabo Verde, operating costs reached €0.4 million in the first half of 2018, representing a 6.1% reduction compared to the value of the same period of 2017. This decrease was underpinned by the reduction recorded in general and administrative expenses in comparison to the first half of 2017 (-29.0%), which more than offset the increase in staff costs (+714.7%) and in depreciation and amortisation (+39.4%) compared to the same period of 2017.

As a result of this evolution, the cost-to-income ratio of the international activity in the first half of 2018 stood at 36.5%, corresponding to a reduction of 16.9 p.p. compared to the ratio recorded in the same period of 2017.

In the first half of 2018, the contribution of the international activity to consolidated net income reached €10.2 million (€4.6 million in the first half of 2017), with positive net income in Angola (€10.4 million) and Mozambique (€45.7 thousand), while Cape Verde generated negative net income (€49.9 thousand).

Key indicators

	Jun-17	Dec-17	Jun-18	Year-on-year change
ACTIVITY AND RESULTS (EUR million)				
Total assets	20,206	20,200	19,249	(4.7%)
Loans to customers (gross)	14,890	14,063	13,727	(7.8%)
Customers' deposits	11,628	12,561	12,483	7.4%
Net income	13	6	16	20.6%
SOLVENCY (a)				
Common Equity Tier 1 ratio	12.6%	13.2%	13.5%	0.9 p.p.
Tier 1 ratio	12.6%	13.2%	13.5%	0.9 p.p.
Total Capital ratio	12.9%	13.3%	13.6%	0.7 p.p.
Risk weighted assets (EUR million)	12,197	11,875	11,259	(7.7%)
LIQUIDITY RATIOS				
Loans to customers (net) / Customers' deposits (b)	117.9%	107.3%	101.5%	(16.4 p.p.)
Loans to customers (net) / On-balance sheet customers' resources (c)	107.9%	92.4%	92.0%	(15.9 p.p.)
CREDIT RISK AND IMPAIRMENT COVERAGE FOR BALANCE SHEET CREDIT				
Cost of credit risk	0.9%	1.1%	0.7%	(0.2 p.p.)
Ratio of loans and interest overdue by more than 90 days	9.2%	8.2%	7.5%	(1.7 p.p.)

Coverage of loans and interest overdue by more than 90 days	86.9%	90.2%	107.4%	20.5 p.p.
Non-performing exposures (NPE) (d) / Gross customer loans	18.8%	16.4%	15.8%	(3.0 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	42.7%	44.9%	50.8%	8.1 p.p.
NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	88.7%	87.0%	88.3%	(0.4 p.p.)
Forborne exposures (d) / Gross customer loans	8.8%	8.2%	7.6%	(1.2 p.p.)
PROFITABILITY AND EFFICIENCY				
Total operating income / Average total assets (b)	2.4%	2.5%	2.1%	(0.3 p.p.)
Net income before income tax / Average total assets (b)	0.3%	0.2%	0.2%	(0.1 p.p.)
Net income before income tax / Average total equity (b)	3.5%	3.0%	2.2%	(1.3 p.p.)
Cost-to-income (Operating costs / Total operating income) (b)	55.2%	53.0%	66.1%	10.9 p.p.
Cost-to-Income, excluding specific impacts (e)	66.5%	67.2%	66.5%	0.0 p.p.
Staff costs / Total operating income (b)	34.1%	30.9%	42.0%	7.9 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group total (f)	3 796	3 837	3,841	45
Banco Montepio	3 592	3 630	3 638	46
Branches				
Domestic - Banco Montepio	325	324	324	(1)
International	35	34	34	(1)
Finibanco Angola (g)	25	24	24	(1)
BTM - Banco Terra	10	10	10	0
Representation Offices - Banco Montepio	5	5	5	0

(a) Pursuant to CRD IV / CRR (phasing-in). The ratios as of June 30, 2018 include net income for the period and reflect adhesion to the special regime of deferred tax assets.
(b) Pursuant to Bank of Portugal Instruction No. 16/2004, in its current version.
(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued. Computed in accordance with the Financial Statements annexed to this report.
(d) EBA definition.
(e) Excludes results from financial operations and other operating results.
(f) Excluding transferred employees and work suspension contracts.
(g) Includes corporate centres.

Employees

The number of employees grew by 4 employees or 0.1 per cent. to 3,841 as at 30 June 2018 from 3,837 as at 31 December 2017, without considering the employees assigned to other companies of the Group and

employees with suspension of provision of work. In the domestic activity, Banco Montepio registered an increase of 8 employees as at 30 June 2018 compared with the value recorded as at 31 December 2017.

Lending Policies and Procedures

Credit risk is associated with the uncertainty of expected returns due to the inability of both the lessee (and his guarantor, if any), or the issuer of a security or counterparty to comply with its obligations.

Credit risk management benefits from a robust credit decision and analysis process, supported by a set of tools to support the credit decision process. The quantification of credit risk is also supported in the model for calculating impairment losses.

The fundamental principle of credit risk analysis is independence towards business decisions. In this analysis instruments are used and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modelling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in the credit decision process. Indeed, the decision process concerning the loan portfolio depends on a group of policies based on scoring models developed to individuals and business clients and on rating models for the corporate sector.

Regarding the analysis methodologies, within the credit risk, the credit risk techniques and models are based on econometric modelling, based on the Issuer's experience in granting various types of credit facilities and on recoveries.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. Scoring models are also used on the retail portfolios, namely with respect to loans to individuals, such as mortgage, consumer and credit card loans, distinguishing between customers and non-customers (or new customers).

Internal rating models are used to medium and large companies, differentiating some sectors of activity, such as the third sector and real estate, while for individual entrepreneurs ("*Empresários em nome individual*"- "**ENI's**") and small companies the respective scoring model is applied.

There are also behavioral scoring models for retail portfolios, which are used to monitor the credit portfolio and to evaluate new credit proposals, and these are coupled with reactive scoring information, where applicable.

Regardless of the typology of the applicable model, any proposal, contract or customer is classified into a single risk scale class, in ascending order of probability of default, and this scale composed of 19 classes, of which the first 15 classes correspond to performing risk classes, classes 16 to 18 to credit incidents and class 19 to non-performing, in accordance with the internal definition in force, which follows the guidelines of the regulators in terms of prudential requirements.

The pricing of the active operations reflects the expected loss, as well as the capital borrowed cost and equity and the administrative costs. In quantifying the expected loss, the marginal probabilities of default for the term of the operation, associated with the internal risk classes and the loss severity, quantified through market estimates, are considered, taking into account the types of credit and the collaterals. Pricing also reflects the business relationship with customers.

It is possible to derogate from the response of scoring systems, internal ratings and internal price lists, upon approval by higher-level decision makers, in accordance with principles of delegation of responsibilities set out. Rejection situations are defined in order to minimise the risk of adverse selection, and there is always at least one risk class for rejection.

Intervention limits are also defined for the different decisions, by amount of operation and global customer exposure, type of operation / collateral and assigned risk class. In this context, the approval of operations with lower risk-adjusted return on equity ("ROE") or with higher exposures must escalate to a higher-level

decision makers. These limits are approved by the Board of Directors, and the highest decision scale corresponds to the Board of Directors. At intermediate stages, it is compulsory to have at least two decision-makers, one from the commercial network and the other from the Credit Analysis Department (an independent body of the commercial structure), as well as the Risk Division, unit responsible for the development of risk models (scoring and rating), and for the control and monitoring of CEMG Group's risk, on a consolidated basis.

In the scope of credit risk, internal reports are prepared with the main risk indicators of loan portfolios and metrics on the use of rating / scoring models. In terms of preventive monitoring, an alert system for early warning signs is in place.

The Group's calculation model for impairment on the loan portfolio has been in force since June 2006 and is subject to regular updates, governed by the general principles defined in IAS 39. In July 2014, IASB released the final version of IFRS 9 which replaces IAS 39, which entered into force on 1 January 2018.

With respect to impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected loss of credit at one year, or the expected loss of credit until the maturity of the financial instrument (ECL lifetime).

The Expected Loss Model (IFRS9) replaces the Incurred Loss Model (IAS39) and in accordance with this new model, financial assets are classified into segments, based on the evolution of their credit risk:

- Stage 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since its initial recognition and which are not in default;
- Stage 2: Financial assets with a significant increase in credit risk since initial recognition, based on the criteria set out in internal regulations on the recognition of a significant increase in credit risk or other financial assets (in particular, amounts receivable, other debtors, other receivables or sundry debtors). It should be noted that credit restructured due to financial difficulties is considered a significant increase driver in credit risk, and therefore, the restructured credit portfolio is included in stage 2;
- Stage 3: Financial assets in default, based on default indicators which are defined in internal regulations on default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purposes of current requirements.

The calculation of expected losses (ECL) for homogeneous populations results from the product of the default probability (PD), the default loss (LGD) and the exposure at default (EAD), deducted from the contract's effective interest rate until the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages refers to PD's time horizon.

The probability of default (PD) is one of the main differences in the impairment calculation under IFRS9 (ECL), and two types of PD can be expected:

- 12-month PD: the probability of a default occurring within the next 12 months (for contracts belonging to stage 1);
- Lifetime PD: it is the probability of a default occurring during the remaining life of the credit (for stage 2 contracts). In such case, lifetime parameters are used and forward looking information is considered;
- PD=100% to all stage 3 contracts.

In the group of individually significant clients, client exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing collateral, as well as the remaining relevant factors.

Impairment value for Individually Significant Clients is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the loan value and the sum of the expected cash flows for the client's various operations, updated according to the interest rates of each operation.

Credit Recovery Policy

The Issuer's loan portfolio includes loans that, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of €1,053,290 thousands as of 30 June 2018 compared with €1,162,359 thousands as of 31 December 2017, which have an impairment of €403,655 thousands as of 30 June 2018 compared with €390,088 thousands as at 31 December 2017.

The Group has adopted forbearance measures and practices, according to the risk, in order to adjust the disposable income or the financial capacity of customers to its debt service. On this basis, the recommendations contained within non-mandatory legislation, such as Decree-Law No. 227/2012, were adopted and disclosed on the Issuer's website, in internal rules and communications disclosed to and implemented when customers show evidence of financial difficulties.

Regarding the particular forbearance measures, Banco Montepio adopted the ones included in Instruction 32/2013 of the Bank of Portugal, of 31 December 2013, namely contractual amendments (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

The restructuring operations that were performed at 30 June 2018 and during 2017 were positive and allowed to mitigate the effect of the economic and financial crisis and within a situation in which is observed some economic recovery signs, adapting the debt service to the disposable income of customers.

Additionally, the loans portfolio includes contracts formally restructured with the customers and the consequent establishment of new funding to replace the previous funding available to such customer. The restructuring may result in a reinforcement of guarantees and/or liquidation of part of the credit and involve an extension of maturities or a different interest rate.

Restructured loans are subject to an impairment analysis resulting from the revaluation of expectations to meet the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate and considering any new collateral.

In respect of restructured loans, the impairment associated to these operations amounts to €20,877 thousands as at 30 June 2018 compared with €28,892 thousands as at 31 December 2017.

Banco Montepio uses physical and financial collateral as instruments for mitigating credit risk. The physical collateral mainly includes mortgages on residential properties during the life of the mortgage and other types of mortgages on properties in other types of loans. To reflect their market value, collateral is valued regularly based on valuations by certified independent testing organisations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. Financial collateral is re-evaluated based on market values of the relevant assets, when available and certain coefficients apply depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

The following table shows total non-performing exposures (as per EBA definition) and total impairment charges during the six month period ending in June 2018 and in twelve month period ending on 31 December 2017:

	Jun2018	Dec2017
Total non-performing exposures (€Mn)	2 168	2 305
(as percentage of total credit to customers)	15.8%	16.4%
Impairment for credit risk (€Mn)	1 101	1 034
(as percentage of total non-performing exposures)	50.8%	44.9%

Financial Risk Management

The most important financial risks to which the Issuer is potentially exposed are liquidity risk, foreign exchange risk and interest rate risk.

In common with many similar credit institutions which finance housing loans, the Issuer's loan assets are relatively illiquid whilst its funding is based on retail deposits, most of which are either legally available on demand or are of a short term nature (although in practice such deposits usually remain with the Issuer for extended periods).

Liquidity risk is assessed using regulatory indicators defined by the supervisory authorities and other internal measurements for which exposure limits are also defined. This control is reinforced by the execution of stress tests, aimed at characterising Banco Montepio's risk profile and assure that the Group meets its liabilities in the event of a liquidity crisis.

The objective of controlling the liquidity levels is to maintain a satisfactory level of disposable assets to meet financial needs in the short, medium and long term. Liquidity risk is monitored daily, with various reports being prepared for control and monitoring purposes and to support decision taking within ALCO. Under the control of risk levels, limits are defined for various liquidity risk indicators, which are monitored through weekly and monthly reports.

The evolution of the liquidity situation is analysed, in particular, based on estimated future cash flow projections for various time horizons, considering Banco Montepio's balance sheet. The liquidity position of the day under review and the amount of assets that are considered highly liquid in the unencumbered securities portfolio are added to these projections to determine the accumulated liquidity gap for various time horizons. Moreover, the liquidity positions are also monitored from a prudential perspective, calculated according to the rules required by Bank of Portugal (Instruction number 13/2009 of September, 15), as well as the level of compliance of the liquidity prudential indicator, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM), and internal ratios such as, for example, ratios of loans to deposits, concentration of funding sources, short term funding and eligible assets.

In June 2018, the liquidity gaps up to 12 months are presented in the table below.

LIQUIDITY POSITION GAPS IN JUNE 2018

(EUR million)

Position reference date + forecast amount	Maturity periods				
	On sight and up to 1 week	Above 1 week and up to 1 month	Above 1 month and up to 3 months	Above 3 months and up to 6 months	Above 6 months and up to 12 months
Accumulated mismatches	2 863	2 855	2 827	2 367	2 201

The LCR ratio reached 152.0% at the end of June 2018, above the minimum requirement of 100%.

Concerning the exchange rate risk of the banking book, in general, the different resources attracted in different currencies are invested in assets in the respective money market for maturity periods that are not higher than those of the resources are. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources. The current foreign exchange exposure of the CEMG Group in consolidated terms is essentially the result of the structural positions derived from the conversion of the balances of the subsidiaries in their main currencies, namely the Kwanza and American Dollar for Finibanco Angola and the Metical at Banco Terra in Mozambique.

For the exchange rate risk of the banking book, limits of exposure have been defined which are monitored by the management bodies and by ALCO, where any overrunning of the established limits follows an established circuit, including approval by the management body or the implementation of measures to cover this risk.

The defined limits in terms of exchange rate risk include limits of position by currency, in consolidated terms and individual terms, as well as in terms of VaR, also being disaggregated in terms of the trading book and banking book.

The interest rate risk caused by operations of the banking book is assessed through risk sensitivity analysis, on an individual and consolidated basis for the subsidiaries included in the Group's consolidated balance sheet.

Interest rate risk is appraised in accordance with the impacts on net interest income, net worth and own funds caused by variations in market interest rates. The main risk factors arise from the mismatch between the interest rate revision periods and/or residual maturity between assets and liabilities (repricing risk), from non-parallel variations in interest rate curves (yield curve risk), from the nonexistence of perfect correlation between different indexers with the same repricing period (basis risk), and from the options associated to instruments which enable divergent action of agents depending on the level of rates that are contracted and applied at any given time (option risk).

Following the recommendations of Basel and Bank of Portugal Instruction number 19/2005, of June 15, the Group calculates its exposure to balance sheet interest rate risk, at least quarterly, based on the methodology of the Bank of International Settlements (BIS), classifying all the headings of the assets, liabilities and off-balance sheet items which do not belong to the trading book, by repricing brackets.

In this context, limits are defined for exposure to interest rate risk factors which are monitored by ALCO, where any overrunning of the established limits, even if temporary, requires the approval of the management body or the implementation of measures to cover the exposure.

At the same time, a stress test is conducted with six shock scenarios in the interest rate curve. This test measures impacts on net interest income at one year and on net worth of the shocks in the interest rate curve prescribed in the BIS document of April 2016, *Standards – Interest rate risk in the banking book*.

Based on the financial features of each contract, the respective expected cash flow projection is made, according to the rate repricing dates and any pertinent performance assumptions that are considered.

The table below presents a summary of the exposure to balance sheet interest rate risk, classifying all the headings of the assets, liabilities and off-balance sheet items, which do not belong to the trading book, by repricing brackets:

INTEREST RATE REPRICING GAPS IN JUNE 2018

(EUR million)

	Residual maturities of repricing				
	Up to three months	Three to six months	Six months to one year	One to five years	Over five years
Asset	9 461	3 127	662	1 210	1 231
Off-balance sheet	4	0	15	768	0
Total	**9 465**	**3 127**	**677**	**1 978**	**1 231**
Liabilities	3 387	1 533	2 871	4 857	68
Off-balance sheet	762	10	0	14	1
Total	**4 149**	**1 543**	**2 871**	**4 872**	**69**
GAP (Assets - Liabilities) in Jun 2018	**5 316**	**1 584**	**(2 194)**	**(2 894)**	**1 162**
GAP (Assets - Liabilities) in Dec 2017	**4 175**	**1 409**	**(1 881)**	**(5 485)**	**748**

The following tables present the interest rates gaps, from a consolidated perspective, in the first half of 2018 and in during 2017:

(Thousands of Euro)

	Below 3 months	3 to 6 months	6 months to 12 months	1 to 5 years	Above 5 years
30 June 2018					
Assets	9 460 750	3 126 699	662 494	1 210 088	1 231 177
Off-balance sheet	4 497	-	14 850	767 770	-
Total	9 465 247	3 126 699	677 344	1 977 858	1 231 177
Liabilities	3 387 477	1 533 201	2 871 495	4 857 117	68 108
Off-balance sheet	761 597	9 850	-	14 470	1 200
Total	4 149 074	1 543 051	2 871 495	4 871 587	69 308
GAP (Assets - Liabilities)	5 316 173	1 583 648	(2 194 151)	(2 893 729)	1 161 869
31 December 2017					
Assets	8 090 272	3 323 150	638 092	1 796 706	1 022 751
Off-balance sheet	9 990	-	-	782 972	-
Total	8 100 262	3 323 150	638 092	2 579 678	1 022 751
Liabilities	4 732 106	1 903 838	2 509 450	8 049 434	274 933
Off-balance sheet	758 550	9 850	9 740	14 822	-
Total	5 490 656	1 913 688	2 519 190	8 064 256	274 933
GAP (Assets - Liabilities)	2 609 606	1 409 462	(1 881 098)	(5 484 578)	747 818

(Thousands of Euro)

	Jun 2018				Dec 2017			
	June	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate gap	2973 810	970 141	2973 810	(1033 527)	(2598 790)	(2071 755)	(1544 721)	(2598 790)

In view of the interest rate gaps observed as at 30 June 2018, an instantaneous and parallel positive shift of the interest rates by 100 basis points would lead to a reduction of net gains in the expected economic value of the banking book of approximately -€28.4 million (31 December 2017: €11.6 million).

The concept of market risk reflects the potential loss that could be recorded by a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the different financial instruments comprising the portfolio, considering both the correlations that exist between them and their volatility.

Value-at-Risk (VaR) is one of the main indicators used to measure and monitor market risk. The Group calculates the VaR on a daily basis, both for its trading book and for the portfolio of financial assets at fair value through other comprehensive income. VaR is also calculated on a time horizon of 10 business days

and at a 99% significance level, by the historical simulation method. The types of risk considered in this methodology are interest rate risk, exchange rate risk, price risk, credit default swap risk (CDS), options risk and specific credit risk.

With respect to market risk information and analysis, there is regular reporting on Banco Montepio 's own portfolios and those of other entities of the Group, with various risk limits being defined, including overall limits of VaR, by Issuer, by type/class of asset and credit quality level (rating) and Stop Loss and Loss Trigger limits for positions held for trading and in other comprehensive income.

The produced reports are used to control the different limits of exposure, analysing the risks of concentration, credit, interest rate and asset price variation, among others. These analyses consider the analysis of scenarios, namely the sensitivities of the securities portfolio to variations of interest rates, spreads, adverse exchange rate evolution and variation of the market prices of shares and real estate properties.

In the field of market risk, in addition to reporting on the risk of Banco Montepio's overall portfolio, specific risk reports are also produced for the trading book and the proprietary portfolios of financial assets at fair value through other comprehensive income.

In order to ensure more effective risk management, the positions in portfolio are disaggregated into a portfolio of financial assets at fair value through other comprehensive income, portfolio of other financial assets at amortised cost, portfolio of financial assets not necessarily held for trading at fair value through profit or loss, and portfolio of assets held for trading (which exclude hedge coverages and fair value option), with risk limits being defined according to the type of portfolio. The thresholds applicable to the portfolios are defined in internal regulations, updated on an annual basis or other, whenever justified by alterations to market risk levels. Stop loss and loss trigger thresholds are also defined, applicable to the portfolios. Whenever any of these thresholds are reached, the re-examination of the strategy intrinsic to this position is compulsory.

Concerning investment policy, there was a reduction up to June 2018 of exposure to Italian and Spanish public debt securities. It should also be pointed out the divestment of Greek public debt bonds (with B- rating). Likewise, special note is made of the divestment of the trading book of the senior note of the EVORA securitisation with BBB- rating. The changes indicated above led to variations in terms of the rating structure, namely in the BBB-, BBB and BBB+ ranges. The weight of bonds classified as investment grade in the total bond portfolio in June 2018 reached 88.8%, in line with the value in December 2017.

A summary of the VaR indicators in December 2017 and June 2018 is presented below:

VaR INDICATORS [(1)]

	Dec-17		Jun-18	
	Financial assets at fair value through other comprehensive income	Trading	Financial assets at fair value through other comprehensive income	Trading
Market VaR	**0.70%**	**1.02%**	**0.53%**	**0.69%**
Interest rate risk	0.37%	0.24%	0.29%	0.38%
Foreign exchange risk	0.09%	0.19%	0.06%	0.08%
Price risk [(2)]	0.24%	0.59%	0.18%	0.23%
Credit VaR [(3)]	**0.56%**	**4.81%**	**1.21%**	**1.56%**
Total VaR	**1.26%**	**5.83%**	**1.74%**	**2.25%**

(1) - 10-day time horizon and significance level of 99%; As a % of total portfolio assets; Includes the portfolios of CEMG and Montepio Investimento.

(2) - Includes diversification effect.

(3) - Excludes exposure to Banco Terra and Finibanco Angola.

Moreover, analyses are conducted of scenarios for the trading book to supplement the analysis of the other risk indicators. In June 2018, the following results were obtained from the analysis of scenarios:

STRESS TEST OF THE TRADING PORTFOLIO

(EUR million)

Scenario	Jun-18
Increase of 100 basis b.p. in interest rates	(2.9)
25% fall of the stock market	(2.0)
Increase of credit spreads by 100 b.p. (in bonds)	(0.8)

Competition

The Issuer ranks sixth in total net assets in the Portuguese banking system as at 30 June 2018 (source: *Boletim Estatístico da Associação Portuguesa de Bancos*). Despite the competition in the market, Banco Montepio has been able to sustain its position in the market and to preserve its market share in banking activity. Banco Montepio's overall market share (deposits and credit) was 6.1 per cent. as at 30 June 2018 (source: *Bank of Portugal Financial and Monetary Statistics (Resident Activity)*).

Furthermore, as at 30 June 2018, the Issuer had a market share of 7.0 per cent. in housing credit and 6.7 per cent. in loans to SMEs and corporations (source: *Bank of Portugal, Financial and Monetary Statistics (Resident Activity)*). As at 30 June 2018, Banco Montepio's market share in total deposits stood at 5.9 per cent., reaching 6.2 per cent. in the household deposits segment, including emigrants (source: *Bank of Portugal, Financial and Monetary Statistics (Resident Activity)*).

The Issuer considers that its primary competitive advantage arises from the quality of service rendered to customers. The mutual nature, coupled with private pension schemes and other benefits which MGAM provides to its members and the reputation as a stable financial institution are considered by the Issuer the key reasons for its customers to continue finding Banco Montepio an attractive provider of banking services.

Participation Fund (*Fundo de Participação*)

As referred to in the above section, on 25 November 2013, the Issuer launched an IPO of 200 million securities (*Unidades De Participação*), at a face value of €1, in the Participation Fund of the Issuer. The securities offering was successful, with demand exceeding offer by 10.2 per cent., and subscription orders reaching in excess of €220 million in the 15 business day subscription period. On 17 December 2013, the securities were listed on the Euronext Lisbon following a regulated market special session. Following this listing, the Issuer was considered a company whose capital was open to investment by the public (*Entidade Com Capital Aberto Ao Investimento do Público*).

In addition, on 26 June 2015, the Issuer issued 200 million securities (*Unidades de Participação*), through a private offer fully subscribed and paid for by MGAM.

Hence, a total 400 million securities (*Unidades de Participação*) have been issued representing the Participation Fund: 200 million securities were issued by public offer; and the remaining 200 million securities were issued through a private offer fully subscribed and paid for by Montepio Geral – Associação Mutualista.

According to articles 6(b) and 8 of its by-laws, the Issuer provided for the establishment of a Participation Fund (*Fundo de Participação*), which, in addition to the institutional capital, the legal reserve, the special reserve, the other reserves and the undistributed results would form the equity and own funds of Banco Montepio.

The main characteristics of the Participation Fund (*Fundo de Participação*) were as follows:

a) the Participation Fund (*Fundo de Participação*) was permanent;

b) it was represented by securities (*Unidades de Participação*) equivalent to equity, with a nominal value and in the form to be determined when their respective issuance was to be approved;

c) it could only be redeemed upon the winding-up of the Issuer and only upon the redemption of all the other creditors of the Issuer, including those that held other types of subordinated debt. The holders of the securities (*Unidades de Participação*) would rank *pari passu* and pro rata with the holder of the Issuer's institutional capital in sharing the liquidation amount of the Issuer's assets;

d) any redemption of the Participation Fund (*Fundo de Participação*) could only be made pursuant to the provisions of the Issuer's by-laws and following the prior written consent of the Bank of Portugal;

e) the holders of the securities (*Unidades de Participação*) were not entitled to intervene in the governing bodies of the Issuer, but were only entitled to receive an annual revenue if and when there were sufficient results to that effect and upon the approval of the Issuer's General Meeting, based on a proposal by the Executive Board of Directors; and

f) the overall amount of the Participation Fund was not capped, but the Executive Board of Directors of the Issuer was authorised to issue securities (*Unidades de Participação*) up to an amount equivalent to the institutional capital amount.

The Bank of Portugal acknowledged the Issuer's Participation Fund as a positive element of its core own funds, according to article 3(a) of the Bank of Portugal's Notice (*Aviso*) no. 6/2010 (as amended), and its eligibility for the computation of Core Tier 1, according to Bank of Portugal's Notice (*Aviso*) no. 3/2011 (as amended) and common equity as per CRD IV (i.e. the regulation resulting from the CRD IV and CRR).

As a consequence of the Participation Fund public offer and admission to the regulated market, the Issuer became legally deemed as an issuer of shares admitted to trading on a regulated market. As such, the Issuer needed to comply with all duties and obligations mandatory to an issuer of shares, including to disclose all relevant information to the market and regulators, namely CMVM and the Bank of Portugal.

Since 21 March 2016, and as a consequence of the annual review of the PSI20 (the Portugal PSI 20 Index is a capitalisation-weighted index of the top stocks listed on the Lisbon Stock Exchange), the securities (*Unidades de Participação*) of the Participation Fund met the criteria in order to be included in this reference index of the Portuguese stock market. As securities that were equivalent to shares and the requirements of liquidity, free-float and speed of capital turnover in the market, the securities (*Unidades de Participação*) were included in the reference basket of companies listed on the Portuguese stock market. As part of the tender offer process (launched by MGAM on 4 July 2017), they were subsequently excluded from the PSI 20 Index from 12 September 2017 onwards and the trading of securities (*Unidades de Participação*) was suspended.

After the transformation of the Issuer into a public limited liability company, the Participation Fund was closed down and the securities (*Unidades de Participação*), as well as the institutional capital, were converted into common shares. Consequently, the €2,420,000,000 capital is currently represented by 2,420,000,000 common shares (and voting rights) with the value of €1.00 each, which are not listed on a regulated market.

Technology

Banco Montepio believes that technology has strategic importance in providing good quality and innovative services to its customers, which is essential to maintain its competitiveness in the Portuguese market.

The Legacy System is hosted in shared IBM zSeries Z13 model N30 508 5052 using 1.968 Mips. The business application was developed in partnership with the company Accenture. The base package, Alnova, is now developed in COBOL (Enterprise Cobol 4.2), DB2 (DB2 for z/OS V11) and CICS (CICS TS for z/OS V5. 3) and run in a z/OS V2.1.

The last developments in the Legacy System include the 24x7 Project. With this implementation, current accounts processing, domestic transfers and payments, and internal ATM cash transactions become available in real-time, 24 hours every day of the week, without unavailability related to Batch Processing. The next phase will be enabling real-time debit and credit card transactions, saving account movements and inter-bank transfers.

Banco Montepio deployed a private cloud solution based in VMWARE and HYPER-V, following the IaaS model, allowing powerful consolidation and virtualisation of the Distributed Systems, with the corresponding benefits from increased operational efficiency, shorter time to production and reduced infrastructure-related efforts and costs.

In addition, a CITRIX virtualisation farm was implemented to provide more flexible and agile access to new applications to branch users. The implemented solution takes advantage of Load Balancers NetScalar and application virtualisation using XENAPP.

On growing a cloud integration strategy, new services were adopted on the Office 365 platform: Skype for Business, Yammer, One Drive, Exchange Online, Sharepoint Online and Intune.

Following a digital transformation vision, a new business platform was adopted: CRM Online. This SaaS solution empowers the digital marketing strategy, bringing new capabilities to the organisation, aligning Marketing and Sales activities within the customer journey.

These services integrations were achieved through the implementation of ADFS creating a common layer in what regards to user and application accessibility management.

A sophisticated information network has been implemented, integrating voice and data, and maintained in continuous evolution. It provides high bandwidth connections up to 10 GB, incorporating 4G technology.

The security infrastructure ensures, in a high availability system, the protection of all systems through Geo-cluster Checkpoint firewalls integrating the protection of threats with Radware intrusion detection mechanisms, geographic balancing and Radware local balancing. All components of the solution are present in its' own infrastructure with multi-user interconnections to assure that all national and international communications and their contents are served in Lisbon or Porto, providing protection against failures in the event of interruptions in local or regional networks, power outages or natural disasters.

Recently Banco Montepio has launched the Security Operations Centre ("**SOC**") service. The SOC is the single point of contact for monitoring and responding to security incidents by an organised team with specialised skills ("**CERT**"). Its mission is to ensure continuous monitoring and improve the security level of the organisation while preventing, detecting, analysing and responding to cyber security incidents, backed by processes and technologies.

In addition, innovative projects have been and are being implemented, with a large impact on the local market, such as:

- Internet Banking (Net24) and Mobile Banking (Netmóvel24) integrated with a new CX Omnichannel platform, including several native Apps for iOS, Android and Windows 8 (Surface and PC), providing customers with a wide range of transactions, including enquiries, deposits, transfer orders and bill payments and on-line brokerage services. To increase security, new features were added to the omnichannel platform, implementing strong customer authentication.
- A contact centre (Phone24) has been established, which provides phone, fax, e-mail and chat capabilities for its customers.

- An internal Self-Service ATM network (Chave24) - Banco Montepio was the first bank to provide ATM services in Portugal in 1984. At present their last generation ATM with a Web based Application and cash-Recycling technology, provides a broad range of products and services which are all touch screen only and voice enabled, such as: bill payment, cash and check deposits and passbook automatic page turn.
- A new Branch Automation Solution using the Accenture Multichannel Platform is in place, migrating the Client-Server architecture to a Web Based Application running in Virtual machines. The new solution allows the integration of information from a diversity of sources like: CRM, Enterprise Analytics, Workflows, Intranet and others.
- A new Enterprise Data Warehouse ("**EDW**") was implemented in 2010 based on a relational model named Detail Data Store ("**DDS**"), developed on a SAS technology platform, supported on a Data Computer Appliance (Greenplum). This new EDW supports all needs related with Business Intelligence trends considering financial services. This infrastructure keeps increasing, on a regular basis in order to cater for the needs arising from the development of new business lines and to meet business subjects areas like risk, profitability, pricing, Regulatory Reporting, Auditing, Marketing.
- The former CRM is, currently being developed to a Marketing Automation level comprising a new Analytic CRM platform interacting with an upgraded Operational CRM application among full integration with a revised 360º Customer Vision (value added with new commercial relevant information) and integration with Product Catalogue and other distribution channels for a total Customer relation awareness.
- A credit scoring application is in operation providing a useful tool for assessing risks related to housing loans, consumer credit and credit cards.
- Finastra Kondor+ has been implemented in order to improve trade management, support of complex derivatives, options and structured trades support, improve straight through processing. With Finastra Kondor+, Banco Montepio could implement a complete front-to-back solution with strong support for risk management and centralised administration and control. Banco Montepio is using version 3.2 SP2 and is in the process of upgrading to the most recent version of Finastra Kondor+ in December 2018. Recent developments are improving the global front-to-back solution with the integration of two new tools provided by Bloomberg: TOMS (Trade Order Management Solutions) and MARS (Multi-Asset Risk System).
- A "Time Deposit Workflow" is in operation allowing the integrated management of spread authorisation in time deposits.
- A "Workflow" system allowing for the integrated management of credit process has been implemented.
- An "Enterprise Document Management System" has been implemented supporting different business process such as: inter-bank circulation of cheque images, members' and costumers' signatures and daily branch movement.
- In terms of AML compliance, an Operational Monitoring System ("Northland") has been implemented as well as a Filtering System ("Fircosoft") for "funds transfer" operations and for clients.

Recent Developments

Sale of the participation in the capital of BTM – Banco Terra, S.A.

On 31 August 2018, Banco Montepio informed the market that its subsidiary Montepio Holding, SGPS,

SA agreed to sell the 45.78 per cent. stake in BTM - Banco Terra S.A. (a financial institution under Mozambican law) to Arise, a holding company established by Norfund, Dutch development bank FMO and Rabobank for supporting growth in Africa through investments in African financial institutions.

With this sale, CEMG Group ceased to hold any participation in BTM - Banco Terra S.A., pursuant to the strategic redefinition of its international investments.

The above mentioned agreement was signed within a framework of the partnership reinforcement with Arise for the joint exploration of investment opportunities in the region.

The transfer of the ownership of the relevant shares took place at the end of December 2018 after completing several steps both with other shareholders and with the Mozambican authorities.

Positions of Chairperson of the Board of Directors and Chief Executive Officer of Banco Montepio

On 28 September 2018, Banco Montepio informed the market that it had been authorised by the Bank of Portugal to extend, for an additional period of four months, the term granted to Carlos Manuel Tavares da Silva to simultaneously hold the positions of Chairperson of the Board of Directors (*Presidente do Conselho de Administração*) and Chief Executive Officer (*Presidente da Comissão Executiva*) of Banco Montepio.

Banco Montepio Transformation Plan

The Board of Directors, which took office on 21 March 2018, assumed the commitment to the efficiency, profitability and adequacy of Banco Montepio's business model to the most modern and demanding forms of customer relations.

In view of the above, the Board of Directors launched a transformation plan with the purpose of making a diagnosis to the current Banco Montepio's business model in order to define the Bank's vision and specific business goals for the medium and long term and which aims to achieve six critical points:

1. A sustainable business model, through an economically profitable business model and with adequate value creation to the shareholder;
2. Strengthen Banco Montepio's position as a benchmark financial institution by supporting the social economy and addressing the population segments that are underserved in terms of financial and banking services;
3. Develop new value propositions and service delivery models, establishing itself as a reference bank for SMEs and for the different segments of household customers;
4. Improve the efficiency of business structures by developing new internal processes and new ways of work;
5. Strengthen Banco Montepio as a Relationships and Proximity Bank, either face-to-face or through technological innovation;
6. Improve asset quality, focusing on the sustained improvement of credit quality ratios and continuous reduction of risk concentration in the construction and real estate activity sectors.

In the context of the ongoing transformation plan, Banco Montepio affirms itself as an universal bank, encompassing commercial banking and investment banking, focusing on SMEs and the domestic market.

The corporate business is being redefined by the realignment of the existing instruments – Corporate Centres and Investment Banking - namely through the development of Montepio Investimento, S.A. into a corporate and investment bank focused on the SME and middle market segments.

The credit recovery business will evolve from credit portfolio sales, which have been often adopted by the banking sector, into a more effective and integrated NPL management, through maximisation of recoveries and investment banking solutions, benefiting from the above mentioned focus.

Banco Montepio's strategy will be driven through four main areas:

a) Leverage the focus on the Customer
  - Improve household and corporate clients loyalty with tailored targets and offerings by customer segment;
  - Strengthening of the consumer and specialised credit business leveraging the Montepio Crédito, Instituição Financeira de Crédito, S.A. platform; and
  - New Business Banking unit with a portfolio of corporate and investment banking services for SMEs.

b) Balance sheet strengthening
  - Restructuring and strengthening of the NPL recovery internal model;
  - Reinforcement of the linkage between NPL recovery and repossessed assets unit; and
  - Increased robustness of risk management processes, namely with respect to loans underwriting criteria and review of scoring and rating models.

c) Organisation
  - Simplification of the existing organisational structure targeting efficiency and effectiveness;
  - Adapt branch models to increased levels of digitalised experiences and expand remote customer management; and
  - Development of new talent management model and gaps coverage.

d) Support structure
  - New centralised and more comprehensive cost-management governance model; and
  - Creation of a new 5-10 year IT-systems plan with adequate levels of investment and operational expenditure.

The Banco Montepio Brand

On 20 February 2019, the Issuer changed its brand name to "Banco Montepio" but the legal identification name remains the same (Caixa Económica Montepio Geral, caixa económica bancária, S.A.).

The Banco Montepio brand represents an evolution of the identity of the bank and reflects its new vision: a Portuguese and independent bank increasingly closer to the Portuguese families, corporates and institutions of the social economy. An almost bicentennial institution in which tradition and innovation cohabit in perfect harmony. A bank that was born different and wants to continue to make a difference in people's lives.

Moreover, it is a further step towards the clarification to the general public, and to clients in particular, regarding the distinction between Banco Montepio (the Issuer) and its main shareholder Montepio Geral Associação Mutualista (the mutual association).

Unfavourable ruling under an administrative proceeding

On 21 February 2019, Banco Montepio was notified of an unfavourable ruling under an administrative proceeding whereby the Bank of Portugal imposed on Banco Montepio an administrative fine of €2.5 million and an ancillary sanction consisting of the publication of the final ruling. No further sanctions have been imposed upon Banco Montepio.

This administrative proceeding relates to events that occurred between 1 January 2009 and 2 September 2014 and concerns alleged non-compliance by Banco Montepio with certain duties regarding, in generic terms: (a) the internal control system procedures, (b) the assessment and approval of intragroup credit operations, (c) the calculation of specific credit provisions, and (d) the implementation at Banco Montepio's subsidiaries of suitable procedures to assess the origin of funds of the subscribers of the participation units representative of the Participation Fund of Banco Montepio.

This ruling is not final and will be judicially challenged. In any case, Banco Montepio cannot predict the outcome of such challenge. The origin of these non-compliant events has been addressed. Those duties are now compliant by Banco Montepio.

Save as disclosed above, there have been no new governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which Banco Montepio is aware) during the 12 months preceding the date of this Base Prospectus which may have or have had a significant effect on CEMG's financial position.

BOARD OF DIRECTORS AND OTHER CORPORATE AND GOVERNING BODIES OF THE ISSUER

Following the implementation of the 2013 Articles of Association, the Issuer's governance structure comprises management and supervisory bodies separate from those of MGAM. Nonetheless, as the Issuer is an entity majority owned by MGAM, there exists a core of shared strategic principles.

In the General Meeting held on 30 April 2015 and continued on 27 May 2015, a partial amendment of the Issuer's by-laws was approved. The amended by-laws were ratified by the General Meeting of MGAM held on 25 June 2015.

One of the key amendments to the Issuer's by-laws was related to the way members of the different governing bodies were elected. Pursuant to the amended by-laws, as approved in the said General Meeting of MGAM held on 25 June 2015, all governing bodies began to be elected in the General Meeting of the Issuer (i.e. members of the Board of Directors of MGAM are no longer statutorily members of the General and Supervisory Board of the Issuer).

One other relevant amendment was the inclusion of new governing bodies, as foreseen in the RGICSF: (i) a Remuneration Committee; (ii) an Evaluation Committee; and (iii) a Risk Committee. The members of these new governing bodies were also elected in the General Meeting of the Issuer.

On 22 July 2015 an Issuer's Extraordinary General Meeting was convened to elect, *inter alia*, the members of its Executive Board of Directors and General and Supervisory Board for the term 2015/2018. This Extraordinary General Meeting took place on 5 August 2015.

Following the approval of the Savings Banks Act, which entered into force on 10 October 2015, and the resolution of the Bank of Portugal pursuant to paragraph 2 of the Savings Bank Act, an Extraordinary General Meeting of Banco Montepio was convened on 22 November 2016, to deliberate on the transformation of Banco Montepio into a public limited liability company and the consequent amendment of its Articles of Association.

The transformation of Banco Montepio into a public limited liability company was further discussed in an Extraordinary General Meeting of the Issuer held on 4 April 2017, in accordance with number 2 of article 6 of the Savings Banks Act, which adopted resolutions that needed to be ratified by resolution of the General Meeting of MGAM, which held an extraordinary session on 9 May 2017, in accordance with Article 6 (4.g) of the Decree-Law No. 190/2015, Articles 32 and 33 of the Banco Montepio's by-laws and Article 25 (g) of the MGAM's by-laws.

It should also be noted that the effectiveness of the resolutions taken at the Extraordinary General Meeting held on 4 April 2017, regarding Banco Montepio's transformation into a public limited liability company, only occurred after Banco Montepio's commercial registration, which took place on 14 September 2017.

On 14 September 2017, the deed was executed, transforming Banco Montepio into a public limited liability company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Banco Montepio's governance model, after its transformation into a public limited liability company and as provided in article 6 of the new by-laws, maintained the General Meeting, the General and Supervisory Board, the Executive Board of Directors and the Statutory Auditor as the governing bodies of Banco Montepio, but the Remuneration Committee, the Evaluation Committee and the Risks Committee became Corporate Bodies of Banco Montepio, to which were added two new corporate bodies (the Financial Matters Commission and the Secretary of Banco Montepio).

Pursuant to the resolutions taken in that General Meetings of the Issuer, the members of the Executive Board of Directors and the General and Supervisory Board maintained their terms in the statutory bodies after the transformation of the Issuer into a public limited liability company (*sociedade anónima*).

Banco Montepio's governance model was a two-tier model, which included an Executive Board of Directors, a General and Supervisory Board and a Statutory Auditor. Pursuant to the Issuer's governance

model, the General and Supervisory Board was the body responsible for the supervision, monitoring and counselling of the Issuer's activity.

Recently the Issuer has implemented an important change in the governance model and it has endorsed, since 16 March 2018, a one-tier corporate structure with a Board of Directors, including an Audit Committee and an external independent auditor.

Pursuant to the corporate governance model adopted by the Issuer – the one-tier Anglo-Saxon model – and following the approval in the General Meeting held on 16 March 2018, the new corporate bodies were elected and the new Articles of Association were approved. The new corporate bodies and the respective members were approved by the Bank of Portugal on 4 April 2018.

The Articles of Association were further amended on 30 October 2018 (currently in force), according to which the Board of Directors shall be comprised of a minimum of twelve and maximum of nineteen members, including a non-executive Chair and an executive Vice-Chair, all of whom shall be elected at a General Meeting of Shareholders, and, in addition to its legal duties, shall undertake the Issuer's management pursuant to article 13 of the Articles of Association. The Board of Directors shall delegate the day-to-day management of the Issuer to an Executive Committee, defining its membership, operating rules and the limits of its power, and shall appoint a Chief Executive Officer, who shall not be the Chairperson of the Board of Directors.

Some of the non-executive members of the board that also form the audit committee have supervisory powers (i.e., they are prevented from exercising executive tasks) and are responsible for overseeing the management of the Issuer.

The auditor is essentially responsible for examining the books, accounts and financial statements of the Issuer and verifying the adequacy of the adopted accountancy policies and standards.

In accordance with Article 5 of the new Articles of Association in force, Banco Montepio's Governing Bodies are:

a) The General Meeting of Shareholders;

b) The Board of Directors, which included an Audit Committee; and

c) The Statutory Auditor.

The General Meeting Board, the Board of Directors, the Audit Committee and the Statutory Auditor, shall be elected pursuant to the terms of the Articles of Association. The term of office shall be four years and members may be re-elected.

The members of the governing bodies are elected at an Extraordinary General Meeting, in accordance with Article 9 and Article 11 of the new by-laws.

The elected governing bodies took office on 21 March 2018 and Carlos Manuel Tavares da Silva will carry out the duties of Chief Executive Officer and, temporarily, Chairperson of the Board of Directors under the terms authorised by the Bank of Portugal.

The Governing and Corporate Bodies of the Issuer and the relevant members for the mandates 2015-March 2018 and March 2018-2021 are set out below.

Mandate 2015 – March 2018

Executive Board of Directors

Following the approval by the Bank of Portugal, the Executive Board of Directors elected in the extraordinary General Meeting held on 5 August 2015, started their functions on 7 August 2015. The following were the members of the Executive Board of Directors of the Issuer until and including 20 March 2018:

Name		Other positions
José Manuel Félix Morgado	Chairperson	Chairman of the Board of Directors of Finibanco Angola, S.A. Chairman of the Board of Directors of Montepio Holding, SGPS, S.A. Member of the Board of Directors of Banco Terra, S.A.
João Carlos Martins da Cunha Neves	Board Member	Member of the Board of Montepio Holding SGPS, S.A. Member of the Board of Directors of Finibanco Angola, S.A. Member of the Board of Directors of Banco MG Cabo Verde, S.A., Soc. Unipessoal, S.A.
Luís Gabriel Moreira Maia Almeida	Board Member	No other positions
Fernando Ferreira Santo	Board Member	Member of the Board of Montepio Gestão de Activos Imobiliários, ACE
João Belard da Fonseca Lopes Raimundo	Board Member	Chairman of SIBS, SGPS, S.A. and SIBS FPS – Forward Payment Solutions, S.A. Chairman of the Board of Directors of Montepio Investimento, S.A. Member of the Board of Montepio Holding, SGPS, S.A.
Jorge Manuel Viana de Azevedo Pinto Bravo	Board Member	No other positions
Luís Miguel Resende de Jesus	Board Member	Member of the Board of Montepio Holding, SGPS, S.A.

General Meeting Board

The Issuer's General Meeting Board for the period from and including 7 August 2015 to and including 20 March 2018 was made up of one Chairperson and two Secretaries, elected in the General Meeting of the Issuer held on 5 August 2015, as follows:

Name		Other positions
Vitor José Melícias Lopes[(1)]	Chairperson	No other positions
Manuel Duarte Cardoso Martins	First Secretary	No other positions
António Dias Sequeira[(2)]	Second Secretary	No other positions

(1) Resigned on 31 December 2015 and succeeded by the First Secretary, Manuel Duarte Cardoso Martins, who was in turn replaced by Maria Leonor Loureiro Gonçalves de Oliveira Guimarães

(2) Resigned on 31 December 2015 and replaced by Cassiano Cunha Galvão

General and Supervisory Board

The following were the members of the Issuer's General and Supervisory Board for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of the Issuer held on 5 August 2015.

Name		Other positions
Álvaro Duarte Pinto Correia	Chairperson	Chairman of the Supervisory Board of Centro Português de Fundações Chairman of the Supervisory Board of União das Cidades Capitais de Língua Portuguesa Chairman of the Board of Directors of INAPA – Investimentos, Participações e Gestão, S.A. Chairman of the Remuneration Committee of Pharol, SGPS, S.A. Member of the Remuneration Committee of EDP – Energias de Portugal, S.A.
José Carlos Correia Mota de Andrade (*)	Member	No other positions
António Fernando Menezes Rodrigues	Member	No other positions
José António Arez Romão	Member	No other positions
Manuel Costa Duarte Ramos Lopes (**)	Member	No other positions
Vitor Manuel do Carmo Martins	Member	No other positions
Francisco José Fonseca da Silva	Member	No other positions
Acácio Jaime Liberato Mota Piloto	Member	No other positions
Luís Eduardo H. Guimarães	Member	No other positions
Rui Pedro Brás de Matos Heitor (***)	Member	
Eugénio Óscar Garcia Rosa	Member	External Consultant of CGTP-IN External Consultant of Federação Nacional dos Sindicatos da Administração Pública

(*) Elected in the General Meeting of the Issuer held on 6 July 2016 and subject to Bank of Portugal approval, replacing Fernando Lopes Ribeiro Mendes that resigned following his election as member of the Board of Directors of MGAM

(**) Elected in the General Meeting of the Issuer held on 6 July 2016 and subject to Bank of Portugal approval, replacing Virgílio Manuel Boavista Lima that resigned following his election as member of the Board of Directors of MGAM

(***) After 1 December 2015, replacing Luísa Maria Xavier Machado

Remuneration Committee

The following were the members of the Issuer's Remuneration Committee, for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of the Issuer held on 5 August 2015:

Name	Position
Álvaro João Duarte Pinto Correia	Chairperson
Fernando Lopes Ribeiro Mendes (*)	Member
José António Arez Romão	Member
Francisco José Fonseca da Silva (**)	Member

(*) resigned because he was elected as a member of the Board of Directors of MGAM

(**) elected as substitute of Fernando Lopes Ribeiro Mendes

Evaluation Committee

The following are the members of the Issuer's Evaluation Committee, elected in the General Meeting of the Issuer held on 5 August 2015:

Name	Position
Álvaro João Duarte Pinto Correia	Chairperson
Fernando Lopes Ribeiro Mendes (*)	Member
José António Arez Romão	Member
José Carlos Correia Mota de Andrade (**)	Member

(*) resigned because he was elected as a member of the Board of Directors of MGAM

(**) elected as substitute of Fernando Lopes Ribeiro Mendes

Risk Committee

The following were the members of the Issuer's Risk Committee, for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of the Issuer held on 5 August 2015:

Name	Position
Acácio Jaime Liberato Mota Piloto	Chairperson
Virgílio Manuel Boavista Lima (*)	Member
Luís Eduardo H. Guimarães	Member
Francisco José Fonseca da Silva (**)	Member

(*) resigned because he was elected as a member of the Board of Directors of MGAM

(**) elected as substitute of Virgílio Manuel Boavista Lima

Financial Matters Commission

The following are the members of the Issuer's Financial Matters Commission, for the period from and including 7 August 2015 to and including 20 March 2018, elected in the General Meeting of the Issuer held on 5 August 2015:

Name	**Position**
Virgílio Manuel Boavista Lima(*)	Chairperson
Eugénio Óscar Garcia Rosa	Member
Vitor Manuel do Carmo Martins	Member
Luís Eduardo H. Guimarães(**)	Coordinator

The following are the members of the Issuer's Financial Matters Commission, elected in the General Meeting of the Issuer held on 5 August 2015

Name	**Position**
Virgílio Manuel Boavista Lima(*)	Chairperson
Eugénio Óscar Garcia Rosa	Member
Vitor Manuel do Carmo Martins	Member
Luís Eduardo H. Guimarães(**)	Coordinator

(*) ceased functions following his election as member of the General and Supervisory Board of Banco Montepio. Following his election as a member of the Board of Directors of MGAM, later he resigned as a member of the General and Supervisory Board of Banco Montepio

(**) elected as substitute of Virgílio Manuel Boavista Lima

Mandate March 2018 - 2021

Board of Directors

The current members of the Board of Directors were elected at the Extraordinary General Meeting held on 16 March 2018 and each such member started their role on 21 March 2018, with the appointment lasting until 2021. The following are the current members of the Board of Directors of the Issuer:

Name		Other positions
Carlos Manuel Tavares da Silva	Chairperson	Chairman of the Board of Directors of Montepio Investimento, S.A. Chairman of the Board of Directors of Montepio Holding, SGPS, S.A.
Dulce Maria Pereira Cardoso Mota Jorge Jacinto[1]	Executive member	Vice-President of the Executive Board of Directors
Luís Eduardo Henriques Guimarães	Non-executive member	No other positions
Amadeu Ferreira de Paiva	Non-executive member	No other positions
Manuel Ferreira Teixeira	Non-executive member	No other positions
Vítor Manuel do Carmo Martins	Non-executive member	No other positions
Rui Pedro Brás de Matos Heitor	Non-executive member	Member of the Board of Directors of HTA – Hotéis, Turismo e Animação dos Açores, S.A.
Pedro Jorge Gouveia Alves[2]	Non-executive member	Chairman of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A.
Carlos Francisco Ferreira Alves[3]	Non-executive member	No other positions
Nuno Cardoso Correia da Mota Pinto	Executive member	Member of the Board of Directors of Montepio Crédito, Instituição Financeira de Crédito, S.A. Member of the Board of Directors of Montepio Holding, SGPS, S.A. Chairman of the Board of Directors of Finibanco Angola, S.A.
José Carlos Sequeira Mateus	Executive member	Member of the Board of Directors of Banco Montepio Geral Cabo Verde

		Member of the Board of Directors of Montepio Holding, SGPS, S.A. Member of the Board of Directors of Montepio Investimento, S.A.
Pedro Miguel Nunes Ventaneira	Executive member	Member of the Board of Directors of Finibanco Angola, S.A.
Carlos Miguel Lopez Leiria Pinto	Executive member	President of the Board of Directors of Montepio Valor, S.A. Member of the Board of Directors of Montepio Investimento, S.A.
Helena Catarina Gomes Soares de Moura Costa Pina	Executive member	No other positions
Leandro Rodrigues da Graça Silva[4]	Executive member	No other positions

[1] Dulce Maria Pereira Cardoso Mota Jorge Jacinto took up its duties as executive member of the Board of Directors in 9 January 2019.
[2] Pedro Jorge Gouveia Alves took up its duties as non-executive member of the Board of Directors in 23 August 2018.
[3] Carlos Francisco Ferreira Alves took up its duties as non-executive member of the Board of Directors in 15 January 2019.
[4] Leandro Rodrigues da Graça Silva took up its duties as executive member of the Board of Directors in 9 November 2018.

Areas of responsibility of each executive member of the Board of Directors and the respective alternate Directors:

Director	**Alternate Director**	**Area of Responsibility**
Carlos Manuel Tavares da Silva	Audit Committee (hierarchical management)	Internal Auditing and Inspections (daily management) Communications
	José Carlos Sequeira Mateus	Commercial Division (Corporate and Institutional clients)
	Nuno Cardoso Correia da Mota Pinto / Carlos Miguel Lopez Leiria Pinto	Marketing
	Leandro Rodrigues da Graça Silva	Digital Marketing and Innovation
	Pedro Miguel Nunes Ventaneira	ALM

	Helena Catarina Gomes Soares de Moura Costa Pina	Management assistance office to the Board of Directors Customer Complaints Office
	Nuno Cardoso Correia da Mota Pinto	General Secretariat
Dulce Maria Pereira Cardoso Mota Jorge Jacinto	Carlos Manuel Tavares da Silva	Business Support Office
	José Carlos Sequeira Mateus	Commercial Divisions (South and Autonomous Regions; North; Centre; Lisbon)
Nuno Cardoso Correia da Mota Pinto	José Carlos Sequeira Mateus	Commercial Division (Public Sector and Social Economy)
	Carlos Manuel Tavares da Silva	Loan Portfolio Monitoring Office Office of Promoters and Representation Offices
	Pedro Miguel Nunes Ventaneira	Credit Analysis Division
José Carlos Sequeira Mateus	Nuno Cardoso Correia da Mota Pinto	Financial and International Division Investor Relations Office
	Carlos Miguel Lopez Leiria Pinto / Pedro Miguel Nunes Ventaneira	Financial Assets Monitoring Office
Pedro Miguel Nunes Ventaneira	Carlos Manuel Tavares da Silva	Strategic Planning and Accounting Division Risk Division Prudential Regulation Monitoring Office Information Management Office
Helena Catarina Gomes Soares de Moura Costa Pina	Carlos Manuel Tavares da Silva	Legal Division Human Resources Division
	Pedro Miguel Nunes Ventaneira	Compliance Division Litigation Division
Carlos Miguel Lopez Leiria Pinto	Leandro Rodrigues da Graça Silva	Credit Recovery Division

Leandro Rodrigues da Graça Silva	José Carlos Sequeira Mateus	Organisational Development Office IT Division
	Carlos Miguel Lopez Leiria Pinto	Managing Operations and Services Division

General Meeting Board

The current members of the General Meeting Board were elected at the Extraordinary General Meeting held on 16 March 2018 and each such member started their role on 21 March 2018, with the appointment lasting until 2021. The following are the current members of the General Meeting Board of the Issuer:

Name		Other positions
António Manuel Lopes Tavares	Chairperson	Not applicable
Cassiano da Cunha Calvão	Secretary	Not applicable

Audit Committee

The current members of the Audit Committee were elected at the Extraordinary General Meeting held on 16 March 2018 and each such member started their role on 21 March 2018, with the appointment lasting until 2021. The following are the members of the Audit Committee of the Issuer:

Name		Other positions
Luís Eduardo Henriques Guimarães	Chairperson	No other positions
Amadeu Ferreira de Paiva	Member	No other positions
Manuel Ferreira Teixeira	Member	No other positions
Vítor Manuel do Carmo Martins	Member	No other positions
Carlos Francisco Ferreira Alves	Member	No other positions

Remuneration Committee

To be appointed by the Board of Directors, according to the article 11 of the Articles of Association.

Risk Committee

Name	Position
Luís Eduardo Henriques Guimarães	Chairman
Manuel Ferreira Teixeira	Member
Rui Pedro Brás de Matos Heitor	Member

Statutory Auditor

The following are the members of the Statutory Auditor for the period 2016-2018:

KPMG & Associados - SROC, S.A., registered at CMVM with the number 9098, the Head Office at Edifício Monumental, Av. Praia da Vitória n.º 71-A, 11.º andar, 1069-006 Lisboa.

In the General Meeting held on 30 December 2015, KPMG & Associados – SROC, S.A., represented by Ana Cristina Soares Valente Dourado (ROC nº1011) was elected for the term 2016/2018, responsible for the audit and certification of the annual accounts during the two 12 (twelve) month periods ending on 31 December 2017 and 31 December 2016, respectively.

In July 2018 Ana Cristina Soares Valente Dourado (ROC no. 1011) was substituted by Hugo Jorge Gonçalves Cláudio (ROC no. 1597).

According to the new articles of association, the areas of focus of each governing body and corporate body are as follows:

General Meeting

A General Meeting of Banco Montepio shall consist of shareholders who have voting rights. Each share shall represent one vote. Only those shareholders with voting rights may attend, speak and vote at a General Meeting, in person or through a representative, who at the registration date, which is equal to zero hours (GMT) on the fifth working day prior to the holding of the Meeting ("**Registration Date**"), are the owners of at least one share.

The General Meeting Board shall consist of a Chair and a Secretary, elected at a General Meeting. The Chair is required to:

1. Call the General Meeting and chair its proceedings;
2. Inform the appropriate authorities, within the legal deadlines, of the outcomes of General Meeting decisions and the names of those elected to the Company's Governing Bodies;
3. Vest the members of the Governing Bodies, of Corporate Offices and members of Committees elected at a General Meeting with their respective powers;
4. Consider any justifications of absence submitted; and
5. Accept and deal with appeals lodged with the General Meeting of Shareholders pursuant to the law and within the official deadlines.

An ordinary General Meeting shall discuss the matters submitted to the Annual General Meeting, under article 376, no.1 of the Commercial Companies Code (*Código das Sociedades Comerciais*), plus any other matters included on the agenda, and an extraordinary meeting shall be held whenever one is convened in accordance with the law and these Articles of Association.

General Meeting decisions shall be taken by a simple majority of votes cast, unless otherwise prescribed under the law or the Articles of Association. General Meeting decisions regarding changes to the Articles of Association, a merger, splits, transformation or winding-up of the Company shall only be valid if they are approved by a 2/3 (two-thirds) of the votes cast.

General Meetings of Banco Montepio shall take decisions on the matters assigned them by the law and the Articles of Association, and it is charged with:

1. Electing members of the General Meeting Board the Governing Bodies;
2. Electing the Statutory Auditor, following a proposal from the Audit Committee;
3. Electing, every four years, a Remuneration Committee comprised of three independent members empowered to set the remuneration of Governing Bodies members, pursuant to article 399, no.1 of the Commercial Companies Code (*Código das Sociedades Comerciais*);

4. Discussing the management report, the individual and consolidated accounts for the year and the proposed profit distribution;
5. Conducting a general appraisal of Banco Montepio's management and supervision, with the scope laid down in the law;
6. Assessing the guidelines set out in the multiannual plans and updates, following a proposal from the Board of Directors;
7. Discussing the Company's geographical presence policy;
8. Discussing the Board of Directors' report on subsidiaries;
9. Being informed, pursuant to the law, of appeals lodged.

Board of Directors

The Board of Directors shall be comprised of a minimum of 12 (twelve) and maximum of 19 (nineteen) members, including a non-executive Chair and an executive Vice-Chair, all of whom shall be elected at a General Meeting.

The Board of Directors shall act as a body and may take decisions as long as a majority of its members is present. It shall meet as often as it deems necessary and at least once a month. Decisions shall be taken on the basis of the majority of votes cast by the members present, and the Chair shall have a casting vote.

Notwithstanding the other duties assigned by law, the Board of Directors is charged with managing the Issuer, in particular:

1. Requesting the convening of General Meetings;
2. The annual drawing up of the management report, the individual and consolidated accounts for the year and the proposed profit distribution, to be accompanied by the Audit Committee's opinion, to be submitted to the Annual General Meeting for approval;
3. Approving, annually, the action program and the budget for the following year, after receiving the Audit Committee's opinion;
4. Discussing the purchase, sale and encumbrance of assets;
5. Discussing the opening and closure of offices and any other form of representation;
6. Discussing the expansion and curtailing of Banco Montepio's business and changes to its functional structure;
7. Setting, in general terms, the interest rates, commissions, and prices to apply to banking transactions and services rendered;
8. Discussing the signing and termination of cooperation agreements with other institutions and Banco Montepio's membership of associations;
9. Discussing the issuing of bond loans and non-convertible debt instruments;
10. Discussing the purchase, sale or encumbrance of any financial holdings in companies or groups of companies;
11. Requesting admission to trading on a regulated market of securities issued by Banco Montepio;
12. Drawing up mergers, split and transformation proposals;

13. Setting up the committees and commissions it deems necessary to fulfil its duties, including a Remuneration, Appointments and Evaluations Committee and a Risk Committee, and appointing their members and chairs;
14. Representing Banco Montepio in or out of court, and undertake to abide by arbitration;
15. Co-opting Directors;
16. Appointing the Company Secretary and his/her alternate;
17. Appointing Banco Montepio's representatives to the governing bodies of institutions in which it has holdings or is a member.

The Board of Directors is charged with delegating the day-to-day management of Banco Montepio to an Executive Committee, as well as charging one or more directors with the handling of certain management matters, within the legally defined limits.

The Board of Directors shall define the make-up, operating rules and the powers of the Executive Committee, and shall appoint its chair, who shall be the Board of Directors vice-chair, and it may appoint a vice-chair.

In addition to the committees referred to in the Articles of Association, the Board of Directors may also approve the setting up of committees to monitor, on a permanent basis, specific matters, and such committees shall be chaired by a member of the Board of Directors.

Audit Committee

The Audit Committee shall be comprised of at least 3 (three) and a maximum of 5 (five) members, elected at a General Meeting from among the non-executive members of the Board of Directors. If one is not appointed by the General Meeting, the Audit Committee shall nominate a Chair from among its members.

Notwithstanding any legal requirements, the Audit Committee shall undertake a permanent assessment of Banco Montepio, in particular as regards its financial performance, the devising of the institution's strategy and general policies, the group's business structure and the decisions deemed strategic due to the sums or risks involved and, in particular:

1. Monitor Banco Montepio's management;
2. Monitor compliance with the law and the Articles of Association;
3. Check the correctness of the company's ledgers, accounting records and supporting documents;
4. Check the accuracy of the accounting documents;
5. Check whether the accounting policies and valuation criteria employed by Banco Montepio ensure the proper valuation of its assets and profits;
6. Draw up an annual report on its audit work and give its opinion on the report, accounts and proposals submitted by the Board, as well as on the action plan and budget;
7. Convene a General Meeting whenever the Chair of the General Meeting Board fails to do so;
8. Monitor the effectiveness of the risk management system, the internal control system and the internal audit system;
9. Receive notices of irregularities sent by Banco Montepio shareholders, employees or others;
10. Monitor the preparation and disclosure of financial information;
11. Propose to the General Meeting the appointment of a particular Statutory Auditor;
12. Monitor the auditing of Banco Montepio's financial statements;

13. Monitor the independence of the Statutory Auditor, particularly in regard to the provision of additional services.

The Audit Committee Chair shall convene and preside over meetings of the Audit Committee, and shall have a casting vote.

The Audit Committee shall meet as often as it deems necessary and at least once a month, and whenever convened by its Chair, on his/her own initiative or at the request of any of its members or of the Chair of the Board of Directors.

Whenever it deems it necessary, the Audit Committee shall summon to its working sessions any persons belonging to the Banco Montepio structure, as well as the external auditors.

Members of the Audit Committee shall take part in meetings of the Executive Committee whenever the accounts for the year are appraised.

The Audit Committee shall keep a written record of all checks, audits and complaints received and action taken, and the respective outcomes.

Remuneration Committee

The Remuneration, Appointments and Evaluations Committee shall be comprised of three members, including a Chair appointed by the Board of Directors from among its nonexecutive members or from among the members of the Audit Committee, and a majority of them, including the Chair, shall have the status of independent.

Members of the Remuneration, Appointments and Evaluations Committee shall be duly qualified to discuss the subjects they deal with, and at least one member shall have knowledge and experience of remuneration policy matters.

The Remuneration, Appointments and Evaluations Committee shall perform the legal duties relating to remuneration policy in keeping with the law.

The Remuneration, Appointments and Evaluations Committee shall also state its opinion as to the suitability of the proposed supplementary retirement pension, for old age or disability, schemes for directors, to be approved by way of specific regulations at a General Meeting, pursuant to article 402 of the Commercial Companies Code (*Código das Sociedades Comerciais*).

At least one member of the Remuneration, Appointments and Evaluations Committee shall be present at General Meetings that discuss matters falling within its mandate.

The Remuneration, Appointments and Evaluations Committee shall draw up minutes of its meetings.

Risk Committee

The Risk Committee shall consist of three members, including a Chair, appointed by the Board of Directors from among its non-executive members or from among Audit Committee members, who possess the knowledge, skills and experience required by law. A majority of Risk Committee members, including the Chair, shall have the status of independent.

The Risk Committee is charged with performing the duties set out in the law and, in particular:

a) Advising the Board of Directors as to Banco Montepio's risk appetite and its general, current and future risk strategy;

b) Assisting the Board of Directors in its supervision of the implementation of Banco Montepio's risk strategy;

c) Analysing the terms and conditions of Banco Montepio's products and services and providing the Board of Directors with a correction plan whenever its analysis shows that the terms and conditions do not adequately reflect the risk.;

d) Examining whether the incentives defined in Banco Montepio's remuneration policy take into consideration risk, capital, liquidity and expectations as to results.

The Committee shall draw up minutes of its meetings.

The Statutory Auditor

The Statutory Auditor, elected at a General Meeting, following a proposal from the Audit Committee, shall possess the skills required by law, namely by the Commercial Companies Code (*Código das Sociedades Comerciais*). The Statutory Auditor shall attend General Meetings at which the accounts are appraised and whenever his presence is requested.

Conflicts of Interest

While all the members of the Governing Bodies mentioned above represent the Issuer on their respective boards, none of them have any conflict or potential conflict between their duties to the Issuer and their private interests or other principal activities as listed above.

Business Addresses

The business address of each of the Directors, the Board of Directors and the Audit Committee Members listed above is Rua Castilho, n.º5, 10º andar, postal code 1250-066, Lisbon, Portugal.

CAIXA ECONÓMICA MONTEPIO GERAL, CAIXA ECONÓMICA BANCÁRIA, S.A. AND ITS RELATIONSHIP WITH MGAM

The information set out below in relation to MGAM is set out for information only. MGAM is not responsible for payments on the Covered Bonds issued under the Programme which are the sole responsibility of Banco Montepio.

Banco Montepio was established by MGAM as a dependent entity of MGAM with a view to paying MGAM its annual net profits (subject to any deduction required by Banco Montepio's Articles of Association) so as to enable MGAM to meet its own objectives as a mutual benefit association. MGAM is a "private institution of social support" (i.e. a mutual benefits association) whose principal objects are to promote and develop initiatives designed to ensure the social protection and welfare of its members, their families and other beneficiaries nominated by them. MGAM is not permitted to carry out banking or trading activities. It is limited to its principal social welfare objects. MGAM can, however, establish subsidiaries and can invest its funds in a number of ways. It is subject to the Portuguese Mutual Association Code. As at 31 December 2017, the total number of MGAM's permanent members was 625,419. The welfare schemes which MGAM offers include pensions and other retirement benefits, disability benefits, death grants, guarantees of the payment of housing charges, life annuities, study schemes and other schemes for young people and a wide variety of collective schemes.

MGAM's main source of funds is membership revenues. Those funds are invested in property and a number of different types of securities and equity participations, particularly financial institutions (including its interest in Banco Montepio). It also has co-operation agreements with a variety of organisations in health and welfare. Other activities include the organisation of members' social functions, publication of a members' magazine, sponsorship of cultural, artistic and social events and the awarding of prizes and scholarships.

Banco Montepio is a savings bank (*caixa económica bancária*) organised as public limited liability company (*sociedade anónima*). It has separate legal personality and MGAM has no responsibility in respect of Banco Montepio's debts. MGAM has not guaranteed the Covered Bonds.

MGAM is under no legal obligation to increase Banco Montepio's share capital or otherwise to support Banco Montepio. Deposits with Banco Montepio are covered by the Portuguese deposit guarantee fund up to the prescribed limit. Banco Montepio is authorised to carry on business as a universal bank, under the supervision of the Bank of Portugal. It can carry out stock exchange transactions, trade in derivatives (for its own account or otherwise). It is, in principle, required by law to take a mortgage with respect to financing home purchases and, in common with most banks, it is limited in terms of credits and exposures to a single entity.

THE PORTUGUESE MORTGAGE MARKET

The economic conditions, particularly the decrease in the inflation rate, the related easing of the level of the interest rates and the process of integrating the Portuguese economy into the European Monetary Union, witnessed during the second half of 1990s, have stimulated an improvement in the living conditions of the Portuguese Population. These factors, together with the lack of residential dwellings and the negligible rental market, have determined the development of the Portuguese mortgage market.

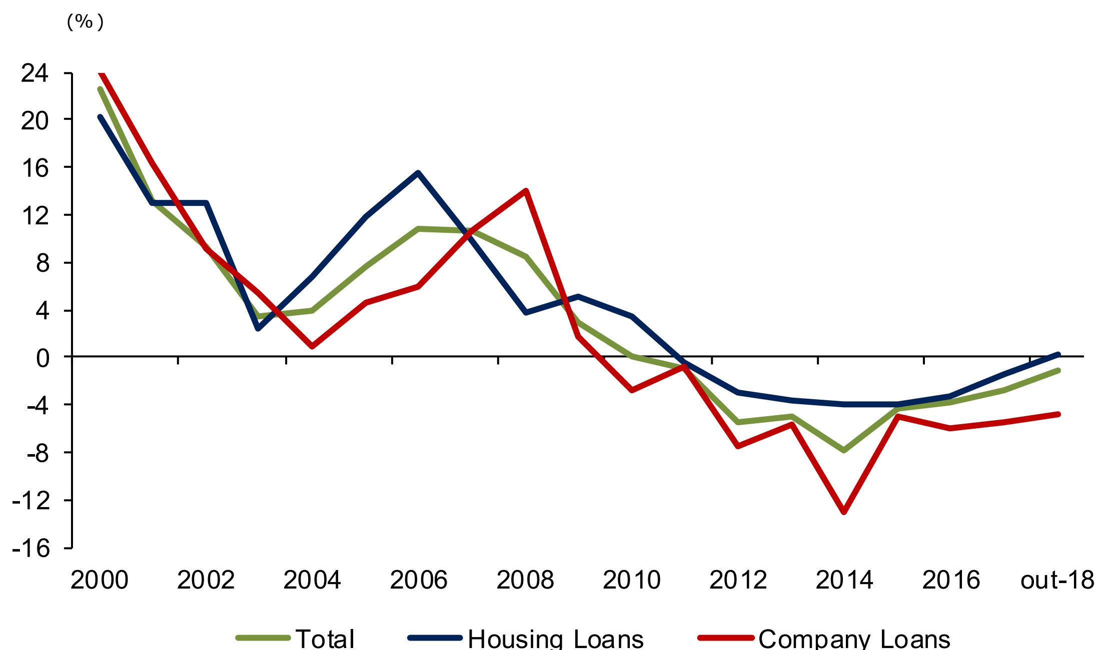
Until 1992, due to legal restrictions, residential mortgage lending was concentrated in only three institutions – the state owned Caixa Geral de Depósitos and Crédito Predial Português (state owned at that time and now integrated in Santander Totta) and the privately owned Caixa Económica Montepio Geral (the Issuer). The deregulation and liberalisation on the banking activity implemented created the conditions to the progressive entry of all the banking institutions into the mortgage business, taking advantage of the increased demand for residential mortgage loans as a result of the aforesaid factors. In particular, it is worth noting the impressive decrease in interest rates (Euribor 3M), from a level of 11.7 per cent., in 1993, to -0.309 per cent. as of 31 December 2018, being negative since April 2015.

In 1993, there were 21 different significant operators (institutions) in the Portuguese mortgage market. From 2000, as a result of a succession of mergers and acquisitions, the banking sector has become increasingly concentrated, with the Portuguese residential mortgage market largely dominated by the six largest lenders: Caixa Geral de Depósitos (which still retains market leadership), Millennium BCP, Novo Banco (Ex-Banco Espírito Santo), Santander Totta (controlled by the Spanish BSCH group), Banco Português de Investimento and Caixa Económica Montepio Geral (the Issuer).

As a result of these developments, competition in the residential mortgage market has significantly increased. This is reflected in the strong investment in aggressive advertising campaigns made by the largest lenders to attract new customers and provide them with long-term loans, drawing on recent improvements in the efficiency, speed and quality of the service and technological innovation, which have all had an important impact on the developments witnessed in the residential mortgage market.

Until 2002, the mortgage market grew at a double-digit pace per year, but in 2003, the economic downturn caused a slowdown in the mortgage market. During the period 2003-2006, the mortgage business regained its momentum, though this pace did not last long. In fact, since 2006, the mortgage market began a slowdown movement, with growth levels decelerating from 15.6 per cent. to a decrease of -3.9 per cent., as of December 2015, but having since then shows a recovery trend, presenting a growth rate of -1.4 per cent. in December 2017 and +0.2 per cent. in October 2018, the first positive growth since 2011. This deceleration has been intensified by the economic and financial crisis and because of the deleveraging process required under the "Memorandum of Understating" between Portugal and the IMF/ECB/EC signed in May 2011, together with more stringent underwriting criteria imposed by banks. The deleverage process of the mortgage market had created a downward trend that led to default, decline in the housing prices, the consequent deterioration in the asset prices, the reduction in the money lend by banks, ending up in a severe recession. There are evidences of a heterogenic performance between the real estate residential market and the real estate commercial within the Euro Area. Portugal in the European context reveals opportunities for its real estate residential market, which may have already found its trough and is now recovering. As far as the price per square meter is concerned Portugal has a value that is significant below the European average. Urban rehabilitation is by far one of the major opportunities in the real estate residential market, worth €24 billion, only in housing patrimony, which could be used to improve the economic activity in the construction business, boost employment and enhancing the economic recovery. The rehabilitation market has a characteristic that distinguishes from other sectors, which is the investment multiplication factor that is associated with it. The sector is characterized by its abundance in labour force, attracting productive investment which leads to a greater competitive of the economy in the long run.

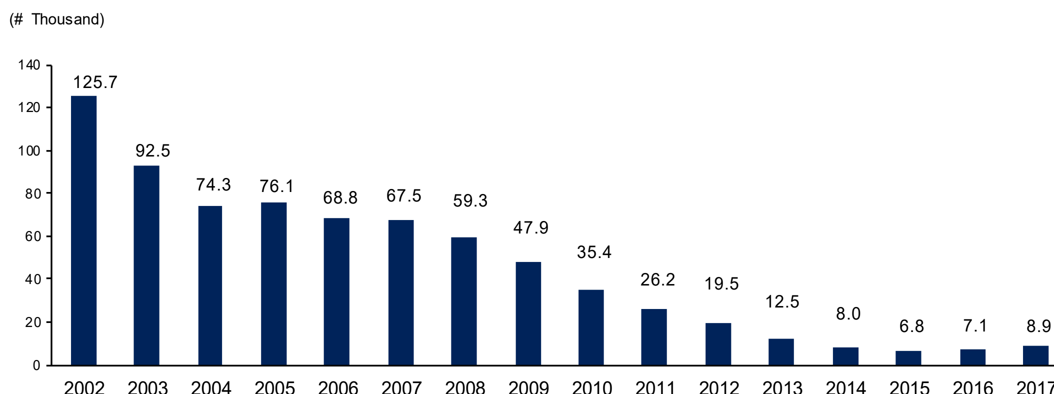
Loans Growth Rate



Source: Bank of Portugal Statistics

Since 2002 there has been a downward trend in the residential market, with a continued reduction in the number of completed houses, a trend that began to be reversed in 2016, when there was a slight increase in built houses.

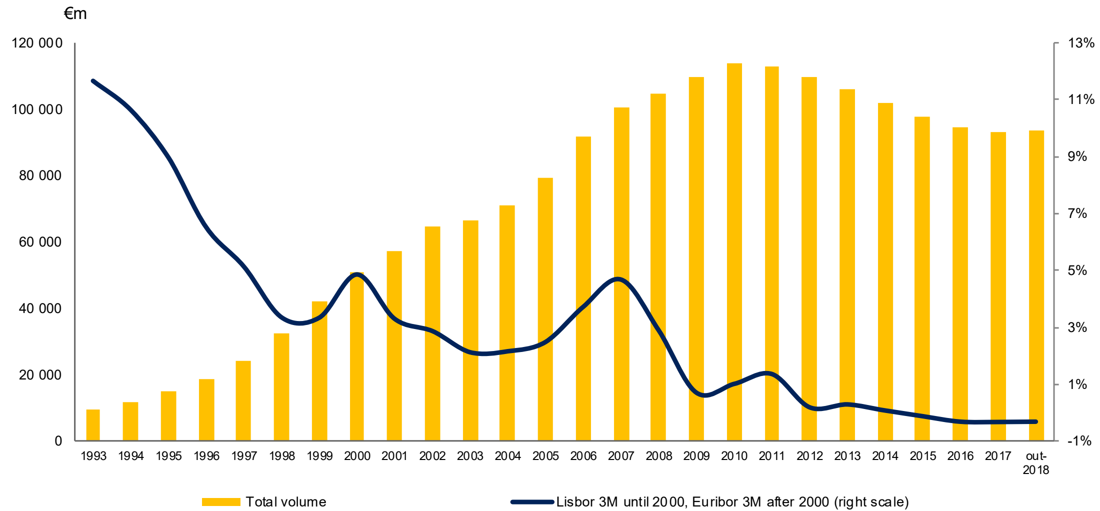
Completed Houses



Source: INE (National Statistics Institute), Statistical Yearbook, Statistics on Construction Works Completed

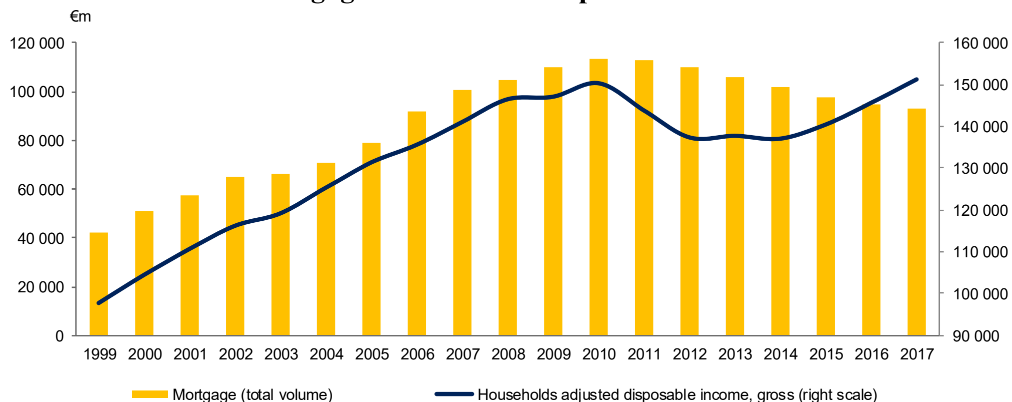
In spite of the recent decrease in new housing construction, there is now more potential demand for buildings, which can be explained by the following factors: (i) the recovery of the Portuguese economy since 2013, despite the slowdown in the most recent quarters; (ii) the surge in the number of families and their changing structure; (iii) the increase of secondary housing and residential tourism, mainly for foreign

residents; (iv) the demand for refurbishment and renovation works; (v) the expected gradual development of the rental market; (vi) an increase in the investors' risk appetite; and (vii) the decrease of the offer to upper classes on the housing market.



Source: Bank of Portugal Statistics; Thomson Reuters.

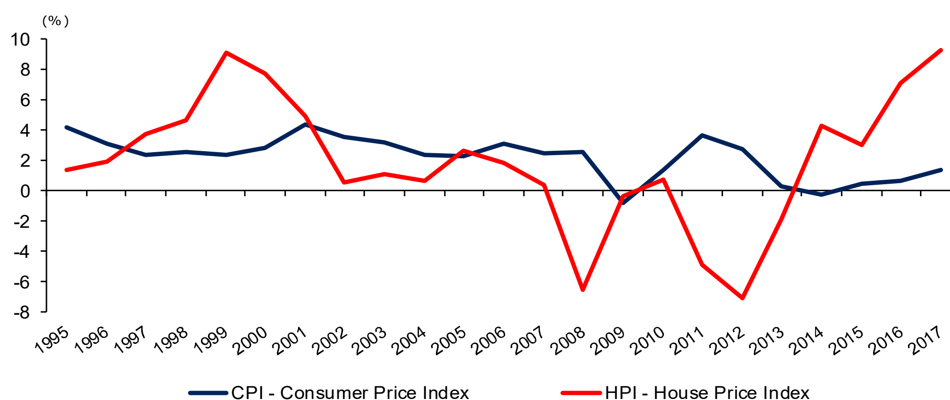
Although still falling year-on-year, the prospects are for a recovery of the credit market, particularly in mortgage loans. A recovery that will result from a combination of several factors: i) the monetary policy measures adopted by the ECB with a direct impact on the availability banks liquidity and also in terms of reduction in yields of Portuguese debt, which make the credit to the real economy more appealing compared to the purchase of public debt; ii) the successive signs of economic activity recovery, impacting in the expected reduction of non-performing loans; iii) the fact that the banking system needs to grow in new loans, to increase operational profitability, which is conditioned by the low profitability of the existing mortgage loans stock that have excessively low spreads against Euribor; iv) the fact that the banking system has already made in previous years the most of the deleveraging process.



Source: Bank of Portugal Statistics; INE (National Statistics Institute).

Portuguese real estate asset prices rose during the period 1995 to 2001, as a consequence of the shift from a high to a low interest rate environment and to an extraordinary high level of housing demand. Still, after 2001, property prices showed modest growths until 2007, with an annual average growth rate of 1.2 per cent. in the period 2002-2007, followed by a period of falling prices between 2008 and 2013, with an annual average growth rate of -2.7 per cent.. The house prices are exhibiting a path of recovering since the end of 2013, with a growth rate of 3.1 per cent. in 2015 and with a strong acceleration in 2016 for a growth rate of 7.1 per cent. and in 2017 for an annual growth rate of 9.2 per cent., the highest since 1992 (+11.2 per cent.), and 9.3 per cent. in 2018 (until September).

House Price Index vs. Inflation in Portugal since 1995



Source: CPI (INE - National Statistics Institute); HPI: Confidencial Imobiliário (until 2009, after that INE HPI);

From 2010 until 2012, the demand for houses declined, as a consequence of the economic crisis and of the adoption of more stringent underwriting criteria by banks, which caused a decrease in the Portuguese house price index growth rate since mid 2011. In fact, houses prices (INE data), decreased 4.9 per cent. in 2011, 7.1 per cent. in 2012 and 1.9 per cent. in 2013. In the same year, consumer price index (CPI) inflation was 3.7 per cent., 2.8 per cent., and 0.3 per cent, respectively. In 2014, CPI inflation recorded a negative value (-0.3 per cent) given to the lower economic activity and the significant decline in the energy prices, and just accelerated to 0.5 per cent. in 2015, 0.6 per cent. in 2016 and 1.4 per cent. in 2017, but houses prices have increased 4.3 per cent. in 2014, 3.1 per cent. in 2015, 7.1 per cent in 2016 and 9.2 per cent. in 2017. In September 2018, house prices showed an annual growth rate of 8.5 per cent., when inflation was at 1.4 per cent..

In the last Banco de Portugal (BdP) Financial Stability Report (December 2018), the market and financial sector risks associated with high real estate prices were highlighted. Indeed, BdP acknowledges that, in recent quarters, there have been signs of over-pricing in residential real estate prices in aggregate terms, "although limited". At regional/local level, however, there are situations where this phenomenon is already more pronounced, particularly in the cities of Lisbon, Porto and Faro. This evolution is due to the strong dynamics of tourism and direct investment by non-residents, as well as the Portuguese economy recovery, which contributed to the improvement of the perception of national and international investors. BdP notes, however, that the acceleration of residential real estate prices between the end of 2013 and the first half of 2018 was shared by many Eurozone countries, in some cases accompanied by a strong growth in mortgage lending. In Portugal, "the credit granted by resident banking institutions is not the main factor for the evolution of prices in the residential real estate market", since there is still a reduction in the stock of housing loans "although in a way less and less expressive". The BdP also stresses that "the evolution of house prices in Portugal in the pre-crisis period was very different from that observed in other countries also affected by the financial crisis, in particular in the case of Ireland and Spain", noting that "the

residential real estate market in these countries was characterized by a strong overvaluation in the period before the crisis, followed by an abrupt adjustment, which was not observed in Portugal." BdP said that demand for non-residents continues to boost the real estate market in Portugal, albeit at a slower pace. Since 2012, there has been an increase in investment by non-residents, both in terms of number of properties and in terms of transactions. "This evolution can't be dissociated from the introduction in 2009 of a more favourable tax regime for "non-habitual" foreigners and the approval in 2012 of "Vistos Gold" regime. The recovery of the real estate market "is also a consequence of tourism dynamic, which boosts the demand for real estate by investors, in particular by local housing". In addition to the demand for housing, the dynamics of prices in the residential real estate market also reflects developments in the supply of real estate of this type. Thus, in view of the dynamics of the residential real estate market, BdP believes that it is "important to promote a sustained adjustment of supply and demand, which will jeopardize social concerns, efficiency in the allocation of resources in the economy and financial stability". In this sense, argues that" it will be relevant that the institutional framework with an impact on the functioning of the real estate market is optimized and acquires stability, for example at justice system level and fiscal or market rules". This will allow greater security in the investment in this type of asset, According to BdP, "a functional rental market, with an adequate balance between the rights of landlords and tenants, has the potential to promote a broader range of choices for all economic operators". For example, the reduction of geographical mobility costs, the promotion of urban regeneration and the creation of an alternative for the application of savings. In this report, BdP also believes it is important that, in situations of a more pronounced valuation of real estate, credit institutions adequately assess the risks that arise when they take exposures related to these assets. So, according to BdP, "although this is not yet significantly the aggregate market situation, there may be some cases of overestimation in certain geographical areas and market segments".

DESCRIPTION OF THE ISSUER'S RESIDENTIAL MORTGAGE BUSINESS

The Residential Mortgage Business of the Issuer

The Issuer is one of Portugal's largest residential mortgage lenders, a business it was authorised to develop long before the market was liberalised in 1991. In spite of the strong competition that followed that event, the Issuer has been able to maintain its market position and its recognition as a major player in this business.

With the aim of defending its position as a mortgage specialist, focus is given to the quality of the service provided to its customer base, along with the adoption of rigorous, ethical and transparent practices.

Origination

All of the Issuer's residential mortgage loans are originated at the branch level. This may take place as a result of direct contact with borrowers, or via proposals submitted to the Issuer by real estate agents. In each case, the client will have to go to the branch to follow the standard application and approval process.

Credit Decision

The Issuer has adapted product policies applied before the financial crisis that included decreasing loan-to-value ratios and maturities as well as introducing less flexible repayment schemes.

The Issuer has refocused its strategic guidelines for mortgage lending, focusing on credit decisions, delinquency loans and customer profitability.

In Portugal, most residential mortgage loans pay interest on a floating rate basis, indexed to 3, 6 and 12 month Euribor (being the 12 month the current benchmark) with a spread depending on the loan-to-value ratio and the relevant clients' scoring under Basel II rules. While most banks offer fixed or capped rate alternatives, Portuguese borrowers have shown little interest in these types of products. The potential evolution of installments and the impact on delinquency are considered in the Issuer's credit decision.

In order to prevent future increases in Euribor and over indebtedness, the Issuer stresses the financial customer capacity evaluation for new loans by adding 300 basis points to the standard loan rate (ie to the Euribor plus spread applicable to the loan).

Additionally, the Issuer uses the risk-adjusted pricing, a model in credit decision which seeks to respond to market developments and the requirements of Basel II.

This model comprises client scoring, which assesses the risk level of clients from a wide range of variables, such as socio-demographic, economic and financial and relationship ones. Additionally, the Issuer is applying a consistent rise in pricing, better adjusted to client risk.

Underwriting

Mortgage loans applications are submitted by customers at the local branches. At the branch of the commercial area, the information required in accordance with internal credit rules (i.e. financing application, identity documents, informative questionnaires and official documents evidencing the customer's income) is collected, checked and entered into the "Credit Scoring System". This system automatically checks whether there is any relevant information on the customer stored in internal and/or external databases and also checks the application against the main credit policies/rules (i.e. Loan-to-Value, Debt-to-Income).

The Credit Analysis Department (an independent area of the Commercial Department) issues a binding opinion in the second and third levels of decision.

The proposals are submitted through a workflow system that automatically validates the competent level for decision. The approval of housing loans is the responsibility of four levels of management, involving the Branch, the Regional Department and Credit Analysis Department, the Commercial Manager and the Credit Analysis Manager and the Executive Board.

The limits depend on the score and Loan to Value (LTV):

1st Level: Branch (Loan amount limit): €125,000 to €200,000 (highest to the lowest risk score) and LTV not higher than 80 per cent.

2nd Level: Regional Department and Credit Risk Department: €200,000 to €450,000 and LTV not higher than 80 per cent.

3rd Level: Commercial Manager and the Risk Analysis Manager: €450,000 to €1,000,000

4th Level: Executive Board: Other cases

Once a decision has been made by the relevant decision level, the customer is formally informed by mail.

Insurance Cover

Property insurance coverage is required in respect of any property which is the subject of a mortgage loan. The existence of fire or multi-risk insurance is compulsory for an amount equal to the property reconstruction value and with an insurance company approved by the Issuer.

Life insurance is also compulsory, for an amount at least equal to the value of the loan and for all the borrowers, which, in case of death or permanent invalidity of the borrower, guarantees the payment of the outstanding capital to the Issuer.

Security Interests

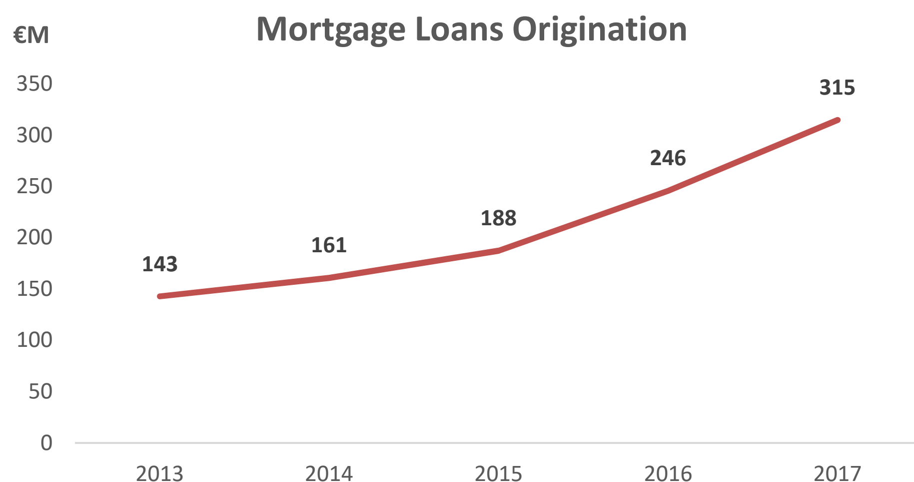
Loans are secured by first ranking mortgage over the property to be purchased. In exceptional cases, this may be replaced by a guarantee over another property or by a pledge of securities/deposits.

Mortgage Products

Under the laws of the Portuguese Republic, the term of any mortgage contract may exceed 30 years. The Issuer's underwriting criteria include a maximum term of 40 years, however the age of the borrower on the maturity date cannot be greater than 75 years. All loans must be repaid in instalments (comprising interest and principal) and paid by direct debit (the system automatically debits the customer's current account associated with the loan), usually on a monthly basis.

The majority of residential mortgage loans pay interest on a floating rate basis, indexed to 3, 6 or 12 month EURIBOR, plus a spread, depending on the LTV ratio and on the risk class assigned by the scoring system.

In order to mitigate the risk, the underwriting criteria for mortgage loans was revised, pursuant to which LTV and debt-to-income ratios are kept at a maximum of 80 per cent. and 50 per cent., respectively.



In the most recent years, the improvements in households' disposable income and the more favourable outlook for both price developments in residential immovable property and the economic environment contributed to an increase in the mortgage loans origination although well below the levels seen before 2007 which registered an annual mortgage loan origination above €2bn.

Monitoring

The Issuer proceeds to the monitoring of the credit portfolio on a monthly basis. In that process, the Issuer closely analysis the performance of a number of indicators, which include the risk ratios and a set of quality indicators, such as debt to income, the loan-to-value ratio, and the risk class. The Issuer also performs regular revisions to the scoring models, in order to guarantee their accuracy. For that purpose, a number of indicators are analysed, such as the overrides and the acceptance and rejection rates.

Delinquency management in the mortgage business

For the Issuer, the residential mortgage business requires a strict and consistent management of delinquency, using multiple solutions to prevent and mitigate non-performing loans.

Early detection of delinquency situations led to the creation of the concept of client in financial distress. A customer is in financial distress when the client records a default within the Issuer, or when the client shows difficulty in paying expenses, even if the customer is not yet in default. In either circumstance, typically, the client has had a reduction of disposable income, meaning an increase in the debt-to-income ratio when compared to that observed at the time of underwriting.

For these clients, the Issuer has enhanced its information systems in order to detect customers (i) with a partial delay in paying of at least one mortgage installment; (ii) using the total overdraft limit negotiated in a two-month period; (iii) using the full credit limit in credit cards at least once in the last 6 months; (iv) with an indication of credit written-off, non-performing loans or credit renegotiation in Bank of Portugal's systems.

It also detects customers whose payments, by direct debit, are lagging behind or whose debit payments have been cleared.

New legislation relating to default situations within the context of residential loan agreements was established from 2012 onwards, which resulted in the adoption of new concepts for the characterisation of customers who are in economic difficulty and new measures aimed at preventing default and promoting extrajudicial renegotiation of loans, applicable to credit institutions.

Like other Banks, the Issuer has implemented the Pre-arrears Action Plan (PARI), with new rules,

procedures and measures which allow for: early detections of signs of delinquency risk, implementing systems to identify default risk; control of borrowers who report financial difficulties; the adoption of measures to prevent arrears; the evaluation of evidence of default risk; repayment solutions proposals, whenever the risk of failure is caused by temporary and specifically defined circumstances; evaluation of the financial capacity of the client; contract restructuring or credit agreements consolidation proposals, in cases where the risk of default is assumed to be permanent.

The Issuer has also created an extrajudicial settlement procedure for borrowers in default situation (PERSI), with several measures intended to automatically detect customers in default and propose timely contractual changes and restructurings, including: the notification of customer arrears and amounts due, to the borrower and guarantors; registration of the reasons for non-compliance and assessment of the financial capacity of the client; reporting clients about the evaluation of failure; contractual remedies proposals, adequate to each borrower's financial situation.

Arrears management in Pre-Litigation

The arrears management in the first 60 (sixty) days is performed at branch level. At the first missed payment, letters are sent to debtors and guarantors requesting repayment of overdue amounts. The commercial network is informed of the arrears and is encouraged to contact customers for the respective regularization.

Contacts are also made via Contact Centre at the 10th, 30th and 45th day of arrears. Scripts are different, becoming more assertive as the time in arrears increases.

All phone contacts are recorded and registered in a dedicated credit recovery software (SIRA), and if necessary, meetings are scheduled between the borrowers / guarantors and the respective branches.

The Issuer also developed software and proceedings for dealing with the customers that are eligible for PERSI-Extrajudicial Procedure Default Situations Regularization (Decree-Law No. 227/2012, of 25 October) namely whenever the Client alerts about the risk of default, transmit facts indicating the deterioration of its financial capacity or explicitly request the inclusion in PERSI. For the remaining customers PERSI is triggered after 31 (thirty one) days in arrears.

After 60 (sixty) days in arrears the process is monitored by the Credit Recovery Division. Several letters are sent to the borrowers and guarantors, as well as outbound calls to the borrowers and guarantors, notifying them on the delinquent status of the loan and advising about a new channel for payments (via net banking and ATM's) in addition to the standard direct debit procedure.In the following 30 (thirty) days, every legal steps provided for in PERSI, including contacts, letters and negotiations for the resolution of the situation, are made. The solutions go through:

- Regularization plans for credit recovery;
- Extension of the contractual maturity;
- Deferring part of principal outstanding for the final installment;
- Contractual changes with grace periods of principal;
- Contractual changes with grace periods of principal and interest;
- Customer's debt restructuring through a new contract with new warranties and / or guarantors;
- Credit reimbursement by selling the collateral to a third party;
- Taking back the property (*deed in lieu*).

After 60 (sixty) days in arrears the Issuer uses the services of its internal individuals' recovery unit and extrajudicial recovery specialized companies. These companies are paid only if credit is recovered. Communication with the companies is made daily in both directions, based on electronic means through a secure server (FTPs - File Transfer Protocol Secure) using interface files with the data for the recovering

process. The process will stay for 60 plus 60 days with two different companies.

After 180 (one hundred and eighty) days in arrears, if it is not possible to reach an agreement with the customer, then the legal process is initiated. Due to the current economic situation and the difficulties of families this period may be extended, if necessary.

Arrears Management - litigation

The judicial recovery process is performed by internal lawyers for files with greater complexity / exposure; for the remaining processes the Issuer engages law firms. The exchange of information with the law firms is performed daily through a secure server (FTPs - File Transfer Protocol Secure) using interface files with the data and scanned documents. Even at this stage, a settlement out of court is still possible.

Covered Bond Programme - main characteristics

The table below shows the main characteristics of the Covered Bond Programme, as of 31 December 2018 (the full version of the quarterly Investor Report as well as any future quarterly updates thereto are available for consultation at https://www.bancomontepio.pt/institucional/investor-relations-funding-programmes).

Covered Bonds Issues	Issue Date	Coupon	Maturity Date	Remaining Term	Nominal Amount
Covered Bonds Outstanding				**4.61**	**2,300,000,000**
Syndicated Covered Bonds Issues					
Series 10 (ISIN PTCMGTOM0029)	17/10/2017	Fixed Rate	17/10/2022	3.80	750,000,000
Private Placements Covered Bonds Issues					
Series 5 (ISIN PTCMGROE0021)	09/12/2015	Floating Rate	09/12/2020	1.94	500,000,000
Series 6 (ISIN PTCMGEOE0034)	09/11/2016	Floating Rate	09/11/2023	4.86	300,000,000
Series 8 (ISIN PTCMGFOE0033)	16/12/2016	Floating Rate	16/12/2026	7.96	500,000,000
Series 9 (ISIN PTCMGSOM0020)	22/05/2017	Floating Rate	22/05/2024	5.39	250,000,000

Mortgage Credit Pool				
Main Characteristics				
Number of Loans				61,396
Aggregate Original Principal Balance (EUR)				4,460,450,914.04
Aggregate Current Principal Balance (EUR)				2,726,688,235.31
Average Original Principal Balance per loan (EUR)				72,650.51
Average Current Principal Balance per loan (EUR)				44,411.50
Current principal balance of the 5 largest borrowers (EUR)				4,119,001.71
Weight of the 5 largest borrowers (current principal balance) %				0.15%
Current principal balance of the 10 largest borrowers (EUR)				6,394,067.46
Weight of the 10 largest borrowers (current principal balance) %				0.23%
Weighted Average Seasoning (months)				135.93
Weighted Average Remaining Term (months)				255.51
Weighted Average Current Unindexed LTV[5] (%)				51.31%
Weighted Average Current Indexed LTV[5] (%)				n.a.
Weighted Average Interest Rate (%)				1.233%
Weighted Average Spread (%)				1.370%
Max Maturity Date (yyyy-mm-dd)				04/02/2066
Subsidized Loans	**Number of Loans**	**% Total Loans**	**Amount of Loans**	**% Total Amount**
Yes	9,407	15.32%	235,821,788	8.65%
No	51,989	84.68%	2,490,866,447	91.35%
Insured Property[6]	**Number of Loans**	**% Total Loans**	**Amount of Loans**	**% Total Amount**
Yes	61,396	100.00%	2,726,688,235	100.00%
No	0	0.00%	0	0.00%
Interest Rate Type	**Number of Loans**	**% Total Loans**	**Amount of Loans**	**% Total Amount**
Fixed	4,436	7.23%	189,391,517	6.95%
Floating	56,960	92.77%	2,537,296,719	93.05%
Repayment Type	**Number of Loans**	**% Total Loans**	**Amount of Loans**	**% Total Amount**

Annuity / French	60,894	99.18%	2,702,447,274	99.11%
Linear	0	0.00%	0	0.00%
Increasing instalments	210	0.34%	11,113,239	0.41%
Bullet	0	0.00%	0	0.00%
Interest-only	0	0.00%	0	0.00%
Other	292	0.48%	13,127,723	0.48%

Seasoning	**Number of Loans**	**% Total Loans**	**Amount of Loans**	**% Total Amount**
Up to 1 year	1,358	2.21%	111,271,610	4.08%
1 to 2 years	1,838	2.99%	139,932,192	5.13%
2 to 3 years	1,514	2.47%	110,023,816	4.04%
3 to 4 years	1,309	2.13%	86,511,044	3.17%
4 to 5 years	1,178	1.92%	77,724,987	2.85%
5 to 6 years	895	1.46%	58,459,015	2.14%
6 to 7 years	684	1.11%	42,974,432	1.58%
7 to 8 years	1,146	1.87%	72,718,557	2.67%
8 to 9 years	2,063	3.36%	124,114,419	4.55%
9 to 10 years	2,170	3.53%	117,486,585	4.31%
10 to 11 years	3,133	5.10%	147,061,933	5.39%
11 to 12 years	5,415	8.82%	247,794,968	9.09%
More than 12 years	38,693	63.02%	1,390,614,677	51.00%

Remaining Term	**Number of Loans**	**% Total Loans**	**Amount of Loans**	**% Total Amount**
Up to 5 years	6,366	10.37%	51,903,385	1.90%
5 to 8 years	4,029	6.56%	86,715,305	3.18%
8 to 10 years	5,694	9.27%	153,249,878	5.62%
10 to 12 years	7,247	11.80%	234,698,101	8.61%
12 to 14 years	7,317	11.92%	288,411,263	10.58%
14 to 16 years	3,665	5.97%	158,418,133	5.81%
16 to 18 years	2,685	4.37%	132,137,012	4.85%
18 to 20 years	2,397	3.90%	128,719,435	4.72%
20 to 22 years	2,692	4.38%	157,287,975	5.77%
22 to 24 years	2,480	4.04%	153,746,394	5.64%
24 to 26 years	3,236	5.27%	204,828,681	7.51%
26 to 28 years	4,493	7.32%	291,670,074	10.70%
28 to 30 years	2,268	3.69%	156,859,324	5.75%
30 to 40 years	6,657	10.84%	514,804,704	18.88%
More than 40 years	170	0.28%	13,238,572	0.49%

Current Unindexed LTV	**Number of Loans**	**% Total Loans**	**Amount of Loans**	**% Total Amount**
Up to 40%	26,495	43.15%	718,146,998	26.34%
40 to 50%	11,917	19.41%	534,042,115	19.59%
50 to 60%	8,604	14.01%	489,893,568	17.97%
60 to 70%	8,205	13.36%	535,199,813	19.63%
70 to 80%	6,175	10.06%	449,405,742	16.48%
More than 80%	0	0.00%	0	0.00%

Loan Purpose	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Owner-occupied	55,193	89.90%	2,447,967,743	89.78%
Second Home	3,981	6.48%	192,718,064	7.07%
Buy to Let	792	1.29%	33,261,020	1.22%
Other	1,430	2.33%	52,741,408	1.93%

Property Type	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Residential	**61,396**	**100.00%**	**2,726,688,235**	**100.00%**
Flat	48,479	78.96%	1,962,257,756	71.96%
House	12,917	21.04%	764,430,479	28.04%
Other	0	0.00%	0	0.00%
Commercial	**0**	**0.00%**	**0**	**0.00%**

Geographical Distribution	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
Portugal	**61,396**	**100.00%**	**2,726,688,235**	**100.00%**
North	18,745	30.53%	754,316,667	27.66%
Center	10,052	16.37%	428,386,665	15.71%
Lisbon	21,021	34.24%	995,606,955	36.51%
Alentejo	3,045	4.96%	138,587,867	5.08%
Algarve	3,873	6.31%	177,870,790	6.52%
Madeira	1,670	2.72%	85,983,127	3.15%
Azores	2,990	4.87%	145,936,163	5.35%

Delinquencies[7]	Number of Loans	% Total Loans	Amount of Loans	% Total Amount
> 30 to 60 days	123	0.20%	5,830,344	0.21%
> 60 to 90 days	0	0.00%	0	0.00%
> 90 days	0	0.00%	0	0.00%

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

The following is a brief overview of Portuguese legal provisions applicable to the issuance of Covered Bonds. Prospective investors should seek their own independent legal advice.

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 Regulatory Notices**"), which comprises both regulatory notices ("*Avisos"*) and instructions. The Bank of Portugal Regulations address matters such as the segregation of the assets included in the 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, namely:

- 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;
- 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;
- 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;
- Instruction ("*Instrução*") no.13/2006, of the Bank of Portugal, 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.

ISSUERS OF COVERED BONDS

Mortgage covered bonds ("*obrigações hipotecárias*") may be issued by credit institutions (the "**Institutions**") legally authorised to grant credits guaranteed by mortgages over property and having own funds amounting to no less than €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**" and together with the Credit Institutions, the "**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 and acquiring (i) credits guaranteed by mortgages, (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.

If covered bonds are issued by a Mortgage Credit Institution backed by credits acquired from a third party originator, the cover assets must be transferred to the Mortgage Credit Institution and, if such Mortgage Credit Institution is wholly-owned by such originator, the assets and liabilities relating to the relevant issue of covered bonds and the related cover pool will be consolidated with such originator. However, it is also possible for a Mortgage Credit Institution to have multiple owners, in which case the issues of covered bonds and the allocated cover pool may or may not be consolidated with the originator of the relevant credits.

An Institution must manage its cover pool as well as any properties that it may acquire as a result of the enforcement of delinquent mortgage credits. Institutions may also undertake certain activities necessary to obtain additional liquidity.

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 a separate estate, i.e. 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 thus establishes a special regime which prevails over general Portuguese insolvency rules.

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

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

(a) pecuniary receivables not yet matured, which are neither subject to conditions, nor encumbered, judicially seized or apprehended and which are secured by first ranking mortgages over residential or commercial real estate located in an EU member state;

(b) mortgage credits secured by junior mortgages provided all mortgage credits secured by senior mortgages on the same property are held by the Issuer and allocated to the Cover Pool;

(c) receivables secured by a personal guarantee granted by a credit institution or an appropriate insurance policy, in each case together with a mortgage counter guarantee evidencing (a) or (b) 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 ECB 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 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 meeting both the low risk and high liquidity requirements of the Bank of Portugal Regulatory Notices.

The aggregate value of the Other Assets may not exceed 20 per cent. of the aggregate value of the Cover Pool 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, for the purposes of the Covered Bonds Law, are located in Portugal and secured primarily on residential property.

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 obtaining (in each case for so long as the Covered Bonds are rated by such rating agency) from Fitch and/or Moody's a confirmation that any such action will not result in a downgrade of the rating then ascribed by such rating agency to the Covered Bonds.

Hedging contracts may also be included in the cover pool for hedging purposes, namely to hedge interest rate, foreign exchange rate and liquidity risks. The Bank of Portugal Regulatory Notices 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 and to have them identified through a code in the issue documents. The key to such code is deposited with the Bank of Portugal.

VALUATION AND LOAN-TO-VALUE 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 Regulatory Notice 5/2006, which establishes rules on the methods and frequency of the valuations of assets and derivatives).

The maximum Loan to Value cannot exceed the value of the mortgages and is 80 per cent. for residential mortgages 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 a 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 Regulatory Notice 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, able to complete such purchase, (please refer to page 93 of this Base Prospectus) 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.

Regulatory Notice 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 the coming into force of the aforesaid Regulatory Notice.

ASSET-LIABILITY MANAGEMENT AND FINANCIAL REQUIREMENTS

The Covered Bonds Law and the Bank of Portugal Regulatory Notices establish the following asset and liabilities matching requirements:

- The global nominal value of the outstanding mortgage 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 (i.e., a mandatory overcollateralisation of 5.2632 per cent.). Pursuant to the Terms and Conditions of the Covered Bonds, the Issuer is commited to an overcollateralisation of 9.0 per cent. which is higher than the 5.2632 per cent. threshold required by the Covered Bonds Law. For further information, refer to Condition 14 (*Overcollateralisation, Valuation of Cover Pool and Issuer Covenants*);
- 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 point in time, the amount of interest to be collected from the mortgage credits and other assets comprised in the cover pool backing the relevant issue of covered bonds – 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 assigned 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 a value which is obtained in accordance with margin calculation 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 foreign 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-".

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 euro, 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, with or without substitution of those already allocated to the Covered Bonds; and/or (ii) purchasing outstanding covered bonds in the secondary market and/or (iii) allocating other eligible assets within the limits of the Covered Bonds Law.

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, 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, of the Bank of Portugal, 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 redemptions occurred.

COVER POOL MONITOR, COMMON REPRESENTATIVE AND BANKING SUPERVISION

The Board of Directors of the Institution is required to appoint an independent auditor registered with the CMVM for the purposes of monitoring the compliance by such Institution of the financial and prudential requirements established in the Covered Bonds Law.

Pursuant to the Covered Bonds Law, the independent auditor is required to issue an annual report covering the compliance by the issuer with the applicable legal and regulatory requirements.

Also, a common representative of the holders of the covered bonds – common to all mortgage or public covered bond issues ("obrigações hipotecárias") or ("obrigações sobre o sector público") – must be appointed by the Board of Directors of the Institution in order to represent the interest 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 and will be identified under a codified form. The key to such code will be deposited with the Bank of Portugal. If the holders of covered bonds decide to accelerate the relevant covered bonds pursuant to article 4.5 of the Covered Bonds, 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 especial*), in particular in case of the winding-up and/or the 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 plan shall also describe the general framework and conditions under which those actions will be rendered by the Substitute Credit Institution.

If the authorisation of an Institution to act as a credit institution in Portugal is revoked, the Bank of Portugal shall, simultaneously with the decision to revoke such authorisation, also appoint a Substitute Credit Institution to manage the relevant cover pool allocated to the covered bonds outstanding and to ensure that payments due to the holders of such covered bonds are made.

In accordance with Regulatory Notice 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** (*privilégio creditório especial*) 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 other real estate creditor's privilege. 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 (*privilégio creditório especial*) 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.

The remuneration costs and disbursements related with the tasks of the Common Representative will also benefit from the special creditor privilege (*privilégio creditório especial*) to the extent that the same are in line with the terms and conditions of the relevant issue.

Pursuant to the Covered Bonds Law, in the case of dissolution and winding-up of an Institution, a meeting of holders of covered bonds may decide, by a 2/3 (two thirds) majority vote, to accelerate the covered bonds, in which case the administrator shall provide for the settlement of the estate allocated to the relevant issue in accordance with the provisions defined in the Covered Bonds Law and in the relevant terms and conditions that govern such issue.

RISK-WEIGHTING & COMPLIANCE WITH EUROPEAN LEGISLATION

Covered bonds issued in accordance with the Covered Bonds Law are in compliance with the requirements of paragraph 4 of article 52 of the UCITS Directive as well as with subparagraphs (a) to (f) of paragraph 1 of Article 129 of Regulation (EU) No.575/2013 of the European Parliament and of the Council of 26 June 2013, the Capital Requirements Regulation ("**CRR**"). The risk-weighting applicable to covered bonds is also governed by Article 129 of the CRR.

TAXATION

Portugal

The following is a general description of certain Portuguese tax consequences of the acquisition and ownership of Covered Bonds. It does not purport to be an exhaustive description of all tax considerations that may be relevant to decide about the purchase of Covered Bonds. Notably, the following general discussion does not consider any specific facts or circumstances that may apply to a particular purchaser.

This overview is based on the laws of Portugal currently in full force and effect and as applied on the date of this Base Prospectus, thus being subject to variation, possibly with retroactive or retrospective effect.

Prospective purchasers of Covered Bonds are advised to consult their own tax advisers as to the tax consequences resulting from the purchase, ownership and disposition of Covered Bonds, including the effect of any state or local taxes, under the tax laws of Portugal and each country where they are, or are deemed to be, residents.

The economic advantages deriving from interests, amortization or reimbursement premiums and other types of remuneration arising from Covered Bonds issued by private entities are qualified as investment income for Portuguese tax purposes.

Gains obtained with the repayment of Covered Bonds or of any other debt securities are qualified as capital gains for Portuguese tax purposes.

General tax regime on debt securities

Interest and other types of investment income obtained on Covered Bonds by a Portuguese resident individual is subject to individual income tax. If the payment of interest or other investment income is made available to Portuguese resident individuals, withholding tax applies at a rate of 28 per cent., which is the final tax on that income unless the individual elects to include such income in his taxable income (*englobamento*), subject to tax at the current progressive rates of up to 48 per cent. plus an additional surcharge of 2.5 per cent. applicable on income exceeding €80,000 and up to €250,000 and of 5 per cent. applicable on income exceeding €250,000.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts in the name of one or more resident accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

In this case, the tax withheld is deemed a payment on account of the final tax due. Capital gains obtained by Portuguese resident individuals on the transfer of Covered Bonds are taxed at a special tax rate of 28 per cent. levied on the positive difference between the capital gains and capital losses of each year, which is the final tax on that income unless the individual elects to include such income in his taxable income, subject to tax at progressive rates of up to 48 per cent. plus an additional surcharge of 2.5 per cent. applicable on income exceeding €80,000 and up to €250,000 and of 5 per cent. applicable on income exceeding €250,000.

Interest and other investment income derived from Covered Bonds and capital gains obtained with the transfer of Covered Bonds by legal persons resident for tax purposes in Portugal and by non resident legal persons with a permanent establishment in Portugal to which the income or gains are attributable are included in their taxable income and are subject to Corporate Income Tax at a rate of (i) 21 per cent. (16.8 per cent. in the Autonomous Region of Azores) or (ii) if the taxpayer is a small or medium enterprise as established in Decree-Law no. 372/2007, of 6 November 2007, 17 per cent. (13.6 per cent. in the Autonomous Region of Azores) for taxable profits up to €15,000 and 21 per cent. (16.8 per cent. in the Autonomous Region of Azores) on profits in excess thereof, to which may be added a municipal surcharge ("*derrama municipal*") of up to 1.5 per cent. of its taxable income. Corporate taxpayers with a taxable

income of more than € 1,500,000 are also subject to State surcharge ("*derrama estadual*") of 3 per cent. on the part of their taxable profits that exceeds € 1,500,000 up to € 7,500,000, of 5 per cent., on the part of the taxable profits that exceeds € 7,500,000 and 9 per cent. on the part of the taxable profits that exceeds €35,000,000.

Withholding tax at a rate of 25 per cent. applies on interest and other investment income, which is deemed a payment on account of the final tax due (except where the beneficiary is either a financial institution, a collective investment undertakings or an exempt entity as specified by current Portuguese tax law).

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts opened in the name of one or more resident accountholders or non resident accountholders with a permanent establishment in Portugal acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

Without prejudice to the special debt securities tax regime as described below, the general tax regime on debt securities applicable to non resident entities is the following:

Interest and other types of investment income obtained by non resident individuals is subject to withholding tax at a rate of 28 per cent..

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts opened in the name of one or more non resident accountholders acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

A withholding tax rate of 35 per cent. also applies in case of investment income payments to individuals resident in a country, territory or region subject to a clearly more favorable tax regime included in the "low tax jurisdictions" list approved by Ministerial order ("*Portaria*") no. 150/2004, of 13 February 2004, as amended from time to time ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente maisfavoráveis*").

Interest and other types of investment income obtained by a legal person non resident in Portugal without a Portuguese permanent establishment to which the income is attributable is subject to withholding tax at a rate of 25 per cent., which is the final tax on that income.

Interest and other investment income paid or made available ("*colocado à disposição*") to accounts opened in the name of one or more non resident accountholders without a permanent establishment in Portugal acting on behalf of one or more unidentified third parties is subject to a final withholding tax rate of 35 per cent., unless the relevant beneficial owner(s) of the income is/are identified and as a consequence the tax rates applicable to such beneficial owner(s) will apply.

A withholding tax rate of 35 per cent. also applies in case of investment income payments to legal persons resident in a country, territory or region subject to a clearly more favorable tax regime included in the "low tax jurisdictions" list approved by Ministerial order ("*Portaria*") no. 150/2004, of 13 February 2004, as amended from time to time ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente maisfavoráveis*").

Under the tax treaties entered into by Portugal which are in full force and effect on the date of this Base Prospectus, the withholding tax rate may be reduced to 15, 12, 10 or 5 per cent., 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 may be available for viewing and downloading at www.portaldasfinancas.gov.pt..

Capital gains obtained on the transfer of Covered Bonds by non resident individuals are exempt from Portuguese capital gains taxation unless the beneficial owner is resident in a country, territory or region

subject to a clearly more favorable tax regime included in the "low tax jurisdictions" list approved by Ministerial order ("*Portaria*") no. 150/2004 of 13 February 2004, as amended from time to time ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*"). If the exemption does not apply, the gains will be subject to personal income tax at a rate of 28 per cent.. 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.

Capital 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 beneficial owner is more than 25 per cent. directly or indirectly held by Portuguese resident entities (the referred 25% threshold will not be applicable when the following cumulative conditions are met by the seller: (i) the entity at issue has its residence in the European Union or in the European Economic Area State or in any country with which Portugal has a double tax treaty in force that foresees information exchange; (ii) such entity is subject and not exempt from IRC, or a tax of similar nature with a rate not lower than 60 per cent of the Portuguese IRC rate; (iii) it holds at least 10% of the share capital or voting rights for at least 1 year ininterruptly; and (iv) it is not intervenient in an artificial arrangement or a series of artificiales arrangements that have been put into place for the main purpose, or one of the main purposes, of obtaining a tax advantage) or if the beneficial owner is resident in a country, territory or region subject to a clearly more favourable tax regime included in the "low tax jurisdictions" list approved by Ministerial order ("*Portaria*") no. 150/2004 of 13 February 2004, as amended from time to time ("*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*"). If the exemption does not apply, the gains will be subject to corporate income tax at a rate of 25 per cent. 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.

Special Debt securities tax regime

Pursuant to Decree-law 193/2005, of 7 November 2005, as amended from time to time, last amended by Law no. 42/2016, of 28 December 2016 ("**Decree-law 193/2005**"), investment income paid on, as well as capital gains derived from a sale or other disposition of the Covered Bonds, to non-Portuguese resident beneficial owners will be exempt from Portuguese income tax provided the debt securities are integrated in (i) a centralised system for securities managed by an entity resident for tax purposes in Portugal (such as the CVM managed by Interbolsa), or (ii) an international clearing system operated by a managing entity established in a member state of the EU other than Portugal or in a European Economic Area Member State provided, in this case, that such State is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU Member States or (iii) integrated in other centralised systems not covered above provided that, in this last case, the Portuguese Government authorises the application of the Decree-Law 193/2005, and the beneficiaries are:

(a) central banks or governmental agencies; or

(b) international bodies recognised by the Portuguese State; or

(c) entities resident in countries or jurisdictions with whom Portugal has a double tax treaty in force or a tax information exchange agreement in force; or

(d) other entities without headquarters, effective management or a permanent establishment in the Portuguese territory to which the relevant income is attributable and which are not domiciled in a blacklisted jurisdiction as set out in the Ministerial Order (*Portaria*) no. 150/2004, of 13 February (*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*), as amended from time to time (hereinafter "**Ministerial Order (*Portaria*) no. 150/2004**").

For purposes of application at source of this tax exemption regime, Decree-Law 193/2005 requires

completion of certain procedures aimed at verifying the non-resident status of the Noteholder and the provision of information to that effect. Accordingly, to benefit from this tax exemption regime, a Noteholder is required to hold the Covered Bonds through an account with one of the following entities:

(a) a direct registered entity, which is the entity with which the debt securities accounts that are integrated in the centralised system are opened;

(b) an indirect registered entity, which, although not assuming the role of the "direct registered entities", is a client of the latter; or

(c) an international clearing system, which is an entity that proceeds, in the international market, to clear, settle or transfer securities which are integrated in centralised systems or in their own registration systems.

Direct registered entities are required, for the purposes of Decree-Law 193/2005, to register the Noteholders in one of two accounts: (i) an exempt account or (ii) a non-exempt account.

(a) Domestic Clearing Covered Bonds

Registration of the Covered Bonds in the exempt account is crucial for the tax exemption to apply upfront and requires evidence of the non-resident status of the beneficiary, to be provided by the Noteholder to the direct registered entity prior to the relevant date for payment of interest or other investment income (*rendimentos de capitais*) and to the transfer of Covered Bonds, as follows:

(i) if the beneficiary is a central bank, an international body recognised as such by the Portuguese State, or a public law entity and respective agencies, a declaration issued by the beneficial owner of the Covered Bonds itself duly signed and authenticated, or proof of non- residence pursuant to (iv) below. The respective proof of non-residence in Portugal is provided once, its periodical renewal not being necessary and the beneficial owner should inform the direct register entity immediately of any change in the requisite conditions that may prevent the tax exemption from applying;

(ii) if the beneficiary 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, certification shall be made by means of the following: (A) its tax identification official document; or (B) a certificate issued by the entity responsible for such supervision or registration, or by tax authorities, confirming the legal existence of the beneficial owner of the Covered Bonds and its domicile; or (C) proof of non-residence pursuant to (iv) below. The respective proof of non-residence in Portugal is provided once, its periodical renewal not being necessary and the beneficial owner should inform the direct register entity immediately of any change in the requisite conditions that may prevent the tax exemption from applying;

(iii) If a beneficial owner of Covered Bonds is either an investment fund or a collective investment scheme 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, domicile and law of incorporation; or (B) proof of non-residence pursuant to the terms of paragraph (iii) below, so long as the beneficial owners of Covered Bonds provide the confirmation referred to in paragraph (iii) below.

(iv) in any other case, information provided in accordance with the following rules: confirmation must be made by the relevant beneficial owner of Covered Bonds by way of (A) a certificate of residence or equivalent document issued by the relevant tax authorities, (B) a document issued by the relevant Portuguese Consulate certifying residence abroad, or (C) a document specifically issued by an official entity taking part of the public

administration (either central, regional or peripheral, indirect or autonomous) of the relevant country; for these purposes, an identification document such as a passport or an identity card or document by means of which it is indirectly possible to presume the relevant tax residence (such as a work or permanent residency permit) are not acceptable. The beneficiary must provide an original or a certified copy of such documents and, as a rule, if such documents do not refer to a specific year and do not expire, they must have been issued within the three years prior to the relevant payment or maturity dates or, if issued after the relevant payment or maturity dates, within the following three months. The Beneficiary must inform the direct registering entity immediately of any change in the requirement conditions that may eliminate the tax exemption.

(b) Internationally Cleared Covered Bonds

Pursuant to the requirements set forth in the tax regime, if the Covered Bonds are registered in an account held by an international clearing system operated by a managing entity, the latter shall transmit, on each interest payment date and each relevant redemption date, to the direct register entity or to its representative, and with respect to all accounts under its management, the identification and quantity of securities, as well as the amount of income, and, when applicable, the amount of tax withheld, segregated by the following categories of beneficiaries:

(a) entities with residence, headquarters, effective management or permanent establishment to which the income would be imputable and which are non-exempt and subject to withholding;

(b) entities which have residence in country, territory or region with a more favourable tax regime, included in the Portuguese "blacklist" (countries and territories listed in Ministerial Order (*Portaria*) no. 150/2004) and which are non-exempt and subject to withholding;

(c) entities with residence, headquarters, effective management or permanent establishment to which the income would be imputable, and which are exempt or not subject to withholding;

(d) other entities which do not have residence, headquarters, effective management or permanent establishment to which the income generated by the securities would be imputable.

On each interest payment date and each relevant redemption date, the following information with respect to the beneficiaries that fall within the categories mentioned in paragraphs (a), (b) and (c) above, should also be transmitted:

(a) name and address;

(b) tax identification number (if applicable);

(c) identification and quantity of the securities held; and

(d) amount of income generated by the securities.

If the conditions for the exemption to apply are met, but, due to inaccurate or insufficient information, tax was withheld, a special refund procedure is available under the special regime approved by Decree Law 193/2005, as amended from time to time, last amended by Law no. 42/2016, of 28 December 2016. The refund claim is to be submitted to the direct register entity of the Covered Bonds within 6 (six) months from the date the withholding took place. Following the amendments to Decree-Law 193/2005, introduced by Law no. 83/2013, of 9 December, a new special tax form for these purposes was approved by Order (*Despacho*) no. 2937/2014, published in the Portuguese official gazette, second series, no. 37, of 21 February 2014 issued by the Secretary of State of Tax Affairs (*Secretário de Estado dos Assuntos Fiscais*).

The refund of withholding tax after the above six-month period is to be claimed from the Portuguese tax authorities within two years, starting from the term of the year in which the withholding took place.

The proposed financial transactions tax ("FTT")

The European Commission has published a proposal for a Directive for a common financial transaction tax (FTT) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States). However, Estonia has since stated that it will not participate.

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

Administrative cooperation in the field of taxation

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

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

Portugal has implemented Directive 2011/16/EU through Decree-Law No. 61/2013 of 10 May.

Also, Council Directive 2014/107/EU was implemented through Decree-Law No. 64/2016 of 11 October. Under such law, the Issuer will be required to collect information regarding certain accountholders and report such information to Portuguese Tax Authorities which, in turn, will report such information to the relevant Tax Authorities of EU Member States or States which have signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information for the Common Reporting Standard.

In view of the abovementioned regimes, all information regarding the registration of the financial institution, the procedures to comply with the reporting obligations and the forms to use for that end were provided by the Ministry of Finance, through Order No. 302-B/2016 of 2 December 2016, Order No. 302-C/2016 of 2 December 2016, Order No. 302-D/2016 of 2 December 2016 and Order No. 302-E/2016 of 2 December 2016, all as amended from time to time.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as "**FATCA**", a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Portugal) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Covered Bonds, such withholding would not apply to foreign passthru payments prior to 1 January 2019 and Covered Bondscharacterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds.

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

SUBSCRIPTION AND SALE AND SECONDARY MARKET ARRANGEMENTS

The Dealers have, in the Programme Agreement, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds.

In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Covered Bonds have not been and will not be registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from or in a transaction not subject to the registration requirements of the US Securities Act. The Covered Bonds are initially being offered and sold only outside the United States in reliance on Regulation S under the US Securities Act. Terms used in this paragraph and the following paragraph have the meanings given to them by Regulation S under the US Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer nor sell any Covered Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Covered Bonds are a part, except in accordance with Rule 903 of Regulation S under the US Securities Act. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to any Covered Bonds, and that it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, at or prior to confirmation of sale of Covered Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Covered Bonds from it during the distribution compliance period, a confirmation or notice to substantially the following effect:

> "*The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**US 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 (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the US Securities Act. Terms used above have the meanings given to them by Regulation S.*"

In addition, until 40 days after the commencement of the offering of any Series of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the US Securities Act.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act no. 25 of 1948, as amended; the "**FIEA**") and, accordingly, each Dealer has represented

and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer nor sell any Covered Bonds, directly or indirectly, in Japan to, or for the benefit of, a resident in Japan, as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act no. 228 of 1949, as amended), or to others for re-offering or re-sale, directly or indirectly, in Japan to, or for the benefit of, a resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

United Kingdom

Each Dealer has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (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:

(a) to professional investors ("operatori qualificati") as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "**Financial Services Act**"), as amended from time to time, and Article 34-ter of the Italian Securities Exchange Commission ("**CONSOB**") Regulation No. 11971 of 14 May 1999, as amended from time to time; or

(b) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 34-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time.

Any such 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 (a) or (b) 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 from time to time (the "**Banking Act**");

(b) in compliance with Article 129 of the Banking Act 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 in accordance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy.

Public Offer Selling Restrictions under the Prospectus Directive

Unless the Final Terms in respect of any Covered Bonds specify the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering and listing contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

a) the expression "retail investor" means a person who is one (or more) of the following:

   (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

   (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

   (iii) not a qualified investor as defined in the Prospectus Directive; and

b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

If the Final Terms in respect of any Covered Bonds specify "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted 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 subject of the offering and listing 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 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 (as amended, including by Directive 2010/13/EU, or superseded) and includes any relevant implementing measure in the Relevant Member State.

Portugal

In relation to the Covered Bonds, each Dealer has represented, warranted and agreed with the Issuer, and each further Dealer appointed under the Programme will be required to represent and agree, that: (i) 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 under the Portuguese Securities Code (*Código dos Valores Mobiliários*) enacted by Decree-Law no. 486/99, of 13 November 1999 (as amended and restated from time to time) unless the requirements and provisions applicable to the public offering in Portugal are met and registration, filing, approval or passaport procedures with the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*, "**CMVM**") is made; (ii) regarding any offer or sale of Covered Bonds by it in Portugal or to individuals resident in Portugal or having a permanent establishment in Portugal, it will comply with all laws and regulations in force in Portugal, including (without limitation) the Portuguese Securities Code, any regulations issued by the CMVM and Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, as amended or superseded, and other than in compliance with all such laws and regulations; (iii) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, market, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Covered Bonds in circumstances which could qualify as a public offer ("*oferta pública*") of securities pursuant to the Portuguese Securities Code and other applicable securities legislation and regulations, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portugal, as the case may be; (iv) 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.

Private placements addressed by companies open to public investment ("*sociedades abertas*") or by companies issuing securities listed on a regulated market shall be subsequently notified to the CMVM for statistics purposes.

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 that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes the Base Prospectus, any other offering material or any Final Terms and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that the Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

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

Legal Entity Identifier

The Issuer is an entity duly authorised to engage in financial transactions, through its Legal Entity Identifier Code ("**LEI Code**") n.º 2138004FIUXU3B2MR537, last updated on 27 December 2018 and valid until 3 January 2020.

Authorisation

The establishment of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 26 June 2008 and 23 March 2016, in accordance with the provisions of the Covered Bonds Law. The update of the Programme was duly authorised by the resolution of the Board of Directors of the Issuer dated 10 January 2019.

Listing

Application has been made to list the Covered Bonds on Euronext Dublin and to admit the Covered Bonds to trading on Euronext Dublin's regulated market.

Clearing Systems

The Covered Bonds have been accepted for clearance at **Interbolsa**, through the clearing systems to which it has adhered, as specified in the applicable Final Terms. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Interbolsa 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

Save as disclosed in this Base Prospectus, there has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2018 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2017.

Litigation

Save as disclosed in the section "*Recent Developments*" under "*Unfavourable ruling under an administrative proceeding*", the Issuer is not involved in any legal, governmental or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) during the 12 (twelve) months preceding the date on which this Base Prospectus was most recently supplemented which may have or have had a significant negative effect on the Issuer's or the Group's financial position or profitability thereof.

Accounts

The auditors of the Issuer are KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., (which is a member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória no. 17A, 11.º, 1069-006 Lisboa, who have audited the Issuer's accounts in accordance with Technical Standards and Review/Audit Guidelines issued by the "*Ordem dos Revisores Oficiais de Contas*" for each of the financial years ended on 31 December 2016 and 31 December 2017. The auditor's reports are incorporated by reference in this Base Prospectus.

Documents Available

For the duration of the Programme, hard 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 Paying Agents for the time being:

(a) the constitutional documents (including the by-laws) of the Issuer;

(b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2016 and 31 December 2017;

(c) the unaudited consolidated results of the Issuer for the first half of 2018;

(d) the Agency and Payments Procedures dated 27 April 2017, as amended;

(e) the Common Representative Appointment Agreement dated 18 November 2008;

(f) this Base Prospectus;

(g) any future prospectuses, offering circulars, information memoranda and supplements including Final Terms (save that Final Terms relating to Covered Bonds which are neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Covered Bonds and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent as to its holding of Covered Bonds and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(h) in the case of an issue of Covered Bonds subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Electronic copy of this Base Prospectus

Electronic copies of this Base Prospectus (and any supplements thereto) are available from the official website of the Issuer (www.bancomontepio.pt) and the official website of Euronext Dublin (www.ise.ie).

Language of the Base Prospectus

The language of the Base Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Base Prospectus.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Covered Bonds, except if required by law, in which case such information will be disclosed at the Issuer's website.

Stabilising Manager

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 perform 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 (thirty) days after the issue date of the relevant Tranche and 60 (sixty) 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.

Rating

Certain Series of Covered Bonds to be issued under this Base Prospectus may be rated or unrated. Where an issue of Covered Bonds is rated, such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or

withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to or assigned to a relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended by Regulation (EU) No. 513/2011 of the European Parliament and the Council and by Regulation (EU) 462/2013 of the European Parliament and the Council, the "CRA Regulation") will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended).

Data obtained through third party sources

Where information is stated in this Base Prospectus to have been sourced from a third party, the Issuer confirms that this information has been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The statements relating to market positions of the Issuer are based on calculations made by the Issuer using data produced by itself and/or obtained from other entities and which are contained or referred to in the Annual Report of the Issuer for 2016 and 2017, the semi-annual report of the Issuer as of 30 June 2018 and the press release with the announcement of the results as of 30 September 2018 (available at www.cmvm.pt and www.bancomontepio.pt).

Listing Agent scope

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Covered Bonds and is not itself seeking admission of the Covered Bonds to the Official List of Euronext Dublin or to trading on the regulated market of Euronext Dublin for the purposes of the Prospectus Directive.

DEFINITIONS

In this Base Prospectus, the following defined terms have the meanings set out below:

"**Acceleration Notice**" means a notice served on the Issuer pursuant to Condition 9 (*Events of Default 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.

"**Affiliate Member of Interbolsa**" means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of their customers and includes any depositary banks appointed by Euroclear S.A./N.V ("Euroclear Bank") and/or Clearstream Banking, S.A. ("Clearstream, Luxembourg") for the purpose of holding such accounts with Interbolsa on behalf of Euroclear Bank and Clearstream, Luxembourg.

"**Agent**" means Caixa Económica Montepio Geral, caixa económica bancária, S.A., with head office at Rua Castilho, 5, 1250-066 Lisbon.

"**Agency and Payments Procedures**" means the set of agency and payments procedures (such agency and payments procedures as amended and/or supplemented and/or restated from time to time) dated 27 April 2017 and made and agreed by Caixa Económica Montepio Geral, caixa económica bancária, S.A. (acting in its capacity as Agent, which expression shall include any successor) and by any subsequent agent, paying agent, transfer agent and agent bank appointed by the Issuer.

"**Amount of Interest**" means, following an Issuer Event, and in respect of an Interest Payment Date, the interest amount payable in respect of each Series of Covered Bonds.

"**Arranger**" means NatWest Markets Plc and any other entity appointed as an arranger for the Programme and references in this Agreement to the Arranger shall be references to the relevant Arranger.

"**Asset Percentage**" has the meaning given to it in Condition 14.1 (*Maintenance of overcollateralisation*).

"**Auditor**" means KPMG & Associados, Sociedade de Revisores Oficiais de Contas, S.A., member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 9098, with registered office at Edifício Monumental, Av. Praia da Vitória n.º 17A, 11º,1069-006 Lisboa.

"**Available Funds**" means any funds arising under the Cover Pool, including in result of any interest and principal payments under Mortgage Credits or any other assets that are part of the the Cover Pool, any sale proceeds of any Mortgage Credits or other assets that are part of the Cover Pool (for the avoidance of doubt, such amounts do not include any collateral that may be transferred under the Hedging Contracts), any hedging payment amounts paid by the hedging counterparty under the Hedging Contracts, any balances standing to the credit of the Reserve Account and the Programme Account, in all cases which are received by the Issuer between, and including, the sixth Business Day prior to the Interest Payment Date immediately preceding the relevant Interest Payment Date up to, but excluding, the sixth Business Day prior to the relevant Interest Payment Date, as calculated by the Agent pursuant to the Agency and Payment Procedures.

"**Bank of Portugal Regulatory Notices**" means the secondary legislation passed by the Bank of Portugal regulating certain aspects of the Covered Bonds Law, Regulatory Notice 5/2006, Regulatory Notice 6/2006, Instruction 13/2006 and Regulatory Notice 8/2006.

"**Base Prospectus**" means this base prospectus dated 15 March 2019 prepared in connection with the Programme.

"**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 2013/36/EU of the European Parliament and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"**CHF**", "**Swiss francs**" means Swiss francs, the lawful currency of Switzerland.

"**Clearing Systems**" means clearing systems through which Interbolsa ensures the clearing according to its regulations and procedures, and, each, a "**Clearing System**".

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

"**Common Representative**" means **Citicorp Trustee Company Limited** acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5 LB, United Kingdom, 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. or any successor common representative appointed by a Meeting of the holders of Covered Bonds.

"**Common Representative Appointment Agreement**" means the agreement dated 18 November 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.

"**Condition**" means a reference to a particular numbered condition set out in the "Terms and Conditions of the Covered Bonds".

"**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 PRICEWATERHOUSECOOPERS & Associados, Sociedade de Revisores Oficiais de Contas, S.A., a company incorporated under the laws of Portugal, member of the Portuguese Institute of Statutory Auditors ("*Ordem dos Revisores Oficiais de Contas*"), registered with the CMVM with registration number 20161485, with its registered office at Palácio SottoMayor, Rua Sousa Martins, n.º1, 3º, 1069-316, in Lisbon.

"**Cover Pool Monitor Agreement**" means the agreement dated 12 December 2018 entered into between the Issuer and the Cover Pool Monitor, as amended.

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

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

"**CRA Regulation**" means Regulation (EC) no. 1060/2009, of the European Parliament and of the Council,

of 16 September 2009, as amended by Regulation (EU) No. 513/2011 of the European Parliament and the Council and by Regulation (EU) 462/2013 of the European Parliament and the Council.

"**Credit Institutions General Regime**" or "**RGICSF**" means Decree-law no. 298/92, of 31 December, as amended from time to time.

"**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/365**" 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 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(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 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

"**DBRS**" means DBRS Ratings Limited, which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such, DBRS Ratings Limited is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with such Regulation.

"**Dealers**" means each of Citigroup Global Markets Limited, Citigroup Global Markets Europe AG, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Deutsche Bank Aktiengesellschaft, DZ BANK AG Deutsche Zentral- Genossenschaftsbank, Frankfurt am Main, J.P. Morgan Securities plc, Landesbank Baden-Württemberg, Merrill Lynch International, Natixis, NatWest Markets Plc, Société Générale and UniCredit Bank AG and any other Dealer(s) appointed from time to time by the Issuer in accordance with the Programme Agreement and excludes any entity whose appointment has been terminated pursuant to clause 10 of the Programme Agreement.

"**Default of Payment Event**" means, in respect a Series of Covered Bonds, if such Series has not been

repaid in full on its Maturity Date or on the following two Business Days, or if interest due under that Series has not been paid on any Interest Payment Date or on the following five Business Days. For the sake of clarity, a Default of Payment Event will only occur if the relevant repayment (or interest payment, as applicable) is not done by the end of the following two (or five, as applicable) Business Days mentioned above.

"**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).

"**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 at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

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

"**Euronext Lisbon**" means the regulated market of Euronext Lisbon, the official quotation market ("*Mercado de Cotações Oficiais*") in Portugal.

"**Eurosystem**" means the central banking system for the Euro.

"**Expenses**" means the fees of and expenses due to the Common Representative, the fees of and expenses due to the SCI, including any expenses incurred by the SCI in connection with any actual or prospective disposals of Cover Pool assets, the fees of and expenses to cover for the maintenance and operating of the Reserve Account and the Programme Account, the fees and expenses of the Cover Pool Monitor, Covered Bonds listing costs and other costs that may be agreed and defined as "Expenses" for this purpose in the agreements entered into in connection with the Programme.

"**Extended Maturity Date**" has the meaning given in the relevant Final Terms.

"**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, which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such Fitch Ratings Limited is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with such Regulation.

"**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.

"**Group"** means the Issuer and its subsidiaries.

"**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.

"**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.

"**Insolvency Event**" has the meaning given to it under Condition 9.1 (*Insolvency Event*).

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

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

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

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

"**Interest Payment Date**" means the date specified as interest payment date in the Final Terms of a Series of Covered Bonds and, upon the occurrence of an Issuer Event, the first Business Day of each month, following such occurrence, for all the outstanding Series or for all the applicable Series in case of a Default of Payment Event.

"**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 Caixa Económica Montepio Geral, caixa económica bancária, S.A.

"**Issuer Event**" means an Insolvency Event or a Default of Payment Event.

"**Liquidity Event**" means the delivery by the Issuer of a 5 (five) day prior notice to the Liquidity Facility Provider of not having enough available funds to make the payment of the Amounts of Interest due on the Covered Bonds in the Interest Payment Date of any Covered Bond.

"**Liquidity Facility Provider**" means a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies (and in any case not lower than the minimum rating required by the Covered Bonds Law).

"**JPY**", "**Japanese yen**" means Japanese yen, the lawful currency of Japan.

"**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.

"**Maturity Date**" has the meaning given in the relevant Final Terms.

"**Meeting**" means a meeting of holders of Covered Bonds (whether originally convened or resumed following an adjournment) and "**Meetings**" shall be construed accordingly.

"**Moody's**" means Moody's Investors Service Ltd., which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such, Moody's Investors Service Ltd. is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with such Regulation.

"**Mortgage**" means, in respect of any Mortgage Credit, the charge by way of voluntary mortgage over the relevant Property the benefit of which is vested in the Issuer as security for the repayment of that Mortgage Credit.

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

(a) pecuniary receivables not yet matured, which are neither subject to conditions nor encumbered, judicially seized or apprehended and which are secured by first ranking mortgages over residential or commercial real estate located in an EU member state;

(b) mortgage credits secured by junior mortgages provided all Mortgage Credits secured by senior mortgages on the same property are held by the Issuer and allocated to the Cover Pool;

(c) receivables secured by a personal guarantee granted by a credit institution or 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 «A-» or equivalent, and which will include, for the avoidance of doubt, any funds standing to the credit of the Reserve Account and the Programme Account and which are subject to the same legal requirements and regime as such other deposits (and which compliance at all times the Issuer shall ensure); 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.

"**Overcollateralisation Percentage**" has the meaning given in Condition 14.1 (*Maintenance of overcollateralisation*).

"**Owed Hedging Payments**" means any payments owed by the Issuer due to the relevant hedge counterparty under the Hedging Contracts.

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

"**Portuguese Companies Code**" means the commercial companies code ("Código das Sociedades Comerciais") approved by Decree-law no. 262/86, dated 2 September 1986, as amended from time to time, in particular by Decree-law no. 76-A/2006, dated 29 March 2006.

"**Portuguese Securities Code**" means the "Código dos Valores Mobiliários", approved by Decree-law no.

486/99, of 13 November 1999, as amended from time to time.

“**Principal Amount Outstanding**” means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant holder of Covered Bonds in respect thereof.

“**Programme**” means the €5,000,000,000 conditional pass-through covered bonds programme of the Issuer.

“**Programme Account**” means the cash account to be held with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, an in any case not lower than the minimum rating required by the Covered Bonds Law. The Programme Account, and any balance to the credit thereof, will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which are part of the Cover Pool.

“**Programme Agreement**” means the agreement dated 27 April 2017 entered into between the Issuer and the Dealers, as amended, supplemented or restated from time to time.

“**Programme Documents**” means the Base Prospectus, the Programme Agreement, the Agency and Payments Procedures, the Common Representative Appointment Agreement, the Cover Pool Monitor Agreement, the Hedging Contracts and any other agreement or document entered into from time to time by the Issuer pursuant thereto and in relation to the Programme.

“**Programme Resolution**” means any Resolution directing the Common Representative to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default 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 Regulatory Notice 5/2006; and

(b) the amount determined by resorting to the use of adequate and recognized indexes or statistical methods, whenever an independent valuation of the Property is not required pursuant to the Covered Bonds Law and Regulatory Notice 5/2006.

“**Prospectus Directive**” means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant Member State).

“**Prospectus Regulation**” means Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, as amended.

“**Provisions for Meetings of for Meetings of Holders of the Covered Bonds**” means the provisions contained in Schedule 1 of the Common Representative Appointment Agreement on Meetings of holders of Covered Bonds;

“**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, DBRS or Fitch Ratings.

“**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 Regulatory Notices;

"**Regulatory Notice 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.

"**Regulatory Notice 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.

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

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

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

"**Requirements of the Cover Pool**" means the eligibility criteria and the prudential requirements of the assets allocated to the Cover Pool as set out in the Cover Pool Monitor Agreement;

"**Reserve Account**" means the cash account held with a counterparty with credit ratings sufficiently high to satisfy the criteria of the Rating Agencies, an in any case not lower than the minimum rating required by the Covered Bonds Law, being the Accounts Bank, and the operation of which shall be governed by Conditions 5.4 and 6.8 and the Reserve Account Agreement. The Reserve Account, and any balance to the credit thereof, will form part of the Cover Pool and be subject to the same legal requirements and legal regime as any Other Assets which are part of the Cover Pool.

"**Reserve Account Agreement**" means the agreement so designated entered into between the Issuer and the Reserve Account Bank in relation to the creation, operation and maintenance of the Reserve Account, on or about 7 July 2016, as amended and/or supplemented and/or restated from time to time.

"**Reserve Account Bank**" means Elavon Financial Services Limited, a limited liability company registered in Ireland with the Companies Registration Office (registered number 418442), with its registered office at Block E, Cherrywood Business Park, Loughlinstown, Dublin, Ireland acting through its UK Branch (registered number BR009373) from its offices at 125 Old Broad Street, London, EC2N 1AR under the trade name U.S. Bank Global Corporate Trust Services.

"**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, or the conversion of such Covered Bonds into, shares, bonds or other obligations or securities of the Issuer or shares, bonds or other obligations or securities of 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; or (vi) to amend this definition.

"**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.

"**SCI**" means a substitute credit institution appointed, in case of an Insolvency Event, by the Bank of Portugal to manage in the place of the Issuer the Cover Pool, which shall be separated from the Issuer's

insolvency estate, all in accordance with the Covered Bonds Law;

"**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.

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

"**Substitute Credit Institution**" or "**SCI**" 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.

"**Stock Exchange**" means the Irish Stock Exchange Plc trading as Euronext Dublin or any other stock exchange where Covered Bonds may be listed as per the relevant Final Terms and references in this Agreement 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.

"**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.

"**TARGET 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.

"**Tax Deduction**" means any deduction or withholding on account of Tax.

"**Terms and Conditions**" means in relation to the Covered Bonds, the terms and conditions to be endorsed on the Covered Bonds and any reference to a particular numbered Condition shall be construed in relation to the Covered Bonds accordingly.

"Total Target Reserve Amount" has the meaning given in Condition 5.4.

"**Tranche**" means Covered Bonds which are identical in all respects (including as to listing).

"**U.S.$**", "**USD**" or "**U.S. dollars**" means United States dollars, the lawful currency of the United States of America.

"**UCITS Directive**" means Council Directive 2009/65/EC of the European of the European Parliament and the Council of 13 July 2009, relating to undertakings for collective investment in transferable securities, which revoked as of 1 July 2011 Council Directive 85/611/EEC of 20 December 1985 (as amended by Council Directive 2001/107/EC of 21 January 2002 and 2001/108/EC of 21 January 2002).

"**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.

"**Written Resolution**" means, in relation to the Covered Bonds, a resolution in writing signed by or on behalf of all holders of Covered Bonds who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for Meetings of Holders of the Covered Bonds, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Covered Bonds.

ANNEX I – ALTERNATIVE PERFORMANCE MEASURES (GLOSSARY)

This Base Prospectus and the documents incorporated by reference in this Base Prospectus contain certain management measures of performance or alternative performance measures (“**APMs**”), which are used by management to evaluate the Issuer’s overall performance. These APMs are not audited, reviewed or subject to review by the Issuer’s auditors and are not measurements required by, or presented in accordance with, International Financial Reporting Standards (“**IFRS**”). Accordingly, these APMs should not be considered as alternatives to any performance measures prepared in accordance with IFRS.

Many of these APMs are based on the Issuer’s internal estimates, assumptions, calculations, and expectations of future results and there can be no guarantee that these results will actually be achieved. Accordingly, investors are cautioned not to place undue reliance on these APMs.

Furthermore, these APMs, as used by the Issuer, may not be comparable to other similarly-titled measures used by other companies. Investors should not consider such APMs in isolation, as alternatives to the information calculated in accordance with IFRS, as indications of operating performance or as measures of the Issuer’s profitability or liquidity. Such APMs must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS and investors are advised to review these APMs in conjunction with the audited consolidated annual financial statements incorporated by reference in this Base Prospectus.

The descriptions (including definitions, explanations and reconciliations) of all APMs are set out below.

The Issuer believes that the description of these management measures of performance in this Base Prospectus follows and complies with the ESMA Guidelines introduced on 3 July 2016 on Alternative Performance Measures.

	APM	Definition of APM	Components and calculation basis	APM utility
1	Common Equity Tier 1 ratio (CET1 ratio)	Common Equity Tier 1 ratio is a measurement of the Issuer's core equity capital compared with its total risk-weighted assets.	It is calculated in accordance with the applicable regulatory standards, namely Directive 2013/36/EU and Regulation (EU) No. 575/2013 adopted by the European Parliament and by the Council (CRD IV/ CRR).	It is an indicator of the Issuer’s financial strength and it is used by regulators and investors because it shows how well a bank can withstand financial stress and remain solvent.
2	Refinancing Operations with the European Central Bank (ECB resources)	Refinancing Operations with the European Central Bank refers to the funds raised under the ECB monetary policy, which are pledge by ECB with eligible securities, included in the securities portfolio.	Refinancing Operations with the European Central Bank refers to the liability recorded in the balance sheet under “Deposits from central banks”.	It is an indicator of the funds raised through the ECB.
3	Commercial net interest income	Commercial net interest income refers to the net interest income related with the commercial activity with customers.	Commercial net interest income = interest and similar income related with customers’ activity - interest and similar expenses related with customers’ activity.	It is an indicator that allows a better analysis of the interest income generated in the commercial activity with customers; it does not include the interest income associated with the securities’ portfolio and other financial instruments.
4	Cost of Credit Risk	Cost of Credit Risk is an indicator that reflects the cost recognized in the period to cover the risk of default in the customer credit portfolio and is expressed as a percentage of the customer credit	Cost of Credit Risk = loans impairments in annualized terms / average value in the period of the loan portfolio.	It is an indicator that allows assessing the loan portfolio quality measured by the cost incurred with the default risk of such loan portfolio. This indicator is comparable to the intermediation margin,

		portfolio.		expressed in percentage points, and allows to gauge how much of the interest margin obtained is absorbed by the cost of credit.
5	On balance sheet resources	Total on-balance sheet resources.	On balance sheet resources = deposits from individuals + deposits from companies and institutional + securities placed on customers.	It is an indicator that totals the customer resources that are recorded in the balance sheet. These resources, together with other third-party resources and own resources are used to finance the activity (the assets in the balance sheet).
6	Off balance sheet resources	Assets under management by the Groups' subsidiaries being a constituent part of Total customers' resources.	Sum of Securities investment funds, Real estate investment funds, Pension funds, Capitalization Insurance (Bancassurance).	It is an indicator that totals the customer resources that are recorded off balance sheet and therefore are not used to finance the activity.
7	Total customer resources	Total customer resources.	Total customer resources = on balance sheet resources + off balance sheet resources.	It is an indicator that totals the customer resources.
8	Total Operating Income	Total operating income refers to the operating income related with the banking activity.	Total operating income= net interest income + dividends from equity instruments + net fees and commissions + results from financial operations + other operating income.	It is an indicator of the banking activity income.
9	Securities portfolio (in the nomenclature used until December 2017 Report and Accounts)	Gives the total amount of the financial investments by the sum of the different portfolios.	Sum of the items "Financial assets held for trading", "Financial assets available for sale" and "Held to maturity investments".	It is an indicator that assesses the relative weight of this item from an assets' structure perspective.
10	Securities portfolio (in the	Gives the total amount of the	Sum of the items 'Financial	It is an indicator that assesses

	nomenclature used from June 2018 Report and Accounts)	financial investments by the sum of the different portfolios.	assets held for trading', 'Financial assets at fair value through other comprehensive income', 'Other financial assets at amortised cost', and 'Financial assets not held for trading mandatorily at fair value through profit or loss'.	the relative weight of this item from an assets' structure perspective.
11	Issued Debt	Gives the total amount of debt issued by the Issuer.	Sum of the balance sheet items 'Debt securities issued' and 'Other subordinated debt'.	It is an indicator that assesses the relative weight of this item from a funding structure perspective.
12	Operating Costs	Costs related to the banking activity.	Sum of staff costs, general and administrative expenses and depreciation and amortisations.	It is an indicator that assesses the evolution of the operating costs underlying the banking activity.
13	Earnings from the Commercial Activity	Earnings that come from the core banking activity.	Sum of the Commercial net interest income and Net fees and commissions, subtracted by the Operating costs required to develop the business.	It is an indicator that assesses the evolution of the core banking activity.
14	Loans to Deposits ratio	Percentage of net loans to customers funded by the total amount of on-balance sheet resources from customers.	Net loans to customers/On-balance sheet customers' resources.	It is an indicator that assesses the leverage degree of the banking activity through the relationship between funds raised with customers and loans granted to customers.
15	Cost-to-income, excluding specific impacts	Operating efficiency ratio measured by the portion of the total operating income, excluding results from financial operations, the net gains / (losses) arising from	Operating costs divided by: Net banking income minus Results from financial operations minus Other income.	It is an indicator that assesses the evolution of operating efficiency underlying the banking activity, removing the volatility effect of results from financial operations, the net

		the sale of other financial assets and the other operating income / (expenses), that is absorbed by operating costs.		gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).
16	Ratio of loans and interest overdue by more than 90 days	Ratio that measures the quality evaluation of the loan portfolio.	Loans and interest overdue by more than 90 days divided by Gross loans to customers.	It is an indicator that measures the proportion of credit and interest overdue for more than 90 days in relation to the total loan portfolio.
17	Coverage of loans and interest overdue by more than 90 days	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the total amount of loans and interest overdue by more than 90 days.	Impairment for balance sheet loans divided by Loans and interest overdue by more than 90 days.	It is an indicator that assesses the institution's ability to absorb potential losses arising from loans and interest overdue by more than 90 days.
18	Non-performing exposures / Gross customer loans	Ratio that measures the quality evaluation of the loan portfolio.	Stock of Non-performing exposures divided by Gross loans to customers.	It is an indicator that measures the proportion of non-performing exposures (NPE, according to EBA's definition) in relation to the total customer loan portfolio.
19	Coverage of Non-performing exposures by Impairment for balance sheet loans	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the balance of non-performing exposures (NPE, according to the EBA definition).	Impairment for balance sheet loans divided by the Stock of Non-performing exposures.	It is an indicator that assesses the institution's capacity to absorb potential losses arising from the NPE portfolio.
20	Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial	Ratio that measures the proportion between the sum of the impairment for loans accumulated on the balance sheet and associated	The sum of Impairment for balance sheet loans and Associated collaterals and financial guarantees, divided by the Stock of Non-	It is an indicator that assesses the institution's capacity to absorb the potential losses arising from the NPE portfolio.

	guarantees	collaterals and financial guarantees in relation to the balance of non-performing exposures (NPE, according to EBA's definition).	performing exposures.	
21	Restructured Loans (Forborne) / Gross customer loans	Ratio that measures the quality evaluation of the loan portfolio.	Restructured Loans (Forborne) divided by the Gross customer loans.	It is an indicator that measures the proportion of Restructured Loans (Forborne exposures according to EBA's definition) in relation to the total loan portfolio.

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